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U.S.-Philippine Relations Discussed

91CM0507A Beijing GUOJI WENTI YANJIU [INTERNATIONAL STUDIES] in Chinese No 41, 13 Jul 91 pp 46-50

[Article by Shi Yongming (2514 3057 2494): "Military Bases, U.S.-Philippine Relations Discussed"]

[Text] The treaty on U.S. military bases in the Philippines will expire on 16 September. The United States and the Philippines are now carrying out negotiations regarding the extension of the use of these military bases by the United States. Because the U.S. military bases in the Philippine affect the development of U.S.-Philippine relations, and because the future development of U.S.-Philippines relations will have an important impact upon the political situation in the Southeast Asian region, the issue of the U.S. military bases in the Philippines has attracted broad scrutiny throughout the world, and particularly in the East Asian region. This article carries out some preliminary analysis of the U.S. military bases in the Philippines and their impact upon U.S.-Philippine relations.

I

From an historical standpoint, nationalism has always been one of the major factors affecting the Philippine attitude towards the military bases. After World War II, in the face of vigorous movements of national liberation throughout Asia, the United States had no choice but to agree to the demands for independence put forward by the Philippine people. The United States announced in the "Treaty on Normal Relations Between the United States and the Philippines," signed on 4 July 1946 with the Philippines, that it renounced "all rights of ownership, oversight, judicial jurisdiction, control, or sovereignty that currently exist or are being exercised over the territory and people" of the Philippines. The "special relationship" that existed between the United States and the Philippines due to historical factors was thus formally terminated, but the Philippines continued to exist in a type of colonial economic state after independence. What is more, the United States took advantage of the economic difficulties of the Philippines, using military aid as bait in order to achieve the signing of the "U.S.-Philippine Military Bases Agreement" in March 1947. The Philippines became part of the global strategic system of the United States. In addition to allowing the United States to build 23 military bases and facilities throughout the Philippines and granting the United States use of the bases free of charge for 99 years, it also granted extraterritoriality to U.S. servicemen in the Philippines and granted base commanders jurisdiction over all criminal matters within their bases.

These stipulations within the military base agreement not only impinge upon Philippine sovereignty and give U.S.-Philippine relations a strong flavor of neocolonialism, but they also set the United States at odds with Philippine nationalism with regards to the base question. In 1953, U.S. Attorney General Herbert Brownell publicly declared that sovereignty over the Philippine military bases belonged to the United States, exacerbating and bringing into the open tension over this issue. In 1956, large scale anti-U.S. demonstrations finally broke out in the Philippines. Strong anti-American sentiment forced Vice President Nixon, who visited the Philippine that year, to declare along with President Ramon Magsaysay in a communique that, "The sovereignty of the Philippine government includes the U.S. military bases in the Philippines."

However, the U.S. acknowledgement of Philippine sovereignty amounted to only a scrap of paper; in reality, the issue of the exercise of Philippine sovereignty over the military bases had not been resolved. On the contrary, the United States frequently used the military bases to interfere in the internal affairs of the Philippines. As a result, the existence of U.S. military bases in the Philippines has always been seen by Philippine nationalists as proof that the colonial relationship between the United States and the Philippines has not been terminated, and the issue has thus continued to bedevil U.S.-Philippine relations. The United States and the Philippines have had no choice but to continually readjust their bilateral relations. After many negotiations, the two sides agreed in 1966 to move up the expiration date of the 1947 U.S.-Philippine military bases agreement to 16 September 1991. While revising this agreement in 1979, the United States and the Philippines officially acknowledged Philippine sovereignty over the bases. The name of the U.S. military bases was changed to the Philippine Armed Forces Bases, the Philippine flag was flown over the bases, a Philippine commanding officer was installed at the bases and nominally accorded the highest rank there, and it was stipulated that the agreement would be reexamined every five years. However, this agreement did not resolve various issues related to the actual exercise of sovereignty by the Philippines, such as base oversight authority and legal jurisdiction over U.S. servicemen and the bases.

In 1986, after the Aquino government was established, the strong current of democratic reform was accompanied by a high tide of nationalist sentiment. Demands for U.S. withdrawal from its Philippine military bases grew louder. This nationalism was even clearly enshrined in the new constitution, which stipulated that after the U.S.-Philippine military base agreement expired on 16 September 1991, no foreign military base, force, or facility would be allowed to exist in the Philippines unless the accompanying treaty was approved by a two-thirds majority of the Philippine senate.

