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UN's Growing Role in World Peace Discussed

91CM0461A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 1077, 16 Apr 91 pp 20-21

[Article by Liu Enzhao (0491 1869 3564): "Achievements of and Prospects for United Nations' Actions in Upholding Peace"]

[Text] "This is one of the most successful creative acts of the United Nations; in a very unique way it has extended the influence of the Security Council to conflict areas..."

An act of the United Nation to maintain peace is "an action initiated by the United Nations to help maintain or restore peace in conflict areas, including the involvement of military personnel." Although not explicitly stated in the "Charter of the United Nations," this kind of effective peacekeeping measure has been initiated and developed in the peacekeeping practices of the United Nations. Peacekeeping actions comprise: UN peacekeeping forces, UN military observer groups, UN assistance groups, UN mediation groups, UN security detachments, etc. Up to the present, the United Nations has on 18 occasions dispatched military peacekeeping forces and military observer groups, a personnel of about 50,000, to various trouble spots in the world, and there are presently still over 10,000 UN personnel on such assignments.

Purpose Peacekeeping action is undertaken for the purpose of bringing about a relaxation of tensions or to contain conflicts, and also to prevent the spread of partial and local conflicts that threaten world peace. Specific measures are the dispatch of military peacekeeping forces or military observer teams to the areas of conflict, with the approval of the Security Council or the General Assembly and with the consent of the parties concerned. Their tasks and the scope of their action and authority to act is determined by the conditions of time and place, and more or less comprise: observation, situation reports, supervision of cease-fire, armistice, or cessation of hostility arrangements, executing agreements for the disengagement of forces, supervising and urging troop withdrawals or return of prisoners by the parties concerned, controlling demarcation lines, cease-fire lines or disengagement areas between belligerents, preventing illegal border violations or military infiltrations, supervising local elections, promoting independence of colonies and the self-determination of peoples, upholding public security, protecting and repatriating refugees, protecting the normal activities of common people, and carrying out humanitarian assistance.

Special Characteristics 1. International Character: The force is an international force established by the United Nations. Its personnel are provided voluntarily by member states who are neutral in the dispute in question. It is under the direction of the Secretary-General, and its commander-in-chief, or the chairperson of the observer group, is appointed by the Secretary-General. 2. Voluntary and Unforced Character: The force is dispatched with the consent of the host country or the country directly involved in the dispute. The troops may be lightly armed, but may use armed force only in self-defense. 3. Noninterference and Neutrality: Peacekeeping actions must maintain neutrality, must not interfere or in any way exercise an influence on the internal affairs of the host country, and must not show partiality to either side. 4. Temporary Character: Peacekeeping actions are temporary; once the dispute has been resolved, the peacekeeping force shall be withdrawn immediately. If a certain dispute cannot be resolved for a long time, the extension of the stay of the peacekeeping force must be approved by the Security Council.

The peacekeeping force has changed the traditional character of military personnel and has set a historical precedent, in that military force is not used to start war, to assert rule by force, and not in the service of the powerful and mighty, but in the service of preventing human conflicts (said by Perez de Cuellar).

Development The peacekeeping activity started with the establishment of the UN Palestine Truce Commission in June of 1948 (on the outbreak of the first Middle East war). For this task, the United Nations had at different times dispatched over 500 people from 20 different nations as military observers and logistic support groups, and China too had sent a military observer team. Later, the United Nations dispatched two military observer groups to the India-Pakistan border, two emergency forces to the borders of Israel, Egypt, and Syria, two military observer groups and a temporary military force to the Golan Heights in Southern Lebanon and Syria, three peacekeeping forces to Kongo, Yemen, and Cyprus, a security force to West Irian, and sent a delegation of the Secretariat to the Dominican Republic. During the last few years, an increasing number of military observer groups have been sent out by the United Nations. In 1988 the United Nations sent out three forces, namely mediation teams to be stationed in Afghanistan and Pakistan, to supervise the withdrawal of Soviet troops from Afghanistan, a UN military observer group to be stationed in Iran and Iraq to supervise the cease-fire between these two countries, and a UN "verification mission" to Angola, to supervise the withdrawal of Cuban troops from Angola. In 1989 again, the United Nations sent out three observer groups, a UN transition assistance group to Namibia, to assist in a cease-fire between Namibian guerrillas and South African troops, supervise the disengagement of South African troops and free elections in Namibia; an observer team to monitor the elections in Nicaragua and a UN Central American observer team to supervise the cessation of hostilities in the Nicaragua-Honduras region, to accept the weapons of the disarming Contras, and to supervise the elections in Nicaragua. Presently, peacekeeping actions under consideration comprise the stationing of a peacekeeping force in Cambodia, in the Western Sahara, and on the Iraq-Kuwait border. Because of their "decisive contribution toward upholding the

'United Nations Charter' and the peaceful resolution of conflicts," the UN Peacekeeping Forces received the 1988 Nobel Peace Prize.

Limitations and Difficulties Although UN peacekeeping actions have frequently been successful, they are constrained by certain limitations and difficulties. First, they must be approved by a resolution of the UN Security Council or of the General Assembly, which must authorize the Secretary-General to organize, guide, and direct the movement of the troops. Second, troops may be dispatched only after consent by the host country or the party involved. Third, it is a military force of a neutral and unforced character, which may use its arms only in self-defense, and cannot, therefore, fight the powerful assault of defying forces. Fourth, operational funds are always extremely restricted. Even with all these difficulties, the UN peacekeeping forces are still carrying out their arduous tasks of keeping the peace in the various parts of a world beset by turbulent upheavals and frequent conflicts.

China's Attitude All governments and peoples now highly esteem and vigorously support the peacekeeping functions of the United Nations. China is attaching utmost importance to these peacekeeping activities. In 1982 China dispatched a military observer group to participate in the peacekeeping action in the Middle East. In 1988 China participated in the work of the UN Special Peacekeeping Commission. In 1989 China again sent a military observer group to participate in the work of the UN Namibia transition assistance group. On 22 September 1988, Ambassador Li Luye, China's standing representative at the United Nations, addressed a letter to the Secretary-General of the United Nations: "Peacekeeping action has become the effective means of the United Nations to preserve international peace and security, has assisted in mitigating regional conflicts and in resolving disputes. China is willing to make its contributions to the peacekeeping actions in concert with the UN Special Peacekeeping Commission."

As there are today still many regional conflicts, and as the demand for even more effective action by the United Nations is growing stronger with each passing day, in the future the peacekeeping actions of the United Nations will assume an even more important function in maintaining world peace, preventing conflicts, and establishing a new political and economic order in the world.

UNITED STATES

Human Rights Factor In U.S. Foreign Policy

91CM0458A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 4, 15 Apr 91 pp 7-11

[Article by Zhuang Yizhong (8369 0181 5883), Chinese Academy of Social Sciences' Economic Consulting Center; Li Shen (2621 3947), responsible editor: "Human Rights Factor in U.S. Foreign Policy"]

[Text] In 1973 the U.S. Congress passed legislation injecting the human rights factor into the making of U.S. foreign policy. In 1977, the U.S. Department of State established the Office of Human Rights and Humanitarian Affairs, thereby making human rights part of the day-to-day operations of U.S. foreign policy. In the 14 years since the Carter Administration took office, human rights has consistently been a key factor and a major principle in U.S. foreign policy. Hence the claims by the U.S. government that the United States is defending human rights around the world by virtue of its historical tradition, Congressional legislation, and presidential proclamations.

The aim of the article is to briefly explain human rights as an element in U.S. foreign policy and to draw appropriate conclusions about it.

The United States, claim U.S. politicians, was founded on the principle that every person has inalienable rights, that government is constituted to defend these rights, and that government derives legitimate authority from the people it governs. To prevent the restoration of tyranny, the United States' Founding Fathers fashioned a two-edged weapon: checks and balances, on the one hand, and civil rights and political rights for the people on the other.

The Declaration of Independence, (adopted by the Continental Congress made up of representatives from the Thirteen Colonies on 4 July 1776), which Karl Marx called the "first declaration of human rights," declares: "All men are created equal...and are endowed by their Creator with certain inalienable rights, that among these are life, liberty, and the pursuit of happiness."

On 15 December 1791, the United States adopted the Ten Amendments, also known as the "Bill of Rights," which wrote into law freedom of speech, freedom of the press, freedom of religion, freedom of peaceful assembly, and other rights and set up a system to safeguard individual rights. However, at the time, the rights of U.S. blacks were not protected.

The theoretical roots of the Declaration of Independence and the Bill of Rights were the teachings of bourgeois thinkers and philosophers of the Enlightenment, such as the theory of natural rights, the "social contract" theory, and the idea of "popular sovereignty" of John Locke and Rousseau. The basic principle of governance embraced by Thomas Jefferson, the author of the Declaration of Independence and the third U.S. president, was that of treating every citizen equally and fairly. However, his wishes were not realized by his successors.

The advocacy of "human rights diplomacy" by President Carter was no historic breakthrough but a historically inevitable development in the politics and diplomacy of the United States.

Pragmatism has traditionally dominated the thinking of U.S. foreign-policy makers. At the end of the 19th century, idealism began to enjoy rising influence in U.S.

foreign policy. Learning from the experience of World War I and prompted by the desire to raise the United States' international stature, President Wilson proposed the creation of the League of Nations and called for self-determination for the colonies. The "Fourteen Points," Wilson's peace plan for ending the war, included such idealistic elements as equal treatment in trade, the signing of a peace treaty, and the granting of self-determination to the colonies.

During World War II, President Roosevelt outlined the goals of U.S. foreign policy in his request for Congress to pass the "Lend-Lease Act." They included the "Four Freedoms." (These are freedom of speech, freedom of worship, freedom from want, and freedom from fear.)

In 1945 President Truman declared that the premise for peace among nations was a common respect for basic human rights.

In 1946, the United Nations set up a Human Rights Commission under its Economic and Social Council. On 10 December 1948, the third General Assembly of the United Nations adopted the "Universal Declaration of Human Rights" prepared under the direction of Eleanor Roosevelt, widow of the late president, who was then the first chairman of the UN Human Rights Commission. The declaration enumerated several basic human rights, which could be grouped into five categories: civil, political, economic, social, and cultural.

As World War II ended and the Cold War descended, however, the anti-fascist view of human rights of U.S. politicians was quickly replaced by an anti-communist view. Already in 1946, Secretary of State Marshall was hinting obliquely at the Soviet government in his speech at the opening session of the General Assembly. In 1948, the Cold War between the United States and the Soviet Union intensified. Guided by the "Truman Doctrine" of "defending the free world," the U.S. government made a series of moves in response to so-called "proliferation of Communist tyranny." Between 1953 and 1960, as the Cold War reached a boiling point, President Eisenhower and the Congress were too preoccupied to bother about human rights. Secretary of State John Foster Dulles, straining to establish a global anti-communist alliance, no longer involved himself in international human rights activities. During the Kennedy and Johnson administrations, both presidents pledged compliance with the world convention of human rights. The latter even made it possible for blacks to win civil rights at home.

Driven by Realpolitik considerations, President Nixon never gave human rights a thought. His national security adviser (and later secretary of state) Kissinger also opposed any human rights resolution put forward in Congress that might offend a foreign government. Unhappy with the policy of the Nixon administration of sidestepping the human rights issue, Congress held 40 hearings on the human rights situation in 18 countries and regions in 1973, under the leadership of Representative Donald Frazer, chairman of the International Organizations and Movements Subcommittee of the House Committee of Foreign Affairs. In the spring of 1974, the House adopted the subcommittee's report ("Human Rights in the International Community: A Call for U.S. Leadership"). The report made 29 policy recommendations, the major ones being as follows: that the government give preferential consideration to human rights issue in the formulation of foreign policy, that the State Department should undertake an internal reorganization to ensure that the opinions of the various policy-making levels on the issue of human rights are heard; that the government make human rights an issue at the United Nations and suspend military and economic aid to any foreign government that persists in violating human rights, that both government pronouncements and secret diplomacy embody the spirit of human rights; and that the United Nations and other international organizations step up effort to safeguard human rights. At Congressional urging, Nixon threw his support behind Congressional adoption of the "anti-genocide convention" and endorsed the Congress-initiated resolution on protecting individuals and groups from attacks by international terrorists.

After Gerald Ford took office, a string of bills passed by Congress all included human rights provisions that the government was enjoined to enforce. Among the laws were the 1974 and 1976 amendments of the "Foreign Aid and Itemized Appropriation Act," the 1974 amendment of the "Foreign Trade Act," the 1975 amendment of the "International Development and Food Aid Act," and the "International Security Assistance and Military Exports Control Act (1976)." In most cases, the Ford Administration satisfied Congressional demands. In the latter half of 1974, the second-highest ranking official in the Office of International Organizations in the State Department took charge of human rights affairs. All regional offices and some functional offices in the State Department (such as the Policy Planning Office, Security Assistance Office, International Relations Coordination Office, and the Agency for International Development) all put special people in charge of human rights. In mid-1975, the legal counsel of the State Department named the assistant counsel to handle human rights issues exclusively. In 1975 the State Department set up the Human Rights and Humanitarian Affairs Coordination Office to take charge of human rights matters and refugee resettlement work. Under Kissinger, however, the State Department moved cautiously on human rights matters and resisted Congressional initiatives to some extent. On 20 October 1976, Kissinger said that the United States must realize that it had limited ability to handle human rights matters in other nations and that "quiet diplomacy" was often more effective than open "crusades." On 14 November 1975, the State Department submitted its first human rights report "Human Rights Conditions in Countries Receiving U.S Security Assistance" to Congress through the President. The conclusion of the report was that violations of human rights occurred both in countries that received U.S. aid and in countries that did not and that "quiet but

effective diplomacy" by the U.S. government is the best way to improve the status of human rights worldwide.

If the Nixon and Ford administrations often clashed with Congress on human rights issues, then the gap between the Carter Administration and Congress in this area was much smaller. The series of laws passed by Congress after 1973 on human rights provided a statutory basis for Carter and authorized him to make human rights the centerpiece of his foreign policy. Also there was Carter's own personal background and values. Beginning in the Carter Administration, human rights became an increasingly important factor in U.S. foreign policy. In January 1977, a President Carter determined to make U.S. foreign policy mirror his moral values said in his inaugural address, "Our commitment to human rights is total." Carter was unhappy with the overemphasis by his predecessors on the U.S.-Soviet conflict even to the extent of making pro-Americanism and anti-Sovietism the litmus test that foreign nations must pass and refraining from criticizing military dictatorships for their human rights violations. He came to office determined to push the cause of human rights in dictatorial and autocratic regimes that were allied or friendly to the Unites States even as he continued to support them. At the same time, he claimed that he would not turn a blind eye to the socialist nations' trampling upon human rights, unlike his predecessors. Even as the improvement of U.S.-Soviet relations became a major goal of U.S. foreign policy, he did not seek to hide his intention to use the "useful instrument" of human rights to wage a "struggle of peace" with the Soviet Union. He said that even if human rights became a bone of contention between the superpowers, he would not soften his opposition to the Soviet Union. During his first several months in office, human rights was the central issue in U.S. foreign policy. No sooner had Secretary of State Cyrus Vance assumed office than he declared, "We pursue the goal of human rights because we too will benefit from it." On 30 April 1977, Vance defined human rights as follows in a speech to the Georgetown University Law Center: 1) individual rights not to be infringed upon by the government; 2) the rights needed to sustain life, such as the right to food, housing, health care, and education; 3) personal freedom and political freedom. Even as he stressed U.S. commitment to human rights, Vance noted that the United States must be realistic in promoting human rights and guard against going to extremes and that it must not impose its values on other nations. There were constraints on the United States' human rights policy, he poined out, which must be applied flexibly depending on the conditions in each country. The gist of Vance's speech became the basic guidelines for the State Department in the field of human rights worldwide. According to Carter and Vance, the interest of the U.S. government in human rights expressed itself in bilateral relations and played a part in such issues as weapons exports, foreign aid, and the North-South dialogue. At the time, the United States had diplomatic ties with 150 nations and regions. Carter directed all government agencies to consider how a foreign government treated the basic freedoms of its own citizens in handling bilateral relations.

On the one hand, the Carter Administration declared its support for freedom and justice for every individual. On the other hand, the unprecedented emphasis by Washington on human rights did not exclude a touch of realism. This was how Vance sought to justify not reducing aid to allies like South Korea, Iran, and Zaire: The U.S. government must strike a balance between demonstrating its concern for human rights and achieving its economic and security objectives. What Vance called "balance" was President Carter's "pragmatic" "human rights policy." Behind this kind of diplomacy was a dual guiding thought: 1) Establish the United States as an ideal example, which is a feasible way to conduct foreign affairs. Embracing moral values can lay the most solid foundation for mobilizing and expanding U.S. influence; and 2) The maintenance of the powerful and humanitarian image of the United States should be consistent with the nation's strategic interests. The pursuit of humanitarian goals should be subordinate to the nation's political and security interests. When all is said and done, the Carter Administration recognized that however important the human rights issue, it must not be allowed to affect the relations between the United States and other nations with strategic ties to Washington. For instance, while the United States made the sale of conventional weapons to Latin American nations contingent upon their protection of human rights, it gave the human rights issue only minor consideration in deciding whether or not to give military aid to friendly nations like Egypt, Israel, South Yemen, and Saudi Arabia.

The Carter Administration's "human rights diplomacy" was conducted mainly through four channels: 1) Talks. When the Carter Administration believed a nation had violated human rights, it would first indicate its concern quietly through talks. When the Carter Administration thought a government had been making progress on the human rights front, it would also express its support without breathing a word of it publicly; 2) Symbolic Actions. When a U.S. official visited a foreign nation, he would invariably look for opportunities to meet with local dissidents and people who were exiled over human rights issues. The Carter Administration also expressed sympathy and support for people suppressed by a foreign government and publicly condemned some governments for violating human rights; 3) International Organizations. The Carter Administration often put the human rights issue on multilateral agendas, used international forums and judicial and quasi-judicial organs to publicize human rights, and devoted itself to expanding the United States' role in international human rights organizations; and 4) Economic Sanctions. In accordance with legislation passed by Congress, the Carter Administration suspended assistance to nations that violated human rights unless the assistance in question would make it possible for the poor in the host nation to obtain food, housing, and medical care.

Countries hit by "human rights diplomacy" usually reacted sharply in a way unfavorable to the United States, forcing the Carter Administration to resort to "quiet diplomacy," also known as private diplomacy, even more to achieve its goals. The Carter Administration believed that under many circumstances, increased contacts, the development of economic relations, and the exchange of ideas might lead to an improvement in human rights conditions in the nations involved in the long haul. "Quiet diplomacy" is different from open diplomacy, in which the United States would take a stand openly on the human rights situation in a nation and publicly put pressure on that country. The basic modus operandi of the Carter Administration was to use a mix of "quiet diplomacy" and open diplomacy, with emphasis on the former. Its basic strategy was to alternate the "carrot" (aid) with the "stick" (sanctions). This modus operandi and strategy were inherited by the Reagan and Bush administrations.

To conduct "human rights diplomacy," the Human Rights and Humanitarian Affairs Coordination Office in the State Department was expanded and upgraded in 1977. Under Assistant Secretary of State Patricia Di Rui [6611 3843], the office exercised considerable influence in the foreign policy-making process by feeding policy-makers with a stream of policy recommendations relating to human rights. In addition, the State Department set up a joint committee on human rights and foreign assistance to coordinate and supervise the human rights policies of the State Department. The State Department assigned special human rights officials to most embassies. Their responsibility is to report on the human rights conditions in the host nations and assess the effectiveness of the United States' effort to promote human rights there. The Policy Planning Office of the State Department was also charged with the formulation of human rights policy. Because of Carter's stress on human rights, the National Security Council and the White House also began tackling human rights matters. Zbigniew Brzezinski, national security adviser to President Carter, named an official on the council as liaison to non-government organizations.

The strongest support for the Carter Administration's "human rights diplomacy" came from Congress, which took a series of actions to ensure that human rights remained a key consideration in foreign policy making. Under a law passed by Congress, President Carter was required to submit to Congress a report on human rights conditions in all developing nations that enjoyed most-favored-nation treatment. Beginning in 1978, Secretary of State Vance submitted to Congress each year a report written by Di Rui, the ssistant secretary of state for hman rghts and humanitarian affairs, on the human rights situation in nations that received U.S. security aid. The Carter Administration's "human rights diplomacy" received bipartisan support in the nation.

In 1981, the Republican administration of Ronald Reagan succeeded the Democratic administration of Jimmy Carter. In his first press conference, President Reagan declared that he would put human rights at the top of his international agenda, attaching to it the same importance as arms control. In the early days of his administration, Reagan's human rights diplomacy was influenced by the Kirkpatrick Doctrine and differed from Carter's "human rights diplomacy." In his "human rights memorandum" submitted to Congress in October 1981, President Reagan put forward a dual standard for his human rights policy, namely a positive standard (furthering and spreading democratic values and putting the Soviet government on the defensive) and a negative standard (the United States would merely criticize, instead of taking action against, an ally for its human rights violations). Guided by this "dual standard," the Reagan Administration was in office for only 9 months when it requested that military aid to Argentina, Chile, Uruguay, and Guatemala, which had previously been cut off, be restored. Toward the end of his first term, he adopted a dual-track policy toward the Soviet Union, beefing up "total confrontation" and "limited rollback" while negotiating with Moscow at the same time. Echoing the philosophy behind Carter's "human rights diplomacy," Reagan declared, "Wherever there are human rights violations, free people must get involved." Abandoning its dual-standard human rights policy, the Reagan Administration proclaimed its opposition to any form of dictatorial rule, left or right. Compared to the Carter Administration, the Reagan Administration relied more on open diplomacy, using a combination of exposure and pressure. In its annual report on human rights compliance submitted to Congress, the Reagan Administration took an interest in the human rights situation in the Soviet Union, Poland, Hungary, Romania, Ccheoslovakia, Korea, Vietnam, and Cuba, among other nations. In addition, 15 non-socialist nations were also featured in the human rights report.

The second Reagan Administration followed a "dual policy." On the one hand, it "opposed any activity by a foreign government that violated human rights." On the other hand, it was "devoted to strengthening democracy in the long haul." The goal pursued by the Reagan Administration was also a dual one: part humanitarian—"improving the quality of life for all mankind by improving the human rights situation worldwide" and part "pragmatic"—putting human rights policy to work for the United States' global political interests and national security. The Reagan Administration's human rights policy, so claimed Secretary of State George Shultz, was both a "pragmatic policy" and an "idealistic policy." This policy continued to enjoy the support of the entire Capitol Hill. Many agencies under Congress remained in constant contact with the Office of Human Rights and Humanitarian Affairs in the State Department. It was a routinely busy office, staffed by more than 50 people, up from 30 or so in the Carter Administration.

The Reagan Administration's human rights policy was in turn continued by the Bush Administration. In 1989, the Bush Administration explained to the whole world his

human rights policy. He said that the United States' interest in human rights lies at the heart of U.S. foreign policy and that its human rights policy is global, not targeting or excluding any particular country. While human rights remains a major underlying principle of U.S. foreign policy, it is not the only principle. Judging from what the Bush Administration has done in the past 2 years, while its human rights policy has not departed from the broad framework established by Carter and Reagan, it has deeper strategic intent and displays a greater measure of strategic flexibility.

Taking a broad sweep of history, this writer concludes as follows:

1) U.S. politicians look to the ideas and philosophy of the Founding Fathers as well as bourgeois thinkers of the Enlightenment for guidancee in shaping their human rights theory. Learning from World War II, they have also added humanitarianism to their guiding thought. Its notion of religious equality and desire for living, in particular, appealed to the anti-dictator and anti-war aspirations of people at home and abroad and so proved acceptable to them. However, like all other bourgeois theories, the United States' human rights thinking has a problem: it is divorced from practice to a large extent. U.S. citizens have not yet achieved government non-interference or the freedom to determine their own destiny. Nor have they brought about democracy under which they can choose their own government or full "human rights." According to Marxism, human rights that mirror the commodity economy cannot transcend state authority and class interests.

2) The foreign policy of successive U.S. governments after World War Ii is made up of four major elements: politics, security, economics, and values. Values in turn consist primarily of four concepts—freedom, democracy, human rights, and peace. In theory, the four elements in U.S. foreign policy are equally important. In actual practice, values, which belong in idealism, are subordinate to the pragmatic elements of politics, security, and economics. In other words, human rights considerations take a back seat to such basic national interests as politics, security, and economic interests. Facts prove that the U.S. government has been playing the role of regulator of the "brake valve" of national interests all along. Once a human rights issue escalates to a point where it threatens its national security and may lead to national disintegration, the U.S. government immediately closes the "valve" and modifies its policy instantly.

3) The United States' human rights policy has had a certain impact on Western nations. Of the migrants pouring into the United States today, some have left their homeland influenced by U.S. human rights propaganda. In most cases, the United States' private diplomacy on behalf of human rights has been of no avail while its open diplomacy has also run into snags and been foiled everywhere. In recent years the human rights situation has indeed improved in some nations and regions, but such improvement is not necessarily the result of the United States' human rights policy but the outcome of a change of government or the emergence of a new leader in the nation concerned. Or it may be the result of concessions made by the government. In contrast, the human rights factor in U.S. foreign policy has only a limited impact on most foreign nations. Nevertheless, the understanding that basic human rights must be protected will influence the domestic and foreign policies of all nations to an extent that must not be underestimated.

4) There are two glaring weaknesses about the human rights element in the United States' foreign policy, which have led to international conflicts. One, it is anti-communist and anti-socialist. Two, it violates the principle of non-intervention in the internal affairs of another country. Despite his facade of impartiality, Carter still continued the "Cold War" on the U.S. side. Reagan's human rights policy was even more anti-communist than Carter's. Bush is preoccupied with promoting and encouraging "political pluralization and the development of a free market economy" in socialist nations. This misguided U.S. foreign policy can only saddle its own people with a heavy burden and cause them serious losses, in addition to putting additional pressure on socialist nations and forcing them to make a response. When the human rights policy of the U.S. government serves the national interests of the bourgeoisie and becomes an instrument for attacking its opponent, Washington cannot but have to interfere in the internal affairs of another nation. U.S. human rights policy, characterized by an involvement in the human rights situation in other nations, precisely mirrors the psyche of the U.S. government today—posed as "defender of democracy" and determined to always employ U.S. forces. It can be said with certainty that a policy of imposing one's values on international relations is unfeasible in today's world.

NORTHEAST ASIA

Analysis of Soviet Policy in Asian Pacific Region

91CM0453A Beijing GUOJI WENTI YANJIU [INTERNATIONAL STUDIES] in Chinese No 40, 13 Apr 91 pp 20-28

[Article by Jia Bei (0502 6296): "Changes in Relations Between the Soviet Union and Major Nations of the Asian Pacific Region"]

[Text] Mikhail Gorbachev has been in charge in the Kremlin for six years now. During these six years, the Soviet Union's foreign policy has undergone great changes; policy toward the Asian Pacific region has been one important aspect of this change. Because of the continually growing political and economic importance of the Asian Pacific region in the world, its position in Gorbachev's international strategy has grown more and more important. His strategic goal is to become a player in the Asian Pacific region, participate actively in the

political and economic internationalization of the region, establish a mechanism for security and cooperation on its eastern front based upon the model provided by the Conference for Security and Cooperation in Europe, and to assure a peaceful international environment so that the Soviet Union can obtain economic aid. The Soviet Union has always viewed China, the United States, and Japan as the principal adversaries on its eastern front, so these nations have naturally been the main targets of Gorbachev's new policy in the Asian Pacific region. Changes in the relationship between the Soviet Union and these three countries are a concrete reflection of readjustments in the Soviet Union's Asian Pacific policy and the results of those readjustments.

The United States: From Confrontation Towards Searching for Cooperation

Since the end of World War II, the Soviet Union has consistently looked upon the situation in the Asian Pacific region through the lens of Soviet-U.S. confrontation, and it is from this point of departure that it has always dealt with relations with the Asian Pacific region. The focus of the Soviet Union's Asian Pacific policy has been to oust U.S. power and influence from this region. Its main objective has been to seek military and strategic equilibrium with the United States, and then to achieve superiority over the United States. Toward this end, the Soviet Union has devoted huge amounts of human, material, and financial resources toward developing its military strength in the Asian Pacific region in an effort to seize points of strategic importance. Not only did the Soviet Union fail to achieve its objective, but many countries in the Asian Pacific region actually began to look upon the existence of the Soviet Union there as the main threat, with the result that the Soviet Union became isolated in the Asian Pacific region.

Since Gorbachev has come to power, the Soviet Union's attitude toward the U.S. presence in the Asian Pacific region has undergone a gradual change. This change has taken place in several distinct phases.

The first phase was right after Gorbachev came to power. On 21 May 1985, during a banquet welcoming Indian Prime Minister Rajiv Gandhi, Gorbachev proposed an "All Asia Conference." Later he wrote a letter to the heads of state of the Asian nations asking for their support. It was apparent from the list of nations which would be allowed to attend this proposed conference that the Soviet Union at that time continued to reject the U.S. presence in the Asian Pacific region and still wanted to use the Soviet geographical presence as an excuse to eliminate U.S. involvement in the affairs of the region. This attitude was also apparent in the content of Soviet periodicals, particularly in the Soviet government's statement on Asian Pacific affairs which was released on 23 April 1986. In this statement, the Soviet Union blasted the Pacific Economic Cooperation Conference (PECC), which was mainly under the influence of the United States and Japan, criticizing that the United States and Japan had created a "Pacific community," and that the PECC was "an Oriental version of NATO." The first change occurred in July 1986, when Gorbachev indicated in his Vladivostok speech that the Soviet attitude toward the United States had undergone a major readjustment. In his speech, Gorbachev stated that the United States "indisputably had significant economic and political interests" in the Asian Pacific region, and that "without the United States, without the participation of the United States, issues of Asian Pacific cooperation and security cannot be resolved to the satisfaction of all parties." Gorbachev also spoke positively of the PECC for the first time, indicating that the Soviet Union was interested in joining. In this speech he raised a new proposal, suggesting a "Conference of Asian Pacific Nations" in which the United States would participate and in which all parties would discuss regional security and cooperation issues. The Vladivostok speech indicated that the Soviet Union had adopted a pragmatic attitude towards the U.S. presence in the Asian Pacific region, and that the Soviet Union was shifting from an attitude of rejection of the United States toward one of acknowledgment and acceptance.

However, for more than two years following this speech, relations between the Soviet Union and the United States in this region remained the same as ever. In the words of Gorbachev, the Soviet Union "approves of active U.S. participation in Asian Pacific affairs" and "is making every effort to search for points in common with the United States with regard to Asian Pacific regional issues," but the United States is "showing suspicion, and attempting to spread suspicion among the people and nations of the Asian Pacific region." The Soviet Union felt that U.S. participation "should be on an equal basis" but the United States was "putting on the airs of a powerful country and playing hardball." In short, there was "no understanding" in U.S.-Soviet relations (see Gorbachev's speech in Krasnoyarsk, September 1988). In reality, the key factor affecting bilateral relations was the fact that even though the Soviet Union had changed its attitude toward the U.S. presence in the Asian Pacific region and now took a pragmatic attitude towards the situation instead of trying to crowd the United States out, its basic objective was still to rein the United States in. All of Gorbachev's proposals were aimed directly at the United States, including his concrete idea about the establishment of an Asian Pacific security and cooperation body, as well as the new suggestions contained later in the seven points raised in his Krasnoyarsk speech. All of these proposals included calls for the prohibition of nuclear proliferation in the Asian Pacific region, the restriction of naval activities, and the elimination of foreign military bases. The United States believed that these proposals directly affected its interests. In particular, at the same time that the Soviet Union was attempting to restrict the U.S. military presence, it was continuing to expand its Pacific fleet in order to balance its operational capabilities on both fronts, and the Pacific fleet had become one of the four most powerful fleets in the Soviet navy. At the very time when the presence of United States bases in the Soviet Union was

becoming problematic, the Soviet Union was stepping up efforts to expand its naval base in Camranh Bay. At the same time, conflicts in Afghanistan and Cambodia had not been resolved. The United States was not willing to see the influence of the Soviet Union in the Asian Pacific increase, and was especially unwilling to see the Soviet Union's military power there increase. Therefore, it responded negatively to the Soviet Union's stance, and the two nations continued in a standoff in the Asian Pacific region. In order to change this situation, the Soviet Union stepped up its commitment in 1988 by adopting a series of measures. In December of that year, Gorbachev announced to the United Nations General Assembly that within two years the Soviet Union would unilaterally reduce its armed forces in Asia by 200,000 men, which included the reduction in the Far East of twelve army divisions, the disbanding of eleven aviation regiments, and the retirement of sixteen fighting ships (nine large surface ships and seven submarines) from the Pacific fleet. In late 1989, the Soviet Union gradually began withdrawing its naval and airborne forces from Camranh Bay. The activities of the Pacific fleet were also noticeably reduced. The aforementioned statements and actions by the Soviet Union began to receive cautious welcome from the United States.

A further readjustment of the Soviet attitude toward the U.S. presence in the Asian Pacific region occurred in 1990. This readjustment was in line with other readjustments in U.S.-Soviet relations throughout the world. From a global standpoint, the Soviet Union and the United States "no longer looked upon each other as enemies, but were beginning to establish a relationship based on partnership and cooperation" (See Shevardnadze's speech in Vladivostok on 4 September 1990). In the Asian Pacific region, the Soviet Union and the United States also began to "search for opportunities for cooperation within the context of efforts to resolve the problems and conflicts in the Asian Pacific region" (see the joint communique from the Soviet-U.S. foreign ministers' talks on 2 August 1990 in Irkutsk). In other words, the policy of the Soviet Union toward the United States in Southeast Asia had switched from a search for mutual acknowledgement and understanding and had moved on toward a search for cooperation.

This further change in the Soviet attitude was due primarily to the following factors: First, in terms of the larger picture, drastic changes began occurring in Eastern Europe in late 1989. The situation in Europe and worldwide was undergoing a great change, and the influence of the United States and the Soviet Union was on the wane, while that of Germany and Japan was on the rise, so the Soviet Union and the United States both felt a need to rely on each other in order to maintain their positions as superpowers. Second, from the standpoint of the Asian Pacific region, the Soviet Union was beginning to feel that its main threat had shifted. Because of Japan's growing economic strength and military potential, the Soviet Union felt that the greater threat was from Japan and that it should rely upon the strength of the United States to curb Japan. Third, the Soviet Union was anxious to participate in Asian Pacific economic cooperation. It felt that the United States was playing the main guiding role in many important organizations of economic cooperation in the Asian Pacific region, and that the United States had an important influence. Therefore, it wanted to establish a relationship of cooperation with the United States, and it wanted to get the United States to open the door to economic contact with the Asian Pacific region. The Soviet Union looked upon the establishment of close economic ties with the Asian Pacific nations as a fundamental guarantee of its ability to eliminate security threats. The Soviet Union hoped that the establishment of a cooperative relationship with the United States would spur other countries to adopt a different attitude toward the Soviet Union.

The Soviet Union hopes to achieve a lot by establishing a cooperative relationship with the United States in the Asian Pacific region, and it has made a great effort to achieve this end. For example, it quickly established diplomatic relations with South Korea, gave recognition to the U.S.-Japan Security Treaty, etc. Rapprochement between the Soviet Union and the United States has elicited positive response within the United States. Some Americans believe that Soviet intentions have changed, and that its military presence in the Asian Pacific region is now defensive in nature, so increased Soviet participation, with conditions, in Asian Pacific affairs is acceptable. However, no matter whether the Soviet Union is seeking an understanding with the United States or a cooperative relationship, an important Soviet goal in the Asian Pacific region is to lower the level of military confrontation between the United States and the Soviet Union there, thereby reducing the U.S. military presence. There has not been the slightest progress in this area so far. The United States remains ever alert to this Soviet intention and to the modernization of its military forces in the Far East, and the United States has not had a positive attitude toward Soviet participation in Asian Pacific economic cooperation. For this reason, the Soviet Union feels that Soviet-U.S. relations in the Asian Pacific region are out of step with the overall climate of worldwide relations between the two countries, particularly given the understanding that the two countries have reached in Europe and the overall desire to resolve major problems in their bilateral relations. In other words, the reality of U.S.-Soviet relations in the Asian Pacific region differs widely from that which the Soviet Union hopes to achieve. The Soviet Union is dissatisfied and anxious about this situation.

China: Normalizing Relations

In its relations with the major countries of the Asian Pacific region, the Soviet Union has brought about the greatest changes and successes in its relations with China.

For a long time, the Soviet Union has regarded China as one of the major hostile forces in the Asian Pacific region, and it has looked upon the 7,000-kilometer

Sino-Soviet border running East and West as one of the two major axes of military confrontation in the Asian Pacific region (the other axis being the one running North and South between the Soviet Union and the United States/Japan). This situation began to change in the latter Brezhnev period, and after Gorbachev came to power the change was even clearer.

There are several reasons why Gorbachev changed Soviet policy toward China: First, in order to carry out domestic reform, he urgently needed peace on his borders. Second, China's foreign policy underwent readjustment. The Twelfth Congress of the Communist Party of China in 1982 established an independent and autonomous foreign policy for China; China would neither ally with any superpower, nor would it establish a strategic relationship with any superpower. The Soviet Union felt that the conditions for improving bilateral relations were present. Third, after its reforms, China underwent great change, and there were corresponding changes in the relative strength of China and the Soviet Union as well as in their position in the Asian Pacific region. China's economic strength has grown greatly, and it no longer relies on Soviet aid. In its political and economic relations with the Asian Pacific nations, China is even ahead of the Soviet Union. At the same time that the Soviet Union was being seen by the nations of the Asian Pacific region as the major threat and was the subject of suspicion and distrust, China, on the basis of the five principles of peaceful coexistence, was developing friendly relations with most of these nations, and it was playing a positive role in regional affairs. When the Soviet Union was just beginning to work to establish broad economic ties with the Asian Pacific nations, China had already developed close economic cooperation with the United States, Japan, and the newly industrialized countries and territories in the Asian Pacific region. For this reason, the Soviet Union places a great deal of importance upon China's position and role in the Asian Pacific region.

After Gorbachev became the general secretary of the Soviet Communist Party, he soon chose China as the area to make the first breakthrough in his strategy to improve the Soviet position in the Asian Pacific region. He made several important readjustments in the Soviet-China policy: First, he accorded China a position of much greater importance within the Soviet scheme of diplomatic affairs. The Soviet Union publicly and privately acknowledged the important role of China in the world and in the Asian Pacific region, and stated the belief that without China's participation, no major world problem could be solved. In its diplomatic agenda, the Soviet Union attached greater importance to China, and in its relations with the Asian Pacific nations, the Soviet Union had in reality placed China in the position of premier importance. Second, a switch was made from the Brezhnev China policy, which was backed up by a military threat. After Gorbachev came to power, the Soviet Union publicly stated that China did not represent a threat. Gorbachev stated in 1986 in Vladivostok that the Soviet Union would withdraw its troops from Mongolia and reduce its forces along the Sino-Soviet border, and he further agreed to the Chinese proposals that troops along the Sino-Soviet border be reduced to the minimum number commensurate with relations between the two countries. He stated that the Soviet forces stationed along the Chinese border would be restructured into a "defensive posture." Third, the Soviet Union took varying degrees of action to do away with the other two major obstacles—Afghanistan and Cambodia. Between 1986 and 1988, the Soviet Union withdrew all of its forces from Afghanistan, and by putting pressure on Vietnam, it played a definite role in spurring a solution to the Cambodian problem. Fourth, the Soviet Union changed its attitude concerning the relations between China and the countries on China's borders, now choosing to persuade and prompt these countries to improve their relations with China. These actions created the necessary conditions for normalization of relations between the two countries.

The most important event in the recent history of Sino-Soviet bilateral relations was Gorbachev's visit to China in May 1989. A bilateral joint communique was released in which the Soviet Union affirmed the five principles of peaceful coexistence as the basis for developing bilateral relations. They "finished with the past, and opened a path toward the future," and normalization of bilateral relations was accomplished. Soon thereafter, normalization of relations between the two communist parties was also accomplished.

Since that time, progress has been made on several fronts in Sino-Soviet relations:

Political relations have developed in a steady manner. High level leaders have maintained contact. In April 1990, China's Premier Li Peng made an official visit to the Soviet Union and took concrete steps to "open a path to the future." Relations between China and the Soviet Union reached a new level. Both parties expressed a hope to do a lot of pragmatic work to expand contacts and cooperation between the two countries so that bilateral relations could develop in a stable and healthy manner. During Li Peng's visit, the two governments signed four agreements on economic and technological cooperation. Afterwards, normal military, parliamentary, and governmental intercourse developed.

There has been some progress in border negotiations. The Sino-Soviet border issue is a historical problem which has gone unsolved for a long time. When Gorbachev said in his July 1986 speed in Vladivostok that the "main navigational channel" could be taken as the eastern border between the two countries, China responded positively. The two countries established a border negotiation team and resumed border negotiations. When Gorbachev visited China, the Soviet Union and China went further to affirm the guiding principle behind the efforts to resolve the border problem—"finding a fair and reasonable solution to the Sino-Soviet border problem left by history in a manner consistent with the relevant current Sino-Soviet border treaties,

and on the basis of publicly accepted principles of international law, always with a spirit of mutual understanding and consultation between equals." At the same time, the leaders of the two countries discussed stepping up discussions on sections of the border where there are disagreements "in order to formulate a method for solving simultaneously the eastern and western border questions in a manner that both sides find acceptable." The two sides have made some progress on the border question, and so far the overall attitude of the Soviet Union is positive.

Troop reduction negotiations continue. When Gorbachev visited China, the two sides reached agreement for the first time on the general principles of troop reduction along their borders when they "agreed to take measures to reduce military forces along the border to the lowest level consistent with normal, friendly, bilateral relations." Afterwards, each nation established working teams composed of diplomatic and military specialists which began working in November 1989 to draft an agreement on a reduction of the number of troops stationed along the border. The visit by Li Peng to the Soviet Union in April 1990 hastened the signing of an "agreement regarding the guiding principles governing the mutual reduction of troops on the Sino-Soviet border and the strengthening of trust in the military sphere." The agreement affirmed the principle of "equal security, where the party with the advantage will make the greater cuts," and it stated that the "status quo along the border would be maintained" until the border question was resolved. Both parties announced that they would abide scrupulously by these principles and would carry out further negotiations to implement the troop reduction measures. This is the first agreement in the Asian Pacific region on troop reductions. The signing of this agreement not only facilitates increased trust between China and the Soviet Union and helps them to develop friendly relations, but it also carries great significance for efforts to strengthen peace and security in the Far East and the Asian Pacific region.

The expansion of economic and trade relations has opened up a new avenue for cooperation. Economic cooperation is an important venue for the Soviet Union to improve relations with China. Development in this area has maintained relatively good momentum for the past several years, and it has moved forward at three different levels: the central government, local government, and the border. Trade between the governments has increased year after year. It reached 4.1 billion Swiss francs in 1988, a 36 percent increase over 1987. It reached 4.83 billion in 1989, and 5.23 billion in 1990. What is particularly worth noting is the rapid growth in trade between local governments and along the border between China and the Soviet Union. Both sides have made great efforts, the central governments have decentralized power, and there have been breakthroughs in trade as well as economic and technical cooperation between some Soviet republics and large cities, on the one hand, and neighboring Chinese provinces, particularly in the Far East. At this point, the total volume of border trade is about one-fifth that of trade between the two governments. The governments of the two countries have signed agreements for more than 200 economic and technological cooperation projects. In the area of economic cooperation, there is new activity in construction contracting, labor exports, and joint ventures. By December 1990, the Soviet Union and China had set up more than 40 joint venture enterprises in each other's countries. Commercial dealings are moving in a direction which promises to complement and optimize the structure of commerce in each country. In addition, tourism has been expanded.

In the past few years, there have been many substantive improvements in Sino-Soviet relations. The Soviet Union feels that the confrontation that it has faced in the Asian Pacific regions on the east-west axis has been mitigated, and it is satisfied with the development of its bilateral relations with China.

Of course there are problems in the Soviet Union's relations with China. For example, both countries are trying to resolve problems related to the development of their national economies, and both need funds, technology, equipment, and modern methods of management. In this regard, a certain degree of competition exists. In addition, domestic instability in the Soviet Union has an impact upon the execution of contracts, and the pluralization of politics in the Soviet Union has led some individuals to do things in developing relations with Taiwan which have hurt the feelings of people in China. The two countries do not see completely eye to eye on international issues. In spite of this, however, the Soviet Union will continue to work actively to develop friendly relations with China because it needs to do so for domestic and diplomatic reasons. There is great potential for development of bilateral relations here.

Japan: Good Things Take Time

In handling its relations with the major countries of the Asian Pacific region, the Soviet Union has made the greatest effort and achieved the least in its relations with Japan.

Relations with Japan are an important link in Gorbachev's Asian Pacific strategy. This is so for historic reasons as well as for practical necessity. The Soviet Union has security considerations here as well as political and economic objectives. The reason why Gorbachev is actively seeking to improve relations with Japan is that he wishes to establish an external environment conducive to accelerated domestic social and economic development, and he wishes to participate in the process of international economic integration. In terms of the Soviet Union's military strategy, the objective is to break up the U.S.-Japan military alliance, curb the development of Japan's military strength, and change the confrontational situation now existing. In terms of the Soviet Union's economic development strategy, the objective is to carry out economic reform, and develop the Far East and Siberia. In order to meet this goal, the

Soviet Union is placing great hopes on the funds and technology of Japan. In terms of the Soviet Union's political necessity, and in view of Japan's role in economic cooperation throughout the Asian Pacific region, the Soviet Union hopes fervently that an improvement in Soviet-Japanese relations will have a positive influence upon its efforts to establish itself as "a major Asian Pacific nation." At the same time, Gorbachev is looking at the future international position of Japan. A Soviet scholar has called Japan "the leader of the Asian Pacific region."

The Soviet Union has placed great hopes upon Japan, but there are significant obstacles to the achievement of these hopes. One obstacle is the U.S.-Japan alliance, which, as the cornerstone of Japan's foreign policy, will foil attempts by the Soviet Union to take advantage of friction between the United States and Japan to improve the Soviet Union's relations with Japan. The Soviet Union will have to abandon this method. Another major obstacle is the territorial dispute. The diplomatic struggle surrounding the question of sovereignty over the four northern islands casts a pall over relations between these two countries and has prevented any breakthroughs so far.

The Soviet Union has launched three major efforts in the past eight years to overcome these problems in its relations with Japan.