With the approach of September 1991, the United States and the Philippines have engaged in many rounds of negotiations since May, and they have made much progress in resolving the question of Philippine exercise of sovereignty over the bases. The two sides came to the following agreements during the first five rounds of negotiations: The United States will return four small bases (not Clark Air Force Base or Subic Naval Base) to the Philippines; the United States will divide Clark Air Force Base into four parts, two of which will be used jointly by the United States and the Philippines; the Philippines will

have legal jurisdiction over U.S. naval personnel in the Philippines. However, this has not reduced pressure from Philippine nationalists for resolution of the base issue. Philippine nationalists are not satisfied with the progress which has been made in the base negotiations. They still insist on complete sovereignty. For example, of the 23 members of the Philippine Senate, 11 are unconditionally opposed to the signing of any new base agreement, so the Aquino government is caught between a rock and a hard place on this issue.

II

Out of practical considerations, the Aquino government still hopes that it can extend the term of the U.S.-Philippine Military Base Agreement by an appropriate length of time. From the standpoint of security, if the U.S. military were to withdraw suddenly, it would create a power vacuum in Southeast Asia and have a harmful impact on regional stability, so the Philippine government hopes that the United States can withdraw from its bases in a phased and gradual manner. From an economic standpoint, the U.S. bases in the Philippines employ a large number of local laborers and provide the Philippines with a significant source of income. The Subic and Clark bases employ 68,000 Filipinos, pumping $500 million into the local economy every year. A U.S. withdrawal would have a negative impact upon the struggling Philippine economy. On 14 February during a ceremony to celebrate the 12th anniversary of Philippine control over the military bases, Defense Minister Fidel Ramos clearly described the difficulties of the Aquino government in this regard. He stated that if the United States were to withdraw suddenly from its military bases, it would have a harmful impact upon the Philippine economy and upon the nation's external defenses. If the Philippines is to achieve "minimum" external defense capability, that would require an expenditure of $6-7 billion within the next 10 years, and the Philippines is incapable of raising that amount of money. In addition, if the Philippine government turned these military facilities to commercial use, "they would not immediately be able to provide 68,000 Philippine base employees with satisfactory alternative employment." He even stated, "Talk about sovereignty does nothing to help stomachs rumbling from hunger."

These practical considerations may be the reason why Aquino decided last year to drop its policy of remaining undecided on the future of the military bases and to negotiate with the United States to resolve the base issue. Nevertheless, nationalism is still the main factor influencing the position of the Philippine government regarding the resolution of the base issue. Thus, for the Philippine government, the issue of U.S.-Philippine relations is more important than the resolution of the bases issue. When negotiations began last year, the Philippines clearly stated its position that any new agreement would have to cover not only the bases issue, but also the future of U.S.-Philippine relations. At the same time, the Philippines demanded that the United States would have to deal with its former colony as an equal and sovereign nation. For this reason, President Corazon Aquino asked that the United States establish new relations with the Philippines at the same time as it carried out "an orderly withdrawal."

However, because of the reasons listed above as well as the gradual revolution of the issue of Philippine sovereignty over the bases, the Aquino government's pursuit of a new U.S.-Philippine relationship has met with obstacles because the two parties are far apart on matters such as economic compensation for use of the bases and the length of time by which that use should be extended. In negotiations, the Philippines have demanded that the United States military withdraw within seven years, and that in the interim the United States provide the Philippines with $825 million in economic compensation, of which $400 million would be cash aid and $425 million would be non-monetary aid. The United States is only willing to provide $360 million in assistance and hopes to withdraw gradually over 10 to 12 years. It is obvious that the Philippines, besides hoping to alleviate its economic problems by extending U.S. use of the military bases, also hopes to use its demands to reduce the pressure of Philippine nationalists and enable the base extension agreement to pass the Senate, but the United States is not likely to completely satisfy Philippine demands.

III

For the United States, its bases in the Philippines have always occupied an extremely important strategic position. They have been an important pillar in the U.S. strategic defense system in the Asia Pacific region ever since World War II. Their strategic importance lies in the fact that they stand guard over the maritime passageways between the Indian Ocean and Southeast Asia, and they enable the United States military to extend its tentacles into Southeast Asia. The bases provide rear support and dependable wartime supply lines to U.S. military bases in Japan and South Korea. They serve as an important aerial bridge for the United States military from the Pacific Ocean to the Indian Ocean and the Persian Gulf. The bases also play an important role in linking together the U.S. strategic defense chain in the Western Pacific running from Japan to Australia. Apart from being strategically important in a geographical sense, the U.S. military bases in the Philippines also play an important role in logistics, training, and intelligence. Subic Bay is the largest U.S. military supply station outside its own borders. The wartime advance supplies of the U.S. Navy's First Fleet are all stored here, and it is also responsible for 65 percent of the maintenance duties for the Seventh Fleet. Clark Air Force Base is the only base from which a fully loaded C5A transport can fly directly to the U.S. base in Diego Garcia in the Indian Ocean. Keluogudi is a very unusual training base. In addition, the U.S. bases in the Philippines enjoy the service of low priced and experienced labor. Thus, even though many of the functions performed by the Philippine bases could be performed elsewhere, the overall advantages and conveniences of the Philippine bases are not likely to be found anywhere else.

With the end of the cold war and the withdrawal of Soviet military power from Cam Ranh Bay, the importance of the

Philippine bases has been somewhat lessened. However, because the United States has important economic interests in the Asia-Pacific region and because of the region's rapid economic development, maintaining stability in the Southeast Asian region is still an important part of U.S. strategy in the Asia-Pacific region. The forward deployment of U.S. troops is still an important aspect of the new defense strategy formulated by the United States government in 1990. The United States feels that this type of deployment "increases the reliability of deterrence," "promotes regional stability," and enables the United States to "react to dangerous situations and maintain the initiative in preventing them from escalating." For this reason, continuing to maintain the U.S. military presence in the Southeast Asian region has become an important part of the United States strategy for the East Asian region. Both Singapore and Brunei have stated their willingness to allow the United States to use their military facilities, so when the United States is forced to withdraw from the Philippines in September 1991, it will still have a place to go in Southeast Asia. However, the value of Singapore's military facilities can in no way compare with that of the Philippine military bases. For this reason, the United States continues to do everything it can to maintain its military bases in the Philippines.

Nevertheless, because of the immense pressure of Philippine nationalism, and because huge deficits make it difficult for the United States to support large military expenditures, the United States has become aware of the inevitability of the reduction and eventual withdrawal of its military forces from the Philippines. Last year, after the U.S. Department of Defense informed Congress of its plan to reduce the U.S. military presence in Asia by 11 percent over the next 10 years, the United States' special representative, Richard Armitage, informed the Philippines that the United States would withdraw all of its fighter jets and 1,800 military personnel from the Philippines by 16 September 1990. However, the United States still hopes to delay its withdrawal from the Philippine bases until early next century, to reduce the cost of this withdrawal to the minimum, and to have enough time to readjust its relations with each of the Southeast Asian nations so as to lay a foundation which will allow it to maintain its interests in that region.

Currently, although the two sides are far apart and negotiations are deadlocked, there is still a possibility for the signing of an agreement. Viewing the matter from an historical perspective, every time since 1979 that U.S.-Philippine negotiations over the use of the military bases have become deadlocked over the issue of economic compensation, both sides have always made concessions. During the 1979 negotiations, the Philippines demanded $1 billion over five years, but in the end they agreed to $500 million. Annual U.S. aid had been under $100 million before that, so it represented a large increase. In the 1983 negotiations, the Philippines demanded $1.5 billion over five years, and the United States finally agreed to provide $900 million. In the 1988 negotiations, the Philippines demanded that the United States provide no less than $1.2 million in aid in each of the last two years of the agreement, but Bush promised to get Congress to approve $962 million in aid. On a yearly average, this represented a growth of 267 percent over what the United States has promised to provide in 1983. In addition, the United States also promised to let its Overseas Private Investment Corporation and its import-export banks provide the Philippines with $500 million in aid in 1991. The United States also helped to bring about a 19-country aid package to the Philippines in July 1989. The donor nations, primarily the United States, Japan, and Western European nations, promised to raise $10 billion in aid for the Philippines, and they stated their intention to provide the Philippines with $3.5 billion in 1990. The United States then announced that it would provide $1 billion in aid to the Philippines over the next five years as part of this plan. From this it is apparent that the United States government still has some maneuvering room in the area of economic aid. Similarly, the possibility of the Philippine government making concessions does exist. Therefore, it is not impossible that the two sides may reach a new agreement on the length of time that the United States will be allowed to use the military bases. Furthermore, in order to avoid a veto by the Philippine Senate, some have even suggested taking advantage of the fact that the Philippine Constitution does not actually stipulate the length of time this Philippine Senate has to approve the new treaty in order to delay the issue until the president and senate are up for election on 11 May 1992. By that time, the bases will have become a major issue in the election, and public opinion surveys have shown that the majority of the Philippine people hope to retain the bases. A newly elected senate might approve a new base agreement. However, in the face of pressure from Philippine nationalism, no matter what happens the United States must consider its future prospects after withdrawal from the Philippine military bases. It must take a long term strategic view and avoid exacerbating Philippine nationalism. It must seek to establish a healthy U.S.-Philippine relationship under new conditions as it works to resolve the base issue.