The first major effort began when Gorbachev came to power. He dropped the Soviet Union's former method of applying constant diplomatic and military pressure to Japan, and he took a number of positive stances to improve relations with Japan. At the funeral for Constantin Chernenko, Gorbachev first expressed his hope of improving relations with Japan to Prime Minister Nakasone, and in the following year he sent many letters to Nakasone in which he expressed the hope that Japan would move to resolve bilateral and multilateral problems. In January 1986, the Soviet Union resumed visits by its foreign minister to Japan, which had been discontinued ten years earlier, and a system of biannual meetings of the two countries' foreign ministers was established. Meetings between the science and technology commissions and the economic cooperation commissions of the two governments were reestablished after having been discontinued for many years. Japanese citizens were again allowed to go to the islands of Habomai and Shikotan to tend to graves there. The discussions on economic and trade issues between the two countries which are carried every year was elevated in status. During the 27th Congress of the Communist Party of the Soviet Union in February 1986, Gorbachev referred to Japan as one of the three major centers of capitalism in the world. In July of that same year in his speech in Vladivostok, he gave high praise to Japan and expressed the desire to engage in wide-ranging cooperation with Japan.

With these efforts on the part of the Soviet Union, relations between the two countries improved somewhat. Several economic and trade agreements were signed, cultural and personnel exchanges became more active, trade grew dramatically (increasing by 22 percent in 1986 over the previous year), and negotiations on cooperative development of Siberia, which had been put on hold for years, were resumed. Particularly after the Soviet Union accepted Japan's invitation for visits by Gorbachev in July 1986, relations between the two countries warmed up rapidly. However, they quickly cooled down once more.

The reason for this cooling off was the fact that in spite of enthusiasm on both sides for improving relations, the two sides did not share the same position on a number of bilateral and multilateral issues. In the area of bilateral relations, the issue of the Northern Territories continued, as always, to be a huge obstacle. The Soviet Union steadfastly refused to acknowledge the existence of any territorial dispute, and it attempted to avoid the issue while signing contracts and finalizing long term intergovernmental economic and technological cooperation agreements, hoping thereby to establish a stable cooperative relationship. Although Japan was willing to improve relations, it insisted that "politics and economics would not be separated," and stated that "unless the Soviet Union returns all four islands," no contracts would be signed and it would not carry out long term intergovernmental economic cooperation with the Soviet Union. It also stated that "this is Japan's unalterable position vis-a-vis the Soviet Union." With regard to major international issues, the hopes that the Soviet Union had pinned upon Japan all came to naught. Japan rejected outright the idea of the Soviet Union holding an "All Asia conference," and in mid-1986, in spite of Soviet efforts to dissuade them, Japan became the first Western nation to discuss participation in the SDI project with United States firms, and in July of the following year it officially signed an agreement in this regard with the United States. In addition, the Toshiba and Fukuda incidents also harmed bilateral relations. In the aftermath, the Soviet Union began to take a harder line towards Japan. The 11th Joint Session of the Japan-Soviet Union Commission on Economic Affairs, which was to have been held in early 1987, was postponed twice. The Soviets purposely delayed a routine meeting of foreign ministers in 1987 which had been previously agreed upon. Nothing more was heard of Gorbachev's visit to Japan, either. Economic and trade relations, which had just gotten going, were also affected. Total trade between the two countries in 1987 shrunk by 4.2 percent from the previous year, and part of this picture was an 18.6 percent decline in Japanese exports to the Soviet Union.

The second major effort to improve relations with Japan was launched in the spring of 1988. There were two main factors behind this second sortie. First, the U.S. and Soviet heads of state signed an agreement to destroy intermediate range nuclear weapons in Washington in

December 1987, and they expressed the desire to continue negotiations on the destruction of strategic nuclear weapons. The relaxation of relations between the Soviet Union and the United States provided an important condition for improved relations between the Soviet Union and Japan. The second factor was the fact that Noboru Takeshita had become the Prime Minister of Japan. It was Takeshita's intention to make a breakthrough in relations with the Soviet Union and do away with the diplomatic deadlock between Japan and the Soviet Union which had been passed on from one Japanese government to the next. His objective was to consolidate the foundation of Japan's diplomacy, expand Japan's political influence, and turn Japan into a "political power" and an "international country." At the same time, the attitude of Japan's opposition parties was more positive than it has been previously, which spurred Japan's Ministry of Foreign Affairs to set officially about the task of resolving problems in Japan's relations with the Soviet Union. These factors made it possible for the Soviet Union to take further steps.

In this second attempt at improved relations, the Soviet Union worked hardest in two areas. In the media, the Soviet Union further exhibited a serious attitude toward relations between the two countries. In the 19th Congress of Delegates to the Soviet Communist Party, which was held in June 1988, Gorbachev emphasized that "one way or the other, we have to find a way" to resolve differences between the Soviet Union and Japan. In his September speech in Krasnoyarsk, Gorbachev further expressed his enthusiasm for seeking normalization of bilateral relations, stating that "in the Soviet Union's foreign policy, Japan is an independent factor," and that "developing relations with Japan" was, for the Soviet Union, "a long term policy." From the time that Takeshita became Prime Minister, the Soviet Union paid close attention to developments in Japan's policies toward the Soviet Union and "searched for concrete ways to improve Soviet-Japanese relations."

This attempt at improved relations was characterized by the Soviet focus upon political heavyweights in the government and in civilian circles, and upon influential Liberal Democratic Party [LDP] members in the government and in financial circles. Beginning in May 1988, the Soviet Union issued separate invitations to Takako Doi, head of the Japanese Socialist Party, Tetsuzo Fuwa, vice chairman of the Japanese Communist Party Central Committee, Eitaro Itoyama, chairman of the Foreign Affairs Committee in the Lower House of the Japanese Diet and a member of the LDP, former Prime Minister Yasuhiro Nakasone, and Shin Kanemaru, a powerful LDP member who has been called "Takeshita's mentor." At the same time, the Soviet Union also frequently dispatched delegations to visit Japan to make contact with people in various circles of Japanese society. Gorbachev has sent Nikolai Primakov, a leading member of his brain trust, on many visits to Japan, where he has worked through the Japanese media to apply pressure upon the Japanese government to adopt a positive attitude.

In the area of economic cooperation, the Soviet Union has raised a number of concrete proposals to the Japanese within a period of a few months, including proposals to establish a Soviet trade organ in Osaka, a joint venture for producing passenger cars, the establishment of a Sea of Japan economic region on the Soviet island of Sakhalin, and the promotion of bilateral scientific and technological cooperation.

The most important single act of this second attempt at improved relations was the visit by the Soviet Minister of Foreign Affairs two years and eleven months after his last visit to Japan. Intensive discussions on a meeting between the two countries' heads of state, the territorial dispute, and economic cooperation were held. During the talks, Eduard Shevardnadze affirmed for the time the necessity of a visit to Japan by the Soviet Union's highest leader, although he felt that the time for such a meeting had not yet arrived. With respect to the territorial issue, his basic position had not changed, but the old phrases were not trotted out, and both parties agreed to set up a vice ministerial organ which would study matters related to the signing of a Soviet-Japanese peace treaty. With regard to economic cooperation, he exhibited a positive attitude, proposed an agreement between the Soviet Union and Japan on the protection of investments, and expressed the hope that the Soviet Union and Japan would establish joint venture enterprises. The two sides achieved a certain amount of progress in international affairs, reaching a basic agreement on their willingness to carry out talks at any time on the situation in the Korean Peninsula in order to exchange information and opinions. However, the territorial issue hung over the proceedings like a specter, exerting an influence upon bilateral relations at all times and in all places. Japan continued to stand upon its principle of "not separating politics from economics," refusing the Soviet Union's proposals for economic cooperation. Japan stated its belief that if it were to finalize such an agreement before any progress had been made on the territorial issue, "the territorial issue would be put on a back burner." In order to resolve this deadlock, after he became Prime Minister, Toshiki Kaifu proposed "a balanced expansion of relations between Japan and the Soviet Union" in hopes that progress in relations between Japan and the Soviet Union would provide the key to resolution of the territorial dispute. In May 1989, Japan's Minister of Foreign Affairs, Sosuke Uno, raised this proposal with the Soviet Union, but this time it was Japan which met with refusal.

As political relations between the Soviet Union and Japan blew hot and cold, so too did economic relations. Trade between the two countries in 1988 reached $5.9 billion, their highest level in history. Beginning in 1989, the two sides signed an environmental protection agreement and a trade payments agreement, and they extended the Soviet-Japanese Far East Coastal Trade Agreement. The Soviet Union provided a number of military technologies to Japan which could be converted to civilian use, and Japan accepted a visit by a delegation of Soviet economic researchers. Several large Japanese

companies were also eager to carry out cooperation with the Soviet Union. However, trade between the two countries did not continue to grow in 1989, and in general people in Japanese business circles continued to look upon the establishment of joint ventures with the Soviet Union with great caution. Intergovernmental economic cooperation did not achieve any substantive progress because of the territorial disputes.

The third warming of relations between the Soviet Union and Japan began in November 1989 with the visit of Yakovlev, a member of the Soviet politburo and a Gorbachev adviser, to Japan. In the year following that event, the rank and frequency of visitors going back and forth between the two countries reached unprecedented levels, and dialogue between the two countries on international issues, particularly issues pertaining to the Asian Pacific region, began to pick up. The final result was the establishment of the itinerary for a visit by Gorbachev to Japan in April 1991. A positive atmosphere surrounding economic relations also appeared and reached unprecedented proportions. In September, an LDP delegation visiting Moscow announced Japan's intention to provide 5 billion Japanese yen in technical assistance to the Soviet Union in order to increase Soviet production of crude oil. In November, five banks in Tokyo provided a loan of 52 billion yen to the Soviet Union. In late November, the Japanese government delivered 14 billion yen in foreign aid to the Soviet Union. In December, the Japanese government again provided 14 billion yen worth of emergency food and medicine aid and mobilized private groups and individuals to donate money and goods to help the Soviet Union get through the winter. Japanese financial circles are also turning their eye toward the Soviet Union. In December, Yuzuru Watanabe, president of the Asahi Shimbun News Service, led a large delegation of big name economists, bankers, and financiers to visit the Soviet Union, where they were received by Gorbachev.

There were three major factors behind this third warming in Soviet-Japanese relations. First, there was a certain amount of movement in the Soviet Union's attitude regarding the territorial issue. It acknowledged that the territorial issue could not be avoided, and it accepted the existence of the territorial issue between the two countries. When Yakovlev visited Japan, he raised an intriguing "third path" for resolving the territorial dispute. Afterwards, scholars in the Soviet Union began throwing out all sorts of ideas, such as "joint utilization," "joint management," "establishing a UN protectorate," "a weapons-free region," "establishing a concession," "putting the issue aside," "establishing a special economic zone," etc. This raised hopes in government and civilian circles in Japan, where people hoped that a corresponding effort on Japan's part would lead to expanded personnel and cultural exchanges, economic and technological cooperation, a balanced expansion of bilateral relations, a softening of the Soviet position, and a resolution of the territorial dispute between the Soviet Union and Japan. Second, the summit meeting between the United States and the Soviet Union in Malta in 1989 signified that the United States and the Soviet Union had progressed from dialogue toward a new era of cooperation and partnership, and the development of relations between the Soviet Union and the United States put a certain amount of pressure upon Japan. At the same time, the precipitous changes in Eastern Europe, the changes in the overall world order, and the current state of and long term strategy for relations between Japan and the United States all spurred Japan to realize the necessity of readjusting its relations with the Soviet Union and adopt a more flexible posture. Third, the Soviet Union has played "the Korea card" against Japan. As early as May 1989 the Soviet Union had applied pressure upon Japan, stating that "if Japan does not adopt a positive attitude toward development of the Far East, the Soviet Union will do it with the cooperation of South Korea." After the meeting between Gorbachev and Roh Tae Woo in San Francisco and the official establishment of relations between the two countries, large corporations in South Korea rushed into the Soviet Union to study local conditions and establish cooperative projects. These developments delivered a jolt to Japan both politically and economically.

However, although relations between the two countries improved and contacts increased, there are still just as many causes for pessimism as optimism. Although the Soviet Union's position on the territory dispute has become more flexible, its basic position that "the borders established after the Second World War cannot be changed" has not undergone any transformation. In return for agreeing to negotiate the territory dispute with Japan, the Soviet Union expects Japan to provide large interest-free loans and long-term technological cooperation. For its part, although Japan's attitude toward the Soviet Union has become more flexible since Kaifu came to power, its principle of "balanced expansion" does not mean that it has abandoned the principle that "politics and economics are not to be separated." As long as the two countries remain snagged on the territory dispute, improvement of relations will be limited. "The issue of the Northern Territories" has become a thorn in relations between the Soviet Union and Japan. The entire world is awaiting anxiously to see whether there will be any progress on this issue before the upcoming visit by Gorbachev to Japan. In addition, there are also some other factors which are influencing Japan's attitude toward the Soviet Union. In reality, Japan still looks upon the Soviet Union as the main threat to its security, so it is very cautious about supporting efforts by the Soviet Union to rebuild itself. Domestic chaos in the Soviet Union in the past year has been disappointing to many Japanese companies. As a result of a shortage of foreign exchange in the Soviet Union and a severe problem with getting bills paid, the Japanese investment in the Soviet Union decreased in 1990 from the previous year, and bilateral trade also decreased. In addition, because the various republics of the Soviet Union have all proclaimed their sovereignty over their own resources, Japanese companies do not know exactly who

to get in touch with. The current state of relations between the Soviet Union and Japan has led some Soviet scholars to lament, "our problems with Japan could one day become the main obstacle to the progress of the Soviet Union's policy vis-a-vis the Far East and the Asian Pacific region."

In summary, in order to achieve its strategic objectives, the Soviet Union needs to achieve certain things in its relations with the United States, China, and Japan in the Asian Pacific region, and after several years of efforts, relations have indeed improved to a certain extent. From an overall standpoint, the Soviet Union has become more pragmatic and flexible in dealing with these nations. Whereas before the Soviet Union adopted a confrontational stance which led to tension all around, its attitude is now conciliatory. It is striving to establish cooperative relationships in order to achieve, in the end, its long standing objectives. In concrete, with China the Soviet Union has established cordial and friendly relations upon the basis of mutual benefit; with the United States, the Soviet Union has relied primarily upon unilateral actions to achieve an improvement in relations; with Japan, there has been some expansion in political, economic, personnel, and cultural exchanges. There are still varying degrees of problems in the relations of the Soviet Union with these three countries. In particular, its relations with the United States and Japan are far from what Gorbachev is hoping for. The Soviet Union's Asian Pacific strategy is continually being readjusted. The focal point of this strategy shifted noticeably to the north beginning in 1988 to the nations of Northeast Asia and around the Sea of Japan which share borders with the Soviet Union and whose military, political, and economic interests are directly related to those of the Soviet Union, the United States, China, and Japan. In the economic sphere, the Soviet Union hopes to set up a "Sea of Japan Economic Zone" in this region. In the military sphere, it hopes to build a Northeast Asian security and confidence mechanism around efforts to resolve the problem of the Korean Peninsula, and use this as the breakthrough point which would enable it to establish such a mechanism for the entire Asian Pacific region. For this reason, the question of how to handle its relations with the United States, China, and Japan is becoming more and more important. Statements by a number of high- ranking officials in the Soviet Union recently show that since the normalization of relations between China and the Soviet Union, the Soviet Union has come to place even greater emphasis upon the United States and Japan, and some Soviets have even stated that "they should plan on establishing an Asian Pacific cooperation mechanism with the Soviet Union, the United States, and Japan at its center." Between the United States and Japan, the Soviet Union especially looks to the strength and influence of the former to help it achieve its own objectives. However, China is a major country and is a major force for stability in the Asian Pacific region and even throughout the world. No country which ignores China can hope to establish truly secure and cooperative relationships in this region. There are plenty of people in the Soviet Union who see the matter in this light. How the relations of the Soviet Union with these three major countries develop in the future and how it succeeds in achieving its Asian Pacific strategy depends on several factors, one of the most important ones being domestic political and economic trends in the Soviet Union. The Soviet Union's domestic politics and foreign policy are in a state of change and readjustment, and they will certainly have an important impact upon the formation of the new world order and the new Asian Pacific order.

Obstacles to Economic Cooperation in Northeast Asia

91P30160 Beijing LIAOWANG [OUTLOOK] in Chinese No 385, 3 Jun 91 pp 38-39

[Article by Wang Lin (3769 2651): "What Are the Difficulties With Developing Economic Cooperation in Northeast Asia?"]

[Text] Since great changes occurred in the world situation, Asian scholars and economists have raised the question of economic cooperation in Northeast Asia (or around the Sea of Japan). They believe that the interests of the United States, the Soviet Union, China, and Japan converge in Northeast Asia, which has a very significant influence on Asia and the world situation.

Northeast Asia is a vast region with great economic potential. According to the Japanese press, it includes Siberia and the far eastern territories of the Soviet Union, China's northeast, Japan, and North and South Korea, accounting for 20 percent of Asia'a land area. Its population of 290 million is 10 percent of Asia's population, and its GNP of more than $3 trillion amounts to 70 percent of Asia's GNP. In economics, science and technology, capital, natural resources, labor resources, and so forth, the various nations of Northeast Asia have their own strong points and mutually beneficial strengths, and together could form a very large market.

However, in the last few years, except for the progress in bilateral trade and economic cooperation which some nations have made, the development of economic cooperation in Northeast Asia has been continuously sluggish. The principal cause of this has been that military tensions in the area, especially between the United States and the Soviet Union, have not entirely eased, issues among several nations still have not been resolved, and trust and cooperation among all nations still has not been established.

Of course, in accordance with the relaxing of the world situation, signs of flexibility have appeared in Northeast Asia. The United States and the Soviet Union have both expressed their desire to implement arms control and disarmament in the region, and have brought up initial plans and ideas. Sino-Soviet relations have improved greatly: leaders of the two nations have entered into exchange visits. Soviet-Japanese relations, long deadlocked, have taken a turn for the better. Gorbachev,

visiting Japan, opened up a channel to advance dialogue. The two Koreas have already entered into many premier-level talks and have increased mutual understanding and relations. North Korea has begun normalization talks with Japan, and has had contacts with the United States. South Korea has established diplomatic relations with the Soviet Union, and has exchanged non-governmental trade delegations with China. These occurences have eased the tense situation in Northeast Asia. The initiation of trade contacts has produced excellent effects. However, the tense situation in Northeast Asia has still not exhibited fundamental changes. Many difficulties with relaxing the situation and developing economic cooperation persist, and require intensified efforts.

Many scholars and economists believe that the principal issues in Northeast Asia are the realization of arms control and disarmament between the United States and the Soviet Union, and the elimination of military confrontation. Although the United States and the Soviet Union both indicate a willingness to ease the situation in Northeast Asia, because the military positions there are not equivalent, they have major disagreements over the questions of arms control and disarmament. The United States' principal military force is its navy, which is mobile over the entire Pacific Ocean, while the Soviet Union's principal military force is its land force stationed in Asian territory. The U.S. Navy is the United States' chief instrument for achieving world hegemony, and has great superiority in the Pacific Ocean area. Because of this, the United States believes that Pacific affairs and matters of NATO and Warsaw Pact confrontation in Europe have great differences, and require consideration of the differences in the geographical environments, political relations, and various military considerations and dispositions of the United States and the Soviet Union. The United States also stresses that naval reductions are not easy, are difficult to check, and could not resemble the type of balanced reductions in troop strength, weapons, and equipment that are occurring in Europe. Thus, the United States believes that the realization of arms control and disarmament in Northeast Asia does not lie in quantity, but rather in ensuring the relaxation of the tense situation and reducing the danger of the arms race. The Soviet Union believes that while the Pacific region is admittedly not identical to Europe, a European standard could still be used, and criticizes the United States for relying on its naval [redacted]ity and refusing to join the Soviets in an arms control and disarmament dialogue on Northeast Asia. The Soviet Union also points out that if difficulties currently exist, then it would be acceptable initially to not discuss disarmament, but rather to discuss the most elementary confidence measures, such as increasing transparency, mutual notification of force quantities, mutual advance notification of combined naval maneuvers, and mutual dispatch of observers. Aircraft and warships of the two sides would maintain a certain distance, in order to prevent accidents at sea or in the air. Also, it would be acceptable initially not to discuss reducing numbers of warships, but rather to discuss the issue of ship-borne nuclear weapons. The United States does not oppose discussing mutual-confidence measures, yet is it also not enthusiastic, maintaining a wait-and-see attitude. The United States indicates that it cannot abandon its policy of neither confirming nor denying the presence of nuclear weapons on its warships. It is also indifferent toward the Soviet proposal for high-level meetings on the issue of an Asian security system. There is still great mutual wariness between the United States and the Soviet Union, and the two sides still have many differences regarding the objectives, standards, and methods of realizing arms control and disarmament in Northeast Asia. There are still many barriers to achieving compromise.

In Soviet-Japanese relations, the questions of the four northern islands and easing the military situation in the Sea of Japan still face great difficulties that are not easily decided. The Gorbachev visit to Japan bears this out. The Japanese insist that they have sovereignty over the four islands, and demand their unconditional return. Only after the precondition of recognizing their sovereignty has been satisfied will the Japanese consider a return by stages. The Soviet Union has changed its past policy of not recognizing that a territorial question exists between it and Japan, and acknowledges that the two nations face a question of "territorial delineation." However, it can still only approach this issue "a step at a time," and only through the relaxation of the military situation and the expansion of economic cooperation can the atmosphere be improved and trust established. Only then can the question be settled in stages. Within the Soviet Union, disagreements regarding the return of the four islands are great. In particular there is the opposition of the military and the Russian Republic. Soviet military and political leaders and leaders of the Pacific Fleet have successively indicated to the news media that if the four islands were returned to Japan, then the Soviet Pacific Fleet's routes to the open ocean would be severely threatened. Some leaders in the Russian Republic's government and legislature have said that the four islands belong to the republic's jurisdiction, and that this issue must obtain the agreement of the republic's government and legislature. In a referendum on the four islands held in mid-March, most people indicated their opposition to returning the islands to Japan. Japan originally planned to give large sums of economic aid in return for territory. However, after the Soviets finally laid their cards on the table, Japan at once gathered up its purse, and furthermore adhered to its policy that "politics and economics cannot be separated," refusing to make any agreement in regard to the Soviet proposal to strengthen economic cooperation. With regard to the question of relaxing the military situation in the Sea of Japan, the Japanese criticized that the Soviets' military power in the Far East—in particular, the Pacific Fleet—has not only not been reduced in actual strength, but has improved somewhat in quality, endangering the security of Japan and other nations. The Soviet Union counters that Japan's military budget is, in

reality, still increasing, and that while Japanese military power is now small, its weapons and equipment are advanced, causing all Asian nations to worry. The Soviet Union also criticizes Japan for taking an exclusionary attitude toward Soviet participation in Asian cooperation. The Soviets also state that they are willing to discuss confidence measures and arms control with Japan, to seek a point of agreement—no matter how small—to serve as a foundation, to attain agreement, no matter how slight, and push forward the improvement of Soviet-Japanese relations. Japan, although indicating willingness to continue and expand political dialogue, nonetheless seems indifferent toward the Soviet proposal. The Soviet and Japanese positions on these issues are very different, and future negotiations could be very intense. To find a plan acceptable to both sides that includes the issue of the four islands seems extremely difficult.

Some scholars and economists believe that the military confrontation and tense situation on the Korean peninsula is an issue of general interest in Northeast Asia, and is an issue on which each side involved must make a greater effort. Of course, Korea should ultimately achieve peaceful unification, overcoming its division. However, under the current conditions, achieving this objective is still very difficult. In order to gradually ease the tense situation in the peninsula, each party involved should utilize every possible opportunity to push for any kind of dialogue between North and South Korea. Each party should increase mutual understanding, closeness, and economic and cultural contacts, to dispel antagonism and overcome differences. Moreover, all parties should take steps to maintain and develop stability and security on the peninsula, including stopping the arms race, reducing offensive weapons, stabilizing military boundaries, reducing military exercises, establishing confidence measures, implementing effective arms control and disarmament, observing provisions of the nuclear non-proliferation treaty, accepting the supervision of the International Atomic Energy Agency, and so forth. Relaxing the situation on the Korean peninsula requires North and South Korean initiatives and ideas, and the backing and cooperation of the United States, the Soviet Union, China, and Japan. This requires the United States and the Soviet Union to restrain their military policies, including arms sales and technology transfers, on the Korean peninsula. It requires the United States to consider Korea's aspirations, not to imperil them with nuclear weapons, to reduce military strength—including nuclear weapons—in South Korea, and furthermore to increase contacts and improve relations with North Korea. Japan must speed up normalization talks with North Korea. Yet it seems that many differences still lie between the parties involved. The difficulties are extremely great. Contacts and negotiations still must be patiently advanced a step.

Because of these things, the development of economic cooperation in Northeast Asia has not made much headway. The Soviet Union is completely positive about the subject of economic cooperation. It has indicated that it will hasten to take steps, strengthen the establishment of a Soviet Far East special economic zone, improve basic facilities, and improve the environment for investment. The United States and Japan believe that economic cooperation in the region is very important, but a realistic attitude must be adopted. With regard to politics, the military and political situation in Northeast Asia has still not relaxed. The normalization of relations between some nations has still not been realized. In economics, basic facilities in the Soviet Far East are lacking, communications are lagging, there are too many systemic and legal restrictions, and there is not enough local and business autonomy. It is not realistic to expect foreign economic groups to invest large amounts of financial and material resources. There remains much to be done if Siberia and the Soviet Far East are to become areas of economic growth. These problems and contradictions which exist in Northeast Asia reflect the complex and difficult nature of the region. The interests and positions of involved parties are not the same, and there are many differences and contradictions. In Northeast Asia, as in other areas of the world, the situation is currently undergoing great change. Realizing relaxation and beginning economic cooperation are overall trends, and they are what people want. International public opinion hopes that the involved parties can, based on the five principles of peaceful coexistence, equitably and rationally resolve their disputes, opening up a wide channel for economic cooperation in the whole region. This would not only benefit each party's economic development, but also could set an example for economic cooperation in other areas of Asia.

Public's Response to Movie Reveals Criticism of CPC

91CM0385A Hong Kong CHENG MING [CONTENDING] in Chinese No 162, 1 Apr 91 pp 20-21

[Article by Chao Ch'ao-ching (6392 6389 2529): "Jiao Yulu Forces Chinese Communists to Bear Shame"]

[Text] **Social dissatisfaction toward the party leadership and toward socialism is spreading rapidly and deeply. Taking advantage of the propaganda to learn from Jiao Yulu, fuel is added to the fire, and feelings are fully vented. This is giving Chinese Communist authorities a big headache...**

Li Peng Gets Free Movie Tickets

On 15 March, the Beijing Municipal Committee convened an emergency meeting. What was so important? It was learned that within a three-day period, a number of Chinese Communist leaders and the municipal party committee had received more than 100 tickets to the movie "Jiao Yulu." The tickets had been mailed anonymously. Of course, it was nice to receive free movie tickets, but in fact this was a way for the public to express its dissatisfaction, letting those governmental lords and masters compare themselves with "Jiao Yulu," which is a bitter mockery of the Chinese Communist leadership.

It was reported that among those bureaucrats receiving tickets were Li Peng, Chen Xitong, Wang Renzhi, Zhang Gong, and others. The one receiving the most tickets was Deng Liqun.

At the emergency meeting, municipal committee secretary Li Ximing exasperatedly criticized the ticket-giving as an attack upon leadership cadres, and warned that there were evil manipulators behind the scenes.

The Opening of "Jiao Yulu"

On 1 March, the Chinese Communists staged a nationwide premiere of "Jiao Yulu." which extolls the achievements of Jiao Yulu, who had been party secretary of Lankao County, Henan Province, 26 years ago, and who had served the people selflessly until his death.

According to the Chinese Communists' intentions, this film was a "vivid lesson in Communist ideological education," which combined the current political climate with the domestic situation into propaganda for the vast numbers of cadres and people. It explained how to be a good cadre during the building of socialism, how to learn from the glorious example of Jiao Yulu's selflessness and close liaison with the masses, with his "everything for the people, nothing for oneself," and how to continue carrying that legacy forward.

No more than a week after the first public viewing, there were strong reactions in places such as Beijing, Tianjin, Shanghai, Shenyang, and Zhengzhou. The reactions were overwhelmingly negative, rather than positive, much to the surprise of the Chinese Communist authorities.

Wang Renzhi's Emergency Directive

On 11 March, the Central Committee's Propaganda Department held an emergency teleconference. Department head Wang Renzhi directed that "leaders at every level strengthen guidance and propaganda for positive aspects of the true meaning of the 'Jiao Yulu' film, and make sure it is learned well. The head and assistant head of each party committee must personally lead discussions and take their own measure, and not anyone else's. Do not run everybody through a gauntlet."

It was understood that the greatest social reaction was to "taking others' measure," which aroused the greatest actual dissatisfaction. This was particularly concentrated on issues concerning improper conduct by the party and certain cadre leaders.

Here are a number of relevant examples extracted from newsletters which the editorial staff department of the XINHUA NEWS AGENCY sent to the Central Committee's Propaganda Department.

Alarm Bell for the Central Leadership

One prestigious and well-known author, expressing his feelings about seeing "Jiao Yulu," said at an organization life meeting, "This film is a very real mirror of the party's political cadres; it is a telling critique, a critique of today's reality. The showing of the film tolls an alarm bell for the leadership of the Central Committee."

The Higher Ranking the Cadre, The More Often He Should See the Film

A XINHUA reporter specially assigned to do grassroots interviews visited 56 ordinary party and Youth League members in two days. He summed up their reaction as: This is an excellent film, but cadres should view it several times; the higher their rank, the more they should view it. If there were only one in 1,000 or even one in 10,000 cadres who were the "Jiao Yulu" type, then party conduct, people's hearts, and the social climate would not be what it is today. Some younger league members even asked in surprise, "Was this Jiao Yulu a real person? Why didn't the cadre leadership absorb this learning long ago?"

30 Years Before, 30 Years Later

A Communist Youth League cadre at Tianjin's Nankai University saw "Jiao Yulu" twice. At a forum, he was moved to tears, saying, "I dare not think about 30 years ago, or about today—30 years later. In both cases we were under the party's leadership and under Marxist-Leninist education. Thirty years ago there was someone like Jiao Yulu, a good cadre who single-mindedly served the party and the people. But what about today?" Then he said, with indignation, "In large and small meetings, our cadre leaders talk about bourgeois liberalization, cleaning up the party, and winning people's confidence. But tell me, how many cadre leaders have not sent their sons and daughters overseas? Are their bloodlines more

noble than others' are? Are they more naturally gifted? These are the plain facts; how can our league cadres work on ideological work among youths?"

Fewer and Fewer Good Cadres

A Shanghai district committee leader said, "I became very heavy-hearted after seeing the film, very sad. One question went round and round in my mind: Our party ranks have expanded from more than 10 million at the start of the 1960's to more than 40 million today. There are not many good cadres of the 'Jiao Yulu' type, and they are getting fewer. Had the Jiao Yulu spirit blossomed everywhere, could the involvement in the upheaval in the spring of 1989 have been so broad? I think that the disturbance would not have come off at all."

The Most Bitter Lesson is People Struggling With People

A Chinese Academy of Sciences researcher, who is also a party member, reflected, "I felt that the good thing about this film was the factual reporting. It propagandized seeking truth from facts, showing Jiao Yulu struggling against Heaven and Earth and his record of honestly serving the public. This is unlike the situation in the past, where the events involved people struggling against something, or involved class struggles. In new China's 41-year history, the most bitter lesson has been the struggle between people. The more struggles there are, the less peaceful is society. The more struggles there are, the lower is people's activism. The more struggles there are, the more tense are party-masses relations. The more struggles there are, the slower is the building of the nation."

Are They Communists or Nationalists?

After a retired cadre from the No. 27 Locomotive Factory in Zhengzhou, Henan Province, saw "Jiao Yulu," he told the interviewing reporter, "The 'Jiao Yulu' spirit is the character that a Communist Party member, a cadre of the nation should have. Now I see some cadres, party members, and even some department heads and central committee members, and I don't know if they are communists or nationalists. In my view, there are pitifully few cadre members such as Liu Yuan [0491 3293]." (Liu Yuan was the son of Liu Shaoqi. He started work at the grassroots level, became vice director of a commune, then village chief, deputy county magistrate, county magistrate, and deputy mayor of Zhengzhou. In late 1987, he became deputy provincial governor.)

How Great is Popular Trust in the Party?

A divisional commander who was transferred to the Shenyang Aircraft Factory to be a cadre said, "I saw the film 'Jiao Yulu,' and also visited the Lei Feng achievements exhibit. I was moved and agitated: why is it that emulating Lei Feng never catches on? This film reflects the degree of trust in the party, of popular backing, and the degree of support for the party. If this issue is not properly resolved, it will be very difficult to mobilize the entire party and the entire people into building the four modernizations."

"Long Live the Spirit of Jiao Yulu?"

The newsletter also mentioned a number of unusual trends and phenomena. For example, after the film was shown at a number of universities, students were excited into shouting the slogans, "Long live Jiao Yulu!" "Long live the spirit of Jiao Yulu!" "Long live real communism!" "Down with corruption, down with bureaucrats, down with false Marxism-Leninism!"

The party-life meetings at enterprise units in some agencies became meetings denouncing party cadre. Quite a few people expressed their pessimistic and dissatisfied feelings, even to the point of censuring some high-level Chinese Communist leaders by name.

RENMIN RIBAO also mentioned that on 8 and 9 March at the Great Hall of People, the Mao Zedong Mausoleum, near Tiananmen, and at the Capital Airport, Beijing Railway Station, and a number of large government buildings, a number of secretly printed "reactionary posters" appeared. The means of distribution varied: they were pasted to walls or trees, scattered like waste-paper on the ground or near trash containers, glued to soft drink bottles, placed inside plastic bags...

Chinese Communist Authorities in a Panic

The facts listed above reflect the rapid and deepening spread of social dissatisfaction toward the party leadership and socialism that. Spreading the propaganda of learning from Jiao Yulu adds further fuel to the fire. This is giving the Chinese Communist authorities a big headache as they try to turn things around. Wang Renzhi has been especially tense. He stressed, "We must pay attention to subtle social trends. Recently some people have used the film 'Jiao Yulu' as a vehicle to totally deny party leadership and socialism, painting the party, government, and cadre leadership at every level completely black."

"Li Peng... What Kind of Son?"

On the evening of 15 March, not long after the meeting of the Central Committee's Propaganda Department and the words by Wang Renzhi, a poster appeared at an intersection near Beijing's Dongdan, to the left of a playbill advertising "Jiao Yulu." The poster was in the name of "all the citizens of Beijing" and stated, "Jiao Yulu was a good son of the party and of the people. What kind of sons of the party and of the people are Li Peng, Chen Xitong, and Yuan Mu?"

Private Enterprise Owners Not Bourgeoisie

91CM0435A Beijing ZHENGLI DE ZHUIQIU [PURSUIT OF TRUTH] in Chinese No 4, 15 Apr 91 pp 25-26

[Article by Ge Ding (5514 0002): "Private Enterprise Owners Are Not Bourgeoisie"]

[Text] *Editor's note: What to make of the private enterprise owners of China is an important theoretical and practical issue in the course of building socialism with Chinese characteristics. In publishing this collection of articles, which looks at the issue from different perspectives, we hope to make the public take note and arrive at a consensus through the competition of ideas.*

Since the policy of reform and opening up began, China's private economy has grown considerably within a short period. With the introduction of contracting, leasing, cottage industry, partnership, shareholding, and Sino-foreign joint ventures, private enterprise owners of all forms and shapes have appeared. What should we make of these private enterprise owners? Do they already form a capitalist class? On this the theoretical community has different views and interpretations. A summary follows.

A. One school of thought is that China's private enterprise owners today constitute a capitalist class. Comrades in this camp argue that the State Administration for Industry and Commerce defines the private economy as one in which assets are privately owned and businesses have more than eight people and are motivated by profit-making. In essence this economy is a capitalist economy, as manifested tangibly in the following ways. First, the means of production belong to private enterprise owners. Second, production and operations are controlled by private enterprise owners. Third, private enterprise owners carry out production using hired labor. Fourth, the fruits of labor of the hired workers mainly comprise the surplus value created by their exploitation. These days many private enterprise owners use the same exploitative blood and sweat system characteristic of early capitalism and are even resorting to child labor. Some owners are exploiting their workers in ways that make one boil with anger. According to Lenin's definition of class, private enterprise owners clearly are capitalists. We should be honest about this; there is no need to whitewash the truth. When it comes to policy and strategy, there is certainly room for imaginative maneuvering. Extrapolating from sample surveys in some areas, these comrades estimate that private enterprises currently make up about 4 percent of all individually owned industrial and commercial enterprises. Despite its late start and small beginnings, the private economy has been developing rapidly. In late June 1987, there were 65,000 private enterprises nationwide, with a total employment of 1,359,000 people. A year later, in June 1988, the number of private enterprises had shot up to 225,000, with 3,607,000 employees. By early 1989, according to some data, there were over 400,000 private enterprises in China. Using the State Administration for Industry and Commerce statistic that each private enterprise hires an average of 16 workers, total employment in these enterprises should be over 5 million. The actual figures are much higher. But even if we go by these incomplete statistics, the number of private enterprise owners now far exceeds the size of the national bourgeoisie during the period of joint state-private ownership in 1956. At that time there were only 160,000 capitalists and capitalist agents in all China. (See the explanatory booklet on the "Resolution of the Party on Certain Historical Issues Since the Founding of the PRC.") In view of these facts, we should say that private enterprise owners in China today have tentatively formed a capitalist class.

B. Another school of thought contends that Chinese private enterprise owners do not form a capitalist class. First, as comrades in this camp see it, private enterprises in China do not make up a classic capitalist economy because of the nature of their wage labor. Some of the labor-hiring enterprises are capitalist. Others include some elements of the socialist public economy. Yet others may potentially make the transition from an individual economy to the public economy. Thus these labor-hiring enterprises are in some ways controllable and malleable. As far as the ownership of their means of production is concerned, in some cases the means of production are still owned by the state or a collective but are leased or contracted out to a labor-hiring enterprise. Some enterprises invest as well as contract, thereby adding to privately owned means of production. In terms of the proportion of public ownership, this type of labor-hiring enterprise belongs to the socialist or semi-socialist economy. Some private enterprise owners have indeed emerged as the owners and masters of means of production and hired workers are offering their labor for sale. Since the owners own all the products made by the surplus labor of their employees, no doubt a measure of exploitation exists here. But such enterprises too are not the same as capitalist enterprises. This is because if you look at the production process of these owner-operated enterprises, almost the entire process is inseparable from the support of the socialist economy or from the guidance of government departments. In terms of the distribution of labor-hiring enterprises, we cannot consider in a sweeping fashion all the incomes of the hired laborers as exploitative. Instead we should differentiate between the following situations: a. there are the wages the employer himself and his family have earned through their labor. Some employers are capable people with both professional expertise and managerial skills. Their labor is complex labor. b. incomes derived from managerial labor, that is, the extra incomes generated through better management, better products, lower costs, improved service attitudes, and a more efficient utilization of market conditions. While these differential incomes are created by all workers, the employer should claim some of them because of the managerial labor he has expended. c. non-labor incomes, including interest on working capital and risk compensation. d. the exploitative part of the non-labor incomes of the employer, that is, incomes that accrue to the employer through his possession of the worker's surplus labor. Even this portion of the employer's incomes can be subdivided into that part used to finance expanded reproduction and that used for daily consumption.

Second, the employer and his employees in a labor-hiring enterprise are on an equal footing. Their relations

are not those between the exploiter and the exploited. Politically both employers and employees are the masters of the socialist state and enjoy equal political rights. Their relations are neither those between the capitalist and his wage laborers in a capitalist society nor those between the oppressing class and the oppressed.

Third, the development of wage labor thus far will not lead to bipolarization and will not become the economic base for the formation of a new capitalist class. Although a number of labor-hiring enterprises with capitalist elements have emerged today, and there is a sizeable income gap between employers and their employees, the labor-hiring economy certainly will not grow unchecked because of the dominant position of the socialist public ownership system. Also, we cannot simplistically compare the number of public enterprises now with the number of bourgeois capitalist industrial and commercial enterprises during the transformation of the private economy in 1956. In short, whether we analyze the nature or size of the current private economy, there is not yet enough evidence to conclude that a new capitalist class has emerged in China. If we depart from reality and arrive at a wrong conclusion, not only will that hurt the implementation of the current state and party policies, but it is also bound to damage the entire socialist cause.

C. The third school of thought argues that there is a dualism to private enterprise owners in China, that while they do not constitute a new capitalist class as yet, they may very well do so if we err in our policy. Since the policies of reform and openness were implemented, these comrades say, the private economy has developed rapidly in China. According to statistics from the State Administration for Industry and Commerce, in 1987 there were 235,000 private enterprise owners with at least eight hired workers each and 3.6 million hired workers nationwide, or 15 workers per enterprise. The largest owners had over 1,000 workers. Each enterprise had 50,000 yuan in assets on the average. In late 1986, 4,000 enterprises had assets exceeding 1 million yuan. By late 1988, there were 200 "multimillionaires" each with assets over 10 million yuan. These numbers make it clear that the rudiments of a private economy are indeed in place in China. However, we still cannot say that there is already capitalism in China at the moment. The correct interpretation is that private enterprise owners have dual characteristics. Economically, they play a positive and necessary role in supplementing the socialist public economy despite their natural tendency to put profit first. Politically, they accept government leadership and enhance socialism even as they resist government and party restrictions on their illegal activities and excessive incomes. We must fully guide them in their positive activities and curb their negative effects. Should we adopt the wrong policy, that is, should we fail to impose any restrictions on them or give them wrong guidance, there is indeed the possibility that private enterprise owners may develop into a new exploiting class. This is something we should be aware of.

D. This point of view is that private enterprise owners do not constitute a class but a relatively independent stratum. Comrades who hold this view think that distinguishing between social classes and social strata in a socialist society is an old but difficult issue. The Marxist teaching that economic relations are the only criterion in determining classes should be strictly adhered to. In light of Marxist theories as well as the reality in China, private enterprise owners today are only an emerging and relatively independent social stratum. They cannot as yet be described as a new "middle class," that is, a new bourgeoisie. This is true because, first, the private economy has not been in existence for a long time; Chinese private enterprise owners basically have not yet cast off their original economic relations and class relations. Second, although private enterprise owners are private owners and are profit-driven, they also support CPC leadership and want to serve socialist modernization. They are not to be judged in a sweeping fashion.

Private Enterprise Owners Make Up Capitalist Class

91CM0435B Beijing ZHENLI DE ZHUIQIU [PURSUIT OF TRUTH] in Chinese No 4, 15 Apr 91 pp 27-32

[Article by Lu Renquan (7120 0088 2938): "Why Private Enterprise Owners Constitute a Capitalist Class"]

[Text] An Embryonic Class of Private Enterprise Owners Has Emerged in China

During the economic structural reform after the Third Plenary Session of the 11th CPC Central Committee, the private economy has grown rapidly by building on the individual economy. While this form of ownership has been in existence for only a short time, the political report to the 13th Congress of the CPC in 1987 already incorporated it in the mix of ownership systems in the initial stage of socialism. A constitutional amendment adopted at a meeting of the Seventh National People's Congress [NPC] in 1988 even established its legal status. That the party and government protect the legitimate rights and interests of the private economy shows that, on the one hand, the private economy has become an economic force with legal protection, and that, on the other, the development of a private economy within specific limits is not an expediency, but a long-term stable national policy. In recent years, people in the theoretical community have been engaged in a heated debate from different perspectives on some issues revolving around the private economy and have arrived at a consensus in some areas. But there are still sharp differences of opinion. For instance, do private enterprise owners form a class or a stratum? There are different views on this issue. In my opinion, an embryonic bourgeoisie of private enterprise owners has already come into existence in China, a non-basic class in the current social class structure. Let me present some of my opinions here.

I.

Have private enterprise owners tentatively formed a class in China? Or, shall we say, are they an embryonic class already? Let us compare it with the national bourgeoisie in history. It may help us understand the issue better. Certainly, there are objective differences between the national bourgeoisie in a semi-colonial semi-feudal society and private enterprise owners in a socialist society. As a result, the two differ in many ways. All we propose to do here is to compare them as an economic force.

Today there are 225,000 private enterprise owners each with over eight employees. [1] In late 1988, private enterprise owners nationwide own between 60 and 70 billion yuan in production funds. By late 1986, there were already 4,000 private enterprises each with more than 1 million yuan in assets. By late 1988, the number of multimillionaires each worth more than 10 million yuan already exceeded 200.[2] Geographically speaking, the private economy in China has been developing unevenly. Shishi, Fujian, is one place the private economy has come to occupy a dominant position. A mere county town with a population of just 240,000, it already boasted a dozen private enterprises with an annual output value of 10 million yuan in 1988, including three whose annual output value hit 30 million yuan.[3] The proportion of the private economy in the nation's future economy must both realize the dominant position of the existing public ownership system and reflect the supplementary role of the private economy. Someone in the theoretical community has suggested that the proportions between the state economy, collective economy, private economy, and individual economy in the initial stage of socialism should be 40 percent, 40 percent, 10 percent, and 10 percent.[4] If 10 percent is an appropriate share for the private economy for the moment, then it will grow significantly as we intensify reform and the open policy.

Chinese national capitalism and the national bourgeoisie were born in the 1870's. Oppressed by feudalism and imperialism, national capitalism never reached its full potential in old China. In 1952, after the new China was founded, the private capitalist economy accounted for a mere 6.9 percent of the total national income. In 1956, during the period of joint state-private ownership, the national bourgeoisie consisted of just 160,000 people (including both capitalists and their agents), with total assets of only 2.4 billion yuan.

The national capitalist economy was concentrated in flour processing, textile, and other light industries and, later, in commerce as well. These days most public enterprises are found in more labor-intensive production trades such as industry, handicrafts, construction, and transportation. According to statistics from the State Administration for Industry and Commerce, 81.78 percent of private enterprises were in industry, handicrafts, and transportation. These three industries accounted for 87.07 percent of the employment in private enterprises and 83.44 percent of their funds.

Contemporary private enterprise owners far exceed the national bourgeoisie in both number and assets. Extrapolating from the development trends, by the time private enterprises make up 10 percent or so of the national economy, up from the current 1 percent, the national bourgeoisie of yesteryear will be minuscule compared to modern private enterprise owners. Comrade Mao Zedong said, "The birth and development of Chinese national capitalism is precisely the birth and development of the Chinese bourgeoisie and proletariat." (*Selected Works of Mao Zedong*, one-volume edition, p 590) Based on this judgment on the part of Comrade Mao Zedong, the birth and development of the private economy is to my mind also the birth and development of the class of private enterprise owners in China.

II.

The existence of private enterprise owners as a class in China is compatible with the current status of the development of China's productive forces. It also meets the criterion for class differentiation.

There is a historical basis for the existence of private enterprise owners as a class in China.

In a letter to J. Weydemeyer in 1852, Marx wrote, "The existence of classes is only bound up with particular historical phases in the development of production." (*Selected Works of Marx and Engels*, Volume 4, p 332) Engels further noted in *Anti-Duhring*, written after 1876, "The division of society into the exploiting class and exploited class is an inevitable outcome of the underdevelopment of production in the past. The emergence of classes rests on inadequate production. The abolition of classes is preconditioned upon the advanced development of production." (*Selected Works of Marx and Engels*, Volume 3, p 321) That Marx and Engels made the extent to which production has developed a base and precondition for the emergence and abolition of classes not only refutes the mistaken stand of all thinkers of the exploiting class that class existence is a permanent phenomenon, but also supplies a theoretical base for our understanding properly whether or not classes exist in the current historical stage of socialism.

The practice of history shows that most proletariat-led socialist revolutions triumphed in economically and culturally backward nations, including impoverished nations like China. Thus the nations had to adopt a variety of transitional forms compatible with their actual level of productive forces to develop socialized mass production, achieve socialist industrialization, build up an independent national economic system, go all out to raise national educational and cultural standards, and gradually catch up with and overtake developed capitalist nations in the long run. Only thus can they meet the conditions for totally abolishing classes.

Since the Third Plenary Session of the 11th CPC Central Committee, the CPC has introduced a variety of economic forms with public ownership in the dominant role as part of economic restructuring. This is consistent with the status of China's productive forces at the moment. As we know, the coexistence between modern socialized mass production and the traditional small production characterized by natural specialization, which emerged in old China, has remained unchanged following the collapse of the old social system. In China, the modern socialized part of our productive forces require the socialization of means of production. In contrast, the traditional productive forces characterized by natural specialization need to go with non-socialist economic relations. Thus an objective requirement of the development of social productive forces is the existence of non-socialist economic relations, that is, a private economy, within specific limits during a particular historical stage of socialism. The emergence of a class of private enterprise owners is an inevitable upshot of the emergence and development of a private economy. (Generally speaking, if an economic form exists, then that class will also come into being.) Naturally, it is also consistent with the materialist principle that "the existence of classes is only bound up with particular historical phases in the development of production." The existence of private enterprise owners as a class also fits Lenin's definition of classes. Lenin wrote, "The so-called classes are such blocs. These blocs differ in the position they occupy in a particular social production system and in their relations to the means of production (mostly stated clearly in law) and in their role in social labor organizations. Therefore, they also vary in the amount and form of that part of social wealth under their control. Since they occupy divergent places in a particular socioeconomic structure, one bloc can come to own the labor of another bloc." (See *Selected Works of Lenin*, Volume 4, p 10) Lenin's definition of class sheds a clear light on the nature of classes and the basic characteristics of class distinctions. In the particular mode of production known as private economy, private enterprise owners own the means of production and funds and rely mainly on hired labor to carry out production. Private enterprise owners wield production and management power. Hired laborers work under the command and supervision of enterprise owners. The products of labor are owned and controlled by enterprise owners. Enterprise owners reap the profits as owners of the means of production and occupy the surplus labor of the hired hands gratis. Thus, economically the relations between the enterprise owner and the hired laborer is one between the exploiter and the exploited. A private economy based on wage labor is capitalist in nature. We can thus see that the bloc of private enterprise owners fully satisfies Lenin's definition of classes.

In investigating whether or not the bloc of private enterprise owners constitutes a class, some comrades have loaded the issue with a host of qualifications. For instance, they claim that private enterprise owners have not been in existence for a long time, that they operate on a small scale, that they do not yet constitute a stable economic base, that they have not yet joined together to create an organized class force, that they have not yet formed their own independent class ideology, so on and so forth.[5] They conclude, therefore, that in China private enterprise owners exist only as a stratum. I beg to disagree.

First of all, although class is a social historical category, it is primarily an economic category. To analyze the characteristics and features of a particular class in history, we need to proceed at the economic, political, ideological and other levels. But in differentiating classes, we should mainly abide by the economic analysis of Lenin instead of attaching non-economic factors like politics and ideology. This is both the principle followed by the party in class differentiation and the basic method used in the theoretical community in analyzing whether classes existed in history. In the past, for instance, it was Lenin's class definition whose main criterion was the ownership of means of production that formed the basis for ascertaining the conditions of the classes. Today, when we try to decide whether private enterprise owners constitute a class, we should also follow the method used in the past instead of attaching a string of qualifications. If we do that, we will in effect be adopting a two-fold class definition. That would be unacceptable.

Second, let us assume that the above objections to the notion that private enterprise owners form a class are all true. Even then, I think we can only regard them as the characteristics of the class of private enterprise owners, not as the basis for rejecting the argument that they form a class. Let us take the point that the bloc of private enterprise owners has not existed for a long time. This does nothing more than indicate that this class, although already in existence, is still in its infancy, or that it is in existence in an embryonic form. We cannot measure private enterprise owners against the number of years required for the formation of a certain exploiting class in history. This is because the formation of the mode of production of a new exploiting class even in the old society was a natural historical process that required a long-drawn-out stage of historical evolution. Moreover, when a new exploiting class comes into existence, it is hamstrung in numerous ways by the economic base and superstructure on which the old existing class depend for its survival. Thus the development of a new exploiting class requires a long difficult process. In a certain sense, the current private economy in China is the rebirth of a particular mode of production once existent in history. Since times and circumstances have changed, it exhibits many new features and is not just a repetition of history. If its birth is approved and aided by the socialist superstructure, it will also develop rapidly. Clearly, it goes against the notion of making a concrete analysis of concrete issues to judge whether or not private enterprise owners form a class by the duration of its existence.

Third, using stratum to denote the class nature of private enterprise owners violates the principle we should observe in applying the concept of stratum. Historical

materialism tells us that strata refer to social blocs in the same class that can be differentiated from one another because people in these blocs have different properties, social status, and means of livelihood. Strata appear in the wake of the birth and development of classes. Different classes at different stages of development give rise to different strata. The differentiation of classes is related to the differentiation of strata. The latter is a refinement of the former but is no substitute for it. We can regard intelligentsia as a stratum because it is part of the proletariat. If we consider private enterprise owners a stratum, we only beg the questions: What class does this stratum attach itself to? What class is this stratum a subdivision of? Obviously the answers are hard to find.

III.

Does it violate our party's principles to recognize the formation of private enterprise owners as a class? A scientific answer to this question can be found by following the principle of integrating the basic tenets of Marxism-Leninism with actual practice.

Based on the practice after the victory of the October Revolution, Lenin explained more clearly that the transition would be a rather long historical process. He said, "In all nations this period would necessarily be quite long." (*Collected Works of Lenin*, Volume 34, p 414) "The less developed capitalism is, the longer the transition." (*Collected Works of Lenin*, Volume 42, p 183) In both China and the Soviet Union, the period of socialist transition was drastically cut short. In both countries, too, the task of abolishing private ownership and achieving public ownership, a long-term task to be carried out step by step, was completed in a very short period of time. It should be pointed out that the overall direction of socialist transformation in China was correct. It peacefully redeemed the bourgeoisie without causing major social upheaval and put 500 million peasants on the road toward socialist collectivization. Its achievements have been tremendous. It established the dominant position of public ownership in China and laid the economic foundation for socialist transformation. The private ownership of means of production was converted into public ownership. The last exploiting class in Chinese history was abolished. This is an undeniable historical fact. However, the practice in the subsequent 30 years shows that the transformation of the ownership of means of production lacks variety. The process has also been too rapid. In response to the question whether or not private ownership can be abolished overnight, Engels said, "No, no, just as we cannot expand the existing productive forces to the extent required by a publicly owned economy overnight. Therefore, the looming proletarian revolution, whose arrival all the signs clearly portend, can transform society only gradually and can abolish private ownership only after the creation of a large amount of means of production needed by such an abolition." (*Selected Works of Marx and Engels*, Volume 1, p 219) Yet we in China took just three years to accomplish socialist transformation and do away with the capitalist economy and individual economy. This both represents a misunderstanding of scientific socialism and goes against the objective reality of social development in China.

The substitution of socialism for capitalism is a long drawn-out historical process. In the course of socialist revolution and construction, the exploitative system and the exploiting class must be abolished. Productive forces must be developed to the utmost. Productivity must be raised to a level higher than that under capitalism. Educational and cultural standards must be improved. A new society that is highly prosperous, highly democratic, and highly civilized must be built. During the process class and class distinctions must be abolished, traditional ideas thousands of years old must be eradicated, and true social equality and justice must be achieved so as to lay the groundwork, material and spiritual, for man's lofty ideal, a communist society (see "Study Outline on Certain Socialist Issues"). This is the sweeping and profound summation by the party and the rank-and-file theoretical worker of the mission in the socialist historical era in light of the practical experience in socialism at home and abroad. Based on the above exposition, can we interpret the abolition of the exploiting system and exploiting class under socialism as follows: The existence of the exploiting system and exploiting class in a socialist society is within particular limits in a particular historical phase is inevitable. The establishment of socialism is not predicated upon their total abolition. Their ultimate abolition depends on the accumulation of the fruits of long-term socialist revolution and construction and the advanced development of productive forces. Therefore, the existence of the class of private enterprise owners in the initial stage of socialism is permitted under socialism. Practice proves that the existence of a variety of economic forms dominated by public ownership is consistent with China's circumstances. As the private economy is revived and develops within specific limits, the birth of the private enterprise owners as a non-basic class in China is historically inevitable and necessary and is compatible with the requirements of the development of productive forces in China.

Acknowledging the emergence of private enterprise owners as a bourgeoisie in China and the clamor by people wedded to bourgeois liberalization for the appearance of a middle class in China are two totally different things. What these people want is the conversion of the entire mainland to capitalism, the full privatization of the socialist economy of public ownership, the replacement of CPC leadership by a bourgeois multiparty system, the replacement of the people's democratic dictatorship by bourgeois dictatorship, and the establishment of a bourgeois republic, in a nutshell, "total westernization." This kind of demand for a middle class, that is, a bourgeoisie, is certainly not permissible. The bourgeoisie called for by people who persist in bourgeois liberalization differs from the class of private enterprise owners in a socialist system in their status and function in the political superstructure. Beware of their differences so as not to confuse one with the other. In several

conversations with foreign visitors since 1985, Comrade Deng Xiaoping has declared opposition on behalf of the party to the emergence of a bourgeoisie that takes the capitalist road. He had in mind those people who, in their persistence in bourgeois liberalization, opposed the four cardinal principles and wanted to go in for total Westernization, vainly trying to produce a new bourgeoisie. In his address to the rally marking the 40th anniversary of the founding of the PRC, Comrade Jiang Zemin offered an in-depth analysis of the nature and danger of the new bourgeoisie, "Given China's vast population and its generally low level of productive forces, if we fail to adhere to socialism in the future and instead go back to the capitalist road as some people suggest, nurturing and fattening a new bourgeoisie on the blood and sweat of the working people, a majority of the people will once again find themselves mired in dire poverty. This kind of capitalism can only be a primitive comprador kind of capitalism. It can only mean that once again the various Chinese nationalities will be reduced to dual slaves, slaves to foreign capitalism and slaves to the exploiting class at home." Clearly this kind of bourgeoisie will turn all of China, from its economic base to the superstructure, from socialism into capitalism and will be hostile to the proletariat and the masses. Not for a moment can we allow its emergence and existence.

Footnotes

1. Wu Shuzhi [2976 2885 1615] and Chen Jijiang [7115 0679 3068], "China's Private and Individual Economy," JINGJI RIBAO 21 October 1989.

2. He Jianzhang [0149 1696 4545], "Adhering to the Socialist Direction of Reform," GUANGMING RIBAO 27 October 1989.

3. RENMIN RIBAO OVERSEAS EDITION 1 December 1988.

4. "The Private Economy and Its Development Trends in the Initial Stage of Socialism," SHANGHAI JINGJI YANJIU [SHANGHAI ECONOMIC RESEARCH] No. 4, 1988.

5. Gao Guang [7559 0342] et al., editors, *Class Structure and Class Struggle in Chinese Socialist Society*, p 153.

QIUSHI Urges Cadres To Practice Humility

HK0906045091 Beijing QIUSHI in Chinese No 9, 1 May 91 p 48

[Article by Cheng Zhiwei (2052 1807 0251): "Do Not Overestimate Yourself"]

[Text] Li Runhu [2621 3387 5706], one of the many "living Lei Fengs" of the new period, has been cited time and again for his outstanding performance in conscientiously serving the people from his humble post. As his reputation grew, his father repeatedly admonished him, saying: "Do not overestimate yourself." Li Runhu bore his father words in mind and put his teachings into action. Although he was given many enviable titles and was conferred the rank of colonel by his superiors, he always set strict demands on himself and maintained the true colors of an ordinary soldier. In the performance of his duties, he made new contributions toward learning from Lei Feng and fostering the new work style, and demonstrated the noble integrity and sentiments of a party member and people's fighter.

The words "do not overestimate yourself" sound simple enough, but they contain a very profound philosophy. As materialists, we recognize the disparity between people's ability and their contributions. If a person is given certain duties, titles, treatments, and honors by the party and the people, there must be a reason for it. Regardless of their profession, however, people are completely equal in their social rights, obligations, position, and integrity. No one is of a higher or more noble status than others. As long as he has done his best for society and for mankind, he is a noble and valuable person and should be fairly assessed. For his part, the individual must put himself in a correct relationship to the society and the people. However great his ability and his skill, and however high his position, he is still a drop of water in an ocean formed by the masses in their hundreds of millions. This is the normal position of a person's existence in this world, which no one can surpass. Every one of us must have a sober understanding of this fact. If we fail to put ourselves in a correct position, either resenting the fact that our talents have been wasted on petty jobs, or feeling dispirited because of an inferiority complex, we will not be able to give full scope to our potential. Naturally we cannot hope to achieve a very high assessment from the public this way.

The failure to put oneself in a correct perspective mainly finds expression in an overestimation of one's own ability and role, that is, "overestimating oneself." A consequence of this "overestimation" is to exaggerate one's own achievements and belittle other people's roles, or mistaking others' roles as one's own. The society is an extremely fine and complicated organic body. We require the assistance and cooperation of many comrades around us to get things done. Simply relying on one's own strength is not enough. This kind of assistance and cooperation is sometimes direct, sometimes indirect, sometimes tangible, sometimes intangible. When we have made achievements in particular fields, we must not forget that behind our achievements lie the painstaking labor and sweat of other comrades. We often say that it is important to know one's own limitations. What this means is that every one of us must learn to correctly evaluate himself and must not claim credit for other people's achievements. Of course, some people may have an inferiority complex and "underestimate oneself." This is also not recommended because it will affect one's ability to do more for the people. The correct approach is to have a correct and accurate appraisal of oneself, realistically assess one's own ability, level, and role, find one's appropriate position in society, and do one's best

to liberate one's entire potential so as to make new contributions to the motherland and work for the well-being of the people.

On the whole, when a person has not yet made any great achievements, it is easier to make an "accurate appraisal" of oneself. Once he has made some achievements in particular fields, however, he is likely to make the mistake of "overestimating oneself" if he becomes dizzy with success. This kind of one-sidedness and blindness in one's way of thinking causes the person to see the tree but not the forest, to see himself but not others. Li Runhu is commendable because he has kept his cool in spite of his achievements and promotion, and has always admonished himself with his father's words, "do not overestimate yourself." Rather than feeling lost and dazed by all the honors, medals, and flowers, he always kept his perceptives correct, neither "overestimating" nor "underestimating" himself. He was able to "correctly appraise" himself mainly because he had fostered a Marxist and scientific outlook on life, honor, and disgrace, correctly understood the dialectical relationship between the party, the state, the people, and the individual, and put himself in a correct position socially. Although people's ability may differ, if we can follow his example, we will be able to get things done more smoothy, avoid detours, and achieve more.

Hotels Urged To Provide Newspapers for Guests

OW0606210791 Beijing XINHUA Domestic Service in Chinese 1324 GMT 6 Jun 91

["CPC Central Committee's Propaganda Department, the Ministry of Commerce, and the National Tourism Administration Call on Guesthouses, Hotels, and Hostels To Provide Newspapers for Customers"]

[Text] Beijing, 6 Jun (XINHUA)—The Propaganda Department of the CPC Central Committee, the Ministry of Commerce, and the National Tourism Administration recently issued a joint circular urging guesthouses, hotels, and hostels to provide newspapers for customers.

The circular says that in recent years the number of people traveling on official or private business trips has been increasing considerably in China as has the number of foreign and overseas Chinese tourists. Reading the newspapers to become acquainted with current events has become the universal demand of hotel guests. All guesthouses, hotels, and hostels, and their managements should ensure that their guests have newspapers to read so that they can keep themselves informed of political, economic, news, market, and product information.

The circular says that the newspapers to be made available for hotel guests or customers should be determined in light of the conditions and the types of guests or customers. In high-class guesthouses and hotels, in principle, a copy of CHINA DAILY or the overseas edition of RENMIN RIBAO should be subscribed to for each guest room for overseas tourists, while a copy of RENMIN RIBAO or of a provincial newspaper should be provided for each guest room for domestic tourists; in hotels and hostels with comparatively better conditions, in general, there should be a copy of a regional newspaper for each guest room; and in hotels and hostels with inadequate facilities, newspaper boards should be set up in public places or near the reception counter.

Newspapers, Magazines for Industrial Workers Increase

OW1406134891 Beijing XINHUA in English 0552 GMT 14 Jun 91

[Text] Beijing, June 14 (XINHUA)—China now has 60 newspapers and magazines specially for industrial workers, with 2,000 reporters and editors, according to a national symposium of editors-in-chief of these newspapers and magazines.

The distribution volume of the newspapers and magazines is more than six million.

Before 1980, China had only a dozen such newspapers and magazines, but now the All-China Federation of Trade Unions alone boasts eight such publications, and the other 52 are run by various localities across the country—the number does not include internal publications run by enterprises themselves.

These newspapers and magazines mainly report the policies and principles of the Chinese Communist Party and Government and the model workers who have emerged in various fields.

The symposium, which closed here yesterday, was jointly held by the All-China Federation of Trade Unions and the China Worker's Movement Institute.

Multiparty Cooperation Shows Good Results

OW2806092391 Beijing XINHUA Domestic Service in Chinese 2002 GMT 26 Jun 91

[By reporter Sun Yong (1327 0516)]

[Text] Beijing, 27 Jun (XINHUA)—The system of multiparty cooperation and political consultation under the CPC's leadership, as a basic political system of China, is being perfected further following several decades of uniterrupted efforts.

In China, the CPC is the ruling party, while the Kuomintang Revolutionary Committee, the China Democratic League, the China Democratic National Construction Association, the China Association for Promoting Democracy, the Chinese Peasant's and Worker's Democratic Party, the Jiusan [3 September] Society, the China Zhi Gong Dang [Party for Public Interests], and the Taiwan Democratic Self-Government League are the CPC's close fraternal parties. They participate in state and government affairs while accepting the CPC's leadership and cooperate with it in a concerted effort for the socialist cause.

The multiparty cooperation under the CPC's leadership has been established gradually in the course of Chinese history. The cooperation between the CPC and democratic parties dates back to the New Democratic Revolution period. After our victory in the War of Resistance Against Japan, the democratic parties gradually saw clearly the path for China's social progress and began to stand on the CPC's side. In the several decades since then, they have shared weal and woe with the CPC and become its close comrades-in-arms. They are an important force of China's patriotic united front.

A profound friendship had been established between CPC leaders of the older generation, including Mao Zedong, Zhou Enlai, and Liu Shaoqi, and many outstanding leaders of democratic parties before the founding of New China. The friendship has been strengthened further day by day since the founding of New China.

Since the close of the Third Plenary Session of the 11th CPC Central Committee, a brand new situation has existed in the cooperation between the CPC and democratic parties. The "Opinions of the CPC Central Committee on Persisting in and Improving the System of Multiparty Cooperation and Political Consultation under the Leadership of the CPC," published by the CPC Central Committee in early 1990, after summing up historical experience, clearly and definitely defined the role of democratic parties in the government and in the political life of the country. It also put forward measures by which they could participate in state and governmental affairs and exercise democratic supervision in many respects.

Today, the CPC respects the democratic parties' political freedom, organizational independence, and equal legal status within the limits of the PRC Constitution. It also supports them in joining the state power, participating in the discussion of major state policies and the choice of candidates for state leaders, participating in the management of state affairs and in the formulation and execution of general and specific state policies and laws, and playing a supervisory role in our democratic life.

Incomplete statistics shows that since early 1979, the principal leaders of the CPC Central Committee and the leading comrades of the State Council either have presided over or instructed the departments concerned to hold nearly 70 democratic consultation meetings, discussion meetings, heart-to-heart talks, and situation briefings. Of these meetings, 30 were held after the Fourth Plenary Session of the 13th CPC Central Committee. The CPC sought and used opinions from democratic parties before the Fifth Plenary Session of its 13th Central Committee adopted the "Decision on Further Improving the Economic Environment, Rectifying the Economic Order and Deepening Reforms" and before the Sixth Plenary Session of its 13th Central Committee adopted the "Decision of the CPC Central Committee on Strengthening the Ties Between the Party and the People." It sought the opinion of the democratic parties four times before the Seventh Plenary Session of its 13th Central Committee adopted the "Proposals of the CPC Central Committee for the Drawing-Up of the 10-Year Program and the Eighth Five-Year Plan for National Economic and Social Development." The call for giving greater significance to the building of spiritual civilization, made in the "Proposals," was based on the opinions of democratic parties.

At the same time, the CPC Central Committee and the State Council actively support democratic parties in working independently, and encourage and earnestly accept their opinions and suggestions regarding the principles, policies, and work of the CPC Central Committee and the government. For instance, the CPC Central Committee and the State Council have attached great importance and have instructed the departments concerned to accept such opinions and suggestions as "Opinions on Actively Developing Coal Resources To Alleviate the Energy Source Crisis," put forward by the Central Committee of the Kuomintang Revolutionary Committee; the "Tentative Idea for an Economic Development Zone on the Changjiang Delta," suggested by the Central Committee of the China Democratic League; the "Suggestion on Certain Questions Regarding Present Commodity Circulation," made by the Central Committee of the China Democratic National Construction Association; and the "Opinions on Solving the Problem of 'Broken Succession' of Teachers in China's Institutions of Higher Learning," expressed by the Central Committee of the Chinese Peasant's and Worker's Democratic Party.

So far, the number of democratic party members and nonparty personalities working in the people's governments at and above the county level has risen to nearly 2,000, of whom 18 are holding posts at and above the vice ministerial level. The CPC members are sincerely cooperating with these non-CPC persons and supporting their work.

The CPC Central Committee and the State Council also support democratic parties in participating in the management of state affairs and in playing a role of democratic supervision. Some ministries and commissions under the State Council have established counterpart relations. Some departments have included the central committees of democratic parties on the list of recipients of their documents and information. They also invite democratic parties to attend relevant meetings, seek democratic parties' opinions before implementing some important measures, and ask the comrades of democratic parties to participate in investigations of special subjects. The establishment of counterpart relations has created the necessary conditions and opened up new ways for democratic parties to obtain information, contribute their efforts, and participate in the management and discussion of government affairs.

According to statistics, 21 democratic party members and personalities without party affiliation have been hired by the Ministry of Supervision to serve as special

supervisors, 18 have been hired by the Supreme People's Procuratorate to serve as special procurators, and 13 others have been hired by the State Auditing Administration to work as special auditors. The departments concerned under the State Council also have asked the central committees of democratic parties to assign their personnel to participate in the work groups and inspection groups for screening companies, and to continue participating in and serving as advisers to the work groups for the general taxation, finance, and commodity price inspection dispatched by the State Council to various provinces, autonomous regions, and municipalities.

Local CPC committees and governments have seriously implemented the guidelines of the "Opinions" of the CPC Central Committee. The local CPC committees have generally stepped up political consultations with responsible persons of democratic parties, and gradually have turned it into a regular practice. The suggestions made by democratic parties on important issues on the basis of study and investigation have been given more attention by local CPC committees and governments, and many of them have been accepted by the latter. Provincial, autonomous regional, and municipal governments also have begun to establish counterpart relations with local democratic party committees, and have hired several thousand democratic party members to work as special supervisors, procurators, auditors, educational supervisors, and clean-government supervisors. In short, the implementation of the "Opinions" of the CPC Central Committee has begun to show very good results.

The practice of the CPC Central Committee in persisting in multiparty cooperation has evoked a very good response from the democratic parties. Some responsible persons of democratic parties say: "The leading comrades of the CPC Central Committee always modestly listen to the democratic parties' opinions and suggestions." They also fully show the close relations between the CPC and the democratic parties, characterized by treating each other with all sincerity and sharing weal and woe. "The CPC Central Committee now truly listens to the opinions of democratic parties and supports democratic parties in their work." "The system of multiparty cooperation and political consultation under the CPC's leadership in China certainly will be perfected further and will show fully its superiority during the great undertaking of building socialism with Chinese characteristics."

NATIONAL AFFAIRS, POLICY

Status of Qingdao's Industrial Enterprises

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[Article from the Qingdao municipal government's Focal Subject Group for Economic Development Research, written by Sui Yinghui (7131 2503 6540): "A Study on the Development of Large and Medium-Sized Industrial Enterprises in Qingdao Municipality and on Corresponding Policies"; members of the subject group include Sui Yinghui, Guo Xiandeng (6753 0341 4098), Zhao Minghui (6392 2494 2547), Gao Zhicheng (7559 1807 2052)]

[Excerpt] In 1988, the center proposed policies for improvement and rectification and for deepening reform. It adopted a series of retrenchment policies. This has posed a serious test for China's industrial enterprises, especially large and medium-sized ones. This article examines and analyzes large and medium-sized industrial enterprises in Qingdao Municipality, and proposes a line of thought and policies on developing these enterprises. It does this in order to correctly analyze and evaluate the problems facing these enterprises, to scientifically diagnose the crux of the problems with enterprise development, and to search for strategies for getting out of the predicaments.

I. State of, Problems With Development

Since 1985, the development of industrial enterprises in Qingdao Municipality has progressed in an exciting way, but it has also seen unbalanced, developmental structural changes.

A. From 1986 to 1989, fixed-asset investment in Qingdao's large and medium-sized industrial enterprises increased on average by 18 percent annually. The industrial output values in 1986, 1987, and 1988 increased by 10.09 percent, 18.2 percent, and 19.37 percent respectively. However, while the number of enterprises and the amount of fixed-asset investment and funds increased every year, there was a sliding tendency in the increase in output value, profits, profits and taxes, and sales from 1986 to 1989. Since 1988, except for the total fixed-asset capital, which has increased continuously, profits, profits and taxes, and sales decreased by 2.92 percent, 9.94 percent, and 14.37 percent respectively. The contrast between input and output was particularly prominent. These phenomena indicate that the development of the industrial economy has depended mainly due to the pull of high-rate growth, and that the maintenance of the growth rate has relied basically on huge inputs of funds, labor, and so forth, while input-output efficiency has shown a tendency to decline annually.

B. The problem of an unbalanced industrial structure has made the structural contradictions of large and medium-sized enterprises increasingly prominent. In terms of industrial structure, agriculture and basic industries have produced bottlenecks for the development of all industries. This is because in recent years the development of agriculture and basic industries has seriously lagged behind that of manufacturing industries. It is also because over 40 percent of raw materials, other materials, and energy for urban industries must be transported from other localities or imported. Among manufacturing enterprises, light-industrial enterprises, especially those using agricultural products as raw materials, use 70 percent of raw and other materials, which is obviously too large a share (much larger than the share of about 30 percent around the country). Yet heavy industries and mining industries use 25 percent of raw and other materials, which is obviously on the low side. Consequently, the development of agriculture and basic industries lags behind. This not only results in self-constraints due to the unbalanced industrial structure, but also triggers inflation in the prices for raw materials, other materials, and energy due to defects in the pricing system. This further constrains the development of manufacturing industries. At the same time, as has been demonstrated in recent years, there are also prominent problems with enterprises' fund-input structures, driven by the economy's high growth rate. An analysis of how large and medium-sized industrial enterprises used project investments in technological renovation and transformation in 1987 and 1988 shows that enterprises' fund inputs were directed towards increasing production output. In 1987, 63.4 percent of production investment was aimed at increasing output; 6.73 percent was economy-related investment; and 10.20 percent was quality-related investment. In 1988, production investments of large and medium-sized industrial enterprises represented 93.7 percent of the completed amount of investment for the year. Of this, 61.3 percent was invested to increase output; 9.9 percent was economy-related investment; and 8.41 percent was quality-related investment. The preceding data indicate that output-increasing investments represented the major share of production investment. Output-increasing investments continually accounted for more than 60 percent of production investment, while intensive investment with "technological content" accounted for 16 percent and 18 percent of production investment [in 1987 and 1988 respectively].

C. Slow market sales and huge overstocks of products have directly contributed to the under-utilization of capacity and to the stagnation of production in large and medium-sized industrial enterprises. According to investigations and statistics in 1989 62.32 percent of 69 large and medium-sized enterprises in Qingdao Municipality had problems with overstocked products due to slow sales. According to estimates, in 1990 inventory increased in 24.64 percent of the enterprises; 75.36 percent of the enterprises had problems with declining, stagnant, or unpredictable demand; 42.03 percent had problems with declining or stagnant orders; and 18.84 percent reduced the amount of goods sold and transported.

Because enterprises have long relied on fund inputs when developing production, and because retrenchment has had the dual effect of slowing down market sales and tightening credit, shortages of funds have become even more apparent. As a result, enterprises do not have funds for starting new projects or for continuing projects already under way. They do not have the funds for developing new product lines in response to market demand, nor do they have the funds for purchasing raw materials, other materials, or energy. Meanwhile, the funds represented by the huge overstocks have become "inert." Because of fund shortages, enterprises have delayed repaying loans to each other, which has resulted in triangular debts. The triangular debts in turn impede the normal circulation of enterprise funds, thus further exacerbating enterprises' fund shortage.

D. Basic industries' inherent deficiencies brought about by structural contradictions have become increasingly prominent since the start of retrenchment. Items such as electricity and water have been in seriously short supply, and the frequency of production stoppages due to rolling blackouts is increasing, while "production based on the supply of water" constrains production operations. Insufficient supplies of energy and raw and other materials are factors obstructing enterprises' normal production.

II. Analysis of Key Problems With Enterprise Development

A. An analysis of the status of development of large and medium-sized industrial enterprises indicates that China's macroeconomic policies directly affect enterprise development. In terms of changes in the industrial structure of Qingdao Municipality, the macroeconomic environment has had an impact. On the one hand, during the economic overheating, the structural division of labor was more advantageous for expanding primary processing industries and consumer service industries, orienting the industrial structure towards light industry and towards more closely linking the factors of production. On the other hand, there was also the uncoordinated phenomenon where "the market had not yet established itself firmly, but planning was already suspended." In large and medium-sized industrial enterprises, there are serious, widespread problems: products sales are based on state plans, but supplies of energy, raw, and other materials are not guaranteed by the plans; there is blind investment and redundant construction; large and medium-sized industrial enterprises are squeezed out; and there is a "dual-track" pricing system. Because economic policies are too slanted towards manufacturing industries, township enterprises, and agents with local interests, the contradiction between basic industries and the manufacturing industries has not been alleviated, but rather has been sharpened. Township enterprises are vying with large and medium-sized industrial enterprises for energy, raw materials, and for the market. This seriously affects the existence and development of large and medium-sized industrial enterprises. The strengthening of agents with local interests is pushing local investment towards manufacturing industries that enjoy high prices and profits. Local investment is neglecting basic industries whose products are in short supply but are low-priced, as well as basic industries with long-term benefits but small profits; this further exacerbates the imbalance in the industrial structure.

B. The implementation of slanted industrial policies that provide merit-based, selective support to key industries and enterprises has been proven to have a positive role. However, in terms of the status of enterprise development, at present there are not only problems with shortages of funds, energy, raw, and other materials, but also a situation in which high-quality and low-quality products and advanced and backward enterprises coexist. A contradiction has emerged because of the fact that low-efficiency enterprises take up funds because of their products; they vigorously attack supplies of raw and other materials, exacerbating the energy shortage. Before large and medium-sized enterprises' market, product, and technology structures are systematically readjusted; before industrial policies are generally implemented; and before the overall industrial structure is completely evaluated, key support for enterprise funds and raw and other materials can only come through expanding the production capacity of the existing structural base, which will increase output values and product inventories. This means that with an irrational industrial structure; a production scale, product variety, and technological standards that lag behind the market; and low efficiency, increasing fund inputs would result in becoming trapped again in an "absurd cycle" that would lead to greater shortages of funds, raw materials, other materials, and energy. Presently, carrying out key support for some large and medium-sized industrial enterprises (reversing the readjustment mode)—that is, readjusting the sequence of going from production capacity (increasing output) to the investment structure, to the commodity (technology) structure, to the market structure, to the industrial structure (policies)—can further exacerbate the structural contradiction of overall industrial development. This would be the complete opposite of correctly implementing the industrial policies.

C. Large and medium-sized industrial enterprises have always enjoyed the advantage of advanced production equipment and technological capabilities. But in recent years the level of technological development in large and medium-sized industrial enterprises has also changed in relative terms. In 1989 43.27 of large and medium-sized industrial enterprises in Qingdao Municipality still did not have a technological development office. The amount of funds raised for technological development decreased by 32.46 percent over 1988; funds raised by enterprises themselves decreased by 18.17 percent over 1988; and sales revenues from new products decreased by 19.89 percent. With regard to total expenditures on technology introduction, in 1988 the ratio of funds spent on technology introduction to funds spent on absorbing [technology] was 7.1:1; in 1989 the ratio was 21.8:1. This indicates not only that large and medium-sized enterprises have insufficient funds for development, but it

also reflects the irrationality in expenditures. In terms of the structure of technological development expenditures, absorption expenditures were much lower than technology-introduction expenditures.

D. Imperfect management mechanisms, irrational enterprise organizational structures, and weak adjustment capabilities of large and medium-sized enterprises have been important factors contributing to enterprises' predicaments. Although publicly owned industrial enterprises adopted contracting systems, and although a series of documents, laws, and regulations have been promulgated to enhance enterprises' contracting systems and enterprise vitality, in a substantial number of enterprises the contracting is only embodied in the contracting agreements or contracts signed with governing institutions. Enterprises have not thoroughly broken down the contracted targets within their organization, nor have they readjusted their organizational composition. Most of the enterprises have not linked their organizational structure's self-improvements to market adjustments; they still have undiversified, production-oriented organizational structures, and demonstrate a serious tendency towards short-term behavior. As enterprises have problems "substituting contracting for management," some enterprises have very backward management, and their internal consumption rises continuously. Therefore, changes in the external environment fully expose problems of slowness in the adaptability of contracting mechanisms, irrationality in enterprises' organizational structures, weak market-guidance capabilities, long input-output cycles, and slow implementation of decisions. These lead to a continual sharpening of enterprises' structural contradictions, thereby trapping enterprises in the constraints of their own traditional mechanisms.

E. Enterprises' short-term behavior is an important factor contributing to enterprises' "taking care of one matter, while losing another." It affects enterprises' long-term, steady development. According to investigations of and statistics on some large and medium-sized industrial enterprises in Qingdao Municipality, only 10 percent of the enterprises have formulated enterprise development strategies; 20 percent have unconsciously implemented strategic enterprise management; and 70 percent have not adopted strategic management, but still practice closed tactical management. For most of the enterprises, managing things internally is necessary to ensure normal production operations; in addition, such management should be enhanced. However, when the external climate changes, if enterprises with tactical management and those with strategic management do not come together, they cannot help but run into difficulties. [passage omitted]

Solving Economic Problems

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[Article by Chen Yuan (7115 0337), vice president of the People's Bank of China, edited by Bian Qi (6708 7871): "Deep-level Problems, Options in China's Economy"]

[Text] **I. Forward to Rejuvenation or Backward to Disintegration?**

After 10 years of development and reform, China has greatly enhanced its economic strength and the flexibility of its economic system. This will be of great help to the further development of our economy, making it better suited to the international economic environment. However, new problems and contradictions have also emerged at a deeper level during this period. Although economic improvement and rectification in recent years have achieved notable results in stabilizing the economy and the society, deep-level contradictions accumulated over the years have yet to be resolved. It should also be pointed out that people's views on these problems are still very divided. In my opinion, control of total supply and demand is the most difficult task and constitutes the principal aspect of the contradictions.

We should see that although the problem of excessive total supply and demand has been somewhat ameliorated, structural problems are still acute because the structural basis for reducing excessive total supply and demand has not yet been formed in our country and because the mechanism responsible for the continuous "regeneration" of the "double expansion" of investment and consumption has yet to see fundamental change. Put more precisely, the surplus processing capacity resulting from one-upmanship and repetitious imports has not yet been truly and earnestly readjusted and the contradiction between overdeveloped and underdeveloped industries remains as before. Because of the sluggish market, enterprises can no longer shift their burden onto consumers through price hikes. The pressure of "excessive distribution" is passed on to enterprises and most suffer a drop in economic returns under these heavy burdens. The facts that enterprises which are performing poorly are not in a position to close down, suspend operations, merge with others, or switch to other lines of production, the inferior cannot be eliminated from economic operation, and the percentage of central revenue in the national income is sliding still further, means that the economy is in grave danger of becoming increasingly out of hand and falling apart.

There are close links between structural imbalance and a lack of equilibrium between total supply and total demand. If the current structural problems cannot be resolved in good time, they are bound to further tilt the balance between total supply and demand and the excessively inflated benefactors will further solidify the already displaced interest framework. This will expedite further expansion of the processing industries which already have surplus capacity, thereby compelling the central authorities to make further concessions in matters of finance, taxation, credit, and pricing; in addition, it will further eliminate the constraints on excessive demand. The disintegration of the economy at the macro level will extend from investment, public finance, and taxation to monetary affairs, pricing, and foreign

exchange. In fact, this process of corrosion and disintegration is already taking place, although not many people are aware of this.

The work of retrenchment and the reduction of excessive total supply and demand cannot be abandoned halfway. When the readjustment of total supply and total demand is producing initial results, we must get on with structural readjustment without losing any time. Unless structural readjustment is successfully carried out, we will not be able to keep total supply and demand under control. If we hesitate, or turn back, all our previous efforts will be wasted and total supply and demand will once again expand. Now is the crucial moment for carrying out structural readjustment. Unless we press ahead, we will be swept back.

However, at this crucial moment for carrying out structural readjustment, there is a tendency to overlook or slight its importance. Some people see the slow-selling products as points of excitation and maintain that the key lies in activating the market. Others take the oversimplistic view that what the Chinese economy needs is capital construction and increased investment. They think that since the Chinese economy has difficulty overcoming the "speed effect," we can only yield to reality, take care of the interests of all quarters, and satisfy their needs by expanding total supply and demand. Still others entertain the lopsided view which regards reform as microeconomic invigoration and decentralization of power. They fail to recognize the fact that the maintenance of necessary market pressure is the prerequisite for enterprise reform and the starting point for the cultivation of true market mechanism and pricing signals. Protecting and developing these new demand constraints is where our hope of reform and building a new operating mechanism lies. We must not lightly destroy these constraints or shy away from difficulties.

This trend of thought, which centers on the further decentralization of power and ignores the development of macroeconomic coordination, is bound to turn the national economy into numerous isolated fragments. Unhealthy demand will continuously smash resource constraints, eat into accumulation, empty the state coffers, and cause the state to lose its centrifugal force, so that economic disintegration will lead to social and political decentralization. People will see a feeble central government and a number of "separate regimes" fighting for their respective interests. A sense of despondency will prevail and the socialist edifice which we have built up through long years of arduous labor, will fall apart. To say nothing about a unified and strong socialist country, even a modern capitalist country cannot afford such a serious degree of decentralization. Unless we remain sober headed, the enthusiasm which we have tried so hard to arouse will turn into blindness and we will go astray.

We all agree that now is the golden opportunity for reform but some comrades still pin all their hopes on microeconomic reform. We should not forget that loss of macroeconomic control is the direct cause of excessive expansion and structural imbalance. Without effective macroeconomic management, microeconomic reform will lose the necessary environment and will even go astray. That is why I say that now is the time to solve the macroeconomic problems.

Should we press forward to rejuvenation, or retrace our steps back to the decentralized and self-contained "small-scale peasant economy" and toward disintegration? This is a serious question which currently confronts us.

II. The Way Out Lies in Strengthening Macroeconomic Regulation and Control, Consolidating Markets, and Constructing a New Centralization for the Modern Economy

In order to quickly hold in check the tendency toward decentralization, it is most important that we: Devote major efforts to increasing the authority and strength of the central government and constructing a macroeconomic regulation and control system through readjustment of the existing interest framework; bring the relations between planning and the market into better balance; transform the organizational form of enterprises (particularly central enterprises); and promote the development and reform of the Chinese economy in an organized and orderly manner. At present, the task of primary importance before us is to increase the authority and strength of the central government and reconstruct the macroeconomic regulation and control system. This is also the primary task in the deepening of reform.

No doubt this implies a new centralization. Whether or not the necessary power, particularly economic power with financial power at its core, can be centralized once again in the hands of the central government within a relatively short time is the key to resolving major contradictions now and in the future. As soon as they heard the word centralization, some comrades said that this meant giving up on reform and open policy, noting that we could ill afford centralization. There are also comrades who did not quite understand the implications and were afraid that this would lead to a situation where "control will be tightened once things get out of hand and, once control is tightened, everything will be suffocated." They overlooked the following basic fact: All modern economies require centralized macroeconomic regulation and control over such matters as public finance and monetary affairs. This itself is an important guarantee of economic reform and the opening of the country to the outside world. Failing this, our modern economy will degenerate into a decentralized and self-contained small-peasant economy and we will not be able to become an economic world power. In the new historical period, the achievement of a moderate degree of centralization of economic power is decidedly not the simple repetition of the recovery of power and centralization as was done in the past. The renewed stress on centralization has its objective necessity and this centralization is also fully backed by new provisions.

On the whole, economic readjustment over the past year has achieved the initial objectives of "eliminating the swelling," "allaying the overheating," and reducing the malignant expansion of total supply and demand. These initial successes were achieved by the central authorities through implementation of strict centralized control over credit, investment, consumption, and pricing. In doing this, the central authorities proceeded from the realm of finance and resorted to indirect means of control, supplemented by direct regulation and control. From this, we can catch a glimpse of the new form of centralized regulation and control of the macroeconomy. After total supply and demand have been basically brought under control, the task of readjusting the economic structure has become all the more imminent. Structural problems accumulated over the years are, in the final analysis, caused by decentralization and excessive expansion. Thus, in order to make the best of the present opportunity to eliminate these structural problems, we must reorganize and readjust the power structure of various benefactors, streamline the government departments and enterprises, and further "eliminate the swelling," so that the central government has greater strength and power in economic regulation and control and has sufficient influence on the orientation, tempo, and stability of economic development. This task cannot be evaded or by-passed and delay will spell disintegration.

In order to complete replacement of the old system by the new in an organized and orderly manner during the new period, we must make a renewed effort to centralize power in new areas and along a new orientation while delegating power. During the past 10 years, what we have had was an extensive mode of delegating power and concession of benefits by the central authorities. This produced some positive results but also caused new problems.

—Driven by the unrealistic mentality of seeking quick success and instant benefits, people disregarded the actual conditions of the commodity economy and ignored, even negated, the necessity for centralization in their pursuit of the absolute decentralization of power. Commodity relations were also allowed to play an excessive role in locality and department relations. The fact that this went beyond a reasonable limit resulted in the emergence of "economies of separate regimes."

—In the process of delegating power and conceding benefits, rather than making an effort to downplay intervention in the production and operational activities of individual benefactors, particularly enterprises, where conditions permitted, with a view to increasing supplies, we greatly weakened control over and constraints on demand. The greater the power wielded by benefactors at various levels, the greater the strength of expanded demand and the smaller the capacity to supply. It was in this excessively decentralized framework of development that the contradiction between unbalanced supply and demand grew increasingly acute.

—What made it worse was that these changes were prompted by a fundamentally erroneous concept. According to this concept, all benefactors should be completely equal under the existing economic system and could act in accordance with the principle of the commodity economy. The belief that claims of all benefactors (primarily demands) should be satisfied wherever possible, and that one-upmanship between these benefactors over demand was a matter of course, has directly aided and abetted the spread of the practices of "everybody eating from the same big pot" and "iron rice bowl" on a new level and more extensive scale. As a result, different benefactors scrambled with one another for solid economic resources under the false pretense of defending their equal rights. Locality and department relations which should not have been commercialized were greatly commercialized, while enterprise relations, which should have been commercialized, were not only not adequately commercialized but were subject to all kinds of intervention. It should be pointed out that delegating power along this line has reached the end of the road. Promoting what is beneficial and abolishing what is harmful is the top priority task in our current drive to deepen reform. In order to extricate ourselves from our present dilemma, we must readjust the power framework at a deep level, once again centralize those powers that should not have been delegated in the first place, and delegate power in those areas calling for further decentralization. Only in this way will we be able to eliminate the conditions upon which "separate expansion" survives and develops and remove the foundation for malignant expansion of demand.

Some people think that only through further decentralization can we develop the productive forces. They think that decentralization is necessary for the development of the productive forces and that centralization will hinder the development of our economy. This is also an erroneous concept. China is a backward, developing country. In a country such as ours, developing the economy will remain a strategic task for a long time to come. The development of the productive forces means more than simple self-innovation and expansion on the microeconomic level. What is more important is that we must first strike a balance between total supply and demand on the macroeconomic level to ensure the normal operation of the economy. This concerns the common interests of all members of society and serves the same function as does wielding political power in the political realm. Next, we must continuously optimize and upgrade the industrial structure stage by stage. All these efforts have to be organized, guided, and promoted by the central government. To achieve this goal, the important thing is to vest the necessary power in the central government. The idea that only enterprises and localities can develop the productive forces, totally disregarding the unique functions of the central government, is a reflection of the

extremely narrow-minded concept of the scattered small-peasant economy, which has been proved primitive and outmoded by the successful experience of up-and-coming industrialized countries.

If we put economic and political considerations side by side, we will see all the more clearly the pressing need to strengthen centralization. As a vast country where economic development is extremely uneven, China just cannot do without a strong centralized government. If decentralization is allowed to take its own course, the economy will disintegrate, to be followed by political splits and divisions. In order to ensure economic development and political stability, further strengthen the nation's centrifugal force, raise China's international standing, guard against and eliminate interference and encroachment by foreign hostile forces, sufficient power must be vested in the central government. There is no other alternative.