IV

The development of relations between any two countries is determined by each country's interests. With respect to U.S.-Philippine relations, to a certain extent the issue turns upon the strategic needs of the United States. The U.S. Pacific Fleet Commander, Hardisty once stated that the future of U.S.-Philippine relations will be determined by a new type of strategic relationship. He believes that even though U.S.-Soviet relations have improved, Washington will need to maintain a large military presence in Asia through the end of this century in order to maintain stability in the region. Clearly, if the United States can extend its use of the Philippine military bases, U.S.-Philippine relations will develop in a stable manner, and it would provide ample time for readjustment which would allow relations to develop upon a reconstituted foundation. Because the basic factors influencing bilateral relations could undergo great changes during the last 10 years of this century, even if the two sides are unable to come to an new base agreement and the United States is forced to withdraw from the Philippines, both sides will continue to

maintain a military relationship, and this military relationship will play an extremely important role in overall relations between the two countries. It will also occupy a position of great importance in U.S. strategy for the Asia-Pacific region.

From a longer range strategic perspective, the United States hopes that the Philippines can have a democratic and stable government which can maintain good relations with the United States. Because economic difficulties and political instability in the Philippines constitutes a factor working against security in the Southeast Asian region which cannot be ignored, the United States will continue to work through bilateral, multilateral, and other channels to continue to provide aid to the Philippines in order to help it achieve economic development and political stability. The United States will preserve its strategic interests in the Philippines and in the Southeast Asian region by preserving democratic politics in the Philippines. At the same, in order to expand its maneuvering room in Southeast Asia, the United States will pay greater attention to developing relations with the members of the Association of Southeast Asian Nations (ASEAN).

From the Philippine perspective, the Aquino government hopes to maintain all of its other ties with the U.S. government even as it works to resolve the military base issue in an effort to reduce its dependence upon the United States. The most important of these ties is still military relations because the U.S. military presence is still a reliable guarantee of security and stability in the Southeast Asian region. As for economic relations, the position of the United States in the foreign economic relations of the Philippines has already undergone some change. Because of the United States' own economic difficulties, even if it were to give the great majority of its official aid earmarked for the Southeast Asian region to the Philippines, Japan would still be the number one provider of official aid to the Philippines, far in excess of that provided by the United States. Development aid provided to the Philippines by the Japanese government has already increased from the $587 million of mid-1970's to $3.05 billion by the late 1980's. At the same time, Japanese direct private investment in the Philippines is surpassing that of the United States. Furthermore, the Philippines was the number one recipient in the late 1960's among all Southeast Asian nations of direct private investment from the United States. At that time, the Philippines received 66.6 percent of all such investments, but its position has now fallen to number one, and it only receives 12.1 percent of such investment. It is apparent that the "special relationship" between the United States and the Philippines no longer exists in the economic sphere. In addition, as economic regionalization develops, the Philippines will strengthen economic cooperation with ASEAN members as well as other nations and regions, and with regard to security issues, the Philippines has begun to explore the possibility of participating in regional security and cooperation mechanisms. In one exploratory move, the Philippines is planning to hold an international conference in Manila in June to discuss regional issues.

In short, as U.S.-Philippine military issues are gradually resolved, the degree of closeness in bilateral relations will undergo some change, but both sides do everything they can to assure that this change occurs in a stable and gradual manner. This will help to maintain stability as the region of Southeast Asia makes the transition to a new set of circumstances in the wake of the end of the cold war.