Simply using the idea of the recovery of power to sum up the new centralization and the reconstruction of the macroeconomic regulation and control mechanism is inaccurate. Actually, it involves advance and retreat, recovery, and delegating power. Advance means that the central authorities will extend regulation and control to cover all areas and links concerning the whole situation. Retreat means that the central authorities will, in those areas and links which do not greatly affect macroeconomic regulation and control, relax their control and that departments and local authorities which have excessively interfered in enterprises, will be required to reduce their intervention. In particular, they will be required to rid themselves of some millstones they should not be carrying, so that they can advance unencumbered. Here, millstones refer primarily to the state's obligations to enterprises and their staff and workers under the system whereby "everybody eats from the same big pot." This practice burdens the state with heavy millstones and soaks up much of the accumulation, making development difficult. On the other hand, it imposes limitations on enterprises and their staff and workers, rendering them unable to give further scope to their initiative. The recovery of power means centralizing power in order to produce a framework of macroeconomic regulation and control which will promote economic development. The delegating of power means breaking down blockades and protective measures erected or adopted by localities and departments, developing a unified socialist market, reducing excessive intervention in enterprises, and allowing enterprises to face the market directly.

Consolidating the market constitutes another important aspect of the reconstruction of the macroeconomic mechanism. The rapidly developing unified socialist market has become the basic arena and setting for domestic economic activities. However, its structure and function have not only been inappropriately developed but have also been partitioned due to unnecessary intervention. This kind of partition is not so much the reflection of resource constraints as of the interests of other benefactors. Existing resource constraints are fully capable of further consolidating the structure of the unified market and augmenting its functions.

Because of this kind of partition, market signals are confused, market functions are underdeveloped, market growth is retarded, and the circulation of resources is adversely affected. This has weakened the state's regulation and control mechanism as well as the market mechanism. As a result, enterprises cannot make the appropriate response to macroeconomic regulation and control by the state, and to the unified market in their market strategies but are quick to react to intervention by other benefactors. State regulation and control signals and intervention by other benefactors alternate their role in the market, both trying to influence enterprises. More often than not, regulation and control by the state are ultimately distorted and elbowed aside.

In order to strengthen the state's regulation and control capability, efforts must be made to weaken the partitioning of, and interference in, the market by other benefactors; reduce excessive intervention in enterprises; streamline the intermediate levels; make the market mechanism more transparent; improve the market structure; and increase the market functions. The state must be able to directly guide, regulate, and control the hundreds of thousands of enterprises through the unified market. Resources must be subject to unified regulation and control and their circulation must be restructured under the unified market mechanism to increase efficiency.

In order to reconstruct the macroeconomic mechanism, we must accurately and effectively carry out direct regulation and control, strengthen and extend indirect regulation and control, and ensure that these two types of regulation and control cover all aspects of the national economy. No "vacuum" will be tolerated.

Direct regulation and control means directly intervening in those products and areas that have a vital bearing on social stability, the national economy, and the people's livelihood through administrative means. Seen from the angle of value, this does not constitute the main aspect of macroeconomic regulation and control during the new period. However, it is still the foundation and cornerstone of the whole economy and cannot be taken lightly because it affects overall stability. Efforts must be made to keep under control those aspects which should be kept under control and to recover some of the powers that have been surrendered.

The development and strengthening of indirect regulation and control constitute yet more important aspects of the reconstruction of the macroeconomic mechanism and form important aspects of the improvement of the planning mechanism. After a decade of reform, the situation currently confronting us is as follows: Demand constraints have been further developed (resource constraints still have a formidable presence), commodity relations have been greatly extended, and the market has seen substantial growth. Unless these already developed

economic relations are regulated and controlled, macroeconomic regulation and control will be incomplete and ineffective and will lag behind the needs of objective economic development. Although the market plays its role spontaneously, it still needs some form of intervention, such as the formulation of industrial policies and control of total supply and demand. The idea that the market is just an invisible hand that can automatically ensure the perfect allocation of resources is a reflection of the "theory that the market is omnipotent" and the idea of "the market utopia."

Experiences in other countries proves that the better developed the economy, the more necessary it is for the state to exercise control over its social demand. This goes against some people's beliefs. They think that the better developed the economy, the less there is for the state to do. This trend of thought has produced the following effect in practice: The power to regulate and control demand, which should have been firmly grasped by the central authorities, has been delegated to the lower levels in the course of decentralization and income constraints, resource constraints, and administrative constraints on social demand have been weakened. To a certain degree, we can even say that control of social demand is now in a state of anarchy.

The fact that indirect regulation and control is an indirect means should not affect its effectiveness. We have had rich experience in this connection in the history of our party. In the first few years following liberation, we exercised indirect regulation and control over the light and textile industries. When we had the market under our control, the light and textile industries developed the way we intended, on the whole. Over the years, most areas of agricultural production have never been subject to direct control. We only exercised regulation and control over such matters as purchase and marketing, seed allocation, fertilizer supplies, and services. In recent years, we have made ample use of indirect means of regulation and control, such as financial and pricing policies, in the course of economic improvement and rectification. Facts prove that their effectiveness is by no means inferior to that of direct means of regulation and control. Under certain circumstances, they have produced even better results.

The reconstruction of a macroeconomic regulation and control system that has direct means of regulation and control as its cornerstone and foundation and has indirect means of regulation and control as its nerve center, is the central task during the new period.

III. We Must Restructure the Interest Framework

Reconstruction of the macroeconomic regulation and control mechanism is not something which can be accomplished overnight. It requires the transformation of the deep structure of the national economy. This means restructuring the benefactor framework.

The interest framework refers to the status of various benefactors in the national economy as well as their interrelations. It forms the deep structure of the national economy and determines its operating mechanism. Some of the major problems of our economy are external manifestations of the loss of balance and derangement of this deep structure.

After 10 years of reform, the economic system has evolved into an increasingly monetized economy that is under the two-tier regulation and control of administrative power and asset power, which may also be called a "dual-power economy." The major characteristics of this "dual-power economy" are as follows: 1) Administrative power is being weakened. The original functions lack standardized forms of expression and clearly defined operational channels. On the other hand, asset power plays an increasingly important role. However, this power has never been clearly defined and its boundaries are, as yet, unclear. Under the circumstances, the power, interests and responsibilities of different benefactors are obscure and asymmetrical. 2) The status of various benefactors has undergone conspicuous changes. The structural imbalance and "displacement" between different benefactors embodied in these changes find concentrated expression in the relationship between the central and local authorities. The lopsided growth of local interests and the excessively commercialized activities of the authorities in the localities have relegated the interests of the central authorities to a secondary position, with the result that certain traits of "economies of separate regimes" are evident. 3) The present classification of whole-people, collective, and individual ownership, and the corresponding management systems, are no longer suited to the new situation.

The restructuring and readjustment of the benefactor framework primarily refers to defining property rights within the public sector and renovating the organizational form of enterprises. The reconstruction and readjustment of the interest framework mean renovating the form of public ownership and defining the status and interrelations of various benefactors to stabilize the benefactor framework on a new basis. Public ownership is the fundamental negation of the private ownership of the means of production but it is not immutable. It changes all the time with the development of social productive forces. Defining the boundaries of various benefactors within the public sector at the present stage is in fact the self-improvement and development of public ownership. The basis of the restructuring and readjustment of the interest framework is that the power and interests of various benefactors must correspond to their responsibilities in the national economy.

We must redefine the ownership of state-owned assets or assets owned by the central government. These are assets formed by state investment or preferential national policies. The function of these assets in the economy as a whole is to strike a balance between total supply and demand and achieve an optimum structure. Between different benefactors, such as the state, the local authorities, and enterprises, the state plays the leading role.

Local assets are assets owned by local governments. They are formed by local investment or preferential local policies. The main function of these assets is to respond to signals from the state's macroeconomic plans and from the market. Local governments should refrain from direct intervention in enterprises, shed some of their overly commercialized traits, and try instead to exert their influence as controlling shareholders and let enterprises deal with the market directly. Seen from the socioeconomic functions shouldered by local governments, local assets have an important role to play in the development of local economies, the protection of labor and employment, and many other areas. Thus, fully bringing into play the enthusiasm of local governments is of immense significance in the development of our economy.

Department assets are assets formed by department investment or preferential department policies. They are in the service of industrial policies. Assets formed as a result of the exercise of investment functions on behalf of state interests form part of the state-budgeted investment of a department and cannot be regarded as department investment. These may be seen as state assets. Assets formed as a result of extrabudgetary investment may be regarded as department assets.

Enterprise assets are formed by enterprises with their own funds. They are in fact collectively owned by the enterprises concerned. The recognition of enterprise assets will help invigorate enterprises and arouse the enthusiasm of the enterprise operators and employees, so that they are in a position to build up their own accumulation.

Private assets are assets formed by investment by individuals (including foreign nationals). They represent private ownership and are different in nature from the four types of public-owned assets mentioned above. At the present stage, these private enterprises play an important role in the drive to invigorate the economy. However, laws and regulations must be promulgated to ensure their healthy development. Most of the service trades and a considerable segment of small and scattered processing industries, such as catering and garmentmaking, have been privatized. We should continue to develop these civil sectors to give the economy greater vitality.

In the long term, the shareholding system should be the basic form of enterprise organization. On the whole, the shareholding system has public ownership as its mainstay. Previously, most pilot projects in this connection showed the erroneous tendency of "seizing public property for one's own units" and "appropriation of public property for private use." After an enterprise switches to the shareholding system, it ceases to be the basic form upon which asset ownership is assessed. Through taking up shares, cross holdings, becoming the controlling shareholder, and other means, the assets of different benefactors can be grouped together. This provides the basic conditions for bringing the relations between enterprises into better balance and helping enterprises become truly independent commodity producers and operators.

Such restructuring of the interest framework is the key to strengthening macroeconomic regulation and control, the consolidating the market, improving the mobility of resources and the economy as a whole, as well as the ultimate solving of structural problems.

IV. Resource Constraints Produce Demand Constraints; Planning Supports Market Growth

The restructuring of the benefactor framework will inevitably bring about a change in the economic operating mechanism. Under the existing benefactor framework, which is an ill-defined muddle, neither the planning nor market mechanisms can play their roles to the full, find the standardized mode of combination, or ensure the optimum distribution and reorganization of economic resources. The restructuring and readjustment of the benefactor framework of economic interests provide the prerequisite for the organic combination of planning and the market on the level of economic operation.

In previous discussions on planning and the market, some people either consciously or unconsciously proceeded from the idealized concept and thought that the economy could be run harmoniously once a certain perfect economic mode had been established. That this mode of thinking gained popularity and exerted widespread influence on our economic development and reform strategies was by no means fortuitous. It had profound historical and international causes. Since the early 1980's, major Western capitalist countries have witnessed steady economic development and a quickening tempo in their technological advancement. They deliberately attributed all these achievements to the free market economy. Meanwhile, socialist countries have been marking time in their reform and development. Some people have thus became all the more convinced that all difficulties can be overcome by relying totally on the free market economy. This mentality entails blind worship of the market and draws simple parallels between the modern market in Western economies with planning under the traditional socialist economy. We are bound to come up with rigid dualist conclusions if we take this as the basis of our discussion on the mode of combination between planning and the market. Subsequently, under internal and external pressure, the theory and practice developed of replacing planning with the market. The consequences of this tendency are obvious to all. Here, it must be pointed out that the approach which proceeds from the myth about the market and uses theory to shape reality is fundamentally wrong. The scientific approach is to proceed from the actual conditions in China and consider issues, and sort out ideas, in light of principal contradictions in the actual economy.

China is a big developing socialist country. Our economic objective is to develop into an independent economic power that does not attach itself to any country or bloc while actively participating in international division of labor and economic exchanges. This objective itself determines that our development road will be different from that traversed by small countries which are in a weak position regarding the international division of labor. We will always maintain and develop a comprehensive and fairly advanced industrial system and national economic structure.

In order to realize this objective, we must have clearly defined development strategies and industrial policies. With our present level of market development, we are not yet in a position to independently shoulder the heavy responsibility of fulfilling these strategies and policies. Resource constraints will remain strong for a fairly long historical period to come. The presence of these resource constraints stems from the basic national condition that we have a vast population, that many resources essential to economic development are still in short supply, and that per capita possession of resources is still low. Price signals alone are no guarantee for the complicated distribution of resources. On the other hand, following the development of the economy and the structural reform, demand constraints have also quickly built in strength. The intertwining and coexistence of these two types of constraints cannot, as some comrades wished, lead to the complete replacement of resource constraints by demand constraints. Resource constraints are mainly embodied in the fact that economic growth and changes in the industrial structure will ultimately be conditioned by certain underdeveloped basic industries. For instance, the present level of agricultural development (particularly in grain, cotton, and oil-bearing crops) has imposed obvious constraints on employment, the people's livelihood, and the development of industries and other trades. Upstream industries are restricting the development of middle and downstream industries. Export and import capabilities and foreign exchange reserves also impose obvious constraints on the degree of international economic involvement, the upgrading of the industrial structure, and so on. Meanwhile, the "sluggish market," which has crippled large parts of the country since 1989, also shows that the effects of demand constraints are not to be overlooked and that their obvious macroeconomic significance will be increased in the days to come.

Thus, the relations between major sectors of the national economy are expressed in terms of the relations between the underdeveloped and overdeveloped industries. Between these two sectors, it is obviously the underdeveloped industries that are in a leading and predominant position. They are the basic roots for ensuring the steady operation and optimum development of the national economy. In order to resolve the contradictions between the overdeveloped and underdeveloped industries and ensure their balance within a given period, we need a most effective operating mechanism. The commonality between planning and the market is that as two different operating mechanisms, there is no doubt that they are both for the regulation of social supply and demand, but their function and mode of action are different. Toward those underdeveloped industries and areas where supply is short, we should mainly resort to regulation and control in the form of direct planning; toward those overdeveloped industries and areas where supply is excessive, we should mainly resort to market regulation. Since those industries and resource factors that are part and parcel of the basic roots have a controlling role to play in the allocation of production factors in other sectors, direct plans implemented in these areas will definitely occupy a basic and leading position in the overall system of operating mechanisms. What we mean by the leading position here has nothing to do with the absolute amounts of resources directly at their disposal but to its influence over the operation of the national economy as a whole. This decisive influence finds expression in the fact that it has an irreplaceable role to play in guiding and restricting major economic activities such as the stabilization of the operating environment and the realization of structural transformation. On the other hand, it safeguards the healthy development of the market. It should be made clear that, at the present stage, the direct planning mechanism is not only the basis for the development and operation of the market, but marks the object boundaries of market expansion. This important function of direct planning is fundamental and will last for a long time to come. Past experience shows that the time when the economy was chaotic and when market operation was slow was also the time when the function of direct planning was overlooked or abandoned. On the contrary, when direct planning was given attention and rationally utilized, stable economic and social development, market growth, and market order were guaranteed and the regulatory ability of the market mechanism was unprecedentedly strong. Thus, planning is the prerequisite for market growth. Without the support of direct plans the market will quickly weaken, disintegrate, and wither. As the underdeveloped basic industries develop, this kind of direct planning will gradually be pulled off from macroeconomic regulation and control. A case in point is that after the textile industry has been developed, "cloth coupons" will be abolished and indirect regulation and control will become the mainstay.

In a broad sense, planning not only includes direct regulation and control by the central government in given areas (not restricted to mandatory plans) but also covers indirect regulation and control. As the economy has become more commercialized and monetized during these last 10 years and more, we have seen an obvious expansion of the spheres in which market mechanism plays a direct role. However, indirect regulation and control in these spheres have failed to keep up the pace. Thus, there are large areas where there is a vacuum and confusion reigns. It is, in fact, a kind of macroeconomic planning to implement effective indirect regulation and control in these spheres which are mainly regulated by

the market mechanism. This kind of macroeconomic regulation and control of the market is a direct product of the market and has market mechanism as its basis. Our aim in using indirect means to regulate and control the market is to: Incorporate the spontaneous role of market mechanism into the development orbit defined by the state; organize the hundreds of thousands of enterprises into competition through the use of rational pricing signals from the market; promote the superior and eliminate the inferior; press forward; and to ensure that enterprises, on the whole, operate the way the state intended and serve the strategic tasks of economic development. We must understand this objective sufficiently. It is incorrect to think that indirect regulation and control means doing away with the planning mechanism, and allowing the market to act spontaneously and take this spontaneity as its objective. On the other hand, it is also incorrect to think that direct regulation and control means that planning can take the place of the market because we simply cannot subject hundreds of thousands of enterprises to direct planning. The market mechanism must be made more efficient, more direct, and more unified. Our present discussion on activating the market comes at the heel of retrenchment and the creation of a relatively fine environment. Without retrenchment and the appropriate exercise of indirect regulation and control, how can we begin to talk about activating the market? Retrenchment produces an effective market. If we can properly guide and utilize it, many good things, such as enterprise efficiency, the circulation of production factors, and the innovation of products will come forth under the intervention of the market and the industrial policy of indirect regulation and control.

All this shows that in correctly handling the relationship between planning and the market, the crucial thing is to first establish a "framework" and control it with direct and indirect plans. This way, the market will be activated and will start to grow and, when correct industrial policies are applied to intervene in its operations, it will serve the objectives of macroeconomic development. This is the substance of the relations between planning and the market. They must be symbiotic and mutually dependent.

Pinpointing and determining the point and degree of combination between planning and the market at different stages also has an important bearing on whether or not their respective advantages can be fully brought into play. Seen dynamically, tightening and relaxation, the overdeveloped and the underdeveloped, are changing and shifting in different periods of economic development and in different stages of periodic economic fluctuations. As the underdeveloped becomes the overdeveloped, the economic scale expands, and the industrial structure becomes upgraded, new underdeveloped industries will appear. Hence, in the wake of these changes, it is necessary for us to re-determine the "point" and "degree" of the combination of planning and the market. Here, the only thing that will remain unchanged is the principle, not the specific mode of combination at a given period. Being unable to promptly develop the market and enhance the role played by the state in the indirect regulation and control of the market according to the objective needs of economic development, is just as onesided and harmful as the tendency to rely excessively on the market and negate the role of the planning mechanism in total disregard of actual conditions and the development stage of the market. We should soberly recognize the fact that quickly increasing the per capita possession of resources and products in China will remain an impossibility for a long time to come. This basic fact determines that the Chinese economy must be subject to direct regulation and control by state plans, the direct impact of the market and indirect macroeconomic regulation and control, and the three symbiotic and mutually dependent forces which interact with one another. It will take a long historical period for the market to grow to maturity under the support of direct planning and the guidance of indirect regulation and control.

The market which features this organic combination should be unified and cover the whole nation rather than small markets which are separated and sealed off. It should be a market that forms a comprehensive system, rather than a fragmented market without any links, and should be a unified market serving all enterprises. The state may precipitate the formation of the unified market by making use of the big economic regions. Planned intervention in the market should include both direct and indirect regulation and control. The state influences the market through direct regulation and control, that is, direct control of major goods and commodities, and indirect regulation and control in the form of financial, monetary, investment, pricing, and other policies, rather than taking the place of the market.

The function of the market mechanism is: The market is the basic form of interrelations between different benefactors. The new framework makes the interest boundaries between various benefactors more well defined and clear cut, while the development of the commodity economy makes the economy more monetized. Because of these developments, exchanges and contacts between individual benefactors have to rely heavily on the market mechanism for their realization. From the perspective of the distribution and restructuring of resources, technological advancement will lead to the circulation and redistribution of economic resources. Demand will also change and develop according to its own law. Not all of this can be planned. Thus, in a healthy market served by rational pricing signals, important signals of resource distribution and restructuring form the market-pricing mechanism.

The scope of action of the market mechanism mainly covers the regulation of the supply of and demand for the overwhelming majority of consumer goods and certain intermediate, raw, and semifinished products. Restricted by the present economic structure and the underdeveloped industries, the market mechanism cannot cover all aspects in its regulatory and control

function although its effect is felt in all corners of the economy and its growth still cannot be separated from the support, regulation, and control of planning.

In the formation and structuring of the market system, the key lies in taking further steps to make existing products and the production factor market conform to the relevant standards and in making positive efforts to develop and improve the financial market (including long- and short-term capital markets), labor market, technology market, and the foreign exchange market, ensuring that they support one another. The structure of the market system must be conducive to the readjustment of the existing stock of resources, the improvement of enterprise efficiency, and the strengthening of macroeconomic control over the microeconomy.

The market structure at the present stage is a stratified structure made up of several layers of interacting markets. The primary-level market, that is, the arena where the central government, local authorities and departments interact as the main players. Through this market, they coordinate changes in major economic sectors, the production layout, the setting of priorities in the industrial structure, as well as economic activities, such as investment in major projects, aimed at ensuring development stamina. In particular, it covers major industries like energy and transport where there is direct intervention by the state. The secondary-level market, that is, the market between enterprises. It is mainly here that circulation and reorganization of short- and intermediate-term production factors take place. The tertiary-level market is the trading place between production enterprises and the ultimate consumers of products. It is here that the rights and interests of producers and consumers are realized.

The function of the planning mechanism finds expression in the maintenance of macroeconomic balance, the continuous optimization of the economic structure, the periodic readjustment of the benefactor framework, the guarantee of the overall initiative of the central government in financial matters, and so on. This basic function is universal and general, covering the whole situation. However, it does not directly affect the majority of enterprises. To achieve this objective, state plans resort to direct and indirect regulation and control respectively in respect of resource constraints. That is, in economic sectors where shortage is experienced and, in respect of demand constraints, economic sectors which are mainly regulated by market mechanism. In this kind of environment, the planning mechanism will naturally assume the important function of ensuring healthy market growth, strengthening the market system, and optimizing the market structure.

Mandatory plans still exist. Their scope of action covers products with a vital bearing on the national economy and the people's livelihood, underdeveloped basic industries in the industrial structure, hi-tech areas in the course of economic development, import and export activities, and key enterprises with a major impact on the financial capabilities of the central authorities. The scope of mandatory plans will change in different stages of development and implementation modes are diversified and developing. However, for a long tiome it will remain the cornerstone of the economy and will be a source of assurance for market growth.

The mode of combining planning and the market is diversified. In a market system where there is "stratified competition," direct regulation mainly acts on the primary-level market. This is done in the following ways: First, regulation of the market through control of important economic resources. Assuming the form of big economic regions, the state tries to intervene in economic activities through the market in order to maintain economic balance and market stability. Second, supporting the development of key industries and optimization of the economic structure through direct intervention. Indirect regulation mainly acts on the secondary and tertiary markets. It relies on financial, monetary, taxation, and pricing policies and the relevant laws and regulations to influence the market. It also has to maintain economic stability and an optimum structure in order to create an excellent external environment for operations in these two types of markets. These two modes of combination may find expression in the form of "mixed" regulation, with the state participating in the market, primarily the secondary market, through large state-owned enterprises. Through this, the state can exert its influence over related enterprises and ensure fulfillment of its development strategies. This is a kind of semi-indirect regulation and control.

The special economic characteristics discussed above may be summarized as follows: Direct planning serves as the cornerstone, indirect regulation and control provide guidance, and market activities form the body. In other words, it is a kind of economic operation with planning as its foundation and nerve center and the market as the driving force and mode. Planning and the market are symbiotic and mutually dependent. Direct planning serving as the cornerstone is determined by national conditions, indirect regulation and control providing the necessary guidance is determined by the economic scale, and market activities forming the body is determined by the interest motives of the main body. All these are governed by our objective to "stand on our own two feet in the world of nations" with our "big-nation economy."—March 1991

Views on Current Economic Situation

HK1007153191 Beijing JINGJI RIBAO in Chinese 24 Jun 91 p 2

[Article by Ai Hua (5337 5478) and Xiao Hui (2556 2547): "Some Views on Current Economic Situation"]

[Text] Evaluation of the current economic situation should be focused on two aspects, industrial production and inflation. The different views on industrial production can be summed up as follows:

First, the "theory of low industrial growth," which believes that the economy in 1991 will continue to grow at a low rate.

Second, the "theory of stable industrial growth," which believes that industry has passed its low point since the fourth quarter of last year, entered a period of stable growth this year, and is estimated to grow at 10 percent this year; however, this may induce an overheated economy.

Third, the "theory of overheated industrial production," which believes that overheated industrial production has taken shape.

The views on inflation include: It is generally acknowledged that there is inflationary pressure on this year's economic situation. The problem lies in the form of its expression: Will inflation be expressed in the form of price hikes, financial deficits, or enterprise debts. One viewpoint believes that the latent demand will not be transformed into great, real demand so long as the state keeps the extent of economic readjustment under control. As a result, inflation will not be expressed in the form of price hikes. Another viewpoint holds that the relaxation of the state's tightening monetary policy will create conditions for the transformation of latent demand to real demand. For example, the growth in savings will slow down along with a drop in interest rates and institutional consumption will sharply increase with the relaxation of the state's policy on institutional purchases. Moreover, demand for investment is also expanding this year. The rise in the cost of living in large and medium-sized cities (which has already reached 6 percent) is an indication which merits attention.

Opinions on the current situation vary because of the differences in the angle and grounds of evaluation. The differences are focused on: First, should the efficiency of large and medium-sized state-owned enterprises be regarded as the criterion to evaluate growth; second, can the trend of the current economic operation be compared with the changes in the previous economic cycles; and third, the impact of last year's low base figure on growth evaluation.

We hold that the grounds of each of the above evaluations are reasonable to some extent. Only by making a meticulous analysis of the grounds can we accurately grasp the trend of the current economic situation.

Regarding the efficiency of industrial enterprises, China's large and medium-sized enterprises are generally not yet extricated from the strange "growth-efficiency type" cycle. Viewed from the current situation, however, there are various reasons for the poor efficiency of all kinds of enterprises. Some are enterprises producing "bottleneck" products, such as the energy, communications, and raw materials trades. Their efficiency is indeed affected by growth. It is reasonable to regard the changes in efficiency of these enterprises as the criterion for evaluating growth. The poor efficiency of some enterprises is due to irrational structure, their inferior quality, or other reasons. If their efficiency is taken as the criterion for assessing growth, it will lead to the grave consequences of high growth and high prices.

It would also be unreasonable to simply compare the current economic situation with historical changes because profound changes have taken place in the economic structure as a whole after 10 years of reform. Economic growth was conditioned by "bottleneck" supply and this was the main reason for the economic fluctuations in the past. However, the current sustained, slow economic growth is conditioned by demand. There is an essential difference between the two. The economic difficulties we are facing now are overstocking and oversupply rather than shortages. Therefore, we cannot simply evaluate the changes in the current economic cycle in light of past changes.

Regarding the statistical base figures, the base figures of the previous year's statistics will indeed affect the growth of the next year. Viewed from economic operation as a whole, however, the influence of internal factors is essential. For example, industrial development in 1986 underwent a change from low to high growth, but industrial production in 1987 maintained a steady growth.

Our preliminary evaluation is: Viewed from various demand quotas and changes in the sales rate of "bottleneck" products, industry as a whole has passed its low point and is now on the rise. To see whether industry has developed steadily or excessively in the year, the key lies in the state's readjustment of various policies. Meanwhile, it is unlikely that latent demand will be transformed into real demand so long as major fluctuations are avoided in society because the growth in investment demand is not too high. Moreover, the growth in consumption demand will be stable thanks to the changes in consumption of urban inhabitants, a drop in peasants' actual income, and differences in distribution of income.

Viewed from a macroscopic angle, the country will have to bear the pressure from imbalance of revenue and expenditure, employment, and inflation this year. If inflation is allowed to rise and the financial and enterprise difficulties are resolved by relying on price hikes, it will undoubtedly lead to social turbulence, which will be disadvantageous to stability. If the product mix is readjusted on the basis of stable prices, we will encounter an employment problem while resolving the efficiency of state-owned industrial enterprises. If the state continues to bear the burden of poor efficiency and even deficits of state-owned industrial enterprises, it will further aggravate the financial difficulties.

To completely extricate ourselves from the current predicament, it is necessary to understand the following reality: A considerable number of state-owned industrial enterprises cannot meet the needs of a socialist planned commodity economy qualitatively. The state's management system over enterprises is not yet perfected. Hence, we should make the most of the current opportunity, be determined to readjust the product mix, vigorously

improve the quality of large and medium sized state-owned enterprises (apart from absolutely necessary capital construction, investment should be made as much as possible in technical transformation and developing new products, guidance should be given to investment not included in the plan, and the law, economic levers, and administrative means should be appropriately enhanced), continue to deepen structural reform of state-owned enterprises, and, within the limits of what society can bear, order enterprises which do not have the conditions for survival and development to shut down, suspend operation, amalgamate with others, or switch to the manufacture of other products. Only by invigorating the state-owned enterprises and extricating them from their predicament can the national economy as a whole genuinely embark on the track of sustained, steady, and coordinated development.

PROVINCIAL

Hebei's 1990 Financial Report, Draft of 1991 Budget

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[Report of Hebei Province's final account for 1990 and draft budget for 1991; delivered by Han Xizheng, director of the Hebei Provincial Financial Department, at the fourth session of the Seventh Provincial People's Congress on 20 April 1991]

[Text] Fellow deputies:

Entrusted by the provincial people's government, I now submit a report on the 1990 final account and 1991 draft budget to the session for discussions.

I. 1990 Final Account

In 1990, the people of the province conscientiously implemented the central authorities' principle of further improving the economic environment, rectifying the economic order, and deepening reforms, and the guidelines of the third session of the seventh provincial People's Congress; took stability as a key link; made efforts to ensure a coordinated social and economic development; and made new achievements in the economic construction. The province comprehensively reaped bumper agricultural harvests, set a record in grain production, stepped out of the low industrial production slump, gradually increased industrial production in the course of readjusting the industrial structure, increased investment in capital construction, further readjusted the investment structure, basically stabilized the prices of goods, and further improved the people's livelihood. The provincial party committee and provincial government paid full attention to financial work and made several important instructions on strengthening financial work and improving the financial situation. Through the concerted efforts made by the governments at various levels and various relevant departments, the situation in the implementation of the provincial budget was comparatively good. The province fulfilled the budgeted revenue plan and steadily increased the expenditures. The deficits were controlled within the budgeted figure as fixed at the beginning of the year. The 1990 budgeted revenue, as approved at the third session of the sixth provincial People's Congress, was 8,143.92 million yuan. The year-end budgeted revenue was readjusted to be 8,049.55 million yuan due to the policy changes in the course of implementation. According to the present estimates, the 1990 revenue was 8,115.20 million yuan, fulfilling the readjusted budget by 100.8 percent and showing an increase of 6.6 percent over the previous year. The breakdown by major categories was as follows: 1) The industrial and commercial tax receipts came to 7,052.99 million yuan, 88.71 million yuan less than the budgeted figure and an increase of 7.5 percent over the previous year. 2) Returns from enterprises amounted to losses of 245.82 million yuan, 49.06 million yuan more than the budgeted subsidies and an increase of 74.57 million yuan over the previous year. Of this, receipts from industrial enterprises totaled 578.27 million yuan, 54.41 million yuan less than the budgeted figure; those from commercial enterprises were minus 61.81 million yuan, 28.35 million yuan less than the budgeted subsidies; subsidies to money-losing grain enterprises amounted to 354.15 million yuan, 42.59 million yuan more than the budgeted subsidies; and subsidies to money-losing foreign trade enterprises totaled 465.87 million yuan, equal to the budgeted figure. 3) Agricultural tax and farmland use tax receipts reached 365.18 million yuan, an increase of 3.7 percent. 4) Fund for construction of key energy resources and transport projects amounted to 160.73 million yuan, 22.27 million yuan less than the budgeted figure. The state budget regulating fund came to 208.28 million yuan, 8.28 million yuan more than the budgeted figure. 5) Receipts from special funds amounted to 324.00 million yuan, maintaining the figure of the previous year if calculated in terms of comparable items. 6) Receipts from other sources totaled 249.84 million yuan, 158.62 million yuan more than the budgeted figure. In addition, receipts from selling various state bonds in the province totaled 600.81 million yuan.

The 1990 expenditures as approved at the third session of the seventh provincial People's Congress were 8.324.45 million yuan. The expenditures were readjusted to be 9.606.42 million yuan due to the fact central finance added supplementary special funds to the provincial expenditures in the course of implementation. According to present estimates, the expenditures came to 7,728.53 million yuan, fulfilling the readjusted budgeted expenditures by 90.9 percent and showing an increase of 12.9 percent over the previous year. The breakdown by major categories was as follows: 1) Capital construction expenditures came to 367.80 million yuan, fulfilling the budgeted figure by 96.2 percent and showing an increase of 4.7 percent over the previous year. 2) Funds expended to tap the potential of existing enterprises and to upgrade technology amounted to 101.34 million yuan, fulfilling

the budget by 79.4 percent and showing a drop of 10.3 percent. 3) Expenses in experiment and trial manufacturing of new products, major scientific research, and scientific undertakings amounted to 124.97 million yuan, fulfilling the budgeted figure by 88.6 percent and showing an increase of 14.5 percent over the previous year. The spending on supporting rural production and on the undertakings of agriculture, forestry, water conservancy, and weather forecast, was 803.9 million yuan, a 29.2 percent increase over 1980, accounting for 85.1 percent of the budget. Of this spending, the amount on supporting rural production was 503.75 million yuan, a 42.2 percent increase over 1989. 5) Spending on culture, education, and public health was 2,481,700,000 yuan, a 13.9 percent increase over 1989, accounting for 97.6 percent of the budget. Of this spending, that on education was 1,512,400,000 yuan, a 14.7 percent increase over 1989. 6) Spending on administrative management and judicial and public security affairs was 1,359,220,000 yuan, a 15.6 percent increase over 1989, accounting for 96.2 percent of the budget. 7) Spending on subsidies for price hikes was 1,679,080,000 yuan, a 20.1 percent increase over 1989, accounting for 91.7 percent of the budget.

In line with the calculation of the financial "responsibility system" of progressively increasing the income handed over to the state, which was assigned by the state to our province, and of the financial revenues scored in the year, the special funds and subsidies released by the central authorities, and the funds transferred from 1989 or from outside places, the province's funds available in the year, excluding the funds allocated to the central authorities, were 9,604,470,000 yuan. Its financial expenditure in the year was 8,728,530,000 yuan. Its deficit, which was calculated by excluding the additional circulation funds designated by the state for the financial affairs at the township level, the funds for purchasing bonds, and the special funds transferred to 1991, was 238.06 million yuan, a slight decrease over the budget drawn up in early 1990.

The financial revenues scored by the provincial level units in 1990 were 551.46 million yuan, a 24.5 percent increase over 1989, accounting for 122.9 percent of the readjusted budget. Of these revenues, those of industrial and commercial taxes were 579.85 million yuan, a 14.9 percent increase over 1989, surpassing the budget by 79.85 million yuan; those collected from enterprises' incomes were a minus 586.01 million yuan, and the subsidy budget showed a 5.13 million yuan decrease over 1989; and those collected from the income of other fields were 20.81 million yuan, an 11.7 percent increase over 1989.

The financial expenditures spent by the provincial level units were 2,674,750,000 yuan, a 14.4 percent increase over 1989, accounting for 85.5 percent of the readjusted budget. Of these expenditures, those of capital construction were 328.25 million yuan, a 21. percent decrease over 1989, accounting for 98.8 percent of the budget; those spent on the three scientific and technological projects and on the scientific and technological undertakings were 64.59 million yuan, a 27.7 percent increase over 1989, accounting for 88.8 percent of the budget; those spent on supporting rural production and on the undertakings of agriculture, forestry, water conservancy, and weather information, were 91.79 million yuan, a 13.2 percent increase over 1989, accounting for 69.3 percent of the budget; those spent on the undertakings of culture, education, and public health were 314.88 million yuan, a 17.5 percent increase over 1989, accounting for 94.4 percent of the budget; and those spent on administrative management and on judicial and public security affairs were 113.24 million yuan, a 10.9 percent increase over 1989, accounting for 85 percent of the budget.

Of the financial revenues taken in by provincial level units in the year, the funds available for these units were 3,230,270,000 yuan, including the earnings submitted by the prefectural-city level units, special funds and subsidies released by the central authorities, and funds transferred from 1989; and excluded the expenses transferred to the central authorities and the expenses of subsidies. The financial expenditures spent by these units in the year were 2,674,750,000 yuan, including those transferred to 1991. Their deficit was 84.5 million yuan, a 13.5 million yuan decrease over the budget.

Our province tided over 1990 facing financial difficulties unprecedented in many past years. In formulating a budget in early 1990, the province could not bring about a balance between revenue and spending and had no alternative but to allocate 238.7 million yuan for a deficit. In implementing the budget, we also encountered new problems, such as market slump, product overstock, funds shortage, and decline of production and economic results, as well as the phenomenon in which several measures formulated by the state for increasing incomes and curtailing expenses were not enforced or enforced relatively late. All of these were very unfavorable for increasing incomes and curtailing expenses. In facing the severe situation and to ensure the fulfillment of the budget, governments at all levels and the relevant departments worked to overcome the difficulties; actively adopted measures; and did a great deal of meticulous work.

A. We worked to promote sales and strove to develop financial resources. Enterprises in Hebei faced many production and management difficulties last year. In view of such a situation, governments and financial departments at all levels actively worked to help enterprises eliminate misgivings and difficulties, and considered it their objective to promote production and open up the market. They helped formulate some preferential policies and measures to support enterprises in developing new products, increase production of readily marketable products and sell stockpiled goods. Financial departments throughout the province adopted every means to raise more than 600 million yuan to use as working funds to support production, and helped enterprises solve their pressing needs, particularly by making

investments that will yield large profits and taxpayers, advantageous products, and projects that require smaller investment and shorter construction periods but yield quicker results. With invigorating the circulation of the funds of enterprises as their goal, they also launched inventories of warehouses and acted to clean up "debt chains." When the first-round contracts of enterprises expired, every level made earnest efforts to honor the contracts and signed the second-round contracts in line with actual conditions, thus stabilizing enterprise production. To help enterprises strengthen management, we worked out some systems and methods for enterprises to attain the basic work targets for management and accounting and to make improvements. We continued to popularize modern management methods in a planned manner and guided enterprises to tap their own potential and raise efficiency. We gave necessary support to some key enterprises in terms of funds and policies, to ensure the steady production growth of backbone enterprises and key products. This played an important role in improving the economic situation in Hebei.

B. We made efforts to organize the collection of revenues to ensure that the budget was fulfilled. It was very difficult for us to do this last year because of the economic situation. Governments at all levels therefore attached great importance to this work and strengthened leadership over it. The provincial government, financial department and tax bureau held five meetings to arrange and call for efforts to overcome difficulties and implement the budget. After a conscientious analysis of the financial and economic situation, the provincial government assigned revenue, expenditure and deficit control quotas to prefectures and cities and sent work groups to them in a timely manner to urge them to fulfill the quotas. The major leaders of many prefectures, cities, and counties personally inspected and guided the work and adopted some mandatory measures for increasing the revenue. When organizing collection of revenues, governments, and financial and tax departments at all levels persisted in collecting taxes according to the law, strengthened tax collection and management, and conducted inspections. We should say that the success in carrying out Hebei's budget last year was not achieved easily.

C. We arranged and allocated funds in a rational way and strengthened management of expenditures. Governments and financial departments at all levels ensured the necessary expenditures, such as wages and price subsidies, in spite of very strained financial resources. Meanwhile, they actively adjusted the structure of the expenditures and allocated funds in a rational way to increase the investment in such key areas as agriculture, education, and science and technology as much as possible. In agricultural investment, we persistently gave preferential treatment to grain, cotton, and oil-bearing crop production, facilitated infrastructural facilities for agriculture, and supported comprehensive agricultural development in areas along the Hai He, and the development of poverty-stricken areas. Hebei's expenditures on agricultural production and operating expenses for farming, forestry, water conservancy, and weather forecasting increased by 29.2 percent after a substantial increase in the previous year, which thus effectively supported the development of agricultural production. Budgetary and extra-budgetary appropriations for provincial educational amounted to 2.38 billion yuan, an increase of 14.5 percent over the previous year. This promoted the development of basic education, on-the-job education, vocational education, and technical training; and improved the conditions for running schools of all levels and kinds. The provincial appropriations for the scientific and technological projects of the three types and for scientific and technological undertakings showed an increase of 14.5 percent over the previous year. This promoted the development and popularization of science and technology. At the same time, governments at all levels strengthened their management of expenditures. Some counties (cities) and some units directly under the prefectural and city authorities carried out the method of "fixing quotas of establishment and outlay"; strengthened control over institutional purchases in strict accordance with the principle of combining leniency with strictness; and continued to strictly control the nonproductive expenses of administrative organs in the course of supporting production and commodity circulation. In addition, Hebei made great efforts to obtain World Bank loans. Thus far, agreements on World Bank loans already signed are valued at a total of $300 million. In particular, the $6 million interest-free loan obtained from the World Bank for rebuilding earthquake-damaged Yangyuan has played a very important role in the reconstruction and restoration of production in the disaster area.

D. We profoundly conducted general inspections on tax revenues, financial affairs, and commodity prices; and rigorously enforced financial and economic discipline. Governments at all levels conscientiously organized and arranged this general inspection by regarding it as an important measure in economic improvement and rectification, in intensifying supervision over financial affairs and tax revenues, and in rigorously enforcing financial and economic discipline. Thus, good results were achieved. On the basis of self-examination conducted by various units, the province as a whole released a total of 36,000 inspectors, and organized them into 8,500 work groups, to inspect various enterprises and units. By the end of last December, the province as a whole had ferreted out a total of 483 million yuan in money that had been acquired through all types of lack of discipline. Of this money, 307 million yuan should have been handed over to the financial departments. Thus far, 280 million yuan of such money has been handed over to the state treasury, accounting for 91.3 percent of the total. Before the concentrated inspection, financial supervision and inspection departments at all levels organized forces to clear up and rectify the financial affairs of foreign trade enterprises and the debt defaults of departmental coffers and individuals, inspect

financial revenues and expenditures, and control institutional purchases and the utilization of funds earmarked for aiding agriculture. Beginning with the fourth quarter of 1990, governments at all levels again conscientiously organized forces to check the wanton collection of service charges, fines, and financial levies. This has vigorously strengthened the financial supervisory function, rigorously enforced financial and economic discipline, plugged loopholes, and increased financial revenues.

In sum, during the past year, Hebei scored achievements in financial work. However, it should be clearly noted that some problems, which cannot be neglected, still remain in the implementation of the budget. First, the number of money-losing enterprises increased rapidly, the amount of deficits increased substantially, and profits decreased, which prevented financial revenues from increasing. Second, some contracted enterprises just assumed responsibility for profits but not for losses, thus reducing financial revenues to some extent. Third, some departments and units still had a weak concept of austere living, still had many loopholes in their revenues and expenditures, and still had the phenomenon of spending money wastefully. Fourth, finances at all levels were still at a relatively difficult state, and financial management still lagged behind the demand of the new situation. For these problems, we must adopt measures to solve them one by one.

II. The 1991 Draft Financial Budget

In line with the guidelines of the seventh plenary session of the 13th party Central Committee and the realities of our province, the principles for the breakdown of the 1991 financial budget are: Opening up more financial sources through improving efficiency in order to ensure the appropriate increase in financial revenues; continuously implementing the retrenchment principle, readjusting expenditure structure, and adopting essential measures to reduce financial burdens; and striving to achieve a balance between revenues and expenditures and reduce deficits. The province's revenue budget for 1991 is 8,999,860,000 yuan, an increase of 6.3 percent over the actual revenue of last year in terms of comparable standards. The essential breakdown for the revenue is as follows. 1) Industrial and commercial taxes total 7,568,950,000 yuan, up 7.3 percent from last year. 2) Agricultural tax and farmland use tax totals 367.28 million yuan, up 0.6 percent. 3) Receipts from enterprises total 206.47 million yuan, the same as last year's in terms of comparable standards. Of the total, receipts from industrial enterprises total 595.24 million yuan, up 2.9 percent, subsidies going to the deficits of grain enterprises total 343.39 million yuan, down 3 percent, and subsidies to the deficits of commercial enterprises total 52.99 million, down 14.3 percent. 4) According to quotas assigned by the state, energy, transportation, and key construction funds are allocated 183.3 million yuan and the state budget regulating funds are allocated 208.42 million yuan. 5) Extra taxes for education, power project construction funds, and other special funds total 340.8 million yuan, up 5.2 percent from last year. 6) Other receipts amounted to 121.24 million yuan, down 10.5 percent from last year in terms of comparable standards. In addition, the state-assigned bond purchasing quota totaling 506 million yuan has been assigned to various levels.

The province's expenditure budget is 8,448,270,000 yuan. Of the total, the expenditure for the year is 7,297,660,000 yuan, an increase of 5.5 percent over the budgeted figure of last year. The essential breakdown for the expenditure for the year is as follows. 1) Capital construction expenses total 270.63 million yuan, up 3.1 percent from last year. 2) Expenses for enterprises to tap their potential and carry out technical transformation total 105.3 million yuan, up 2 percent. 3) Expenses for the three scientific and technological purposes, and operating funds for scientific undertakings total 118.84 million yuan, up 7.9 percent. 4) Aid to rural production and operating expenses for agriculture, forestry, water conservancy and weather services total 687.49 million yuan, up 9 percent. 5) Operating expenses for culture, education, and public health total 2,423,650,000 yuan, up 7 percent, of which those for education total 1,543,830,000 yuan, up 7.6 percent. 6) Pensions and social relief funds total 238.76 million yuan, up 5.6 percent. 7) Administrative expenses and expenses for public security and judicial departments total 1,181,950,000 yuan, up 5.1 percent. 8) Expenses for price subsidies total 702.13 million yuan, down 5.2 percent. 9) Allocations for the general reserve fund total 160.99 million yuan, up 2.5 percent.

After adding central subsidies, funds transferred from last year, surplus special funds and funds allocated from outside the province to the province's revenue of the year and deducting the funds to be turned over to the central authorities, the province has 8,238,160,000 yuan at its disposal. When offsetting this figure with the province's expenditure of 8,448,270,000 yuan, there is a deficit of 210.11 million yuan, down 27.95 million yuan from last year.

The provincial-level revenue budget for 1991 is 975.37 million yuan, up 3.8 percent from last year in terms of comparable standards. Of the total, industrial and commercial taxes total 620 million yuan, up 6.9 percent, and receipts from enterprises are 172.35 million yuan, the same as last year's in terms of comparable standards.

The provincial-level expenditure budget is 2,704,480,000 yuan, of which 2,064,460,000 yuan will be allocated from the revenue of the year, up 5.6 percent from last year. The essential breakdown for the expenditure of the year is as follows. Capital construction expenses total 260 million yuan, the same as last year's, of which 220 million yuan are arranged by the state in a unified manner. Funds for enterprises to use to develop their potential and carry out technical transformation total 10 million yuan, the same amount as last year. Funds for the three scientific and technological purposes and operating funds for scientific undertakings total

75.07 million yuan, up 7.4 percent from last year. Aid to rural production and operating expenses for agriculture, forestry, water conservancy and weather services total 274.82 million yuan, up 29.5 percent. Operating expenses for culture, education and public health total 342.4 million yuan, up 6.1 percent, of which those for education total 184.9 million yuan, up 6.7 percent. Pensions and social relief funds total 24.37 million yuan, up 4.1 percent. Administrative expenses and expenses for public security and judicial departments total 75.87 million yuan, up 5.7 percent. Expenses for price subsidies total 460.93 million yuan, down 9.8 percent. Aid to underdeveloped localities will amount to 20 million yuan, up 100 percent. Allocation for the general reserve fund total 50 million yuan, the same as last year's.

Funds that can be used by the provincial-level finance in 1991 amounts to 2,625.14 million yuan. This figure includes the 1991 provincial-level revenue, central subsidies, the surplus fund of last year, special surplus fund, receipts handed over by prefectures and cities; and does not include the expenses handed over to the central authorities and the subsidies for localities. The 1991 provincial-level expenditures amount to 2,704.48 million yuan. After balancing the available funds and expenditures, the deficits by provincial-level finance amount to 79.34 million yuan, a drop of 5.16 million yuan from the previous year.

The contradictions between supply and demand of funds were extremely sharp during the formulation of the 1991 draft budget. To ensure a balance between revenues and expenditures and the demands in major expenses, we paid attention to the following work tasks in formulating the budget.

A. We conintued to maintain a proper increase in revenues. According to the major targets covered in the provincial national economic plan, the 1991 revenue should increase by 6.3 percent. Viewing the current situation, we know that the economic situation this year is fairly good. First, production and sales are continuously rising. Second, all levels are comparatively full of enthusiasm for doing a good job in economic construction. Third, by launching the campaign of making 1991 the year of quality, variety and efficiency, we will promote the work of increasing economic results. All this has created favorable conditions for increasing revenues. However, we still face many difficulties in economic development which restrict revenue increases. The general situation shows that the 1991 budgeted revenue figures are positively and steadily calculated, and the revenue increase rate is suitable to economic development.

B. We gave priority to increasing funds for agricultural, water conservancy, and aid to the poor, and educational and scientific and technological expenses. To ensure a stable increase in grain and cotton production and solve in a methodical manner, the problems relating to lack of water resources, we will continue this year to increase investment in agriculture and water conservancy and allocate more funds to aid the poor in Zhangjiakou and Chengde prefectures. To support the development of scientific and technological and educational undertakings, budgeted expenses in scientific, technological, and educational undertakings are higher than the normal revenue and expenditure increase rate. According to the central policy of continuous retrenchment of finance, some other expenses will be maintained roughly at the levels of last year. Under the financially strained circumstances of the province, such allocation of budgeted expenses embodies the principle of reasonably readjusting the expenditure structure according to the policy of retrenchment for finance and credits. In the course of implementing the budget, we will realistically strengthen management, tap financial potential, and try every possible means to promote the development of all undertakings.

C. We paid attention to stabilizing the prices of goods and appropriately improving the people's living conditions. This year, governments at various levels will continuously attend to the work of readjusting the wages of staff and workers and increasing the living allowances for retired personnel according to state regulations. In line with linking wage bills with economic results, we should gradually increase the wages of staff and workers of state-owned enterprises in step with the increase in enterprises' economic results. To stabilize commodity prices and the livelihood of urban dwellers, we will continue to give subsidies for grain, oil, meat, vegetables, and coal this year. In drawing up the budget, we have made allowance for these expenses. At the same time, we should positively carry out price reform, gradually balance the price system, and reduce, in a well-planned manner, expenditures on price subsidies.

D. We paid attention to appropriately reducing deficits. The deficits, suffered by the province over the past years, were mainly caused by some localities' poor economic foundation. However, some work problems still exist. The deficits for several years running have made Hebei's financial burden increasingly heavy. If the situation continues, it will be difficult to eliminate the deficits. Therefore, according to the concept of balancing the budget, we should use more than 20 million yuan this year to make up for the deficits left over the past years at the time of balancing the revenues and the expenditures. Only by so doing will we reduce the expenditures and alleviate this year's financial difficulties. The provincial government calls on all localities and departments to try every possible means to organize revenues as we strictly control and cut expenses so as to ensure the normal implementation of the budget.

III. Vigorously Increase Economic Results, Enhance Financial Management, and Strive To Fulfill the 1991 Financial Budget

The year 1991 is the first stage in which we will begin to enforce the Eighth Five-Year Plan. Successfully fulfilling the financial budget tasks this year has an important significance for the smooth implementation of the

Eighth Five-Year Plan and for the realization of the goal of improving the state of financial affairs. In line with the arrangements made by the provincial party committee, we will work to promote the development of the economy and social undertakings throughout the province, stabilize and improve the people's livelihood, and bring the financial deficit under control to ensure the successful fulfillment of the annual budget on the premise of continuously increasing financial revenues and reasonably increasing expenses. In April, the provincial party committee and people's government sponsored the provincial financial work conference on how to successfully conduct financial work during the Eighth Five-Year Plan. They presented two specific plans for implementing the "decision" on enhancing the work of financial and tax revenues and improving the state of financial affairs. During the work conference, participating personnel clearly defined the guiding ideology and ideas of financial work, discussed and formulated the major goals and the important measures for achieving a turn for the better in the financial affairs during period of the Eighth Five-Year Plan. This is an important action taken by our province in its financial affairs for the Eighth Five-Year Plan, which will certainly exert a far-reaching influence. In line with the demands set by the second plenum of the fourth provincial party committee and by this financial work conference, various localities and departments should clearly understand the situation, unify their thinking, adopt an earnest attitude toward the existing difficulties and problems, heighten their awareness, and realistically do a good job in conducting various financial affairs.

A. We should vigorously foster financial resources by regarding as central the work of increasing economic results. The State Council's decision on the "yearly campaign" of improving quality and increasing the variety of products and economic results in 1991 represents the important measure of having enterprises tap their potential to increase economic results. Departments at all levels in charge of financial and tax affairs and other relevant departments should coordinate with one another under the leadership of the local government and launch the yearly campaign in a down-to-earth manner. First, they should do a good job in investigation and study, help enterprises seek truth from facts in dealing with their difficulties and problems, fully and satisfactorily apply existing preferential policies, promote or help enterprises accelerate their pace in making technical progress, readjust the products mix, upgrade the quality of products, increase the variety of new products, and increase the output of products which have enjoyed brisk sales as well as famous-brand and fine-quality products. They should provide necessary conditions for enterprises, foster a fine external environment, and further enhance the vigor of large and medium-sized enterprises. Second, they should help enterprises improve their operation and management, establish or improve various rules and regulations as well as systems, enhance economic accounting, utilize well various special funds in line with the provisions, and spend the majority of profits retained after paying taxes on making technical progress and developing production. Third, they should do a good job in switching losses to profits; help relevant units investigate key enterprises which have suffered losses or earned large profits; and continuously enforce the special policy on funds, electric power, and raw materials among key enterprises in accordance with the policies on industries, and which have bright prospects, and have handed over more taxes and profits to the state. They should also formulate measures for controlling losses among key enterprises that are running a deficit so as to encourage them to turn losses into profits. Through this work, these departments and relevant departments at all levels should strive to enable industrial enterprises covered by the local budget to annually increase the number of key enterprises which have earned 5 million yuan in profits and taxes from 100 in 1990 to 123 in 1991, to reduce the number of key enterprises which have suffered 5 million yuan of losses annually from 103 in 1989 to 36 in 1991, to reduce the rate of money-losing enterprises from 27 percent in 1990 to 11 percent in 1991, and to reduce the volume of losses from 836 million yuan in 1990 to 418 million yuan in 1991.

B. We should enhance financial construction at the county level and launch the "double campaign" of encouraging counties to have 100 or 50 million yuan of annual financial revenue, and of having counties reduce their volume of subsidies and deficit. Through the work of actively developing county-run industrial enterprises and town-run enterprises and of making the rural economy flourish, the provincial plan seeks to have two counties with 100 million yuan of annual financial revenue this year, four counties with 70 million yuan of annual financial revenue, four counties have 50 million yuan of annual financial revenue, 10 counties reduce their volume of deficit, and four counties reduce their volume of subsidies.

C. We should strengthen collection and management of tax revenues, and organize revenues in a reasonable way. To fulfill this year's revenue task, we must always do a good job in the collection and management of all items of tax revenues, and collect and deliver all due revenues to the state treasury according to plans. We should persist in legal administration over tax affairs, strictly control the scale of tax reductions and exemptions as well as the scale of repayment of loans with taxes. We should urge enterprises to tap their own potential and to make progress through improving efficiency, rather than relying on tax reductions, retaining more profits, and preferential treatment. We should adopt essential measures to rapidly clear up tax defaults and prevent new defaults. We should resolutely attack all manner of tax evasion, incidences of refusing to pay taxes, and incidences of obstructing tax organs in their execution of official duties. We should make full use of the role of tax collection as an economic lever to vigorously support key tax sources and promote the development of production, and, on this basis, increase the revenues handed over to

the state. We should strengthen collection and management of taxes from individuals and the taxes collected in a scattered manner. We should strive to reduce losses of tax revenues by perfecting the system concerning the collection and management of taxes from country fairs and markets, by perfecting organizations under which the masses assist and protect tax collection, and by depending on political organizations at the grass-roots level to protect tax collection. We should strengthen inspection of tax affairs, and should conduct, in a planned manner, inspection of daily tax levies and dispatch lists among different trades and divisions. We should strengthen the collection and management of the four kinds of agricultural taxes, energy and communications industrial development funds, and budget regulatory funds in order to ensure fulfillment of revenue tasks on schedule. We should pay attention to raising and managing agricultural development funds, and ensure and stabilize the sources of such funds. A lot of attention should also be paid to selling, distributing, transferring, and honoring treasury bonds. We should implement the responsibility system for collecting and managing revenues, assign tasks to grass-roots units and individuals level by level, make higher levels supervise the work of lower levels, and should make each level supervise the work of the next lower level in order to ensure the fulfillment of all revenue tasks.

D. We should persist in the principle of maintaining a balance between revenues and expenditures, and continue to strictly control expenditures. This year, budgets at all levels should be formulated in line with the principles of keeping expenditures within the limits of revenues, and in accordance with financial capacities, in order to ensure a balance between revenues and expenditures this year and to ensure that no new financial deficits will emerge. At the same time, efforts should be made to make up for some deficits handed down from previous years. Except for funds for ensuring personnel wages, necessary public expenses, and appropriations for agriculture, education, science and technology, and technological transformation, which should increase as far as possible, all other items of expenditures should be kept last year's levels in general, and strict control should be exercised in the implementation. In planning administrative expenses, we should, on the basis of strictly controlling the size of administrative personnel, continue to implement the principle of "fixing quotas of establishment and outlay," and not increase outlay even when the staff increases. The savings thus realized should be retained by units for use. We should strictly implement the system of examining and approving meetings, and set standards for meeting expenses. For the expenses in normal meetings of various departments, the management method of using a "meeting ticket" should be popularized. We should conscientiously study and improve methods concerning the management of free medical services in order to plug loopholes and decrease waste and unreasonable expenses. On the basis of screening and rectifying the scale, items, and standards of administrative expenses, we should again formulate reasonable standards and norms for expenses. We should continue to control institutional purchases, and should in particular, exercise strict control over purchases of commodities under special state control by administrative and institutional units. We should pay special attention to strengthening the management of productive expenditures, and strive to improve efficiency in using existing funds. We should make overall planning and arrangements, and should make reasonable distribution for the funds for agricultural aid in order to avoid scattered use of financial resources and duplicated input. Funds to aid agriculture should be primarily spent on water conservancy projects and scientific and technological projects in agriculture that will play a decisive role in agricultural development. Technological transformation funds should be distributed and utilized in an appropriately concentrated manner and should be used to ensure key projects and projects with good benefits. Financial funds this year will be extremely tight. Departments and units at all levels should persist in the arduous struggle and do everything through thrift and hard work, live austere lives, be economical, and fight waste.

E. We should continue the principle of economic improvement and rectification and promote financial and tax reforms. In line with the "proposals" adopted at the seventh plenary session of the 13th party Central Committee, the orientation for future reform of the budget system is to implement a revenue-sharing system after clearly delineating the responsibilities and rights of the central and local authorities. During the Eighth Five-Year Plan, we should continue to stabilize and improve the contracted financial responsibility system, however. Regarding the distribution between the state and enterprises, we should continue to stabilize and improve the contracted managerial responsibility system and conscientiously carry out the experiment of the system which "requires payment of tax plus a percentage of profits to the state, and payment of tax before loan payment or any retention of profit." Regarding enterprises which have already signed second-round contracts, we should in particular improve their contract methods, strengthen management of the entire process of their fulfillment of the contracts, and pay attention to their supporting reforms so that they can conscientiously implement their contracts and fulfill their quotas of the profits and taxes to be turned over to higher authorities. We should further develop and improve the tax collection and management reform of which the major work is to separate the responsibilities for collection, management, and inspection, and we should correctly handle the relations among these three responsibilities so as to stem loopholes. Governments and financial departments at all levels should actively promote reform of the system for management of state property and actively manage state property in line with the principle of "protection first and then improvement," to make sure that state property remains intact and increases in value.

F. We should persist in managing money matters according to law and strengthen financial supervision. At

present, some departments and units still have rather serious problems concerning violation of financial and economic discipline. Governments and financial and tax departments at all levels should be determined to rectify the order in finance and tax collection and make persistent efforts to ensure that money matters and taxes are managed according to law. Based on the need for reform and strengthening financial and tax management, we should study and work out some local financial, taxation and accounting laws and regulations and strive to improve them so that there are laws and regulations to abide by. We should give full play to the role of financial and accounting departments and personnel and conscientiously enforce the "accounting law." We should persistently enforce the "Hebei provincial provisional regulations for budget management" and make the budget restrictions mandatory. A supplement to the expenditure and withholding of the revenue to be turned over to the state without going through the legal procedures should be resolutely resisted and corrected. In addition to the large-scale tax, finance and price inspections carried out once a year in line with unified state arrangements, all levels should do a good job in their regular financial and tax supervision in order to discover and solve problems in a timely manner. We should strengthen management and supervision of extra-budgetary funds, check irrational use and waste and, through law enactment, channel the management of extra-budgetary funds to the legal system. We should conscientiously implement the CPC Central Committee and State Council "decision on resolutely checking unauthorized collection of fares, fines and donations" and make unremitting efforts in this work until final success is achieved.

Deputies!

The province's economic and financial situation has developed in a good direction since the beginning of the year. The province's revenue for the first three months of this year totaled 1,852,830,000 yuan, up 14.7 percent from the corresponding period last year, and its expenditure totaled 1,185,540,000 yuan, down 7.4 percent. Although the revenue increase rate and expenditure decrease rate were large, we must not be unrealistically optimistic because there were special factors for this. Judging from the development trend, however, the revenue and expenditure will gradually become normal. As long as all localities, departments and people make arduous and concerted efforts to overcome difficulties, the 1991 budget will be successfully carried out!

Tianjin Financial Report Released

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[Report of Tianjin Municipality's final accounts for 1990 and draft budge for 1991; delivered by Yue Shugong, director of the municipality's Finance Bureau, at the fifth session of the 11th Municipal People's Congress on 22 April 1991]

[Text] Fellow deputies:

Entrusted by the municipal people's government, I submit a report on the 1990 final accounts and the 1991 draft budget to the session for examination and discussion.

I. Implementation of the 1990 Budget

In 1990, all fronts across the municipality conscientiously implemented the municipal party committee's requirement for "keeping one's eye on stability and turning difficulties into favorable opportunities"; continued to improve the economic environment, rectify the economic order, and deepen reforms; worked closely in line with the central link of increasing economic results; thoroughly launched the campaign of increasing production, being economical, increasing revenues, and reducing expenditures; tided over some serious difficulties in the development of the national economy; reaped bumper harvests; gradually increased industrial production and the markets for the means of production and consumer goods; and made new headway in work. Based on this, the municipality fulfilled the budget's tasks.

The 1990 budgeted revenue was partially changed with the approval of the 22d session of the 11th municipal People's Congress. The budgeted revenue was readjusted to 4,374.84 million yuan.

The 1990 revenue was 4,739.14 million yuan, fulfilling the budget by 100.1 percent and showing a drop of 4.7 percent from the previous year. The revenues of different levels were as follows: Municipal-level revenue amounted to 2,514.64 million yuan, fulfilling the budget by 105.4 percent and showing a drop of 8.9 percent from the previous year. County-level revenue totaled 2,224.50 million yuan, fulfilling the budget by 94.7 percent and showing an increase of 0.6 percent. The breakdown of major categories was as follows: Industrial and commercial tax receipts totaled 4,882.27 million yuan, fulfilling the budget by 98.1 percent; receipts from industrial enterprises amounted to 408.62 million yuan, fulfilling the budget by 102.2 percent; receipts from construction funds of key energy resources and transport projects amounted to 116.57 million yuan, fulfilling the budget by 79.3 percent; receipts from budget regulating funds were 148.34 million yuan, fulfilling the budget by 95.7 percent; subsidies to make up for the losses of commercial enterprises totaled 198.92 million yuan, fulfilling the budget by 92.5 percent; subsidies to make up for the losses of grain enterprises totaled 619.15 million yuan, fulfilling the budget by 88.5 percent; and subsidies to make up for the losses of non-industrial enterprises totaled 200.99 million yuan, fulfilling the budget by 86 percent. The subsidies to make up for the losses of commercial, grain, and non-industrial enterprises were entered as a loss and deducted from total revenues. The amounts of subsidies did not exceed the budgeted figures. This helped promote the fulfillment of the revenue tasks.

The 1990 expenditures were 3,585.86 million yuan, fulfilling the budget by 87.5 percent and showing an increase of 1 percent over the previous year. The expenditures of various levels were as follows: Municipal-level expenditures amounted to 2,284.37 million yuan, fulfilling the budget by 84.2 percent and showing a drop of 3.5 percent; and county-level expenditures amounted to 1,301.49 million yuan, fulfilling the budget by 86.4 percent and showing an increase of 10.1 percent. The breakdown of major categories was as follows: The expenses in capital construction projects amounted to 399.46 million yuan, fulfilling the budget by 83.4 percent if excluding the funds that were collected for construction of key energy and transportation projects in 1991. Expenses extended to tap the potential of existing enterprises and to upgrade technology totaled 69.70 million yuan, fulfilling the budget by 85.3 percent. Expenses in experiment and trial manufacturing of new products and in scientific and technological research totaled 56.48 million yuan, fulfilling the budget by 97.3 percent. Expenses to aid agriculture amounted to 189.07 million yuan, fulfilling the budget by 78.9 percent. The expenses in urban maintenance and urban construction totaled 402.43 million yuan, fulfilling the budget by 97.9 percent. Expenses in cultural, educational, and public health undertakings were 944.71 million yuan, fulfilling the budget by 88.6 percent. Of this, educational expenses totaled 541.35 million yuan, fulfilling the budget by 91.1 percent; administrative expenses totaled 164.68 million yuan, fulfilling the budget by 88.2 percent. Expenses in judicial and public security affairs amounted to 148.03 million yuan, fulfilling the budget 91.2 percent. Price subsidies amounted to 759.17 million yuan, fulfilling the budget by 99.8 percent. Calculated in terms of the financial system, after offsetting the financial expenditure budget with the financial expenditure final account, the year-end financial balance was 511.57 million yuan. Of this, the funds for energy and communications key projects collected during the year and that were to be carried into the next year for continual use reached 116.57 million yuan; funds for other projects to be carried into the next year for continual use reached 189.18 million yuan; the surplus of the contracted working funds of the operational and administrative units totaled 101.83 million yuan; and the net financial balance reached 3.99 million yuan.

In 1990, our municipality issued 319.7 million yuan worth of state treasury bonds and special state bonds, fulfilling 109.2 percent of the state-assigned task. Seeing that the funds at the disposal of enterprises were short, our municipality increased the state treasury bond distribution quota for individual subscribers, and reduced the distribution quota of special state bonds for subscribers of various units. We issued 252.05 million yuan worth of state treasury bonds, an increase of 140.93 million yuan over the previous year, and 67.65 million yuan worth of special state bonds, a decline of 44.75 million yuan from the previous year.

During the past year, the difficulties which we met in the course of national economic devleopment were more complicated and serious than we had expected. The difficulties in striking a balance in financial budgets were aggravated. In the face of the severe situation, all fronts proceeded from developing production and expanding circulation, implemented measures for "increasing production, practicing economy, increasing revenue and reducing expenditures," solved economic and financial problems, and did much effective work.

We promoted economic development and organized financial revenues. The sluggish market sales, poor use of funds, price hikes in raw materials, decline in economic efficiency, and increase in the default of tax and profit delivery brought serious difficulties in organizing financial revenue. In order to end this situation, the work of the principal comrades in charge of governments at all levels and economic departments included promoting production, increasing sales, ending deficits, increasing profits, and raising efficiency, being concerned for and supporting financial work, and adopting practical and effective measures to solve prominent problems in developing production and organizing financial revenue. The financial, taxation, and banking departments did a good job in serving the production front, actively fought for support from relevant central departments, extensively opened up channels for collecting funds, supported enterprises in carrying out technological transformation, readjusted production set-up and product mix, actively cleared up debt chains, and solved enterprises' difficulties funds shortage. Through the efforts of all sectors, the production of enterprises and their economic efficiency began to pick up beginning in the second quarter, thus creating conditions for financial departments to organize revenues. Most contracted enterprises fulfilled their state revenue delivery tasks. They succeeded in repaying all the new default of tax delivery of the year to the treasury and guaranteed fulfillment of the financial revenue tasks.

We stabilized the people's livelihood and consolidated financial subsidies. On the premise of giving simultaneous attention to the interests of the production, operational and consumption sectors, we cleared up and consolidated the financial subsidies. We implemented the method of assuming responsibility for giving deficit subsidies to nonstaple food enterprises running in the red because of policy reasons, enabled enterprises to strengthen management in all links, evenly organized commodity purchase and marketing, kept a rational amount of goods in stock, controlled the fraudulent purchase and outflow of commodities enjoying price subsidies, reduced cost, enterprise deficits, and financial subsidies for them. We reformed the operational and management system of grain enterprises, separated from ordinary commodities, the accounts and management of commodities suffering deficits because of policy reasons. We strengthened management over parity-priced grain and oil-bearing crops. Grain enterprises reduced their deficits by a large margin compared with the deficits of the previous year. In accordance with the unified plan of the State Council and our municipality's specific situation, we readjusted the prices of some commodities and

services whose prices were clearly unreasonable. We ensured the needs of key projects and curtailed general spending. Under the quite strained situation in finance and funds, we increased, in line with financial possibilities, investment in the development of energy resources and communications, social welfare, which are both key areas, and in science and technology; and ensured the funds needed in the construction of key projects. We continued to increase investment in agriculture, supported construction of water conservancy works and grain bases, and improved agricultural production conditions. We also increased spending on educational undertakings, newly built and repaired houses of a number of middle and primary schools, added school equipment, and improved teaching conditions. We enhanced management of the spending budget; improved managerial system of public medicare; brought under strict control spending on meetings, per-diem travel expenses, and on supplying the purchasing power of social communities; and curtailed financial spending.

Although we scored certain achievements in the past year, we should understand that the equipment and products of a number of old enterprises throughout the municipality is outdated, of backward technology, and their economic results are low. State-run enterprises, particularly large and medium-sized enterprises, are weak and lack the ability to improve themselves and develop. These represent the prominent problems constraining economic development and the financial growth of the municipality. Departments in charge of financial and tax affairs still have certain shortcomings in their support for production and construction, upgrading managerial standards, and enhancing management over tax collection, which should be emphatically dealt with, along with conducting future work.

II. 1991 Financial Draft Budget

The year 1991 is the first stage in which the municipality has begun to enforce the Eighth Five-Year Plan and is also an important stage in the continuous improvement of the economic environment, and rectification of the economic order, and deepening reform drive. In line with the "demand" set by the Seventh (Enlarged) Plenary Session of the Fifth Municipal Party Committee on tiding over the difficult period, consolidating the excellent situation, doing a good job in conducting work, and achieving still greater development, as well as according to the current actual situation, the principles behind the formulation of the 1991 budget are to continuously push forward the programs of improving the economic environment, rectifying the economic order, and deepening the reform drive; actively promote the development of production; broaden commodity circulation; enhance the vitality of state-run enterprises and large and medium-sized enterprises; vigorously increase economic results; ensure increase of financial revenues; further improve tax revenue policies suitable to the policies on industries; maintain the normal increase of tax incomes; continuously clear up or consolidate financial subsidies; bring the losses caused by enterprises under strict control; improve the next round of and work tasks of the enterprise responsibility system; readjust the spending structure; ensure the realization of basic spending; give consideration to the necessity of developing key undertakings; curtail spending in other fields; and vigorously enable the budget to achieve a balance.

In line with the state provisions, the additional education charges under the fund management outside the budget will be fed into the budget management this year. The 1991 draft financial budget includes the revenue and spending of additional education charges.

The 1991 financial revenue budget, excluding the revenue of additional education charges, is 4,894,000,000 yuan, a 96.86 million yuan and 2 percent increase calculated in term of comparable items over 1990. In line with the order of budget levels, the municipal level revenue is 2,498,830,000 yuan, a 2.9 percent decrease calculated in term of comparable items over 1990; and the district-county level revenue is 2,395,170,000 yuan, a 7.7 percent increase calculated in term of comparable items over 1990. Major arrangements for the municipal financial revenue budget this year are as follows: The revenues scored from the industrial and commercial taxes are 5,061,000,000 yuan, a 3.7 percent increase over 1990; the deficit of enterprise incomes handed over to the state, which will crop up in the offset between profits and losses encountered by enterprises this year will be 721.85 million yuan, an 18.3 percent increase over 1990. Of these enterprises' incomes handed over to the state, those scored by industrial and first commercial enterprises will show something of an increase; those collected as funds for the construction of key projects of energy resources and communications will be 140 million yuan, a 20.1 percent increase over 1990; those collected as the funds for readjusting the budget will be 145 million yuan, a 2.3 percent decrease over 1990; and those collected as additional education charges will be 58 million yuan. The 1991 expenditure budget is 3,537,430,000 yuan, down 1.2 percent, or 42.71 million yuan from the previous year (budgeted figure decided at the beginning of the year) in terms of comparable standards. The sources of funds include retention of total profits and regular tax receipts, totaling 2,118,660,000 yuan; energy, transportation and key construction funds, budget regulating funds, receipts from economic and technological development zones, extra tax for education and other special funds, totaling 907.2 million yuan; and surplus funds from the previous year, totaling 511.57 million yuan. Municipal-level expenditure totals 2,394,340,000 yuan, down 1.1 percent from the previous year in terms of comparable standards, and expenditure at the district and county level totals 1,143,090,000 yuan, down 1.5 percent. The essential breakdown for the expenditure is 293.99 million yuan for capital construction, down 11 percent from the previous year; 140 million yuan for energy, transportation and key construction to be used in the next year; 55.2 million yuan for enterprises to use to tap their potential and carry out

technical transformation, up 6.4 percent; 41.24 million yuan for the three scientific and technological purposes, up 4.2 percent; 177.66 million yuan of aid to agriculture, up 6.1 percent; 295.18 million yuan for urban maintenance and construction, down 20.1 percent; 1,044,780,000 yuan of operating expenses for culture, education and public health, up 10.6 percent, of which 600.07 million yuan are operating expenses for education, up 11.2 percent; 150.06 million yuan of administrative expenses, up 5.5 percent; 140.4 million yuan for the expenses of public security and judicial departments, up 15 percent; 484.1 million yuan of price subsidies; 58 million yuan for education; and 33.19 million yuan as general reserve fund, of which that at the municipal level is 5 million yuan.

Judging from the conditions of all quarters, our municipality's financial situation remains very grim this year. The economic efficiency of budgetary state industrial enterprises, which are the major sources of the revenue, cannot be notably improved within a short period of time because of the difficulty in exporting the products that can earn large amounts of foreign exchange, the increase in the prices of some raw materials and the impeded circulation of funds. Financial resources remain very strained because it is difficult to increase the revenue and there are many factors for expenditure increase. The influence of the state's adjustment of economic policies on the economic efficiency of enterprises and the influence of the state's adjustment of distribution on local revenue and expenditure will make it more difficult for our municipality to achieve a financial balance. However, we also see that last year's bumper harvest, gradual upturn in industrial production and improvement of the market for the means of production and for consumer goods have laid a fairly good foundation for this year's economic development, and the further improvement of the state's macroeconomic regulating and controlling policies, the gradually implementation of measures to promote production and invigorate the market and the continued improvement of this year's economic situation will also provide favorable conditions for financial work.

III. Raise Spirits, Enhance Confidence, and Strive to Fulfill This Year's Budget

Success in fulfilling this year's budget has very important significance in further facilitating economic improvement, rectification, in-depth reform, and in laying a good foundation for accomplishing the Eighth Five-Year Plan. We should make the best use of all favorable conditions, actively overcome the difficulties on the road of progress, and strive to fulfill this year's budget.

A. We should continue the "double increase, double economy" campaign, strengthen enterprise management and raise economic efficiency. We should closely combine the campaign with the activities planned for the "year of quality, variety, and efficiency" to realistically raise economic efficiency. First, we should raise efficiency through improvement of product quality. We should firmly embrace the idea of putting quality in the first place and, making the best use of the opportunity provided by the economic upturn and improvement of the market, accelerate adjustment of product mix, increase the production of readily marketable products and develop high- and new-tech products to increase the competitiveness of our products. Second, we should ask that there be efficiency in the expansion of markets. We should break with the the concept of a product economy, foster the concept of a socialist commodity economy, successfully link industry with commerce, stress marketing and business tactics, strengthen sales, spur production by expanding markets, and tap latent potential. Third, we should demand that there be efficiency in the strengthening of management. We should vigorously grasp internal rectification of enterprises, and strengthen management of such basic links as quality, production norms and costs, financial affairs, and materials. We should establish and perfect feasible economic responsibility system, regulations, and other systems, and enhance enterprises' management level. This year, state-run enterprises should strive to effect a 2-3 percent decrease in materials consumption, to save the changeable portion of the workshop expenses, enterprise management expenses, and commodity circulation expenses by 5 percent, to effect a 50-percent decline in enterprises' deficits due to poor management, and strictly control the deficits caused by poor policies within the fixed quotas. Fourth, we should demand efficiency from technological transformation projects. We should attach great importance to the commission of projects which have already been completed and fully exploit investment results. We should create internal and external conditions for accelerating construction of on-going projects. We should positively raise funds to accelerate the technological transformation of old enterprises, and create a path of expanding reproduction and improving economic efficiency by tapping potential.

B. We should deepen enterprise reform, invigorate large and medium-sized enterprises run by the state. Invigorating state-run enterprises, large and medium-sized enterprises in particular is a complicated and arduous task. We should continue to deepen enterprise reform, perfect the enterprise contract management responsibility system, and carry out the method of linking wages with economic efficiency. In the second phase of contracting, we should reasonably define the base figures of enterprise contracts, and ensure the fulfillment of delivery tasks stipulated by contracts. We should successfully carry out reform experiments among a portion of large and medium-sized state-run enterprises, conscientiously implement the policies and measures of the central authorities with regard to invigorating large and medium-sized enterprises, and vigorously support large and medium-sized enterprises in developing production. We should support the old enterprises that have been assigned with the heavy tasks of technological transformation by granting them technological transformation investment and appropriately increasing the depreciation rate, to improve external conditions for enterprises'

production and management. We should attend to the coordinated reforms within enterprises, and establish an enterprise management mechanism of combining duties with rights and interests and the mechanism of self-development and self-restriction. We should urge enterprises to give full scope to their subjective initiative, strive to tap their internal potential, strengthen operation and management, strictly examine major economic targets, take an active part in market competition, and strengthen their internal vigor through their own efforts.

C. We should strengthen tax collection and management, and vigorously organize revenues. Grasping tax collection and management well and effecting a steady increase in tax revenues constitutes the prerequisite for fulfilling the budget tasks. Tax departments at all levels should continue to persist in legal administration over taxes, unfailingly grasp the work of key links, and further strengthen tax collection, management, and inspection. In line with the state industrial policies and with the municipality's demands for readjusting industrial structure and product mix, we should study, revise, and formulate policies regarding tax reductions and exemptions, and should gradually change the nature of tax reductions and exemptions from giving relief to giving support. We should urge enterprises to increase the production of readily marketable commodities, search for more markets, develop products using new and high technology, accumulate momentum for further development, and actually exploit the role of tax collection as an economic lever in regulating the economy. We should strengthen tax collection, management, and inspection. Those units which gain tax reductions or exemptions by cheating should be dealt with severely, inappropriate tax reductions or exemptions should be corrected in a timely manner, and for those tax reductions and exemptions which become due, collection should be restored on schedule, and the revenues which should be collected should be collected in a timely manner and in full amount. We should continue to closely cooperate with relevant departments to rapidly clear up tax defaults of enterprises, firmly implement the principle of after-tax loan payment, and ensure the smooth progress of the screening of tax defaults. At the same time, we should continue to use all manner of mass media to extensively and penetratingly carry out propaganda and education on tax laws in order to make each household understand the laws. We should also establish and perfect the tax assistance and protection network, and fully depend on the broad masses of the people to safeguard tax collection of the state.

D. We should consolidate financial subsidies and perfect management methods. The clearing up and consolidation of financial subsidies is aimed at lightening financial burdens. What is more important is to handle financial affairs according to the law governing the commodity economy, to reform and balance the price system, and to develop the production, circulation, and consumption of commodities within the planned commodity economy. On the premise of stabilizing the people's livelihood and paying equal attention to the interests of producers, managers, and consumers, we should continuously clean up and consolidate financial subsidies. In line with price reform, we should study ways to improve the methods of subsidies and carry out the policy on reasonable financial burdens. We should further strengthen the management of enterprises that suffer losses due to poor policies, improve and perfect poor management methods, control the scale of subsidies and the marketing volume of the commodities with subsidies, stop up loopholes to reduce losses and production cost, and resolutely control the amounts of subsidies within the budgeted figures.

E. We should strictly enforce the principle of being industrious and thrifty and economize and strictly reduce expenditures. To ensure the basic demands in various spheres, we must strictly enforce being industrious and thrifty and economical, appropriately allocate the budget, and strictly control expenditures. We must closely link the fine traditions of arduous struggle and being industrious and thrifty to develop various undertakings with the improvement of administrative honesty and the establishment of close ties with the masses, and resolutely oppose and correct the activities of wastefully spending money and ignoring efficiency in planning for expenditures. In planning expenditures, financial departments at various levels should concentrate their resources to ensure money for wages, subsidies, and key projects; give consideration to the financial needs of developing key undertakings; strictly control and reduce expenses in other spheres; and adopt effective measures to ensure fulfillment of budgeted expenditures. We should clear up and consolidate the scale and standards of operating expenses, and strengthen management of budgetary funds. Budgetary funds must not be converted for use as extra-budgetary funds. Institutions should be encouraged to use their increased portions of revenues to develop undertakings so as to gradually eliminate the problems of heavy expenditure burdens. We should continue to strictly control institutional purchasing power; further strengthen examination, approval, and management of commodities under special control; and control the expenses in institutional purchasing power within state assigned targets.

F. We should foster the concept of service and do a good job in management and supervision. Financial and tax departments at various levels should foster the concept of serving economic construction, strengthen management in the course of service, and offer good service in the course of management. We should firmly foster the concept that the economy determines finance; take improvement of concepts as a guide; focus on developing the economy; pay attention to protecting, cultivating, discovering, and developing financial resources; realistically strengthen leadership over the "support, help, and speeding-up" work; and work out a fairly long-term plan to bring the work into the service of the macroeconomy. We should improve development of cadre contingents, be honest in performing administrative duties, correct unhealthy practices within trades, and ceaselessly

upgrade financial and tax work cadres' political understanding and professional abilities so that they will better serve the economic construction. Financial and tax departments at various levels should work closely with all relevant departments, strengthen financial and tax management, supervise and conduct inspections, continue to conduct general financial, tax, and pricing inspections, and uphold the principle that there are laws to abide by and that laws already enacted are observed and enforced to the letter, conscientiously eliminate the "three unhealthy phenomena," resolutely end the phenomena of arbitrarily collecting funds, imposing fines, and apportioning expenses, and realistically lighten the unreasonable burdens of enterprises, establishments, and the people.

The report finally points out: Since the beginning of this year, the municipality has increased its industrial production, expanded the circulation of commodities, increased economic results and revenues, and maintained a fairly good economic development trend. Although some difficulties that are difficult to forsee will crop up in the future, there are many favorable conditions for tiding over the difficulties. We should have firm confidence, be inspired with enthusiasm, work hard, solidly implement various measures for increasing revenues and reducing expenditures, and strive to fulfill the 1991 budget tasks.

Gansu To Invite Foreign Experts for Development

OW2507005591 Beijing XINHUA in English 0030 GMT 25 Jul 91

[Text] Lanzhou, July 25 (XINHUA)—Gansu, an inland province in northwestern China, will embark on an ambitious program to reach the level of developed coastal provinces quickly by inviting more foreign experts to the province.

Provincial officials have drafted plans to invite over 1,500 foreign experts and technicians to the province during the next five years to provide advice and assistance in technological and economic development.

A provincial government official said recently that the introduction of advanced foreign technology and administrative methods will become an effective means of promoting development in the province.

Since the late 1970s, the province has hosted some 1,997 foreign experts, and has sent 2,186 persons to foreign countries to participate in training programs.

FINANCE, BANKING

Bank of China Plans Expansion of Overseas Markets

OW2707214191 Beijing XINHUA in English 1404 GMT 27 Jul 91

[Text] Beijing, July 27 (XINHUA)—The Bank of China (BOC), which specializes in foreign currency and trade transactions, this week summoned its 150 senior officials from all over the country to its headquarters to work out a development plan in a bid to build itself into a modern and worldwide banking giant in this decade.

BOC President Wang Deyan said at an exclusive interview with XINHUA that the bank will expand overseas markets both actively and steadily by establishing more branches in the European, Asian, American and African regions.

The BOC group in Hong Kong and Macao will play an active role in the smooth return of Hong Kong and Macao to the motherland, preserving the prosperity and stability of the region in the transition period and maintaining Hong Kong as an international financial center, he stated.

Domestically, he said, the BOC plans to add 100 organizations and 400 agencies each year in the next ten years—mostly in coastal regions, economically developed areas and cities opened to foreign investment so as to provide better services for the development of China's exported-oriented economy.

By the year 2000, he said, the BOC will be a multifunctional, modern and powerful bank in the front ranks of the world top banks, in terms of capital, assets and net income.

In the 1980s the BOC launched 413 overseas agencies and branches in cities including New York, Paris, Tokyo, Frankfurt, Sydney, Moscow, Panama and Luxembourg. Its total assets amounted to 859.1 billion yuan, putting it 16th in the world in terms of capital.

In the next decade, the president said, the BOC will fulfill various tasks and important obligations given to it by the state to run state foreign exchange reserves, handle international accounting, raise foreign funds and support domestic foreign trade enterprises, state key construction projects and technical transformation.

In line with the state's industrial policy, the president said, the BOC will further readjust its credit mix. The priorities in RMB [renminbi] loans will be given to supporting hard currency-earning and hi-tech exports, and the reform of the existing foreign trade system.

On the other hand, he added, foreign exchange credits will be given first to energy, transportation, telecommunications, important raw materials and basic industrial projects.

Chinese Central Bank Sets Up Market Program

OW0408020291 Beijing XINHUA in English 0152 GMT 4 Aug 91

[Text] Beijing, August 4 (XINHUA)—For the country's budding stock exchanges, China's central bank sets a program which involves listing new companies, setting up a clear regulatory framework and allowing foreign

investors to purchase shares, according to Shang Ming, advisor to the People's Bank of China.

Economists describe the move as a major step in galvanizing the reforms of the country's shareholding and financial systems. "The State Council is playing close attention to the experiments of China's two stock exchanges in Shanghai and Shenzhen. We plan to expand the two markets this year," Shang said.

The Shanghai and Shenzhen securities exchanges, the two experimental markets which the government hopes will be a major step in developing a shareholding system in China, were officially launched last December and June, respectively.

Shang revealed that a number of companies will be listed this year and more next year.

He confirmed that more than 100 shareholding companies had "vigorously" applied to be listed "sooner rather than later." And the branches of the People's Bank of China in Shanghai and Shenzhen are evaluating applicants before referring these to the central bank for approval.

Shareholding companies that aren't listed on either the Shenzhen or Shanghai exchanges sell shares to their employees but not to the general public. The employees are then usually paid a dividend tied to the company's overall economic performance.

As a prelude to the country's legal framework for the stock exchanges, China is currently busy drafting its first law on shareholding companies.

The Chinese securities market has always been open to international cooperation to help it grow, said Shang.

In order to encourage foreign investment, the People's Bank of China is drafting related regulations which will be proclaimed soon, Shang said.

SMALL-SCALE ENTERPRISES

Fujian's Township Enterprises Promote Exports

91CE0530A Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 14, 8 Apr 91 pp 18-19

[Article by Wang Yuncai (3769 6663 2088): "Fujian's Export-Oriented Township Enterprises Speed up Development"]

[Text] In Fujian, known as the "old home for overseas Chinese," township enterprises are accelerating their pace of developing an export-oriented economy during the improvement and rectification campaign, with the emergence of regional operations on an intensive scale.

Over the past two years, township enterprises in Fujian that have relatively sound foundations have been tentatively building export-oriented industrial zones. So far, township enterprises in Fujian have established more than 60 industrial zones of a certain scale and have utilized a total of $295 million in foreign investment.

Fujian is located on the other side of the Taiwan Strait. Its township enterprises are a new force coming suddenly to the fore. Since 1979 the number of such enterprises has increased at an average annual rate of 33 percent. By the end of 1989, there were 460,000 township enterprises in Fujian, employing a total of 2.767 million people. Their total output value was 20.9 billion yuan, 12.13 billion yuan of which was industrial output value, or 33.7 percent of the province's gross value of industrial output. Their delivered export products were worth 1.83 billion yuan, 20 percent of the province's foreign-trade volume.

Two years ago, in accordance with local conditions, Fujian started a series of policy adjustment programs with township enterprises, directing enterprise development from being oriented only towards a single domestic market to being oriented towards a foreign market as well.

Fujian's township enterprise industrial zones have readily available supplies of water, electricity, and transportation and communications facilities. This provides a sound investment environment conducive to specialized and systematic processing industries and attractive to foreign businessmen. Quanzhou City extends from Quanzhou Bay to inland mountainous areas. It has now established 26 township enterprise industrial zones, 44 foreign-invested enterprises, and has taken in $32 million in foreign investment. Putian City has set up 13 industrial zones, developed 112 foreign-invested or "three forms of import processing and compensation trade" enterprises, and taken in over $10 million in foreign investment. In addition, Fuzhou, Xiamen, Nanping, Sanming, Longyan, Ningde, and other cities and prefectures have also established township enterprise industrial processing zones that are oriented toward export.

Most of these industrial zones in Fujian are located in places that were previously hilly; the hills were removed. Some are located in alluvial river regions or cultivated beach areas. Anhai Township, Jinjiang Prefecture, tapped 60 mu of land in such areas as its first step, and set up the Qiaotou Industrial Zone. There are already five foreign-invested enterprises with relatively high productivity in the zone, including the Hengan Non-Woven Cloth Textile Mill, Zhaotai Machinery Plant, Hengan Electronics, and Hongxing Hardware. The site of Lihui Shoes Company Limited in Wutang, Putian, used to be an arid and deserted cemetery overgrown with weeds. The company's annual output value has reached over 50 million yuan, and the company has been praised by the U.S. journal FAR EASTERN ECONOMIC REVIEW as the "White House on the hill."

Because of their advanced facilities, relatively high-quality products, and ability to compete internationally,

foreign-invested township enterprises that developed through the establishment of industrial zones in Fujian have shown sweeping economic efficiency. At the same time there is reserved potential for further development of township enterprises in Fujian. According to statistics, in the first half of 1990 the total output value of Fujian's township enterprises topped 10 billion yuan for the first time. It reached 11.4 billion yuan, increasing 18.7 percent over the same period in 1989. Putian and Quanzhou started developing township enterprise industrial zones oriented toward exporting quite early. In the first six months of last year, the value of goods delivered for export by Putian and Quanzhou increased by 200 percent and nearly 70 percent respectively over the same period in 1989. Shishi City, which has been a city for just over two years, has made greater achievements. It has 110 foreign-invested enterprises, 80 percent of which have low energy costs, low levels of pollution, high levels of automation, and products that sell well in the market. The city has utilized 201 million yuan in foreign-exchange funds, five times as much as the total value of fixed-asset investment of the city's township enterprises. There are 87 foreign-invested township enterprises in production. They generated an output value of 99.17 million yuan in the first half of 1990, accounting for nearly half of the city's gross value of industrial output. They earned $9.918 million from exports, an increase of 32 percent over the same period in 1989.

An official from Fujian's Township Enterprise Bureau of Administration said that foreign-invested enterprises in Fujian also have the characteristics of long term of cooperation with foreign businessmen, high investment, and high output. This indicates that foreign investors have moved from a tentative stage to a long-term, steady development in investment. It also shows that Fujian's township enterprises have gradually matured and become involved in the global economy. Presently these enterprises have extended their sources of foreign investment from the Hong Kong region to Germany, Canada, the Philippines, Japan, and the Taiwan region.

Ministry To Issue Circular On Mergers of Rural Firms

HK0508002091 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 4 Aug 91 p 4

[By staff reporter Wu Yunhe]

[Text] The year 1991 will be extraordinary in the history of China's rural enterprises.

The central government has, for the first time, decided to encourage these enterprises to make efforts to join each other in establishing industrial groups.

The policy is aimed at ensuring good industrial performance after the government reconfirmed the contribution of these enterprises to the national economy, according to an official with the Ministry of Agriculture.

A circular will soon be issued by the ministry to stipulate the ways that rural firms can be grouped, the source said.

The major township enterprises, taking advantage of their best-selling products, are expected to play a leading role.

Industrial groups formed by rural firms will be able to pool their strength and rationalize the structure of rural industry as a whole, the official said.

Zhejiang Province, for example, has started to give its strong backing to more than 1,000 major township enterprises in providing them with bank credits, technical consulting services and energy and raw materials supply, in order to help these firms climb out of the economic downturn triggered by a sluggish domestic market and natural disasters.

A group of deficit-ridden enterprises are also expected to be closed down or merged into others to raise the level of the current structure of rural enterprises and ensure rationalized production development.

Production by rural enterprises maintained a steady increase during the first six months of this year, heightening its status in the national economy.

The first six months saw gross industrial output value of rural enterprises total 379.6 billion yuan ($71.6 billion), an increase of nearly 27 percent over the same period a year ago, said Lu Zhenjie, an economist with the ministry.

The output value of the rural collectively-owned enterprises at town and village levels accounted for 306.7 billion yuan ($39 billion), nearly 28 percent higher than the same period last year.

Lu said that during the latter half of this year, rural enterprises are expected to face many difficulties as a result of the current floods.

Anhui and Jiangsu, the two most heavily hit provinces saw rural firms suffer huge losses over the past two months, though exact figures aren't yet available, Lu said, adding that the annual output value of rural firms in Jiangsu accounted for more than 60 percent of the total in the provinces last year.

The government is calling on rural entrepreneurs to raise more funds from different channels in order to provide a sound basis for future development.

There are 18.2 million rural enterprises in China employing 92 million people, nearly equal to the total workforce in state-run enterprises.

The government expects that rural industry will export goods valued at about 100 billion yuan ($19 billion) every year by 1995, with an annual growth rate of 16.7 percent during the 1991-95 period.

The targeted total output value of rural industry for 1995 is set at 1.4 trillion yuan ($264 billion) with an annual growth of 11 percent in the 1991-95 period, he added.

Last year, 14 percent of State tax revenues came from rural enterprises, he said.

Chen Yaobang, vice-minister of agriculture, has recently summed up the success of rural enterprises by saying that the quality of the enterprises has been improved and their product mix was keeping abreast of the market trend.

The rural collectively owned enterprises have a technical force of 1.4 million people, accounting for 31 percent of their total workforce, while 63.4 percent of the employees in these firms had an educational level of junior middle school or above.

As a result, the enterprises have moved ahead with modernizing their product lines as well as their product quality, the vice-minister said.

The government awarded the title of "quality product" to ten items made by these firms, while 541 items won ministerial quality awards last year.

FOREIGN TRADE, INVESTMENT

Obstacles, Solutions to Sino-Soviet Trade

91CE0566A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 4, 30 Apr 91 pp 35-39

[Article by Tian Fenglun (3944 0023 0243): "Sino-Soviet Trade Relations: Current State, Possible Measures"]

[Excerpt] [passage omitted] **II.**

As mentioned previously, trade between China and the Soviet Union as a percentage of each country's total trade still falls short of the historical high in spite of the fact that economic relations between China and the Soviet Union are growing at a relatively quick pace. The reason for this is that there are some obstacles to the development of economic relations between the two countries. The major obstacles are as follows:

1. The structure of Sino-Soviet trade inhibits further growth in economic relations between the two countries.

At this time, there is a shortage of foreign exchange in the Soviet Union, so they urgently need to export their raw and semi-finished materials to the markets of developed Western nations in order to earn hard currency. This affects traditional barter trade between China and the Soviet Union, and restricts the development of trade between our two countries. Most of China's exports to the Soviet Union are agricultural and sideline products (which are not in any great overabundance in China), some light textiles, and rare minerals. In return, China imports Soviet manufactured goods and various primary products such as fuels and raw and semi-finished materials. This trade structure is not well suited to actual conditions in China, where the amount of resources per capita is relatively low, and it restricts further development of Sino-Soviet trade relations.

2. Exchanging currency has become the greatest obstacle to developing Sino-Soviet trade.

Because the currencies of China and the Soviet Union are not convertible, a third currency, Swiss francs, has always been used. Not only does this represent a barrier to the development of bilateral trade relations, but it is also very disadvantageous to China because the Soviet ruble has always been overvalued. When the ruble is exchanged for the Swiss franc at the official exchange rate, the ruble takes on an unrealistically high purchasing power. Although the Soviet Union has devalued the ruble in recent years, the problem of the skewed relationship between the ruble and China's currency has not been fundamentally resolved.

3. In order to optimize its export commodity structure, the Soviet Union has adopted restrictive measures which constitute a new barrier to Sino-Soviet trade.

A few years ago, the Soviet Union mainly exported such primary products as raw and semi-finished materials in exchange for daily consumer goods because it was experiencing a shortage of foreign exchange and was pressed to make up for the insufficiency of its domestic consumer goods market. For this reason, the percentage of exports accounted for by machinery and other manufactured products was relatively low. In recent years, however, even as they stress the development of their domestic consumer goods market, the Soviet Government has been striving to increase the amount of processing performed on its raw and semi-finished materials in order to increase the added value of its export products and expand exports of manufactured products such as machinery, electrical appliances, and instruments. The Soviet Union has now adopted quotas for exports of raw and semi-finished materials and other primary goods, and they have implemented an export permit system in order to limit exports of these types of goods. Recently they have issued explicit orders to control exports of such products as chemical fertilizers and lumber to China. Without a doubt, the aforementioned restrictive measures adopted by the Soviet Government represent a barrier to further development of Sino-Soviet trade.

4. Another barrier to development of trade relations between China and the Soviet Union is product quality.

In recent years, the machinery, electrical appliances, and instruments imported by China from the Soviet Union have not sold very well. The basic reason for this is that the Soviet Union has long been mired in a rigid economic system. It has pursued a strategy of heavy industrial development, paying attention only to speed and quantity while ignoring efficiency and quality. The result is that many Soviet products have been made in the

same way for decades, and there is very little variety. Not only are Soviet products significantly inferior in quality to those of developed Western nations, they are even inferior to products from the newly industrialized countries, so there is no great demand for Soviet products in China. It should be stated in all honesty that a problem of quality exists to one degree or another with commodities exported by China to the Soviet Union.

5. Poor transportation also restricts the development of Sino-Soviet trade.

Although China and the Soviet Union share a long border, for various social, historical, and geographical reasons, there are only three rail links today between the two countries. Furthermore, highways between the two countries are very primitive. Road surfaces are very bad and are not suitable for the long-distance transport of large quantities of goods. This causes goods to pile up and results in late deliveries, which has an impact upon trade.

In addition, the Soviet Union is now facing huge fiscal deficits and serious inflation. The domestic economy is getting worse, and the social and political situation is unstable. All of these factors to one degree or another limit the possibility for further development of Sino-Soviet trade relations.

III.

Although there are obstacles to the development of Sino-Soviet trade relations, the roots of trade between the two countries go back far, and there is great potential. Chinese and Soviet specialists believe that potential for bilateral trade cooperation exists primarily in the following areas:

1. Trade between China and the Soviet Union as a percentage of each country's total trade is very low, and there is a lot of potential.

First, although bilateral trade in recent years has begun to develop rapidly once again, it has still not reached the level it was at in the 1950's, and there is still a lot of potential which could be tapped. It is possible to attain and surpass the level of the 1950's. Second, although economic cooperation between China and the Soviet Union has developed at a relatively rapid pace in recent years, the number of projects has not been great, nor has the amount of money involved. For this reason, there are many projects in the economic sphere where both countries can engage in cooperation.

2. The industrial structure and the distribution of productive forces in China and the Soviet Union are complementary.

Let us first examine industrial structure. At this point China's industrial structure is fundamentally based upon light processing. This phenomenon is demonstrated by the fact that China's light industry has too much productive capacity, while the capacity of China's basic industry is insufficient. The industrial structure of the Soviet Union, on the other hand, is based upon natural resources and heavy industry. The Soviet Union is very strong in basic industry, but its productive capacity in light industry is insufficient. Therefore, the industrial structures of China and the Soviet Union are clearly complementary. Let us examine the issue in terms of natural resources and labor. China has relatively few natural resources per capita, but it has a lot of labor; the Soviet Union, on the other hand, has abundant natural resources but a scarcity of labor, so the two economies are clearly complementary in this regard. Let us examine the issue in terms of the distribution of productive forces. The distribution of productive forces in the areas of China and Russia that are adjacent to each other are also clearly complementary. For example, the Soviet Far East has abundant natural resources, but it lacks the funds, labor power, and the high technology necessary to develop these resources. In northeastern China, not only is agriculture relatively developed, but the industrial base is very strong and there are abundant labor resources, so northeastern China is in an excellent position to engage in economic and trade cooperation with the Soviet Far East.

3. Potential commodity market demand in China and the Soviet Union is great.

Because the Soviet Union has long pursued a development policy which placed primary emphases on heavy industry, its consumer goods industry is woefully behind the times, and cannot meet domestic consumer demand, so it has no choice but to import large quantities of light textile products and other everyday consumer items from abroad. These types of products are in plentiful supply in China, and the quality and price are both very good, so they are very popular with the Soviet consumers. For this reason, there is a very good possibility of expanding exports to the Soviet Union.

As for the ability of Chinese markets to absorb Soviet products, although Soviet products are generally inferior in quality to those of developed Western countries, China needs to import many of the commodities which the Soviet Union exports, such as steel, chemical fertilizers, cement, power generating units, etc. Furthermore, as an economic and technological power, the Soviet Union does not lack cutting edge technology and products which make use of that technology. In particular, some of these products are badly needed by China, and they are cheaper than products from developed Western nations. In addition, the Soviet Union helped China in the 1950's with 156 major industrial projects, the great majority of which are due for renovation and upgrading. This shows that the capacity of the Chinese market to absorb Soviet products is very great indeed.

4. Reforms of the trade systems in China and the Soviet Union will spur development of trade relations.

As reform of the Chinese and Soviet foreign trade systems advances, more and more regions and economic sectors within these two countries will obtain autonomy

over their foreign trade activities. This will inevitably spur development of trade relations between broad sectors of each society.

5. Border trade between China and the Soviet Union is becoming stronger.

Several provinces and regions in Northern China share borders with the Soviet Union's Far East, Siberia, and Central Asia, so these regions enjoy geographical advantages which favor the development of border trade. Border trade with the Soviet Union is becoming increasingly stronger. At the same time, the form of border trade between China and the Soviet Union is centering less upon barter, as was formerly the case, and is now moving toward cooperation in production. Commodity trade has been expanded rapidly, and in recent years, building upon this foundation, the two nations have engaged in new forms of economic cooperation, such as one side processing materials from the other side, joint ventures, construction project contracts, and labor contracts.

It is worth noting that China and the Soviet Union have already decided to ship goods through the Soviet Union's Hasang [0761 2718] railway station. Also, the Eurasian land bridge is going to begin operation. To some extent, this will relieve transportation bottlenecks between China and the Soviet Union, and it will aid further development of Sino-Soviet trade relations.

IV.

The development of Sino-Soviet trade coincides with the interests of the people of both nations, therefore it has a promising future. In particular, the emphasis of the current Soviet strategy of regional economic development has clearly shifted to the East, and the development of the Soviet Far East has provided China with an excellent opportunity to development economic and trade relations with the Soviet Union.

Not all will be clear sailing in Sino-Soviet trade relations, of course. The Soviet Union has accelerated the pace of domestic consumer goods production at the same that it is vigorously pursuing a comprehensive foreign trade strategy. This has led to new problems in the effort to development Sino-Soviet trade, and it has intensified China's competition with the major capitalist countries and Asia's newly industrialized countries. For this reason, there is an urgent need to explore the question of how to take advantage of the opportunities and challenges presented by the current state of Sino-Soviet trade relations. This writer herewith puts forward the following suggestions:

1. China must perfect a coordinated system of trade with the Soviet Union as quickly as possible.

This author believes that China's efforts to develop a coordinated system of trade with the Soviet Union should be within the context of unified trade policy and a coordinated development program. The overall goal should be to eliminate blind competition and overcome the problem of shortsighted behavior in trade with the Soviet Union. In order to achieve this, this system should include an economic development strategy, an integrated set of regulations, and effective trade laws which will serve to provide administrative guidance. This system should also include administrative organs which will provide this coordination and organization. 1) Various regions, economic sectors, and enterprises should fully research the Soviet economy, and on the basis of this work, formulate their own development plans. Projects that involve more than one region or economic sector, and especially those which involve Sino-Soviet economic cooperation or scarce commodities, should be subject to macroeconomic planning and coordination by the state. In this manner, a two part system involving the state's macroeconomic planning and the development plans of the various regions would be formed. This would overcome the problem of excessively decentralized behavior, and it would preserve the unified nature of efforts to develop Sino-Soviet economic and trade cooperation. 2) We must pay attention to the various phases involved in the effort to develop Sino-Soviet economic and trade cooperation. We must control long, medium, and short-term plans and formulate a multi-level strategy for coordinated development which is integrated both horizontally and vertically in order to assure that China's economic and trade cooperation with the Soviet Union will develop in a steady and stable manner. 3) The overall strategy for development of economic and trade cooperation with the Soviet Union is a systems engineering project that is very comprehensive in nature. It is not the sole reserve of the Ministry of Foreign Economic Relations and Trade, so it would be best to set up a highly authoritative government component under the leadership of the Ministry of Foreign Economic Relations and Trade in which the State Planning Commission, the Ministry of Finance, the State Administration of Taxation, and the Bank of China all participate. The main function of this organ would be to formulate legislation governing economic relations and trade, map out strategies, strengthen the coordination and guidance provided by the central government to local economic relations and trade, reduce friction between different interests, etc. 4) We should set up a Sanbei Sino-Soviet Trade Corporation, which would take over part of the central government's responsibility for managing trade with the Soviet Union, coordinate this trade with the central government's macroeconomic policies and guidance, and coordinate the development of trade between individual regions and the Soviet Union.

2. Expanding economic relations and trade with the Soviet Union urgently requires rethinking of old concepts.

First of all, we must reappraise Soviet products. It is true that the quality of Soviet products is highly incongruous with the country's status as an economic and technological power. People already have the fixed idea that Soviet products are "clumsy, big, ugly, and roughly made." At

the same time, however, the Soviet Union does not lack high tech products and advanced management experience. Furthermore, they have management experience and products with practical technology which are appropriate to the present level of productive forces in China. Ever since the beginning of reform and opening up, China has put excessive emphasis upon importing products with the most advanced technology in the world, with the result that we have imported too much advanced technology from developed Western nations. This technology has not been easily assimilated by China, and a lot of human, material, and fiscal resources have been wasted. At China's present level of economic development, we need to import both high tech products as well as products with a practical level of technology, and the Soviet Union has advantages in precisely in this latter area. Secondly, we need not put too much stress upon importing the Soviet Union's raw and semi-finished materials while ignoring their machinery, electrical appliances, and instruments. During the course of development of Sino-Soviet economic relations and trade during the past few years, we seem to have imported too many primary products from the Soviet Union, such as raw materials, fuels, and semi-finished materials. No country likes to be just an exporter of raw materials, and they will all take measures to increase the added value of their export commodities and restructure their export commodity mix. This is especially true in the case of an economic and technological power such as the Soviet Union. Therefore, we should not place too much stress upon importing raw materials, fuels, and semi-finished materials from our trading partners; rather, we should increase exchange of different varieties of commodities, expand the scope of economic relations and trade, and continually increase the value added content of export commodities within the context of a new technological revolution, so that both trading partners will develop together.

3. We must actively develop regional cooperation between China and the Soviet Union.

China and the Soviet Union share a 7,300-kilometer border. Differences in the economic structures, resource structures and technology structures of the neighboring regions in these two countries provide an excellent opportunity for the development of bilateral regional cooperation. For this reason, neighboring regions in China and the Soviet Union should promote economic and trade cooperation in an aggressive yet stable manner on three different levels: government to government, enterprise to enterprise, and between government and enterprises. This should be done always within the context of macroeconomic guidance, after careful study, and in accordance with the principles of equality and mutual benefit. Both parties should discuss and formulate regional cooperation plans. There should be broad-ranging cooperation in the development of natural resources, agricultural production, the production of light textiles and daily consumer goods, the processing of primary products, and the development of such basic products as energy resources, transportation, and raw and semi-finished materials.

4. We must shift away from total reliance upon fixed evidence-account trade toward a multimode trade system.

For a long time, China's trade with the Soviet Union and Eastern Europe has relied upon fixed evidence-account trade. This form of trade once played an important role in developing bilateral trade relations, but total reliance upon this single mode of trade is no longer consistent with the objective requirements for further development of trade between China and these nations. Reform is absolutely necessary. In its trade with these nations, China has already switched from fixed evidence-account trade to trade based on cash transactions. At the same time, China's government has stated that it intends to continue encouraging barter trade with these countries. We must continue to encourage and support the efforts of border regions to develop all forms of border trade. These policies and measures will inevitably provide a strong impetus for the development of economic relations and trade between China and these countries.

POPULATION

Expert Views Population As Burden, Wealth

91CE0527A Hongkong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 13, 1 Apr 91 pp 14-15

[Report by Ou Yang (2962 3152): "Population: Burden and Wealth—an Interview with Scholar Hu Angang"]

[Text] *Someone has used a vivid simile, saying that a population of over 1.1 billion is like a pair of huge chopsticks; compared with the chopsticks, the "dishes" that can be put on the "dinner table" of China are pitifully few. Someone else has said that China's population is like the sword of Damocles hanging over China's head. In short, the explosive population growth in the last four decades has resulted in a huge burden bearing down on China's progress. Dr. Hu Angang, associate researcher at the Chinese Academy of Sciences, analyzed this issue. He suggested a theme: population—burden and wealth.*

Reporter: According to sources, you and Sheng Bin have recently concentrated on studying China's population problem, and presented the report "Population: Burden and Wealth." Would it be possible to tell our readers why this theme was proposed?

Hu: The population problem has become the biggest factor constraining contemporary China's economic, political, and social development. In my view, people manifest a strong negative element or attitude when discussing the population problem. They do not analyze the problem from a positive or constructive perspective, in order to search for a solution. In my view, it is necessary to clearly point out that within the burden of

China's population there is a huge reserve of wealth to be developed. This wealth is human resources or human capital.

Reporter: According to this view, we can almost conclude optimistically that a large population is not a bad thing.

Hu: No. We must first clarify one point: population itself does not constitute human resources. It is only the base for forming human resources. Only a population that has a size and growth rate commensurate with the natural resources, ecological environment, economic development, and social progress can constitute rich human resources, and thereby produce social wealth. A population that has an excessive size and growth rate and that is of low quality will not only become the main obstacle to economic development, but will also have tremendously negative effects on the quality and improvement of human resources.

So-called "human resources" or "human capital" refer to a productive force contained in the human body. They represent resources or capital embodied in the worker and are manifested in the quantity and quality of workers. Human capital is usually composed of a worker's knowledge, skills, strength (referring to health), and so forth. It is the capital formed through investing in people.

The realization of industrialization in a growing number of countries indicates that the rapid expansion of reserves of human resources or human capital is an increasingly important source of a country's economic development. It is the ultimate base for forming a country's wealth. Between 1900 and 1957, investment in material capital in the United States increased by 450 percent, and investment in human capital increased by 350 percent. The profits produced by the two kinds of investment were very different: The profits from the former increased by 350 percent, while those from the latter increased by as much as 1,750 percent.

In our view, the sharpest and deepest contradiction encountered in China's modernization process has been the contradiction between the lack of human capital and socio-economic development. The reason we propose the theme of burden and wealth is basically because China must make great efforts to increase human-capital inputs and develop human resources on a large scale. Despite numerous difficulties and contradictions, there are conditions, opportunities, and possibilities for doing so.

Reporter: If so, what obstacles and problems does China currently face in developing human resources or human capital?

Hu: In our view, the main problems facing China's development of human capital are: excessive growth of the total population, the low quality of the population, the low intensity in human-capital investment, low efficiency, and so forth. It is proper for us to discuss the components of the "burden."

To begin with, let us discuss the quality of China's population.

First, there are large groups in the population who are illiterate and of low quality. According to data from the 1990 census, in absolute terms, there were approximately 180 million illiterate or semi-literate people, representing nearly a quarter of the world's total illiterate population.

Second, the average level of education of the entire population is lower than that of a primary school graduate. In 1990, the average level of education was 5.5 years of schooling, a level typical of a population with low educational levels.

Third, the working population has a low education level. According to statistics based on data from the 1982 census, in that year China's employees had an average of 5.8 years of schooling. Illiterate employees and employees with primary-school educations made up 62.2 percent of the working population. Of that, the sectors with the highest average level of education were the scientific, educational, cultural, and health sectors, with 10.9 years of schooling. The workers with the lowest average education level were agricultural workers, with a level of 4.8 years. However, in 1975 the average education level of Japan's agricultural workers reached 11.7 years. This may be one of the deeper reasons for the huge gap in economic development that exists between China and Japan.

Fourth, intellectuals with higher levels of education make up too small a proportion of the working population. In 1988, China's publicly owned units had 9.66 million scientific and technical personnel, which was only 9.7 percent of their total employees; collectively owned units had over 45,000 scientific and technical personnel, only 1.3 percent of total employees. In township enterprises, only 0.9 percent of employees were scientific and technical personnel.

Reporter: Would it be possible to analyze the causes for this low quality?

Hu: The serious insufficiency of China's investment in human capital has been the main reason for the existence of the low-quality population groups. Investment in human capital usually includes expenditures on education, health care, the flow of labor force, migration, and so forth, with investment in education constituting the main part of investment in human capital.

First, the proportion that China invests in education is small; education expenditures' share in the gross national product stays around 3 percent, representing a level lower than the global average (5.7 percent in 1985).

It is not only lower than that of developed countries (6.1 percent), but also lower than that of developing countries (4 percent).

Second, inputs into China's basic education have long been insufficient. Primary-education expenditures' share of education expenditures has continuously decreased, from 54.24 percent in 1954 to 33.37 percent in 1985. This was 20-odd percentage points lower than that of the low-income countries.

Third, with regard to education in China's colleges, faculty efficiency is low, the lowest in the world. Looking at all different types countries, the global average of the number of students handled by one faculty member is 16.2 students. However, China's average is only 5.1 students per faculty member. This represents a waste of China's precious human resources.

In short, on the one hand there is a serious insufficiency in China's investment in human capital. On the other hand, China's investment in human capital has an irrational structure and low efficiency. While the development of higher education is too far ahead of the stage of economic development, the development of primary education is insufficient. With the development of human resources obstructed, low-quality population groups naturally come into being.

Reporter: You just gave an insightful analysis. Yet it seems to me that the development and employment of human resources is more than a question of education. As revealed in our news-gathering and investigations, there seem to be serious problems with the inefficient disposition and employment of existing human resources, such as hidden unemployment, expertise that is not used properly, etc. This must be wasting an amount of wealth.

Hu: Correct. This is manifested mainly in the contradiction brought about by the ever-growing surplus agricultural labor force. At present, rural China has a potential surplus labor force of 140 million people. In addition, there is a serious problem with excess personnel in enterprises and public institutions in the industrial and mining sectors. According to investigations, existing enterprises generally utilize only 60 to 70 percent of their production capacity in their operations. At least 30 percent of their production potential is totally wasted. Another problem that should arouse attention is the brain drain, or the drain of trained personnel.

Reporter: How can we turn this heavy burden into wealth?

Hu: Transforming the heavy burden and profound contradictions into wealth will be a tremendous task, however we must have confidence. We should realize that the 1990's present a crucial opportunity for China's to develop human resources.

The 1990's will be a period of rapid growth for China's reserves of labor resources. By the year 2000 total national labor resources are expected to equal 810 million people, with the number of employable people between 660 million and 730 million.

During the second period of peak births (1962-1975), a total of 360 million people were born. They are now at the best age (16 to 29) for receiving education and working. They will form the body of China's work force through the early part of the next century. If we invest one more yuan in them, in the next century they will create wealth for the nation that is several times, or even 10-odd times, that amount.

Also, we have another advantageous condition. This is that after four decades of development, China's educational system is of the largest scale and has the most comprehensive structure in the world. The Chinese nation is one of the most intelligent, wisest nations in the world. As long as we adjust our line of thought, formulate an overall policy, and make great efforts with regard to the input, development, and employment of human capital, we will be able to create a high-quality population and acquire the richest human resources of the world.

Reporter: If so, in your view, what line of thought and policies should we adopt to turn the burden into wealth?

Hu: First, resolutely and steadily lower the growth rate of the population, and formulate a long-range, steady population policy. In the next century, China's population should not exceed 1.5 billion, at most. Otherwise we cannot use the inputs of such a huge population, nor can we transform and develop it. Family-planning work should be one of the items considered when reflecting on the performance of governments at all levels.

Second, in terms of development strategies, resolutely and unswervingly put the development of education, science, and technology in first place in the overall strategy of economic development. As early as the Meiji Restoration, Japan's ratio of education expenditures to total fiscal-budget expenditures exceeded 10 percent. Since then, even in the most difficult economic periods, this share has never dropped below double digits. South Korea has always kept the figure at around 15 to 20 percent.

In handling the relationship between investments in human capital and investments in material capital, it is necessary to appropriately emphasize and enhance investment in human capital. No matter how many difficulties we encounter, it is still necessary, even if a little speed is to be sacrificed.

We must firmly grasp the idea that production is today, technology is tomorrow, and education is the day after tomorrow. We would rather proceed with fewer new, large projects; import fewer high-grade, durable consumer goods; and build fewer luxurious buildings and hotels, and concentrate funds on intensifying investment in human capital.

Third, reform the educational system, and adjust the educational structure; increase investment in education, and improve the efficiency of investment.

Our investment in education should be slanted towards rural education, universalizing education, and towards vocational and adult education. Right now, the most important thing is enhancing basic education, creating conditions for achieving the mandatory goal of universalizing nine-year compulsory eduction. It is especially necessary to enhance vocational education in an effort to build a labor force with rather high cultural qualities.

Fourth, break down the urban-rural division, and gradually open up the labor market. The free flow of the labor force is an important factor in gaining the best efficiency regarding human resources. Improving the existing residential registration system and the employment system is a large task in the systemic reform, and it must be done.

Fifth, while actively encouraging international exchanges of trained personnel, it is imperative that we adopt various effective measures to contain the drain of trained personnel, or the brain drain.

Sixth, increase employment opportunities and achieve full employment. Transferring the huge rural surplus labor force to non-agricultural sectors is the core content of China's strategy for developing human resources. This includes vigorously developing rural industries; developing the economy, and increasing accumulation and investment; selecting an appropriate line favoring labor-intensive, creative industrial technologies; and organizing service exports in a gradual way.

Seventh, deepen reforms of the economic and political systems so as to form a mechanism for efficiently employing the human capital as soon as possible. It is necessary to create a good environment in which knowledge and trained personnel are respected. The day when talents emerge in huge numbers in China will be the day China's modernization thrives and develops.

In our view, international competition in coming years will in fact be competition over education, science, and technology: that is, a competition over human capital or human resources. A well-known Chinese-American professor, Xiong Jie, suggested two formulas: population x high quality = assets; population x low quality = liabilities. Our choice will be undoubtedly the former of the two formulas; otherwise, China would have no way out.

Reporter: Thank you for granting this interview.

TRANSPORTATION

Shanghai Assembles 'Jumbo-Jets' for CAAC

HK1206024591 Beijing CHINA DAILY in English 12 Jun 91 p 1

[By staff reporter Zhang Ping]

[Text] Five MD-82 jumbo jets, assembled by the Shanghai Aviation Industrial Corporation (SAIC), are being bought by the Civil Aviation Administration of China (CAAC). They signed the contract on Monday in Beijing.

China and the U.S. McDonnell Douglas Corporation last year reached an agreement on the assembly of another 10 jumbo jets, continuing their cooperation in turning out jetliners.

"This is a major step forward in the six-year-long cooperative production between Shanghai and its American partners," said Huang Bing, an official from the Aeronautics and Astronautics Ministry.

Huang disclosed that the other five planes assembled by SAIC, whose production line is the only MD-82 production line outside American territory, will go to the American market. The delivery will start in 1992, said Huang.

The SAIC started cooperating with McDonnell Douglas in April 1985, with a contract for delivery of 25 MD-82s by 1991. So far, said Huang, 22 planes had been put into service at Shanghai and Shenyang and other domestic airlines. [as published]

He said that by end of the year all the 25 MD-82s will be delivered to the domestic airlines on schedule.

AGRICULTURE

Hunan's Late Hybrid Rice Area

91P30162F Changsha HUNAN RIBAO in Chinese 12 Jun 91 p 1

[Summary] The late hybrid rice area in Hunan Province should exceed 25 million mu.

Hunan Pig Exports

OW0308141391 Beijing XINHUA in English 0532 GMT 3 Aug 91

[Text] Changsha, August 3 (XINHUA)— Hunan Province, whose export value of pigs covers one-fourth of the country's total, has taken steps to improve this trade.

In the first six months of this year, Hunan exported 246,000 pigs to Hong Kong and Macao, with the percentage of fine-breed pigs increased by 9.55 percent over the same period of last year.

The Hunan Provincial Cereals, Oils and Food Import and Export Corporation has established 287 large pig production bases in the province this year.

Tobacco Exports Reportedly Increase in 1991

OW0508091091 Beijing XINHUA in English 0815 GMT 5 Aug 91

[Text] Beijing, August 5 (XINHUA)—China's tobacco exports increased during the first half of 1991, according to statistics released by the State Tobacco Monopoly Bureau which appeared in today's edition of the Economic Information Daily.

The country's tobacco industry reported that tobacco exports exceeded 120 million U.S dollars by the end of June.

China exported 30,000 tons of leaf tobacco valued at over 60 million U.S. dollars during the period, an 81.5 percent increase over last year's same period.

Cigarette exports exceeded 54.68 million U.S. dollars in the six months, up 102 percent.

Ministry Plans To Extend Grassland By 20 Million Hectares

HK0508033191 Beijing CHINA DAILY in English 5 Aug 91 p 1

[By staff reporter Wang Dongtai]

[Text] The government is stepping up development of China's vast grassland areas in the North and Northwest by artificial seeding.

Another 20 million hectares of grass will be planted over the next 10 years, according to the Ministry of Agriculture, to repair the damage wrought by poor management and over-use.

Li Shoude, an official from the Ministry of Agriculture said by the year 2000, China would have 33 million hectares of man-made pastures, about 10 percent of which could be used for animal husbandry.

The country has 400 million hectares of grassland, of which 313 million hectares could be used for grazing and hay production.

A Ministry survey found 313 million hectares of natural grassland in Inner Mongolia, Qinghai and Tibet plateau, Xinjiang Uygur Autonomous Region and the northern part of the Northeast.

However, poor management in the past had caused one-third of this pasture to deteriorate. Output of hay decreased 30-50 percent in the past 20 years.

The quality of the grass for animal feed also deteriorated, and 30 percent of pasture had suffered damage from rats and other pests.

Agriculture officials estimate the grassland is still deteriorating at a rate of two million hectares a year.

The government's response over the past 10 years has been to pass the Grassland Law, to try new management methods such as leasing grassland to local herdsmen and to sow different varieties of grass.

Shadawang, a high-yield grass, proved efficient in halting desertification and soil erosion, has been planted on 660,000 hectares.

In the northeast part of Guangdong Province, tropical grasses were introduced into orchards to halt soil erosion. At the same time, the grass was used to feed animals and fish. In the past five years, 60,000 hectares of the grass were planted in the province.

Airplanes have been used to sow grass seeds on 1.2 million hectares of bald mountains and hills on the Loess Plateau, mountains in Inner Mongolia, Xinjiang, Qinghai and Tibet.

In Inner Mongolia, grassland acreage has decreased in recent years through desertification.

About 25 million hectares of grassland was ruined in Inner Mongolia, constituting 39.3 percent of the total area available for animal husbandry and hay production.

Local officials believed that overgrazing was the main reason for the deterioration.

Local officials believe that in future, the number of animals raised in the region should be limited, fine breeds should be introduced and the quality of animals should be raised.

Potential Dangers of Floating Population

91CM0408A Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 223, 16 Apr 91 pp 64-67

[Article by Xin Han (6580 1383): "Where Will the Surplus Labor Force of 200 Million Go?"]

[Text] "North, south, east, west, go to Guangdong to get rich."

The scale of population movement in China has grown larger in recent years: the tide of civilian workers and a large floating population going south have created a social problem that has affected the interior and the coast. It has involved thousands and thousands of families.

The tide of civilian workers moving to Guangdong began in an orderly fashion. By the spring of 1989, over 1 million civilian workers had gone to Guangdong. Because the labor market there was already saturated, at that time there was a real floating population.

The movement of a large number of civilian workers to the south created many problems.

In Guangzhou, a group of 18- and 19-year-old rural girls who arrived by train from Henan told me that this was the first time most of them had been in Guangdong. They hoped to get lucky and find work. I asked them what would happen if they did not find work. It seemed they had not thought this question through thoroughly. Some of them did not know much about Guangdong or Guangzhou.

Some shady operators take advantage of civilian workers who come south and of their urgent need to find work. They come up with schemes to trick them and get rich. Some swindlers pretended to be people who were hiring people, making a great show of their sincerity with official seals, letters of introduction, and forms. They collected registration and processing fees from the job-seekers and then left on some pretext or other; that was the last the girls saw of them.

After collecting introduction and processing fees from a group of rural girls from Hunan, a swindler tricked the girls into taking the train to Guangzhou. He told them to wait at the square there—a car would come for them—and not to make a fuss. Once the swindler left, the girls never heard from him again. Finally there was nothing these innocent young women could do but hold their heads and cry, which added to their problems.

Girls Who Go South Become Targets for Sex Swindlers

In addition to those who cheat people out of their money, there are also those who seduce young girls. Since young girls make up a fairly large proportion of the floating population, they have become the prey of sex merchants and sex fiends.

A man in Guangzhou seized the chance to trick and seduce a young girl from another province, using the pretext of searching for a nursemaid. Last year, two young girls from another province were tricked into going from the Guangzhou train station to a mountainous region in East Guangdong. Ostensibly they were to be given work, but they were forcibly sold into marriage. During this period the two girls were subjected to all sorts of humiliation. Only later, when one of the girls managed to escape and help the Public Security Bureau solve the case, were the true facts revealed.

In addition, after finding work, many women among the floating population discover that they are to serve as hostesses or masseuses, selling their looks. Many of the hostesses selling themselves in roadside inns—which is all the rage in Guangdong—are women from other provinces who are part of the floating population.

The Origins and Development of the Floating Population Problem

Since reform and opening up began, due to the influx of Hong Kong and foreign investment, tens of thousands of workshops have rapidly sprung up in the Zhujiang Delta bordering Hong Kong and Macao. Large numbers of local peasants have become workers. As the scale of foreign investment increased, enterprises engaged in the three forms of import processing and compensation trade. Privately operated enterprises increased and the labor force became increasingly inadequate. Thus tens of thousands of civilian workers from other provinces were recruited. Along with them came a "floating population" of tens of thousands, bringing with them beautiful dreams.

In 1980, the Zhujiang Delta region began importing labor. Currently, the labor force brought in from other places to work in Guangdong numbers about 2 million. These people are from all over China, but most are from Hunan, Sichuan, and Henan. After more than 10 years of growth, civilian workers have become the primary labor force in most enterprises in the Zhujiang Delta. For example, Dongguan City, Guangdong, has absorbed an imported labor force of about 700,000. It is estimated that after five years, the population of outsiders who have come to Dongguan will exceed the native population!

Many Guangdong natives are unwilling to do manual labor, so most of it is done by civilian workers from other provinces. Many peasants in the Zhujiang Delta also hire outside workers to plant crops and till fields. In addition, the enormous consumption of the outside labor force has to some degree stimulated the flourishing growth of Guangdong's tertiary industries.

Underlying Causes of Civilian Workers Coming to Guangdong

In the past 10 years, the rise of enterprises engaged in the three forms of import processing and compensation trade and township enterprises has not only spurred the

prosperity of the coastal economy, but has also freed the surplus rural labor power that has been locked up. It has also opened a path for a large number of people to find employment.

The imbalance in economic development and the differences in living standards between Guangdong and the interior has made Guangdong appear even more attractive to the labor force in other places. The difference between urban and rural interests and money has become a driving force behind civilian workers going to Guangdong.

In national terms, the tide of civilian workers and the floating population conceal profound social problems.

First of all, the tide of civilian workers reflects the contradiction between the sharp increase in population and the decrease of land under cultivation. This contradiction is becoming more acute on the mainland.

In the past 10 years, China's population grew by 133 million, but the area of land under cultivation shrank by 55 million mu, equivalent to a reduction in land area the size of Shanxi Province! The cultivated land area per capita on the mainland dropped from 2.7 per mu in 1949 to 1.3 per mu in 1988. In the past 40 years the cultivated land area per capita has been cut in half. Currently, China ranks 67th in the world in terms of cultivated land area per capita.

The limited land capacity cannot bear a large surplus rural labor force, and peasants must leave the fields and pour into the cities.

Family planning has not been strictly enforced in rural areas. There are families with more than one child. In addition, prohibitions of unauthorized occupation of cultivated land has been ineffective, and the contradiction between the population and land has become more intense. A surplus labor force has become a universal phenomenon in rural areas.

With the introduction of the joint production contract responsibility system, the "big pot" no longer exists. This released a large rural labor force, so that today China's rural areas have a surplus labor force of at least 180 million. Hidden rural unemployment is becoming increasingly more open, and it is an important reason why the floating population will not disperse for some time to come.

Places that are more economically developed can absorb the surplus rural labor force locally, but in some economically backward, densely populated areas in the interior the enormous surplus rural labor force has become a source of the floating population. Even if measures are adopted and the tide subsides somewhat, for a long time to come the tide will continue looking for a chance to overrun the embankments and spread out in all directions.

It is a human aspiration to want to improve oneself. Guangdong, with its many job opportunities and high rewards, has become an extremely attractive area for civilian workers.

Floating Population is Changing Peasants' Ideas

One of the reasons for the sharp increase in civilian workers coming to Guangdong after the Spring Festival every year is that civilian workers with jobs return home to visit families, and when they return to Guangdong they bring many new civilian workers from their home areas back with them. Because of mutual influences, almost all the young people in some villages in Sichuan and Hunan have gone elsewhere to get work.

Many civilian workers come from places in the interior where transportation is convenient and where there is quick access to information. People who have left their native area to work have a very big influence on the people back home. The aim of many civilian workers, especially young people, who have gone elsewhere for work goes beyond demands for food and clothing. Their aim is manifested in the pursuit of and yearning for an urban life-style.

Unexpectedly, since these civilian workers have been nurtured by industrial civilization and the commodity economy, when they return home the knowledge and influence of the outside world makes them the main force in building and reforming their home towns.

In the past 10 years, there have been many turnovers in outside civilian workers in Guangdong: they constantly pour in, and inevitably leave. In the process of this circulation, they are baptized in industrial production and nurtured on an urban life-style. Many civilian workers who used to have strong peasant attitudes have begun to have strong ideas about the commodity economy and a modern understanding of risks and doing pioneering work.

Dark Side of Labor Careers

If they live frugally, civilian workers from other provinces can save money to help their families. When they return home, many civilian workers who have found work in Guangdong are admired by others.

However, family members do not know that the rights of laborers from other provinces are not effectively guaranteed in many enterprises in the Zhujiang Delta.

In many enterprises that engage in three forms of import processing and compensation trade, and in many township enterprises, it is common for workers to be forced to work overtime and to work harder, yet the overtime pay they receive is very low. For example, workers in a Hong Kong-run electronics plant in Buji, Shenzhen, get only $0.50 [Hong Kong dollars] per hour for overtime pay.

Many enterprises ignore environmental protection. Many enterprises engaged in the three forms of import

processing and compensation trade are plants that manufacture plastics, toys, and artificial flowers. Workers in these enterprises work in such processes as spray painting, mixing, and printing, which involve almost daily contact with toxic gasses, but protective measures are largely absent.

In recent years, the incidence rate of occupational diseases such as silicosis that had vanished in some township enterprises in Guangdong in the early 1970's has increased. There are also numerous cases of poisoning by benzene and such heavy metals as aluminum and chromium.

In a toy plant in Baoan County, Anhui Province, I saw more than 10 girls living in a dormitory room with an area of less than 10 square meters (equivalent to 100 square feet). It was unbearably hot in the summer, the food was poor, the boss ordinarily did not let them out during off-duty hours, and there was no entertainment to speak of.

Dissatisfaction, a scrambling for something, worry, and an unwillingness to quit describe the complex feelings of many civilian workers. At the same time, the millions of laborers added to the large floating population have also become a heavy burden on Guangdong, bringing such problems as chaotic public security, price inflation, and food shortages. In addition, due to a serious imbalance in the ratio of men to women in many localities, the make-up of civilian workers themselves also leads to a series of social problems such as prostitution, adultery, homosexuality, and unmarried pregnancies.

As for young people that find work, Guangdong's bustle is very enticing for them, but there is also a kind of rootless impetuousness that puts them at a loss. Very few people have expressed concern or analyzed their feelings of sorrow and desolation.

What Lead to the Tide of Civilian Workers?

The problem of the upsurge in civilian workers has occurred in economically developed large and medium-sized cities in places such as northeast, north, and east China. Even the capital, Beijing, is no exception. Yet the attraction and capacity of these places cannot compare with the Zhujiang Delta region.

Due to the lack of macroeconomic regulation and control, the tendency for civilian workers to be overly concentrated in one area has produced the floating population problem that is of such concern.

Some people think that under ordinary circumstances Guangdong's labor departments should improve the organization and management work over enterprises' use of labor, and that they cannot wait until the floating population reaches the main gate to issue panicky, last-minute executive orders limiting worker recruitment. While finding jobs in coastal urban areas for laborers from remote areas within the province, they should also unify management of civilian workers from other provinces.

In the mainland's movement towards national industrialization and modernization, shifts of the surplus rural labor force is unavoidable. Specialists estimate in the next 10 years the mainland may see a surplus labor force of over 200 million leave the land. What are their options? If it is a large-scale movement, where will it go? What is the appropriate way to deal with it?

It seems that the tide of civilian workers cannot simply be considered an accidental phenomenon caused by regulating an overheated economy or cut-backs in the scale of capital construction. While adjusting the production and employment structures, concerned departments absolutely must consider shifts in the rural surplus labor force. The rural population makes up 73.73 percent of China's population. In fact, without shifts in its surplus labor force, readjustments of China's economic structure cannot be realized.

Some also think that if directed correctly, the tide of civilian workers will benefit development trends on the mainland. Guangdong and other places are a little panicky because of the tide of civilian workers. This indicates that people do not know enough about behaviors such as the shift of peasants to non-agricultural industries (including movement into cities and south to Zhujiang). Nevertheless, not only will the tide of civilian workers not stop in the next few years, but it may even grow. It seems that as long as the characteristics of the tide are correctly understood and guided and managed properly, a stable society can be achieved and socio-economic development can be promoted.

Logistical Achievements of 2d Artillery

HK1261231 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 21, 27 May 91 pp 15-16

[Article by Zhang Jiajun (1728 1367 6511) and Zhu Jianmin (2612 1017 3046): "China's 2d Artillery Strives To Modernize Its Logistics Guarantee Work"]

[Text] One should remember the imposing sight of the Chinese strategic missile unit making its first public appearance in the grand military review held in Tiananmen Square to mark the 35th anniversary of the founding of New China.

But at that time, the most modernized unit in China, known as the "2d Artillery," was still very backward in terms of logistics facilities for living and the logistics guarantee system. It was not equipped to guarantee mobile maintenance and rush repairs; supply of petroleum products, materials, equipment, and food; or treatment and evacuation of wounded personnel. The protection against radioactive substances and propellants and the monitoring and control of special sources of contamination were still implemented by expedient or contingent means...

This is a drawback. Sun Wu said, "An army is doomed when it lacks supplies and equipment, grain and fodder, and reserve supplies." An American strategist said, "In modern wars, producing a result beneficial to you depends on whether or not you have the best logistics."

For this reason, the Chinese People's Liberation Army [PLA] logistics department party committee decided to organize forces to work on it and strive to modernize logistics guarantee for the 2d Artillery before long.

In recent years, the 2d Artillery's logistics units have reaped over 600 scientific and technological achievements in various categories, of which 142 won prizes for scientific and technological advancement conferred by the state and army, four were given state invention awards, and 12 were patented by the state.

They started off with soliciting for research subjects. Thousands of people from different levels in the unit participated in this activity. Over 500 subjects and 380 scientific and technological research projects were suggested. The 2d Artillery logistics department did not have a research institute of its own nor highly qualified scientific and technological personnel. Therefore, it sought help from scientists and technicians from society at large and promoted scientific and technological advancement with an open door. At the end of 1987, a batch of open invitations to tender for key scientific and technological projects were issued from the 2d Artillery logistics department in Beijing to the whole army and the whole country, signaling the start of open-door promotion of science and technology. More than 50 scientific and technological units and hundreds of scientists and technicians answered the invitation with great enthusiasm and a batch of key scientific and technological projects badly needed by the army could now start.

The second step was to give play to various professional departments, delegate rights to them, and let them supply scientific and technological projects and look for scientific and technological or cooperation units. The scientific and technological administrative departments are only responsible for the feasibility test of scientific and technological projects and the examination and acceptance of achievements.

This was also a very effective tactic. At the promulgation of this policy, all professional departments went into action at once and the scientific and technological administrative departments were much visited. Dozens of achievements, such as a missile propellant liquid waste processing engineering car, radioactive waste water purification device, antiradiation health-protection car, ordnance repair engineering car, hydraulic system home monitor, and 2d Artillery special protective clothes, either won first or second prizes for scientific and technological advancement conferred by the army and the state. Each achievement was made with the efforts of three or four research units. For example, the missile propellant liquid waste processing engineering car project was accomplished with the 2d Artillery engineering design research institute as the backbone, supported by a dozen research units including the Chinese Academy of Medical Sciences Health Center research institute, Qinghua University, the Chinese Academy of Sciences Environmental Chemistry Research Institute, and organized by the 2d Artillery's Environmental Protection and Greening Department. The hydraulic system home monitor project was accomplished by the ordnance and machinery department with the support of some research units such as the Chinese Academy of Agricultural Mechanization and Beijing Hydraulic Center under the concrete guidance of China's famous hydraulic experts Senior Engineer Zhu Xiaoyi [2612 2400 3015] and Professor Yi Xinqian [2496 2450 0051]. For those projects which required large-scale, complicated scientific research, a "group-style" joint effort was made. The comprehensive investigation and assessment of the 2d Artillery missile front contamination sources was a major research project under the Seventh Five-Year Plan. It was impossible to accomplish it with just one or two research units. Five 2d Artillery units, including the environmental protection office and environmental monitoring station, organized 28 units and over 300 people to work on the task as a group. It took four years to complete this project. They finally produced over 2,000 various statistics reports, over 100,000 pieces of data, and over 20 achievements and attracted close attention from state environmental protection departments.

The "nuclear and chemical contamination monitoring car," a key army research project which is now under pilot testing, is also a result of this "group-style" joint effort. Nearly 100 scientists and technicians from 15

research units, including the 2d Artillery No. 1 Research Institute, Chinese Academy of Sciences Applied Chemistry Research Institute, and the Nuclear Industry Corporation's Nuclear Power Research Institute, took part in the "group-style" joint effort.

As soon as the 2d Artillery logistics department's scientific research work began, it emphasized the integration of research and application. It founded the 2d Artillery development office for logistics scientific and technological achievements and put down as a rule the two links, that is, the management departments for scientific research plans should be linked with those applying the prospective results and research units linked with those applying the research achievements, thus requiring consideration of popularization and application in making research plans. Any project that fails to come with a specified application unit and popularization plan, or that has turned out a result not yet applied and popularized, will not be listed in the plan and no funds or bonuses will be given to support it.

The 2d Artillery logistics department puts scientific research projects into two broad classifications, i.e., special equipment projects for logistics guarantee and general projects for both military and nonmilitary purposes. It has adopted different promotion methods and measures for the projects in the two different classifications.

In recent years, the new achievements that were listed under the logistics equipment system of the whole army alone covered 19 categories and over 40 items. More than 12,000 pieces and sets of new equipment have been popularized in the army, bringing enormous military and economic benefit. Consequently, the level of modernization of the 2d Artillery's logistics has been constantly upgraded. In the relatively large-scale antinuclear mobile warfare maneuvers and range practices held by the 2d Artillery in recent years, the new equipment played a big role and won repeated praise from 2d Artillery leaders and higher military authorities.

In popularizing military-nonmilitary general achievements, they stressed the development of the technical market and promoted the commercialization of scientific and technological achievements. At the first international military logistics equipment and technology exhibition, held in Beijing in November 1987, 20 exhibits from the 2d Artillery logistics department, including "the propellant-liquid waste-processing engineering car," "antiradiation health-protection sampling and monitoring car," and "WD-10 contaminated-water purification device," were much favored. Businessmen from the United States, Britain, France, Italy, Germany, and so on, all came over to discuss transactions, placing orders and asking for technology transfer. In recent years, 2d Artillery logistics researchers attended exchange activities and various exhibitions of scientific and technological achievements and new products both at home and abroad. Eight of their new achievements won gold and silver medals in large-scale international and national exhibitions, producing direct economic benefits worth over 8.6 million yuan.

EAST REGION

Shandong Reviews Role, Direction of Literary Works

SK1406043591 Jinan Shandong People's Radio Network in Mandarin 2200 GMT 13 Jun 91

[Excerpts] The 10-month activities to appraise and select 100 model literary and art workers with party membership and 100 outstanding works, sponsored by the propaganda department of the provincial party committee among literary and art circles throughout the province, were concluded and the results were recently made public. A grand commendation meeting was held in Jinan on the morning of 13 June. [passage omitted]

Miao Fenglin, Standing Committee member and propaganda department director of the provincial party committee, spoke at the meeting. He said: These activities represented a review of the province's contingent of literary and art workers with party membership, and the current literary and art creation. The advanced persons and outstanding works that distinguished themselves during the activities epitomize the literary and art development of our province. The activities led us to think over and answer two questions. The first is into what position works which reflect this era and which sing the praises of the party, socialism, and the motherland should be placed in relation to the entire literary and art creation. The second is which road literary and art workers, especially those with party membership, should take to become mature.

Miao Fenglin pointed out: All high-minded writers and artists with accomplishments should actively respond to the call of the party and the people, and strive to create more healthy works that reflect civility and progress, and that are loved by the people. An important way for socialist literature and art to flourish and for literary and art workers to succeed is for them to integrate their personal pursuits with the party's cause, and with the great socialist cause which is led by the party, and for which hundreds of millions of people are striving.

He urged the writers and artists throughout the province, especially those with party membership, to embrace the Marxist world outlook, actively respond to Comrade Jiang Zemin's requirement that making literature and art flourish meets the public interests of the state and his call for building a wall of steel against peaceful evolution, and enhance the sense of being soldiers in defense of their position.

Lin Ping, Song Fatang, Ding Fangming and other provincial leading comrades were present at the meeting.

NORTH REGION

International Non-Governmental Exchange Center in Hebei

OW1407134991 Beijing XINHUA in English 1201 GMT 14 Jul 91

[Text] Shijiazhuang, July 14 (XINHUA)—Zuozhou City of Hebei Province has set up an international non-governmental cultural and economic exchange center to promote international cultural and economic exchanges.

The city government has set aside 400 hectares of land as the base of the newly-established center. Foreign businessmen are encouraged to invest in construction of "independent zones" for trading, information exchanging, cultural exchange or tourism on the land.

Some businessmen from the Philippines, South Korea and other countries and regions have shown interest in investing in the land.

With a history of 2,000 years, the city is located 62 kilometers south to Beijing and 70 kilometers southeast to the Baiyangdian Lake.

It has many historical sites including the home villages of Liu Bei and Zhang Fei, two noted figures of the three kingdoms, and the old residence of Zhao Kuangyin, the first emperor of the Song Dynasty (960-1279).

NORTHWEST REGION

More Gansu Farmers Conquer Illiteracy

OW0806084691 Beijing XINHUA in English 0655 GMT 8 Jun 91

[Text] Lanzhou, June 8 (XINHUA)—The illiteracy rate among farmers aged between 15 and 40 in northwest China's Gansu Province declined from 48 percent in 1985 to 26 percent last year.

Meanwhile, one million farmers mastered at least one special technique after being trained in various kinds of technical training classes during the period.

Gansu is one of the poorest provinces in the country, and the state has invested large amounts of money to help farmers get rid of poverty in the past three decades. Despite this effort, the farmers' average per capita income stood at 257 yuan in 1985, ranking the lowest in the country.

Starting in 1985, the province sponsored an education program aimed at eliminating illiteracy and opening various kinds of technical training classes.

Meanwhile, the provincial people's congress passed a regulation on wiping out illiteracy. The financial departments in the province also earmarked seven million yuan to support the program.

As a result, nearly all villages throughout the province have opened literacy classes. And over 500,000 farmers have taken part in various kinds of literacy classes in the past six years.

The province also set up 367 vocational technical schools and opened 700 rural farmers' technical schools.

During the Seventh Five-Year Plan period (1985-90) the province's grain output increased by an annual average 300 million kg. Rural enterprises' output value climbed from 1.7 billion yuan in 1985 to 7.23 billion yuan in 1990. Farmers' per capita income also increased to 403 yuan.

Xinjiang To Host Three Festivals

OW2306120191 Beijing XINHUA in English 1151 GMT 23 Jun 91

[Text] Urumqi, June 23 (XINHUA)—Northwest China's Xinjiang Uygur Autonomous Region will host Corban Festival in Kashi from 23th to 28th this month and make it an annual event from this year on.

Local officials said that the regional government is planning two other annual festivals, the Nadam Festival on July 13th to 15th and the second Turpan Grape Festival on August 20th to 26th this year.

The Corban Festival is a grand occasion for Muslims to hold religious services in mosques and offer livestock as sacrifices. It is also an occasion for singing and dancing and various sports shows.

The Nadam Festival, which means entertainment in the Mongolian language, features Mongolian wrestling and other sports activities. This year's event will be held beside the mountain lake of Saili on the western Tianshan Mountain.

The Turpan Grape Festival, the second time this year, features grape growing and wine brewing. Local performing arts shows and visits to the surrounding relics in this part of the ancient "silk route" will also be included, the officials said.

Chen Junsheng Attends Xinjiang Corban Festival

OW2206061291 Beijing XINHUA Domestic Service in Chinese 1455 GMT 21 Jun 91

[By He Yanping (0149 4291 1627)]

[Text] Urumqi, 21 Jun (XINHUA)—While the people of all nationalities in Xinjiang, filled with revolutionary pride and enthusiasm, are ushering in the 70th anniversary of the founding of the Communist Party of China, today they again see in the traditional festival of muslims of all nationalities—Corban.

Over the past few days, people of all nationalities in Xinjiang have been immersed in a festive atmosphere. On the afternon of 21 June, the Xinjiang Autonomous Region Party Committee and the Autonomous Region People's Government held a grand and warm get-together at the Hall of the People in Urumqi. State Councillor Chen Junsheng and Li Changan, deputy secretary general of the State Council, who were on an inspection tour in Xinjiang, attended the get-together.

At the get-together, Chen Junsheng joyously said: The comrades from Beijing and I are very fortunate to be able to attend such a grand celebration, and we are quite delighted to share the jubilance with the people of Xinjiang. On behalf of the State Council, I wish to extend my season's greetings to the people of all nationalities in Xinjiang!

Xinjiang is a multi-national region. It is very precious that we enjoy national unity and social stability in Xinjiang. We must rally closer around the party Central Committee with Comrade Jiang Zemin as the nucleus, maintain and develop the excellent stable and united situation, be of one heart and one mind, and work hard together to build Xinjiang into a still more prosperous and beautiful region.

Wang Enmao, vice chairman of the National Committee of the Chinese People's Political Consultative Conference, and Song Hanliang, secretary of the Autonomous Region Party Committee, were also present at today's get-together.

Muslims Celebrate Corban Festival

OW2306121691 Beijing XINHUA in English 1157 GMT 23 Jun 91

[Text] Beijing, June 23 (XINHUA)—Millions of Muslims in China went to mosques for religious services and killed livestock to offer as sacrifice in celebrating the Corban Festival today.

In northwest China's Ningxia Hui Autonomous Region, more than one million Muslims went to over 2,000 mosques for services. China has some nine million people of the Hui nationality who believe in Islam.

In the Xinjiang Uygur Autonomous Region, also in China's northwest, the festival is celebrated by both Muslims and foreign tourists, who are organized by the regional tourism authorities to visit the place and experience the rich local culture.

Janabil Addresses Regional Party Commendation Meeting

OW2806111991 Urumqi Xinjiang Television Network in Mandarin 1555 GMT 24 Jun 91

[From the "Xinjiang News" program]

[Text] On the eve of 1 July, the founding anniversary of the Communist Party of China, the autonomous regional party committee held a commendation meeting to confer honors on 48 party organizations, 148 party members, and 30 workers of party affairs, dubbing them advanced party organizations, outstanding party members, and

party workers respectively. [Video shows long shots of a conference hall packed with people. They face the rostrum, where about half a dozen leaders are seated at a long table, against the background of the state emblem and flags and a red banner overhead. Video cuts to close-ups of Janabil speaking from a script]

Janabil, deputy secretary of the autonomous regional party committee, and standing committee members including comrades Hailitiemu Silamu, Zhou Shengtao, Chen Xifu, Zhang Zixue, and Herdebai attended the meeting, and presented prizes to the advanced party organizations, outstanding party members, and workers.

In his address at the commendation meeting, Janabil called on party organizations at various levels and all the party members and workers to learn from the examples of the honored collectives and individuals; to emulate them in their earnest study of Marxism-Lenism-Mao Zedong Thought, adherence to basic ideological principles, persistance in implementing reform and open policies, opposition to ethnic splittism, safeguarding unification of the motherland, and defending the political stability and unity; to emulate their fine style of consciously resisting unhealthy practices, safeguarding party unity, courageously staging struggles against those who violate party discipline and state laws, being honest in performing their official duties, rendering wholehearted service to the people, and maintaining close ties with the masses.

During the commendation meeting, party committees of regional-level organs also put forward their written proposals to party organizations at all levels and all the party members and comrades engaged in party work, calling on them to make new contributions to the smooth realization of the 10-Year Program and the Eighth Five-Year Plan, and to the creation of a new order in socialist modernization construction in a comprehensive way.

Beijing's Response to National Unification Guidelines

91CM0388A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 255, 1 Apr 91 pp 28-29

[Article by Ch'i Hsin (7871 6580): "The CPC Bombards 'the Unification Program'"]

[Excerpt] [passage omitted] In short, regarding the "National Unification Program's" determination that China should be reunited, and its "meaningful gesture" towards the "three exchanges," contacts, mutual high-level visits, and consultation on reunification, the Chinese Communists hold that "all this could be said to be an act of going along with the tides," and they "express approval of such."

Following that are criticisms on the "National Unification Program." In a nutshell, there are several key points.

First, there is the realization that Taiwan authorities' "National Unification Program" is designed to stabilize the immediate, or effective, status quo of "one country, two governments," under the abstract slogan of a long-range "goal of unification." The Chinese Communists indicate that this is not acceptable. As for the "program's" demands that the two sides of the strait "not negate each other's political-entity status, based on reciprocity"; "respect each other in the international arena, instead of trying to exclude each other"; and "coordinate and help each other in joining international organizations and activities," the Chinese Communists believe that "the purpose of this is to allow Taiwan to enter the international community as an independent political entity, in an attempt to gain dual recognition diplomatically." Further, the Chinese Communists believe that "this violates the interests of people on both sides and of the Chinese nation." They also claim that "the government of the People's Republic of China is the sole legitimate government representing all the people of China, and as such has already been accepted by the international community at large. The Taiwan authorities should face this reality squarely." They further claim that "we resolutely oppose independence for Taiwan, and oppose all words and deeds that could lead to 'two Chinas,' or to 'one country, two governments'."

Second, with regard to the "Unification Program's" proposed goal of "establishing a democratic, free, and universally prosperous China," and its demand that the mainland "conduct consultations on the cause of unification according to the principles of political democracy, economic freedom, social justice, and state control over the military," the Chinese Communists believe that this manifests a "continued inability to give up the 'goal' of the so-called 'unification of China under the Three People's Principles'." This embodies "an illusory attempt 'to transform the mainland' according to the Taiwan model," and "is obviously the sign of a great lack of self-awareness." The Chinese Communists still emphasize "one country, two systems," and that "the well water should not encroach upon the river water." They cannot accept the unification preconditions of freedom and democracy proposed by Taiwan authorities.

Third, the Chinese Communists believe that "in unifying the nation, it is necessary to consider the interests of the Chinese people as a whole, which surely includes the people of Taiwan. Obviously it is hardly feasible to consider only a portion of the people, or to consider only the views of one party." This indicates that the Chinese Communists still cannot accept the revised clause—revised after long discussion by the "National Unification Commission," to avoid provoking the Chinese Communists—that "it is necessary to first consider the rights, interests, security, and well-being of the people of the Taiwan region." At the time of the discussions on Hong Kong's return to the Chinese mainland in 1997, there were many Hong Kong people who expressed a strong unwillingness to return. However the Chinese Communists suggested that the 1997 "return of Hong Kong to the motherland is the will of 1 billion people, including Hong Kong compatriots." Since Hong Kong's more than 5 million people represented only 0.5 percent of the 1 billion people on the Chinese mainland, their will, rights, and interests could not be calculated "independently." This is also the case with the Chinese Communists' dealings with Taiwan. "To first respect the will the people of the Taiwan region," and "to first consider the rights, interests, security, and well-being of the people of the Taiwan region" thus both violate the Chinese Communists' overall principle. Their principle is: Unifying China under the formula of "one country, two systems" is the will of 1.1 billion Chinese people, including Taiwan compatriots. As for the will of 1.1 billion Chinese people, it is to be presumptuously represented by the Chinese Communist regime.

Fourth, the Chinese Communists believe that when "Unification Program" "places the 'three exchanges' in the 'medium-range' stage, which will be implemented who knows when," it "makes people inevitably doubt Taiwan authorities' sincerity in implementing the 'three exchanges'." As it is necessary to pass through an "immediate" stage in order to "enter" the "medium-range" stage, the Chinese Communists hold that the Taiwan authorities are using the "three exchanges" as a political bargaining chip. This chip is to be exchanged for the satisfaction of the "immediate-stage" demands that "each other's political-entity status is not to be negated, based on reciprocity"; "the mainland region should actively promote economic reform, gradually open the realm of public opinion, and implement democracy and the rule of law"; and that "the two sides respect each other in the international arena, instead of trying to exclude each other." This expresses the view that these are all "preconditions made with the full knowledge that they are unacceptable to the mainland."

Fifth, the Chinese Communists hold that a "national unification program" should not have been formulated unilaterally by the Taiwan authorities in the first place.

"To propose a real, complete 'national unification program,' it is necessary to widely solicit views from people of all classes, political parties, and organizations on the two sides." "In each case, it is necessary to have consultation between the two sides on the policies, principles, steps, and methods of national unification. Otherwise, is it not too unreasonable to ask all Chinese inside and outside China to 'work together to implement' a unilaterally formulated 'program'?"

In short, Taiwan's mainland policy is to accommodate the Chinese Communists' intentions by using abstract slogans of "unification" in terms of long-range goals, and to safeguard Taiwan's security by avoiding provocation of the Chinese Communists. This stabilizes the status quo of the two sides. The statement "one country, two governments," which could not be openly declared because of Chinese Communists' dislike, actually describes the present reality of the two sides. Based on this reality, and through economic cooperation and "peaceful co-prosperity," a situation is created in which the Chinese Communists dare not, cannot, and do not want to go to war.

The Chinese Communists are not willing to stabilize the status quo. They especially cannot let Taiwan carry out its "pragmatic diplomacy" or gain "dual recognition" based on a stable situation between the two sides. They do not accept using this as a condition for achieving the "three exchanges" in the "medium-range" stage. What the Chinese Communists want to push for is proceeding immediately with the "three exchanges" through lower-level negotiations, and then proceeding with direct consultations between the Kuomintang and the Communist Party of China on an equal footing.

Trade Orientation Shifts Toward Europe

91CE0542A Taipei TIEN-HSIA [COMMONWEALTH] in Chinese No 119, 1 Apr 91 pp 12-21

[Article by Wu Ying-ch'un (0702 6601 2504) and Kuo Ta-wei (6753 1129 1792): "Strategic Partnership—Looking Westward to Europe"]

[Text] **The most fashionable tourist area is Europe, and the most popular trade market is also Europe. Taiwan's civilian industries and government departments are in process of launching a series of integrated economic and trade activities toward Europe, and European firms are also rushing to Taiwan in wave after wave attracted by the large case of Taiwan's six years building program.**

What is the long historical background to this seemingly sudden common understanding and consensus?

A European wind is blowing in Taiwan all of a sudden.

The most fashionable spot on the annual tourist schedule is Europe; the most stylish clothing and accessories are of European design; the position of European restaurants in Taipei social circles has changed from "upper crust" to "commonplace"; and EUROPEAN FURNITURE is the favorite household interiors magazine. A single European-made water faucet shown in it can cost as much as 4,000 Taiwan dollars.

The attention of the alert and resourceful government and businesses also shifted long ago. The gaze eastward to Japan and the United States, which has lasted for many years, began to weaken in a turn around toward promotion of a "westward-looking policy" in the direction of Taiwan's second largest trading partner, Europe, which accounts for one-fifth of the total amount of Taiwan's trade.

New National Trade Strategy

The most fashionable new trade term is "strategic partner." The hope is to use technology transfers from Europe to help Taiwan attack Japan and the unified European market. Furthermore, in implementation of the "westward-looking policy," government and civilian actions demonstrate a hitherto unknown readiness to integrate. Piecemeal actions formerly carried out by government units and civilian businesses have been unified to form a national strategy with an identical line of action and direction. Using this integrated force, Taiwan has taken the initiative in extending a hand toward Europe to induce Europeans to treat Taiwan as a "strategic partner."

The first step in integration was an identity of actions on the part of government and civilian agencies to get the fullest effect from the "great unification of forces." An example was the trip Yang Shih-chien [2799 0013 4873], director of the Industrial Development Bureau, made to Europe on 23 March, which coalesced long-standing national goals of technology transfers or the setting up of branch companies in Taiwan. Using the six-year national construction plan as a "lure," he took the initiative in linking together firms that could best accept future technology transfers to have them go to Europe to seek out large plants possessing technology.

The Industrial Development Bureau chose nine strategic products in preparing for the development of various new technologies under the six-year Taiwan construction plan, including information, space navigation, biochemicals, electric automobiles, and environmental protection. It took the initiative in assembling the firms having greatest potential, dividing them into nine units to make a joint attack.

Just before the lunar New Year, an industrialist whom the Industrial Development Bureau had picked to take the post of team convener explained his reasons for becoming a member of the troupe that visited Europe. He believes that in the short term, the six-year Taiwan construction plan is the most attractive negotiation point. Today, when discussion about technical transfers alone has become virtually impossible, the major project purchases in the six-year construction plan is the "lure" most able to attract the attention of European governments and civilians, and government participation counts most in the "luring" process.

Individual firms have few chips to play in overseas negotiations. He gave as an example an always haughty British firm whose attitude was very warm when he went to Britain with a government-organized delegation in 1990.

With a government "convoy" and the six-year Taiwan construction plan as an "enticement," the 65 firms that took part in the delegation visiting Europe were able to relay their need through the Industrial Development Bureau to French industry, and then seek cooperation from French industrialists via the Industrial Development Bureau. "This time both the Industrial Development Bureau and industrialists had real cooperation based on common understanting," was the way he analyzed the situation with full self-confidence. The result of the joint government and civilian efforts abroad was naturally a performance in which unity produced great strength.

Speaking the Same Language

In the process of implementing the "westward-looking policy," yet another integrating action was the integration of strategic policies among all government units. Not only could trade units bring up the subject of "technology transfers," but the Industrial Development Bureau could also begin to work with an international field of vision when setting industrial policy, and even units peripheral to the Ministry of Economic Affairs, such as the European Trade Promotion Association and the German Economic Office in Taiwan, could begin to speak the same language.

Not only did the Industrial Development Bureau directly assist firms in the discussion of technology

transfers abroad, but semi-official foreign trade associations also advanced their "Small European Plan," and the "Trade Opportunity Project (TOP)." It wanted to help firms bring in "strategic partners" in the fields of design, marketing, and technology.

Liu Yen-tsu [0491 1693 4371], secretary of the China External Trade Development Council [CETDC] made the following succinct analysis at a breakfast: "In talking about trade today, no longer is it possible to talk only about buying and selling." One has to get around to the importation of technology as a means of developing trade. In the various trade promotion plans that the CETDC has for "taking the initiative in going on the attack," "it is no longer just finished products that we are selling, but Taiwan's manufacturing capabilities." Reliance on Taiwan's manufacturing capabilities in seeking cooperation with European firms that have the marketing and design expertise, but that lack conditions for production is "trade through partnership," said Liu Yen-tsu in analyzing the situation.

The international partners most beneficial to Taiwan today are European firms, according to Liu Yen-tsu, and even just "specializing in Germany" can be very advantageous for Taiwan. In the process of rebuilding eastern Germany following unification of the two Germanys, "Taiwan can become a sub-contractor for large German enterprises, and be able to import much technology as a result."

The introduction of European designers, and the purchase of name brands in Europe under the "Little European Plan" are also of strategic significance for the importation of technology. Originally, Hong Kong acted as an agent for name brand European clothing and accessories, only later becoming the creator of quality merchandise such as Girodano. Nor did the heavy urban traffic pulsing outside the K'ai-yueh Hotel divert Liu Yen-tsu's attention. He said: "This is also a technology transfer."

Fu-ch'ang Textiles, which has been a manufacturer for decades of world know brands of ready made clothing (such as Calvin Klein and Christian Dior) has invited foreign designers to come to Taiwan for the first time to design its own line of clothing and accessories. In the course of the cooperation, not only did the manufacturer get styles, patterns, and designs, but some key manufacturing problems were also solved. Clothing sizes and lines are now also more in keeping with market demand. In addition, Fu-ch'ang chairman of the board Ch'en Te-hsing [7115 1795 5281], a designer himself who is capable of learning from experience, emphasized the manufacturing experience that his factory has gained from long experience when he said "This is not something than can be accomplished by just doing it for a year or two. We have made Christian Dior for more than 10 years. We have personally worked in this market, so this is the reason we know how to fit into it."

Partners in Trade

The CETDC does more than just promote trade. It has also turned attention to new design and technical methods. Liu Yen-tsu looks at it this way: "The old way of just holding trade fairs was merely attacking at a single point," but the most recent method of waging war as a body in conjunction with the Ministry of Economic Affairs is an abandonment of the former lopsided way of doing things. It makes use of "integrated strength." The former efforts of individual firms to break into the European market did not succeed. Even Japanese firms found breaking in by themselves was very difficult. There was virtually no country in the world that was not excluded; therefore, we have to have an "in-house partner." Thus the new term in Taiwan trade is "strategic partnership."

Even the Industrial Development Bureau is beginning to move toward this new goal. When the director, Yang Shih-chien, was asked how the bureau's methods differed from those when Hsiao Wang-ch'ang [5618 6701 7022], minister of economic affairs, was in charge of Taiwan trade policy, and under the leadership of Chiang Ping-k'un [3068 0014 0981], the chairman of the board of the CETDC and deputy minister of economic affairs, the former scholar Yang Shih-chien said in measured tones: "Formerly the Industrial Development Bureau's attention was concentrated internally for the most part; now it reaches out internationally to a greater extent."

After watching the actions of units in charge for 11 years, the secretary of the Euro-Asia Trade Organization, Ch'ou Chia-piao [0092 1367 1753], also noted that the way that the Republic of China's [ROC] government deals with European trade "has also begun to change markedly this year." Where formerly nongovernment delegations used to visit Europe, in 1991 both deputy minister Chiang Ping-k'un and bureau director Yang Shih-chien led delegations to Europe. As a result, the Euro-Asia Trade Organization, which formerly represented the civilian sector, also stopped organizing the visit of delegations to Europe to avoid duplication.

Since there are substantial cultural differences between the European market and Taiwan, quite a bit of time has to be spent on physical and mental preparation. The vice-president of China Chia-t'ung [0857 6639] Information, Yin Yun-chung [3009 0336 0948], said that it is particularly necessary for government to take part in long-range planning at this time. He also said approvingly that "such integration" among government units today "is a very good opportunity."

The "unanimity" of action and the group spirit of "oneness" among government organizations concerned is, according to an observer in the Ministry of Economic Affairs, related to the every Monday business meeting report of Hsiao Wan-ch'ang, minister of economic affairs. With the business meeting reports, the minister overturned the former practice of meeting only individually with those in charge of subordinate units. Instead, he convened a once weekly meeting of all those in charge

of units so that they could gain a mutual understanding of professional matters and orientation.

The integration of ROC trade policy and industrial policy goals is not unique; even industrial product strategies are tending toward integration.

The "planning center" for the CETDC's little Europe plan is also integrating on behalf of the "strategic partnership" of Taiwan industry. During October 1990, the CETDC got computer manufacturing firms together with furniture manufacturing firms to develop, in partnership, special desks and chairs for use with computers. The firms, which were divided into two groups, included Hung-ch'i [1347 2759], Ta-t'ung [1129 6639], and Yu-mei [0327 5019], and San-kuang-wei-ta [0005 0342 1919 6671] and Ta-t'ung [1129 0681] furniture. Acting under direction of European designers, they worked together on the development of new products.

The behind-the-scenes significance of this product strategic partnership is that it proceeds from a product that Taiwan has successfully used to enter European markets—the computer—to get another industry going—furniture—to attack the European market. The head of the San-kuang-wei-ta design section that took part in the planning, Chou Wen-sheng [0719 2429 0524], said that models of the new products have already been made, and that although production costs are still a problem, and that volume production cannot begin right away; nevertheless, San-kuang has "applied these concepts to the design of other products" in the active development of other new products.

Now San-kuang-wei-ta has revealed that the CETDC has suggested that the Rumanian design engineer, Alexander Manu be brought to Taiwan to institute a "cognitive imaging system" (CIS) for a series of the company's products, doing integrated planning of the appearance of the cathode ray tubes, the facsimile machines, and the telephones that San-Kuang produces.

Historical Background to Common Understanding

Even the Europeans are beginning to look with new eyes at the wave upon wave of integration actions taken in the development of trade with Europe. The Taiwan European Commercial Association director, Yu-en [1429 1869] praised the "unanimity of Taiwan Government and nongovernment actions," and the Chinese speaking director of the German Economic Office, Fan-yu-te [5400 5148 1795] has begun to use the language of the CETDC in describing the "comparative interests" between Taiwan and Europe.

Actually, this seemingly sudden "common understanding" and "unanimity" of action has a long historical background.

Once the Taiwanese got over their craze for American nylon stockings and chocolates, they gradually began to fawn on European name brands. Taiwan's trade with Europe as a percentage of its total trade began to rise notch by notch some time ago. During the first half of 1991, while the Americans were busy dealing with the Persian Gulf war, the Europeans snatched another two percentage points of Taiwan's total trade, which now stands at 19.2 percent of the total. Even the number of Taiwan personal computer sales in Europe is larger than in the United States. Yang Shih-chien reflected that at the 1991 computer exhibition at Hanover in Germany, Taiwan had more than 200 firms represented, a number second only to the United States. The appearance at the exhibition of more than 1,000 Chinese businessmen's faces startled those Europeans not accustomed to seeing Orientals.

Ch'ou Chia-piao, secretary of the Euro-Asia Trade Organization, forecast confidently that the percentage of Europe's trade with Taiwan and the percentage of the United State's trade with Taiwan will both be between 22 and 24 percent within five years, and that the percentage of trade with Europe will continue to rise thereafter while the U.S. percentage of trade with Taiwan will decline. Japan's percentage will remain at about 20 percent.

The European market is not only Taiwan's second largest trading partner today, but of the four small Asian tigers, with the exception of Hong Kong, Taiwan's volume of trade with Europe is greater than that of Korea and Singapore. Although Europe's investment in Taiwan varies from one year to another, it is tending gradually to overtake American investment. This means that Taiwan is gradually breaking away from the American economic bloc with which it has been associated since World War II. It has truly entered the age of multilateral trading.

European governments have also seized this opportunity to improve greatly their relations with Taiwan within the short space of three to five years. During the past three years, six countries have set up various kinds of offices in Taiwan (see table). France, which was first to forsake Taiwan in the United Nations, also elevated its unit in Taiwan to "Association in Taiwan," for the direct handling of visas. France, which has always gone its own way, was first among European countries to send an incumbent minister openly to Taiwan at the beginning of the year, namely Minister of Industry and Land Management Roger Fauroux, who came to Taiwan to discuss economic cooperation plans.

European Countries Successively Establish Offices in Taiwan

Country	European offices in Taiwan						Taiwan offices in Europe	
	Association in Taiwan	Commercial Office	Trade Promotion Association	Industrial Cooperation Association	Chamber of Industry and Commerce	Cultural Center	Ministry of Economic Affairs	CETDC
Germany		X				X	XXX	XX
United Kingdom			X			X	X	X
France	(X)		X	X	X		X	X
Spain		X						X
Italy			(X)				X	
Greece			X					
Belgium			X				X	
Netherlands			X				X	XX
Luxembourg			(X)					
Ireland			(X)					
Austria		X						X
Switzerland		X					X	
Denmark		X					X	
Norway		(X)						
Sweden					X			X
Finland				(X)				
Hungary							(X)	

Note: (X) denotes an office set up in the past three years. Sources of data: Euro-Asia Trade Organization, Board of Foreign Trade, and CETDC

Ch'ou Chia-piao, an old European hand in the Euro-Asia Trade Organization, said happily, "Formerly all (European) visas had to be handled through Hong Kong, but now all visas are handled in Taiwan."

Such an achievement is no accident. In order to get away from the threat of oppression from the United States at every turn for violating Article 301, a dispersal of foreign trade markets has all along been an important matter for Taiwan's economy. Ever since 1985, Ministers of Economics Li Ta-hai [2621 6671 3189], Ch'en Lu-an [7115 1462 1344], and Hsiao Wang-chang have made direct contacts with Europe and taken the initiative in visiting Europe. Consideration has even been given in recent years to Europe in overseas procurement policy for even major projects that have always taken a lot of money.

Getting Started Is Good

Ever since the Korean War, Taiwan has been enmeshed in the sphere of influence of the American "military sphere" and "economic sphere." Taiwan has also been accused of "dependence" on the United States for its survival. America's appetite for consuming one-third of Taiwan's annual exports shows how much power America has in Taiwan, and this plus Taiwan's absolute dependence on the United States for sales of military equipment makes Taiwan short of breath in running along with the United States in international diplomacy. The decline of the American economy means that Taiwan must seek other "strategic partners," and plans for the 1992 European market integration happen to meet this need. Expert social observer Yang Tu's [2799 3256] optimism in talking about the increase in the percentage of European trade is a greater focus of attention than the economy. He believes that Taiwan's ability to free itself from the "single economic sphere" of the United States and to build multilateral relationships will help Taiwan become truly "independent and autonomous," and it is the only way to become like Japan, which while continuing to be dependent on foreign trade will be truly free from a "dependent" fate.

The methods of the Industrial Development Bureau and the CETDC are not without criticism. Professor Hsi Xiao-yun [3679 2556 7189] of the Textiles Deparetment at Fu-jen University maintains that the CETDC's introduction of European designers to design Taiwan products takes into consideration only business without taking account of culture. She points out that the importation of European designers only has the effect of "developing European tastes without fostering Taiwan tastes." Once European tastes are no longer popular internationally, Taiwan's products will be out of the running. She recommends that Taiwan train up designers that have a native flavor, so that in the future when "Europeans want to buy Taiwan commodities, it will be because of their Taiwan flavor."

In addition, some firms also are doubtful about the government's "public capabilities." They believe that the only long-range plan is reliance on their own strength.

In the face of these misgivings, the secretary of the CETDC, Liu Yen-tsu, a true technocrat, does not feel disheartened. He said: "No matter what the government does, there are always a lot of questions, but this does not matter. So long as it begins to act, that is all right. When someone takes action, someone is responsible."

Profiles of Some Mainland Affairs Council Personnel

91CM0414A Hong Kong CHAO LIU [TIDE] in Chinese No 50, 15 Apr 91 pp 63-64

[Article by Liu Chun-chih (0491 0689 2535): "Taipei Selects Mainland Affairs Council Personnel"]

[Excerpt] [passage omitted]

The major personnel for the Mainland Affairs Committee have already been selected. They include chairman Shih Chi-yang [2457 0796 2799], a standing member of the Kuomintang [KMT] Central Committee and vice president of the Executive Yuan; vice chairmen Kao Kung-lien [7559 1313 1670] and Hsieh Sheng-fu [6200 3932 1381], who respectively served as vice chairman of the Executive Yuan's Research, Development, and Evaluation Commission and Executive Yuan consultant and head of the Congressional Liaison Department. Lee Wei-lien [0632 1218 1670], head of the Hong Kong and Macao Department, is a former chairman of the Overseas Chinese Affairs Commission Overseas Student Assistance Office. Kung Peng-cheng [7895 7720 4453], head of the Cultural and Education Department, has not served as a civil official, but he is a former assistant professor and department chairman of the Department of Chinese Literature, and head of the College of Liberal Arts at Danchiang University. It is possible that the other department heads will be selected within five months.

Principal Members of Executive Yuan's Mainland Affairs Council

Name	Age	Birthplace	Formal Education	Current Professional Position	Previous Positions
1. Shih Chi-yang	56	Taichung, Taiwan	M.A., law, Taiwan University; Ph.D., law, Heidelberg University	*vice premier, Executive Yuan; chairman, Mainland Affairs Council	professor, Taiwan University Law Department; deputy chairman, KMT Youth Work Council; deputy minister of education; deputy minister and minister of justice
2. Ma Ying-chiu	41	Hengshan, Hunan	bachelor's degree in law, Taiwan University; Ph.D., Harvard University's School of Law	**chairman, Executive Yuan's Research, Development, and Evaluation Commission; vice chairman, Mainland Affairs Council	deputy director, First Bureau of the Presidential Office; deputy secretary general, KMT Central Committee; executive secretary, Mainland Work Committee
3. Kao Kung-lien			Ph.D., management, Louisiana State University	vice chairman, Mainland Affairs Council	assistant director, Central Bank; head and deputy chairman, Executive Yuan's Research, Development, and Evaluation Commission; deputy executive secretary, Mainland Work Committee
4. Hsieh Sheng-fu	52	Changhua, Taiwan		vice chairman, Mainland Affairs Council	judge, Taipei Local Court; member, Legislative Yuan; consultant, Executive Yuan; head, Congressional Liaison Department
5. Lee Wei-lien	47	Anhui	bachelor's degree, National Chengchi University's Foreign Affairs Department; M.A., international relations, Yale University	head, Hong Kong-Macao Department of Mainland Affairs Council	Ministry of Education's cultural counsel, stationed in California, U.S.A.; deputy director, Research, Development, and Evaluation Commission; department head, Save the Country Group's educational organization; chairman, Overseas Chinese Affairs Commission's Overseas Student Assistance Office

Principal Members of Executive Yuan's Mainland Affairs Council (Continued)

Name	Age	Birthplace	Formal Education	Current Professional Position	Previous Positions
6. Kung Peng-cheng	46	Ji'an, Jiangxi	Ph.D., Taiwan Normal University's Chinese Literature Research Institute	head, Mainland Affairs Council's Cultural and Education Department	assistant professor and department chairman, Danchiang University's Department of Chinese Literature; head, Danchiang University's College of Liberal Arts

Note: * denotes a standing member of KMT Central Committee; ** denotes a member of KMT's Central Executive Committee.

The Mainland Affairs Council has three vice chairmen. It has already been determined that Ma Ying-chiu [7456 5391 0046] will serve as first vice chairman. He is currently chairman of the Research, Development, and Evaluation Commission, a position similar to that of a department head, and he is an appointed official of the Taiwan Civil Service System (he was not required to take a civil service examination to qualify). Because there has been no new appointment to the chairmanship of the Research, Development, and Evaluation Commission, his new replacement has not yet been announced. He was transferred to a vice chairmanship on the Mainland Affairs Committee, and he is still at the designated appointment rank. The other two vice chairmen are at the selected appointment rank, level 14, which is comparable to a rank of vice minister.

In its implementation of the committee member system, the Mainland Affairs Council is the same as the Economic Construction Committee, the Agricultural Affairs Committee, and the State Science Committee. Committee members include Shih Chi-yang, vice premier of the Executive Yuan; Secretary General Wang Chao-ming [3769 2507 2494]; Hsu Shui-te [6079 3055 1795], minister of the interior; Frederick Chien [6929 1788], foreign minister; Hsiao Wan-chang [5618 8001 7022], economics minister; Wang Chien-hsuan [3769 1696 3551], finance minister; Mao Kao-wen [3029 7559 2429], education minister; Chang Chien-pang [1728 1696 6721], transportation minister; Economic Construction Committee chairman Kuo Wan-jung [6753 1238 1369]; Cultural Establishment Committee chairman Kuo Wei-fan [6753 4850 5603]; Overseas Chinese Affairs Council chairman Tseng Kuang-hsun [2582 1639 7311]; News Bureau director Shao Yu-ming [6730 3768 6900]; Central Bank president Hsieh Sen-chung [6200 2773 0022]; and National Security Bureau chief Sung Hsin-lien [1345 1800 3425].

Ma Ying-chiu, who has served as chairman of the Research, Development, and Evaluation Commission, would rather "submit to being" vice chairman of the Mainland Affairs Council, because he is very interested in the formulation and implementation of mainland policies. He will be able to fully use his legal expertise, as well as be able to establish a track record and reputation in politics. Shih Chi-yang wants to assist the premier in his work, and the day-to-day work of the Mainland Affairs Council will in fact be the responsibility of Ma Ying-chiu.

Kao Gung-lien taught university courses in enterprise management. When Wei Yung [7614 6978] was serving as chairman of the Research, Development, and Evaluation Commission (Ma Ying-chiu's previous position), he invited Kao to serve as deputy office director. Later Kao served as office director under Ma Ying-chiu, and he has considerable administrative and organizational abilities.

Before the establishment of the Mainland Affairs Council, he served as deputy executive secretary of the Mainland Work Committee, which officially engaged in mainland general affairs.

Hsieh Sheng-fu, who serves as a vice chairman, was named to his post by Hao Po-t'sun, with the goal of relying on his past experience in the Legislative Yuan and his personal contacts to assist with work between the Legislative Yuan and the Mainland Affairs Council. He has no experience with mainland affairs.

Lee Wei-lien, director of the Hong Kong and Macao Office, lived in Hong Kong for three years when a child, and he can speak Cantonese. At one point, under Wei Yung, he served as vice chairman of the Research, Development, and Evaluation Commission, and he has experience working in overseas Chinese affairs. Kung Peng-cheng, head of the Cultural and Education Department, is good at writing literary criticism; in fact, over the last several years he has participated in cultural exchange activities with the mainland.

Four of the five responsible people have Ph.D.'s, and one has a master's degree. A high level of educational is a major trait of Taiwan civil officials. These five individuals are all under 50 years of age, with the exception of Shih Chi-yang, and they are young, have ideals, and are vigorous.

However, not one of the leaders of the Mainland Affairs Council has done specialized research on the problem of Chinese communism. The Mainland Affairs Council as such is the organ for formulating and implementing mainland policy, and at a minimum should have a vice chairman who has had long-term contact with issues involving Chinese communism or who is simply a scholar. For example, it would be possible to transfer an individual from the International Relations Research Center or the China Economic Research Institute to serve on the council. This would raise the professional level of the Mainland Affairs Council.

In addition to the Mainland Affairs Council, there is not one specialist in Chinese communist affairs among members of the National Unification Commission or among the directors of the Straits Exchange Foundation. This is sufficiently explained by the fact the KMT Central Committee and the Executive Yuan do not pay adequate attention to issues dealing with Chinese communism. In fact, the formulation and implementation of mainland policies and exchange activity assistance is not something that individuals trained in Western legal studies can do; it also requires an understanding of Chinese communism. It requires figures who have thoroughly studied and understand the mainland and who can provide expert knowledge and experience when conducting administrative work and making policy decisions, giving them a wider scope.

Industries, Investment Shift Overseas

91CE0586A Taipei CHING-CHI JIH-PAO in Chinese 9 May 91 p 3

[Article by Yu Chih-chin (0060 6400 3830), Pai Fu-mei (4101 1381 5019), Li Chung (2621 0022), Lin Tien-liang (2621 1131 5328), and Chuang Chi-chung (8369 0796 1350): "Rapid Industrial Flight Shocks Economy, Effects Are Still Questionable, Domestic Technology is Insufficient, Success in Industrial Transformation is Questionable"]

[Text] The distinct phenomenon of industrial flight, which has far-reaching influence, has appeared in Taiwan in recent years. This not only has had a considerable impact on Taiwan's industrial structure, but has also added a variable to Taiwan's political and economic systems.

Statistics show that civilian overseas investment has undergone obvious changes in recent years. The proportion of direct overseas investment in civilian domestic investment slowly increased from 0.13 percent in 1976 to 5.34 percent in 1987, and then rapidly increased from 25.5 percent in 1988 to 45 percent in 1990. This shows that a drastic change in civilian overseas investment occurred in the past three years.

Judged purely from an economic angle, the shifting of industries overseas is a necessary and healthy phenomenon. Yang Shih-chien [2799 0013 4873], chief of the Industrial Development Bureau, thinks that it is a link that civilian enterprises must consider as they pursue profits and continuous growth. He said, "The achievements of Taiwan industry today are a result of foreign investment and the efforts of advanced industrialized countries, such as the United States and Japan, to look for new production bases." Wu Hui-lin [0702 1920 2651], researcher of Chinese Economic Research Institute, also holds the same view. He said, "Economic growth is a process of continuous changes in the industrial structure."

The question is whether the substantial increase in foreign investment in a short period of three years would hinder the change of the industrial structure.

Officials in charge of industrial policies in the Ministry of Economic Affairs hold an optimistic and positive view. Yang Shih-chien pointed out that statistics show that industrial flight overseas does more good than harm to economic development. Take the number of factories as an example. There were only 60,000 factories in 1986; the number increased to 78,000 in 1988 and to 92,000 at the end of 1990. This shows that some factories have moved overseas, but that more new ones have been built. Take another example: the output value of the manufacturing industry was about $90 billion in 1986. It increased to $160 billion in 1990, an increase of 78 percent in a four-year period. This shows that the gap left by industries moving overseas has been filled by new industries and by increases in the added value of products. Still another example is the structure of the manufacturing industry. The ratio of the industrial output value of heavy and capital- and technology-intensive industries to the gross value of industrial output increased from less than 60 percent in 1986 to 65 percent in 1990. This shows that overseas transfers of noncompetitive industries can help enterprises reduce the burden of such industries, and can enable them to concentrate better on the work of industrial upgrading.

However, some scholars have doubts about these statistics. They think that we should better understand their inner connotations. They think that, in addition to understanding the influence of the international situation, we should understand whether the exodus of Taiwan's labor-intensive industries and the slow recovery of market demand for mid-level and upper-level processing industries play a major part in causing the current economic recovery to be slower than the previous recovery.

Wu Huilin, researcher at the Chinese Economic Research Institute, pointed out that civilian investment in 1990 declined 8.9 percent compared to the previous year, which is a serious warning. If investment desires continue to remain low, it indicates obstacles to changing the industrial structure.

Ma Kai [7456 0418], researcher at the Chinese Economic Research Institute, also pointed out that a few years ago all fields were talking about the "constricting theory." They feared that since Taiwan's labor-intensive industries had not upgraded sufficiently, they might be "constricted" by the newly emerged Southeast Asian countries. Today a large number of labor-intensive industries have moved overseas. If industries fail to upgrade smoothly, it might not be labor-intensive industries which are constricted, but rather Taiwan's economy.

Yang Shih-chien pointed out that the regulations for industrial upgrading implemented since the beginning of this year and the "Plan for Accelerating Investment in

and Upgrading of the Manufacturing Industry," which the Executive Yuan adopted for implementation in 1990, have created a very good climate for developing basic industrial upgrading. Our biggest problem now is that, due to a lack of technological capability, our industrial upgrading has progressed very slowly.

Yang Shih-chien pointed out that in order to upgrade technological capabilities, the government should lead civilian enterprises in conducting research and development [R&D] projects to increase our technological development capacity. In addition, we may also import technology from abroad. The six-year national construction plan, which is near $300 billion in scale, is the best bargain counter for importing foreign technology.

Yang Shih-chien said that the government can use an "off-setting" principle to ask well-known international enterprises that bid on the six-year national construction plan to provide the country with concrete technologies or cooperative conditions that are conducive to our industrial upgrading. This will help accelerate our industrial upgrading.

Another quick way to accelerate industrial upgrading is to carry out "strategic alliances" with international enterprises. Yang Shih-chien said that the country's manufacturing capacity is considered first-class worldwide, but that our marketing, product designing, and quality-control capacities are very weak. Because of this, if we carry out "strategic alliances" with countries that perform outstandingly with regard to product marketing, designing, and quality, we can also achieve the purpose of accelerating industrial upgrading. This is another form of industrial internationalization that is different from foreign investment.

As a matter of fact, the concept of "industrial internationalization" exists extensively in business circles, and it has become the catalyst for industrial flight overseas. Through the industrial investment and development commissions of 20 counties and cities, the Ministry of Economic Affairs' Investment Department recently surveyed and interviewed responsible persons in 501 manufacturing enterprises on the subject of "improving the investment environment and stimulating investment intentions." The survey showed that 39 percent of those interviewed said that the main reason for enterprises investing overseas was to "seize overseas markets"; 28.6 percent said the reason was to "internationalize enterprises"; and 25 percent said that "their products were losing the ability to compete."

Officials at the Ministry of Economic Affairs are both happy and unhappy about these findings. They are happy because only 26.6 percent of interviewed enterprises engage in overseas investment, and their motives are due partially to the lack of obvious improvement in the domestic investment environment. However, their overseas investments are still concentrated in internationalizing enterprise management—namely seizing overseas markets, importing science and technology, or stabilizing sources of raw materials for production. The officials are also unhappy, because as many as 70 percent of enterprises that have not engaged in overseas investment are actively assessing foreign investment, whereas only 30 percent of enterprises' responsible persons think that production in Taiwan "is still competitive."

Based on their actual experience in overseas investment, business circles can fully identify with and hope to expand the "industrial internationalization" concept of Yang Shih-chien. When government officials consider the industrial investment policy regarding technological imports or industrial upgrading, they should draw support from domestic enterprises which have moved abroad, as well as from foreign enterprises. In other words, under the concept of "industrial internationalization," the industrial investment policy should be tied to foreign investment policy. This will provide greater policy space and enable enterprises that have moved abroad to turn around and become the force behind domestic industrial upgrading.

Some labor-intensive industries which have moved abroad not only have begun recovering their investments, but have also used these profits to strengthen R&D work in Taiwan and to further spread the results of the R&D to other overseas investment projects.

Take the shoe-making industry, for example. A businessman who established a plant in mainland China said that Taiwan investors' profit rates are high in mainland China; all you have to do is to look at the increase in production lines and the growing number of container trucks. However, they do not like to make this public due to concerns about tax audits.

This businessman said that most Taiwan investors remit only wages and management expenses to the mainland and keep profits from price differentials in Hong Kong. At first Hong Kong banks did not attach much importance to Taiwan investors. But in the last one or two years many Taiwan investors have remitted tens of millions of dollars each year. Because of this, many Hong Kong banks recently made call after call, trying to take over the remittance business of Taiwan investors. Their attitude has changed very quickly.

This businessman said that many shoe factories in mainland China can break even in just a year. In the second year they can recover over two-thirds of their investment and use employees to bring back $100,000 to $200,000 a month. Or they can remit $1 million to $2 million a month to pay off expenses in Taiwan, and keep the remaining profits in Hong Kong for future expansions. Because of this, there is no obvious reflection of economic recovery in Taiwan, but the number of orders received by the mainland has shown obvious improvement.

Tsai Nai-feng [5591 0035 1496], general manager of the Paocheng Industrial Company, pointed out that currently his company has signed only technological cooperation agreements with new plants on the mainland. It

uses its existing R&D and production technologies to help new shoe-making plants on the other side of the strait with production. Currently his company charges only for technical assistance. In the future, it will consider charging royalties, or make indirect investment in Indonesia and Southeast Asia.

The Ministry of Economic Affairs pointed out that industrial flight overseas is not linked directly or inevitably to the situation of industrial shallowness. The nightmare of industrial shallowness will not really occur unless the rate of foreign investment is too high; a panic of capital outflow appears; income from direct foreign investment is not remitted back home; business circles do not want to continue to any kind of investments at home; or the investment climate deteriorates overall and is no longer suitable for any industry to survive.

Although industrial flight is nothing to worry about, some economists still worry about filling the "void" left by the move of labor-intensive industries. They think that this should be the key concerning the future development of Taiwan.

Yang Shih-chien made no attempt to conceal the fact that currently Taiwan "lacks technological capacity." Wu Tzai-i [0702 0375 4135], director of the Information Department of the Taiwan Economic Research Institute, hopes that civilian enterprises can engage in R&D work and raise R&D's share of GNP from the current level of 1.2 percent to at least 2 percent.

However, business circles think that R&D work is a thankless, high-risk job. Hu Chiao-jung [5170 0294 2837], general manager of the Hsinkuang Textile Company, pointed out high-count yarn as an example. Recently several large cotton mills in Taiwan developed it after great effort, but now it is a product that causes the greatest losses for many plants.

Chen Hsiu-chung [7115 0208 1813], general manager of the Tatung Textile Company said that to develop high-quality products, we should first coordinate every link in the production process. Take the development of high-count yarn as an example. If we do not coordinate the finishing link—the dyeing and polishing industries—we can make only petty profits by selling high-count yarn and grey cloth. However, Chen does not think that businesses moved abroad after failing to develop high-quality products.

Chen Hsiu-chung pointed out that the global division of labor has become a future trend of development. There will be no textile plant that can simultaneously produce high-, medium-, and low-priced products. Lai Fu [6351 1133] Yagi, a Japanese national in charge of the International Ready-made Clothing Association, said that Taiwan's textile industry must move production lines of low value-added products overseas. This can only benefit, and not harm, Taiwan. However, the development of high value-added products in Taiwan should be faster, and such a move should be coordinated with a foreign investment policy that is more open.

When facing the impact of industrial internationalization, deciding what to do is sometimes harder for governments than for civilians. The Haicang investment plan of the Taiwan Plastics, which stirred up a lot of commotion on both sides of the strait, serves as an example.

Restricted by rising environmental protection in Taiwan and rising land costs, Taiwan Plastics built a light oil splitting plant in Texas. In addition, it also considered investing in building a "special petrochemical zone" in Haicang, Fujian. After this across-the-strait investment plan was "exposed," the government and public immediately showed strong reactions.

Everyone, from President Li Teng-hui and Executive Yuan president Hao P'o-tsun, on down to economic minister Hsiao Wanchang and Industrial Development Bureau chief Yang Shihchien, has directly or indirectly contacted Wang Yung-ching [3769 3057 1987], chairman of the board of Taiwan Plastics, and Wang Yung [3769 3057], general manager, in an attempt to understand the real situation. As of today, whether Taiwan Plastics will continue to implement the Haicang investment plan is still a question.

Recently the issue of whether Taiwan should conduct direct trade and investment activities with the mainland has caused endless debates, including debates on "separating politics and economics" and "confusing politics with economics." Whether Taiwan manufacturers need to poll government and civilian forces when investing overseas in areas such as Southeast Asia has also caused controversy (for instance, the Ministry of Economic Affairs hopes that the Taiwan Polyester Company will establish a light oil splitting plant in the Philippines, and the state-run China Iron and Steel Company plans to invest in and build a plant in Malaysia). Foreign investments of Taiwan manufacturers are no longer simple economic behaviors. Like "an invisible hand," politics has guided and organized the international investment activities of several thousand manufacturers behind the scenes.

The era of cheap labor in Taiwan has ended. "Defense-oriented" or "expansion-oriented" overseas investments of enterprises that change to seek growth is a normal stage, and it is necessary for upgrading the national economy. However, in Taiwan it poses a political and economic issue of much greater complexity.

Paper Urges Allowing Students To Study on Mainland

OW2006125791 Taipei CHINA POST in English 15 Jun 91 p 4

[Editorial: "Let Students Study on the Mainland"]

[Text] The Legislative Yuan on Thursday revised a bill to bring about recognition of the academic qualifications of the mainland's schools by education autorities here. The lawmakers, noting that "even third-rate universities

in the United States are recognized by the Ministry of Education," concluded that the government should not refuse in recognizing the degrees local residents receive from universities on the Chinese mainland.

The legislature thus overturned the bill introduced by the Executive Yuan to have the Ministry of Education map out a separate set of rules on the recognition of degrees obtained from mainland universities. The lawmakers passed a revision under which the degrees Taiwan residents obtain on the mainland will be assessed for recognition in accordance with the Ministry of Education's existing policy on educational qualifications.

The revision, when enacted, will legally put an end to the ban on Taiwan residents seeking advanced studies on the mainland.

The lawmakers' decision deserves support. Although allowing Taiwan residents to study on the mainland may have some negative effects, the positive impact of the development will be far greater.

So far, the government has tried to discourage local students from pursuing their studies on the mainland by refusing to recognize the degrees they receive across the Taiwan Strait. This very short-sighted policy is motivated mainly by the fear that young people from Taiwan who study on the mainland may be brainwashed by the Communists with their propaganda.

This fear is largely, if not totally, unfounded. For one thing, to attract Taiwan students to the mainland, Peking has adopted the policy that Taiwan students attending mainland universities do not have to take courses in Marxism required for mainland students.

Morever, students who have completed their secondary education in Taiwan society should be aware of the value of freedom and democracy. They will not easily fall for the Communists' propaganda. The government should be confident that the values of our free and open society can prevail over the inhuman Marxism-Leninism.

Allowing local students to go to the mainland for advanced studies will contribute toward the creation of a better understanding between people on the two sides of the Taiwan Strait. In the end, it may prove to be a great help in effecting China's reunification.

'Minipower' To Be Among Top 10 Nations by Decade's End

OW1906231291 Taipei CNA in English 1424 GMT 19 Jun 91

[Text] Taipei, June 19 (CNA)—The following is the editorial of Wednesday's EXPRESS NEWS, a daily newspaper published by the CENTRAL NEWS AGENCY.

The Republic of China [ROC] on Taiwan is not as small as its physical size indicates. It is a minipower and its power is in the ascendant. We should not denigrate ourselves.

By the end of this decade, the Republic of China is certain to enter an exclusive group of the world's top 10 nations which wield enormous industrial and technological clout.

This is the finding of a US study based on statistics that gauge the significance of a nation's patents and scientific papers by measuring how frequently they are cited in subsequent patent filings. A patent (or a scientific paper) that is often referred to is judged to be more important than one that is not cited at all.

The patent data, compiled by Chi Research Inc. of Haddon Heights, N.J., have been analyzed to define a new world order, in which the Republic of China is ranked 11th among 15 top countries. The new world order, according to the analysis, is: the United States, Japan, Germany, Britain, France, the Netherlands, Switzerland, Canada, Sweden, Italy, Taiwan, Korea, the Soviet Union, Belgium, and Panama.

If a new world map is drawn with a nation's size corresponding to its technical strength, Taiwan will appear larger than the Soviet Union, not to mention Communist China whose geographical size is 270 times that of Taiwan.

It is gratifying to know that the ROC has gained such an exalted status in the community of nations. An industrial backwater 40 years ago, Taiwan is now a minipower with industrial muscle comparable to such G-7 [Group of Seven] countries as Italy and Canada.

One might argue that the study could be misleading because it is narrowly based, on patents alone. Allowing this argument the benefit of the doubt, there is no denying that the ROC holds comparable positions in the world in terms of foreign trade and per capita gross national product.

Judging from the huge investment the Republic of China is making in its six-year national development plan, it certainly is not too far-fetched to predict that by the end of this decade Taiwan will advance further in the new lineup of nations in accordance with industrial and technical strength.

The world is changing fast, so are the conventional ideas. The traditional meaning of "rich and strong," the twin grail of Chinese dream, has to be redefined. While it is cynical to say "small is big" or "less is more," it sometimes bears meaning. Taiwan is a case in point.

We are not that small after all. Look at the new map. We are larger than the two communist giants combined.

General Mobilization Law To Be Amended

OW2906083091 Taipei CNA in English 0808 GMT 29 Jun 91

[Text] Taipei, June 29 (CNA)—The Ministry of Justice has drafted an amendment to the National General Mobilization Law that should better protect normal economic activities in the country.

The original 32-article law was promulgated in 1942 when the nation was in the middle of its war against Japan. It has not been revised since. Twenty-seven of the 32 articles were rewritten in the revised draft bill.

The draft distinguishes mobilization during peacetime and mobilization during wartime or when an invasion is imminent.

In peacetime, the government is charged with preparing for mobilization for wartime. The government can survey national manpower, materials and land during peacetime for use in wartime.

In wartime, the government may ban strikes, work slowdowns, factory closures or other activities that might affect production. It may also restrict freedoms to speak, lecture, publish, assembly and demonstrate.

According to the existing mobilization law, death sentences may be levied against offenders. The amendment bill carries a maximum penalty term of no more than seven years in jail during wartime. In peacetime, offenders may be fined up to 200,000 NT dollars.

Under the bill, the president may issue a mobilization order on the recommendation of the executive yuan.

The draft amendment will be sent to the legislative yuan for deliberation after being approved by the cabinet.

Fifty-one laws and regulations enacted in accordance with the national general mobilization law will also be revised or repealed in the future.

ADB To Float International Bonds in Taiwan

OW1907114591 Taipei CNA in English 0806 GMT 19 Jul 91

[Text] Taipei, July 19 (CNA)—The Asian Development Bank (ADB) will float international bonds worth 150 million U.S. dollars here before the end of the year, with their interest rate linked to current international rates, an ADB official announced.

Tomoo Hayakawa, ADB treasurer, and Chi-chuan Hung and Rip Min, both ADB assistant treasurers made the announcement after calling Thursday on Samuel Shieh, the governor of the Central Bank of China.

Hayakawa said ADB plans to float the seven-year international bonds in Taipei, Hong Kong and Singapore markets simultaneouly and to allow bond buyers in one market to sell them in either of the other two markets.

The ADB official said Taiwan's financial internationalization efforts have been impressive, and he believed that Taiwan has great potential as a capital market.

Hayakawa added that ADB will shortly send a group to Taiwan to study the tax system here.

Shieh, welcoming ADB's plan to float bonds here, said the move will boost Taipei's standing in international financial markets and will provide people here a good investment.

Cross-Strait Trade Up From January to May

OW2407093191 Taipei CNA in English 0830 GMT 24 Jul 91

[Text] Taipei, July 24 (CNA)—Trade between Taiwan and mainland China via Hong Kong broke the 2 billion U.S. dollar mark in the first five months of 1991, a 38.89 percent increase over the same period of 1990, according to Hong Kong customs statistics.

Taiwan exports to the mainland totaled 1.66 billion U.S. dollars during the January-May period, a 38.62 percent increase over the same period of 1990, and accounted for 5.69 percent of Taiwan's total external trade, a new record. Imports from the mainland reached 479 million U.S. dollars, up 40 percent.

The Board of Foreign Trade (BOFT) added that May shipments to the mainland were worth 410 million U.S. dollars, a 37.75 percent increase, while imports from the mainland were 99.8 million U.S. dollars, up 41.8 percent.

Such industrial materials and parts as textiles, machinery, electronic parts and plastics accounted for 68.46 percent of Taiwan's total exports. Plastics enjoyed the highest growth at 52.72 pecrcent, BOFT said.

Boft urged local manufacturers to diversify their export markets in order to reduce their reliance on mainland markets.

Bilateral Trade With South Korea Increases

OW2707123391 Taipei CNA in English 0808 GMT 27 Jul 91

[Text] Taipei, July 27 (CNA)—Bilateral trade between the Republic of China and South Korea is expected to reach a record 3 billion US dlrs in 1991, the Board of Foreign Trade (BOFT) said Friday.

Exports to South Korea totaled 668 million U.S. dlrs in the first half of 1991, an 11.3 percent increase over the same period of 1990, while imports from Korea were 846 million U.S. dlrs, up 25.1 percent, BOFT reported.

Ways to further expand trade between the two countries will be discussed during the one-day Sino-Korean economic cooperation conference to be held here Monday.

BOFT Deputy Director Shyu Chao-ling will head the host delegation while Chang Sok-an, director general of the Bureau of International Trade Promotion of the Ministry of Trade and Industry will lead the Korean delegation.

The trade deficits suffered by both Taiwan and South Korean with Japan may set new records this year, thus, BOFT said, strengthening trade relations between the two countries will help restrain the growing reliance on Japan.

Trade Surplus Reaches $6.43 Billion in 1991

OW2707125191 Taipei CNA in English 0812 GMT 27 Jul 91

[Text] Taipei, July 27 (CNA)—The Republic of China's economy is growing steadily, accumulating a trade surplus of 6.43 billion U.S. dlrs so far this year, up 10.7 percent from a year earlier, statistics show.

Exports from January 1 to July 20 totaled 40.86 billion U.S. dlrs, up 14.2 percent from last year, while imports during time period totaled 34.43 billion U.S. dlrs, up 14.8 percent.

From July 1 to 26, both exports and imports have grown dramatically; exports totaled 4.7 billion U.S. dlrs, up 19.7 percent, while imports totaled 3.6 billion U.S. dlrs, up 17.1 percent.

Hong Kong has replaced Japan and Europe for the first time to become Taiwan's second biggest trade partner, a sign that trade with mainland China via Hong Kong has been booming. The United States remains Taiwan's No.1 trade partner.

Open Domestic Insurance Market Considered

OW2907131591 Taipei CNA in English 0818 GMT 29 Jul 91

[Text] Taipei, July 29 (CNA)—Finance Minister Wang Chien-shien said Sunday that his ministry is considering opening the domestic insurance market to additional foreign countries after the Insurance Law is revised during the next Legislative Yuan session starting October.

The United States is the only foreign country permitted to establish branch offices here.

As part of the Financial Market Liberalization Program, Wang told the press, a proposed revision of the Insurance Law had been sent to the Legislative Yuan for deliberation and, if approved, foreign countries, including Britain, will be able to open branch offices here.

Britain, which has shown increased interest in the growing insurance market in Taiwan, is expected to raise the issue and request the Republic of China Government to grant equal treatment in the Sino-British trade consultations opening here today.

'Top 10' Export Items Enjoy 'Booming Business'

OW0508091491 Taipei CNA in English 0806 GMT 5 Aug 91

[Text] Taipei, Aug. 5 (CNA)—Taiwan's top ten export items, including textiles, electronics, machinery, and steel products, enjoyed booming business in the first half of 1991, the Board of Foreign Trade reported today.

Exports of textiles, the largest export item, totaled 5.49 billion US dlrs in the Jan.-June period, a 14.9 percent increase over the same period of 1990; followed by electronics at a total of 3.95 billion US dlrs, up 10.2 percent; machinery at 3.25 billion US dlrs, up 20.6 percent; agricultural products at 1.77 billion US dlrs, a growth of 20.4 percent; and steel products at 1.4 billion US dlrs, a 19.9 percent increase.

Footwear and furniture exports decline in 1990 also fared well during the first six months this year. Footwear exports reached 1.87 billion US dlrs, up 9.6 percent and exports of furniture totaled 780 million US dlrs, up 8.6 percent.

Exports of electric engineering equipment and plastic products, growing relatively little, totaled 1.69 billion US dlrs and 1.27 billion US dlrs respectively. Exports of toys and sporting goods, the only item to see decline, dropped three percent to 1.32 billion US dlrs.

July Brings Third Straight Month of Export Increases

OW0608112791 Taipei CNA in English 0850 GMT 6 Aug 91

[Text] Taipei, Aug. 6 (CNA)—Republic of China exports set a single-month record of 7.12 billion US dlrs in July, rising an impressive 14 percent from the year before, according to customs statistics released today.

It was the third straight month Taiwan exports rose to new heights, after their blockbuster growth of the previous two months.

July imports reached 5.51 billion US dlrs, 14.4 percent higher than that registered in July 1990, customs tallies showed.

The Republic of China enjoyed a trade surplus of 1.61 billion US dlrs in July, an increase of 12.6 percent over the year before.

Yang Tsai-yuan, director of the Finance Ministry's Statistics Department, attributed the July export boom mainly to a rebound in sales to the United States and continuing growth in shipments to mainland China.

Exports to the United States, consistently Taiwan's largest market, regained strength in July following several months of decline due to an economic recession there. July exports to America reached 2.15 billion US

dlrs, a record since November 1989. The amount represented a 30.2 percent share of total Taiwan outbound shipments for the period.

Hong Kong, an entrepot center in Taiwan-mainland trade, replaced Europe as the second largest market, absorbing 17.2 percent of total Taiwan exports. Shipments to the British Crown Colony, growing dramatically since March, chalked up a whopping 53.1 percent gain in July.

Japan remained the top import sourne, accounting for 32.3 percent of the island's total imports; followed by the United States with 22.7 percent.

Manufactured goods, the mainstay of Taiwan exports, accounted for an overwhelming 95.6 percent of total outbound shipments. Among them, 44.8 percent were heavy industry products and 50.8 percent were light industry goods.

Industrial raw matrials formed the bulk of imports with a 72.1 percent share, followed by capital goods with 18.2 percent.

In July, Hong Kong replaced the United States at the top of a list of countries with which Taiwan enjoys huge trade surpluses.

Taiwan's trade surplus with the United States declined 12.3 percent to 900 million US dlrs, while its surplus with Europe increased .4 percent to 340 million US dlrs.

The trade imbalance with Japan worsened in July due to increased imports from that country. Taiwan's trade deficit with Japan rose 28.8 percent to 990 million US dlrs.

Accumulated Taiwan exports reached 43.25 billion US dlrs in the January-July period, up 13.5 percent from the year before, and imports surged 14.5 percent to 36.33 billion US dlrs. Trade surplus for the seven month period totaled 6.92 billion US dlrs for an annual growth of 8.6 percent.

Interest in French Railroad Technology

OW0708144991 Taipei CNA in English 0758 GMT 7 Aug 91

[Text] Taipei, Aug. 7 (CNA)—The main purpose of Minister of Communications and Transportation Chien You-hsin's visit to Paris is to familiarize himself with the high-speed railroad transportation of France, an official of the ministry said Tuesday.

Chien, who left for Paris last Saturday, will also exchange views with French experts on the transfer of high-speed railway technology to Taiwan, the official said.

Taiwan will construct a north-south high-speed railroad and other high-speed transportation systems under its six-year multibillion-dollar national development plan.

Information about French transportation technology will be useful for the construction projects. Leading French engineering and consulting firms have shown keen interest in participating in the projects, the official said.

Chien will also study the feasibility of producing railway tramcars in Taiwan with French technology, the official added.

Characteristics of Newly Formed Political Groups

91CM0389A Hong Kong MING PAO YUE KAN [MING PAO MONTHLY] in Chinese No 304, Apr 91 pp 10-12

[Article by Kuo Sheng (6753 4141): "Characteristics of the Five New Political Groups"]

[Text] Since 1989, five new political groups have been formed, three of which use the term democratic in their names: the Hong Kong Democratic Foundation, the United Democrats of Hong Kong, and the Liberal Democratic Foundation. These are somewhat similar names, which cannot help but confuse the average city resident. Even news reporters are sometimes not careful and easily mix them up.

Because the history of these political organizations is very brief, they are without any official achievements, and their political programs lack a clear-cut stand, we can only begin by looking at their leadership or members in an attempt to point out some of their characteristics.

The Hong Kong Democratic Foundation (the Democratic Foundation, for short) was established in October 1989. Its most outstanding characteristic is that there are quite a few "foreigners," from its sponsors to its leadership: among the eight founding members, only two are Chinese. However, at present there are more than 300 members, 60 percent of whom are Chinese. As for the 12 persons making up the leadership, only four are non-Chinese (see table 1).

Table 1: Leadership of the Hong Kong Democratic Foundation

Name	Position	Sex	Age	Education	Profession	Notes
Leong Che-hung	chairman	male	50	university	physician	Legco member
Leung Wai-tung	deputy chairman	female	39	university	lecturer	Legco member
Tang I-an*	treasurer	male	59	vocational school	businessman	
Wen Lu-you*	member	male	46	university	businessman	
Mai Li-chueh*	member	male	66	air force school		Legco member
Ao Ma-sheng*	member	male	43	university	business circles	
Chen Wen-you	member	male	29	university	education	
Chen Te-wei	member	male	30	university	business circles	
Hsiao Chien-ying	member	male	37	university	physician	
Huang Cho-sheng	member	male	37	university	legal circles	
Huang Han-shen	member	male	59	vocational school	public servant	
Wang Hui-wen	member	female	27	vocational school	broadcasting	

Notes: established in October 1989; present membership more than 340; an asterisk denotes foreigners

How in fact does this new political group, the first to use the name democratic, look upon democracy? The foundation's founding members believe that on the occasion of this historic moment, the people of Hong Kong must take the opportunity to seize their own destiny by building a democracy. They believe that at this critical juncture, when it comes to the future of the individual, the rule of law, the independence of the judicial system, the impartial administration of justice, individual rights and freedom, and the prosperity and stability of Hong Kong, democracy is the best protection. This is the conviction on which the Democratic Foundation was established.

In April of 1990, the second political group using the name democratic emerged: the United Democrats of Hong Kong.

Table 2: Leadership of the United Democrats of Hong Kong

Name	Position	Sex	Age	Education	Profession	Notes
Martin Lee Chu-ming	chairman	male	52	university	lawyer	Legco member
He Chun-jen	deputy chairman internal affairs	male	39	university	lawyer	
Yang Sen	deputy chairman external affairs	male	41	Ph.D.	lecturer	
Huang K'uang-chung	secretary	male	36	master's degree	lecturer	district assemblyman
Wu Ch'ung-wen	treasurer	male	43	university	physician	district assemblyman

Table 2: Leadership of the United Democrats of Hong Kong (Continued)

Name	Position	Sex	Age	Education	Profession	Notes
Li Yung-wei	standing committee member	male	35	university	professor	district assemblyman
Luo Chih-kuang	standing committee member	male	37	Ph.D.	senior lecturer	
Wu Ming-chin	standing committee member	male	35	master's degree	professor	district assemblyman, local municipal council member
Hsiao Hsian-ying	standing committee member	male	47	middle school	postal service	
Szeto Wah	standing committee member	male	60	normal school	principal	Legco member
Huang Pi-yun	standing committee member	female	37	bachelor's degree	graduate student	

Notes: established in April 1990; current membership 520

Much of the core membership of the United Democrats comes from three political groups that were formed early on: the Hong Kong Affairs Society, the Meeting Point, and the Association for Democracy and People's Livelihood. This can also be clearly seen from the leadership list for this group (see table 2).

Yang Sen, the deputy chairman for the groups external affairs, is the chairman of the Meeting Point. The deputy chairman for internal affairs, He Chun-Jen [0149 0193 0088], serves as head of the Hong Kong Affairs Society, while standing committee member Li Yung-wei [2621 3057 6672] is the deputy chairman of the Association for Democracy and People's Livelihood. Treasurer Wu Ch'ung-wen [0702 1504 2429] once served as chairman of the Hong Kong Observation Society, and later joined the Hong Kong Affairs Society. Wu Ming-chin [0702 2494 2953] is a key member of the Meeting Point.

The third political group, though not necessarily the last, to use the name democratic is the Liberal Democratic Foundation [LDF], which was established in November 1990. Former Legco member Hu Fa-kuang [5170 3127 0342] serves as its chairman.

Table 3: Leadership of the Liberal Democratic Foundation

Name	Position	Sex	Age	Education	Profession	Notes
Hu Fa-kuang	chairman	male	66		industrialist	former member, Legco; Basic Law Advisory Committee
Maria Tam Waichu	deputy chairman	female	45		lawyer	member, Executive Council and Legco; served on Basic Law Drafting Committee
Kuo Chih-chuan	deputy chairman	male	52	Ph.D., Harvard University	businessman	municipal council member; served as deputy chairman of Basic Law Advisory Committee
Huang K'uang-yuan	volunteer treasurer	male	46		certified accountant	Legco member; served on Basic Law Advisory Committee
Wu Wei-yung	member	male	53		physician trained in Western medicine	served on Basic Law Drafting and Advisory Committees
Hsu Shih-hsiong	member	male	47	Ph.D., Philosophy of Science	professor, Hong Kong University	representative, National People's Congress
Chen Yong-ch'i	member	male	43	bachelor's degree in engineering from a U.S. university	industrialist	served on Basic Law Advisory Committee

What attracts the most attention to the LDF is that its leadership contains a current member of the Executive Council, Maria Tam Wai-chu [6223 1920 3796], and a representative to the National People's Congress, Hsu Shih-hsiong [1776 2508 7160]. This is something that the other political groups lack.

The material on its seven leaders which the group provided to this publication shows that among these seven, six were associated with the Basic Law Drafting Committee: Maria Tam Wai-chu and Wu Wei-yung were members of the Drafting Committee; Kuo Chih-chuan [6753 1807 2938], Hu Fa-kuang, Huang K'uang-yuan [7806 0562 3293], and Chen Yong-ch'i [7115 3057 2759] were members of the Advisory Committee (see table 3). Maria Tam Wai-chu and Kuo Chih-chuan are also key members of the Hong Kong Progressive Association.

Perhaps because the leadership of the LDF is so closely associated with the Basic Law Drafting Committee, the credo of the LDF gives prominence to the Basic Law from the very start. Its first section is written this way: "The LDF firmly believes that a liberal democracy is the path for the gradual development of Hong Kong's political system, and this political system conforms to the Basic Law and the aspirations of the people of Hong Kong."

In addition to these three new political groups which use the name democratic, in January of this year the Hong Kong Citizens Forum was founded with only 20 members. Its chairman is Cheng Chieh-nan [4453 0094 0589], who is viewed as an "enlightened leftist" educational worker by some political centrists. He began serving as the head of the United Council of Educational Workers of Hong Kong in 1985 (see table 4).

Table 4: Leadership of the Hong Kong Citizens Forum

Name	Position	Sex	Age	Education	Profession
Cheng Chieh-nan	chairman	male	40	university	education
Feng I-Chao	deputy chairman	male	43	university	business
Liang Te-chun	deputy chairman	female	36	university	physician
Sun Ch'i-chang	secretary	male	36	university	administrative staff
Kuan Pai-lin	treasurer	male	36	university	administrative staff

Notes: founded 20 January 1991; current membership 20

The four political groups described above all have members who are prepared to participate in Legco elections this September, the first direct elections for this body. Whether large or small, the parties have formed to catch the "1991 direct election" express. However, another new political group, the New Hong Kong Alliance, has been established, with the dust still settling on the Basic Law (May 1989). In its leadership there is no lack of figures who participated in working on the Basic Law. For example, there are Luo Te-cheng [5012 1795 0015], Liang Chen-ying [2733 2182 5391], Chien Fu-i [4675 4395 7392], Huang I-hong [7806 1355 1738], Yang Hsiao-hua [2799 1321 5478], and Ts'ao Hong-wei [2580 1347 1218] (see table 5).

Table 5: Leadership of the New Hong Kong Alliance

Name	Sex	Age	Education	Profession
Chang Hui-jung	female	39		
Chien Fu-i	male	54	vocational school	surveyor
Li Chih-hua	male	48	university	lawyer
Liang Chen-ying	male	36	Science and Engineering Institute	special surveyor
Li Kuo-chang	male			professor
Lie Hsian-lun	male	56		lawyer
Luo Te-cheng	male	56	Niujin University	lawyer
Ts'en Tsai-sheng	male	69	New York University	journalist
Huang I-hong	male	52		businessman
Yang-luo Kuan-ts'ui	female			lecturer
Yang Hsiao-hua	male	41	university	administrative staff
Hsiao ching-shao	male			freelance writer
Wu Yen-mei	female	49	Hong Kong University	business circles

Table 5: Leadership of the New Hong Kong Alliance (Continued)

Name	Sex	Age	Education	Profession
Tsung Yen-li	male			lawyer
Taso Hong-wei	male	50		university lecturer
Wei Chi-shao	male	58		business circles
Huang Chan-sen	male	50	university	columnist
Wang Min-chao	male	38	university	businessman
Wang Min-kang	male	42		businessman
Chuan Pei-hui	male	55		lawyer

Notes: founded 26 May 1989; current membership 36

Perhaps the above cursory introduction will be of some help to our readers' understanding of these five new political groups.

Adapting Old Legal System to New Political Realities

91CM0432A Hong Kong CHING PAO [THE MIRROR] in Chinese No 165, 10 Apr 91 pp 12-14

[Article by Wang Yung (3769 0516): "How Is Good Work To Be Done on Legal Linkage in Hong Kong in 1997?"]

[Excerpts] [passage omitted] In accordance with the Sino-British Joint Declaration and Hong Kong's Basic Law, post-1997 Hong Kong will continue to keep without change for 50 years the extant capitalist system and life-style and continue to keep Hong Kong's extant laws that do not contradict the Basic Law, including common law and judicial law, regulations, attached legislation, and customary law. Although, with the transfer of sovereignty under specific historical conditions and with the great change in Hong Kong's socio-political structure, there cannot but occur some necessary changes in Hong Kong's legal system to adapt to the changes in all quarters of Hong Kong's society under the condition of "one country, two systems." It is thus obvious that while Hong Kong is being transformed from a British colony to a special administrative region of the People's Republic of China, there are bound to be some changes in the legal system. Therefore, how to deal with this kind of change, and how to effect well the linkage amid the legal confusion caused for a time by this kind of change, in order to achieve a smooth transfer of Hong Kong is obviously of extreme importance. [passage omitted]

What is of first importance in doing good legal linkage work is doing good work in the implementation of Hong Kong's Basic Law in 1997 because the Basic Law is the minor constitution of the future Hong Kong and the basic criterion for all legislative, judicial, and administrative work in the future Hong Kong. Even if certain extant laws will need to be abolished or revised in 1997 the basis for abolishing or revising them can only be the Basic Law. Therefore, conscientiously making good preparations for the implementation of the Basic Law is both a link of utmost importance in Hong Kong's legal linkage work in 1997 and a basic condition and foundation for this work.

However, it will not be easy to do good preparatory work for the implementation of the Basic Law. Any law is easy to formulate, but it is very difficult to truly implement, especially a law like the Basic Law, because:

First, the Basic Law is not an ordinary law, but is a law of a constitutional nature for the future Hong Kong. It is both a general program for the political, economic, and social life in the future Hong Kong and the basic foundation for the legislative, administrative, and judicial activities of the future Hong Kong. Therefore, the articles of the Basic Law unavoidably have the characteristic of being of a guiding nature, principled nature, and programmatic nature and are not as specific and clear as those of ordinary criminal law and civil law. This will cause a certain difficulty in its implementation. [passage omitted]

Next, the Basic Law is a law that cuts across the two social systems of socialism and capitalism, and it reflects the national sovereignty and national condition of China's socialism. On the other hand, it also stipulates the principles of capitalism; it reflects the characteristic of capitalism's political, economic, and social life and establishes the capitalist system in the future Hong Kong. From a look at the scope of its implementation we see that it will be comprehensively implemented in the future capitalist Hong Kong, and at the same time it will exercise a certain binding force on the socialist Chinese mainland. Therefore, with regard to this kind of law which crosses over two different social systems, it will be difficult to avoid this or that kind of difficulty in the law's implementation because there exists a fairly big difference between the social base and the people's ideological consciousness.

Finally, the future Hong Kong will be a special administrative region that will enjoy a high degree of autonomy. Therefore, the implementation of the Basic Law will be conditioned by the relationship between the central government and Hong Kong's local government. There is no need to deny that the future government of the Hong Kong Special Administrative Region and its organizations should accept the leadership of the central

government, but this leadership should be mainly exercised through implementation of the Basic Law. For social and historical reasons and because of people's ideological concepts, we cannot expect that the central government, the Hong Kong local government, and other organizations can attain complete unanimity on understanding and executing the Basic Law. This will certainly cause difficulties in implementing the Basic Law. [passage omitted]

Studying the extant Hong Kong laws that in 1997 will be abolished or revised is also an important aspect in doing good legal linkage work. In line with the provisions of Article Eight and Article 160 of the Basic Law, the extant Hong Kong laws that contradict the Basic Law will be revised or rendered null and void. What are these laws? Generally speaking, these laws should include those that having the following aspects:

First, Hong Kong's laws of a constitutional nature. Among these are the 1843 "Hong Kong Charter," the 1917 "British Royal Mandate," and "Royal Instruction," as well as the "Colonial Regulations," "Conventions of the Hong Kong Legislative Council," etc. The above mentioned laws are the fundamental documents by which the British authorities rule Hong Kong, and they stipulate the organization, authority, and principle of the ruling body set up by Britain in Hong Kong. After China regains sovereignty over Hong Kong, Britain's rule over Hong Kong will come to an end. Therefore, the above-mentioned laws should also be rendered null and void.

Second, some laws relating to defense and foreign affairs. In accordance with the provisions in the Basic Law, the Central People's Government will be responsible for the defense and foreign affairs of the future Hong Kong Special Administrative Region. Therefore, some British laws applicable to Hong Kong, such as the "Diplomatic Privileges Law," "Air Force Law," and "Army Law" will of course also no longer be in effect in Hong Kong in the future after Hong Kong reverts to China.

Third, some laws of a colonial nature that are incompatible with China's sovereignty. For example, the "Regulations Applicable Under British Law" which stipulate how British laws are applicable to Hong Kong issues have a strong colonial flavor and in the future should be rendered null and void. Also, for example, the "Legal Language Regulations" make English the formal and principal legal language of Hong Kong. This not only detracts from China's sovereignty but also violates the relevant provisions of the Basic Law. Therefore they should also be rendered null and void.

Fourth, laws that protect British interests and insure the privileges of British people. For example, the laws on rebellion and other crimes against the Crown in Chapter 200, "Penal Code," in Hong Kong's laws and regulations obviously protect British interests and should in the future be rendered null and void. Also, for example, the oaths stipulated in Chapter 11, "Regulations on Oaths and Declarations," in Hong Kong's laws and regulations (including the loyalty oath, judicial oath, appointment oath, and oath of office) contain the expression "loyalty to the British Crown" and in the future should be revised. In addition, some Hong Kong laws stipulate privileges for British people and should be annulled or revised. For example, the "Higher Court Laws and Regulations" state that the qualifications necessary for a person to be a judge of a higher court are that the person has the right to perform the duties of a senior barrister or barrister in a British court or a British Commonwealth court, and has done legal work for the United Kingdom government for at least 10 years; or has been in barrister practice in the United Kingdom, Republic of Ireland, or Hong Kong for 10 years. Obviously this favors British people and disfavors Hong Kong people, and in the future it should be rendered null and void.

Fifth, some laws that touch on the relationship between Britain and Hong Kong. For example, under present Hong Kong law British people are not classed as "aliens," an idea that certainly must be changed. Therefore, laws touching on this class of problem should be revised or rendered null and void.

Of course, the above-mentioned laws are only a small part of Hong Kong's extant laws. The greater part of the extant laws will continue in force after 1997. Even if in individual articles of some laws there are inapproprite parts, after a little revision all of the laws will continue in force. Therefore, there is no need to worry that abolishing or revising the extant laws that contradict the Basic Law will cause too great a shock to Hong Kong's legal system after 1997. As the mainspring of Hong Kong's present-day society, the greater part of the laws will continue to preserve Hong Kong's stability and prosperity.

Ties Between Mainland, Hong Kong Continue To Grow

OW2206021791 Beijing XINHUA in English 0126 GMT 22 Jun 91

[Text] Hong Kong, June 22 (XINHUA)—The cultural relations between Hong Kong and the Chinese mainland, like ties in other areas, are becoming closer with each passing day.

These remarks were made by Cheng Kit Lin, manager of the Hong Kong United Arts Entertainment Company, in a recent interview with XINHUA here.

According to the company's latest statistics, over the past decade or more the company has played host to more than 400 art troupes from the Chinese mainland. Meanwhile, the company has also arranged 18 Hong Kong art troupes or individuals to give performances on the mainland.

Cheng said the company has organized a total of 13,000 mainland artists to visit Hong Kong since it was founded in 1977.

The mainland artists have treated an audience of 2 million with more than 2,000 varied and rich performances such as Beijing operas, national dance dramas, songs and dances, acrobatics, and ballets.

Last year, 1,718 artists from 46 mainland art groups gave 273 performances here in all, averaging one performance every 1.2 days.

She said over the past 15 years, the company has sent delegations to the mainland every year to carefully choose programs and make preparations for performances in Hong Kong.

Since 1986, the company has sponsored four Chinese opera festivals in Hong Kong. Some 24 art troupes from the country's 17 provinces and municipalities have been invited to perform different types of operas during the festivals.

The wonderful performances by a 170-member central ballet troupe, the song and dance ensemble from northwest China's Gansu Province and the Zhejing Shaoxing opera troupe gave the audiences superb artistic enjoyment, she added.

A local opera troupe from north China's Hebei Province led by well-known artist Pei Yanling visited Hong Kong for four times. Before the troupe came to Hong Kong on its fourth visit in March this year, about 90 percent of tickets had been sold out.

Some young people in Hong Kong spontaneously set up a theater goers' association named after Pei Yanling. Pei's visit to Hong Kong was described by Hong Kong media as "a whirlwind coming back."

1990 witnessed the 200th anniversary of the birth of China's traditional operatic treasure—Beijing opera.

To mark this occasion, the company invited more than 130 well- known opera artists including Mei Baojiu, Du Jinfang, Li Shiji to perform in Hong Kong together with artists of Taiwan, Macao and Hong Kong. Their superb performances attracted a large audience from the United States, Canada, Japan, Singapore, Taiwan and Macao.

On the future cultural exchanges between Hong Kong and the mainland, Cheng said she was confident that such kind of exchanges will surely become more frequent than ever before.

She said the fifth Chinese opera festival will be held in Hong Kong in August this year during which troupes from China's provinces of Heilongjiang, Zhejiang and Anhui will meet Hong Kong audiences.

Editorial Criticizes Government Over Bank Collapse

HK1707095591 Hong Kong CHING CHI TAO PAO in Chinese No 28, 15 Jul 91 p 2

[Editorial: "Problems as Seen From BCCI's Situation"]

[Text] The situation of Hong Kong's Bank of Credit and Commerce International [BCCI] remains to be solved and the development of the incident has increasingly attracted the attention of various circles in Hong Kong.

Like the Hong Kong Government's recent vacillation in increasing tobacco taxes, readjusting interest rates, and handling other financial matters, the Hong Kong Government's self-contradictory attitude in handling the BCCI event has further evoked social comments. At first, the government stressed that the financial situation of the bank was perfect and allowed it to continue operations. One day later, the government ordered the bank to suspend its operations. Apart from the indignation of the depositors, the immaturity of the Hong Kong Government in its policy decisions will certainly harm its authority. The public is also worried about the consequences which might occur in the future.

The BCCI event was due to the bank's involvement in deception abroad rather than its businesses in Hong Kong. Hence, it was clear from the beginning that the crisis was an overseas question. When the event occurred abroad, the Hong Kong Government's Commission of Banking followed the matter closely and sent personnel to examine the situation of the bank. The conclusion drawn was that the bank, registered in Hong Kong, was an organ different from the group abroad which was involved in trouble. As a result, the Hong Kong BCCI should not be affected by the problems abroad. Moreover, the financial situation was good and its operations were normal. When the Bank of England and the financial authorities of other countries ordered local BCCI branches to suspend business on 5 July, instead of following the practice, the Hong Kong Government issued a statement saying that "operation of the BCCI is perfect and feasible," allowing it to continue operations on 6 July. While the words of the pledge were still ringing in people's ears, on Monday, 8 July following the two-day weekend, the Hong Kong Government asserted that it temporarily had to suspend operations of the BCCI to protect the interests of the depositors because "equivocal factors of the BCCI group and its subsidiary organizations might harm the operations of the bank." The sudden change made overnight raised a public outcry. Let us leave aside the question of whether it was correct or not to allow normal operation of the bank on 6 July, which has become the talk of the town; the most essential point is that the statement of the Hong Kong Government made the depositors trust the government. However, the government suspended the bank's operation not long afterwards, resulting in resentment and discontent of the depositors and firms, difficulties in capital turnover of some firms which face bankruptcy, and problems in livelihood for the ordinary depositors. Because of the inconsistent attitude of the Hong Kong Government in handling the matter, the depositors and residents have lost their confidence in the government. Moreover, the statements made by the Hong Kong Government in the future will be suspected by the public.

Even if we leave aside other mistakes and reasons, the Hong Kong Government stressed in the two statements made on 5 and 8 July respectively that it intended to protect the interests of depositors. As a matter of fact, when the Bank of England and financial organizations of other countries suspended the operations of the BCCI on 5 July, the Hong Kong Government should have followed the practice. Although the BCCI group is a different body from the Hong Kong BCCI, their relations are one between a branch and its headquarters. When the group encounters problems, it will be difficult for the branches to maintain their own purity. It would be appropriate if the Hong Kong Government had suspended operations of the bank at the same time and then joined the Bank of England to deal with the aftermath and eventually seek a solution. In the face of the current situation, it is beyond reproach to temporarily suspend operations of the bank and freeze all the assets and savings deposits. Compared with the practice of being tight first and loose second and compared with suspending operation at the same time, the methods of loose first and tight second (believing that there was no problem at first, but suspending operation later) and opening the bank first, but shutting it down later has had different impacts and results on various fields. While explaining to the Legislative Council on 10 July the different decisions made by the Hong Kong Government, Financial Secretary Jacobs still could not face reality. He did not acknowledge the improper decision made by the Hong Kong Government on 5 July, insisting that the decision was made "in consideration of the circumstances known on Friday evening." Then, was it a wrong judgment made by the government without a comprehensive understanding of the situation? In fact, the decision made by the Bank of England and international financial authorities on suspending operations had already indicated the seriousness of the matter. Why could the Hong Kong Government not attach due attention to the matter and handle it more prudently?

The BCCI situation is still going on. Instead of endlessly blaming and commenting on the pros and cons of the decisions made by the Hong Kong Government, all sectors should make efforts to deal with the aftermath in order to ensure the interests of the depositors and firms and reduce their difficulties and losses to the minimum. The Hong Kong Government has clearly stated that it will not use foreign exchange funds to finance the BCCI; that is, the method of resolving financial crises in the 1980's will not be applied. As to the sale or liquidation of the bank, there are still many legal, limits of authority, and price problems. Moreover, it will take time to resolve this difficult problem. To ease the difficulties of depositors and firms, the Hong Kong Government must shoulder the responsibility of supervision and strive to seek a better and quicker solution. This is the pressing task of the moment.

In all fairness, Hong Kong's banking system is relatively perfect and its supervision effective. The BCCI event did not cause a great shock to Hong Kong's economy as a whole. Nevertheless, the incident has fully exposed the lack of knowledge, information, and experience of the Hong Kong Government in dealing with a transnational bank like the BCCI, which is registered in Hong Kong but whose headquarters is located abroad, resulting in a confusion in regulations and throwing itself into a dilemma. In view of increasingly internationalized and complicated financial business, Hong Kong, as an international financial center, should squarely face its weak links in this regard, learn a lesson, and seek improvement.

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