SOVIET UNION

Soviet Policy in Persian Gulf

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[Article by Li Bijian (2621 4310 1696) and Rong Zhi (2837 2784): "The Soviet Union and the Gulf Crisis"]

[Excerpts] Before Gorbachev came to power, the Soviet Union, driven by self-interests, followed an offensive strategy that pitted itself against nations like Britain and the United States. After he took office, Gorbachev broke with traditional practices by opposing confrontation with the United States. He gave up ideological infiltration and strongly advocated improving and developing relations with all forces in the region in order to safeguard Soviet interests. After Iraq invaded Kuwait, Soviet attitudes toward and actions on the Gulf crisis, the Gulf war, and post-war arrangements in the Gulf were a test of the new Soviet policy and also provided an opportunity for it to participate in Gulf affairs and expand its influence in the new order. In the future, Soviet participation in Gulf affairs will mainly take the form of U.S.-Soviet cooperation. [passage omitted]

3. Soviet Policy in the Gulf Crisis

On 2 August 1990 Iraq suddenly annexed Kuwait by force. Abiding by the notion of the "precedence of universal human values," the Soviet Union did not stand by its ally but instead condemned Iraq in accordance with the norms of international conduct. The day following the invasion, U.S. Secretary of State James Baker cut short his visit to the People's Republic of Mongolia and rushed to Moscow to hold consultations with Soviet Foreign Minister Eduard Shevardnadze. The two countries issued a "joint communique" condemning Iraq's aggression and urged Iraq to withdraw its troops from Kuwait. Once again the two superpowers showed that they would cooperate in resolving the Gulf crisis. Subsequently, in statements issued jointly with France, Japan, the European Community [EC], Spain, and other nations, the Soviet Union again condemned Iraqi aggression. At the UN Security Council, Moscow voted in favor of 12 resolutions condemning Iraq and imposing sanctions on it, including Resolution 678, which authorized the use of all means, including force, to restore peace in the Persian Gulf. The foreign ministers of the Soviet Union and the United States visited each other a dozen times to deal with the Gulf crisis. The presidents of the two nations also discussed the Gulf crisis when they met in Helsinki and Paris on 2 September and 20 November, respectively. All this created the impression that superpower cooperation on a regional issue had never

been closer. U.S.-Soviet cooperation in the Gulf crisis represented another attempt by the two superpowers to work together in the wake of the resolution of the Eastern European issue and German reunification, the end of the cold war, and the establishment of a European security system. The latest round of cooperation was a top priority to both sides. Both countries time and again announced that there was no conflict between them in the way they handled the Gulf crisis. The Soviet Union was even more emphatic about this point. To the Soviet Union, whether or not it could work with the United States in sorting out the Gulf problem was a test of its "new-thinking" diplomacy.

In this instance, as on previous occasions, cooperation was mixed with conflict and competition, even more so than in the past. The most important reason was that both sides had their own interests in the Gulf and the Middle East, vested interests that go back a long time.

For almost 20 years Iraq was an ally of the Soviet Union; Iraq was a key foothold for Moscow not only in the Gulf but also among Arab nations. Between 70 and 80 percent of Iraq's weapons came from the Soviet Union, including MIG-29 fighters, T-72 tanks, Scud guided missiles, and other top-of-the-line military hardware. Soviet arms sales to Iraq over the past decade amounted to between $12 billion and $13 billion in all. Iraq was also Moscow's leading trading partner in that region. It owed the Soviet Union as much as $6 billion in unpaid debts. The Soviet Union had also helped build 300 projects in Iraq. Besides hundreds of military advisers, the Soviet Union had a host of experts and technicians along with their dependents in Iraq, as many as 8,000 at one time. Each year the Soviet Union imported over 10 million tons of crude oil from Iraq to meet the needs of several republics in the Caucasus. Losing Iraq would be a severe blow to Soviet interests, status, and political influence. Accordingly, even as it opposed President Saddam Husayn's aggression, Moscow had no choice but to give him some room to maneuver. The United States, on the contrary, sought nothing less than the elimination of Saddam Husayn with his vaulting ambition and vast military arsenal as well as his replacement by a moderate pro-West leader.

Because of their divergent interests, the two superpowers pursued subtly different policies from the beginning of the crisis. From the outset, the United States was prepared to use force against Iraq. The Soviet Union, on the other hand, advocated the use of non-military means to compel Iraq to make concessions. After the United States began on 7 August deploying in the Gulf its air and naval forces aimed at Iraq, the Soviet Union immediately declared its opposition to the use of force and the resort to war. It proposed that UN organs be fully used, including the reactivation of the military committee of the Security Council, to resolve the Gulf crisis through the collective effort of the international community, but Saddam firmly refused to budge, precluding any improvement in the Gulf situation. This led the Soviet Union to soften its opposition to the use of arms against Iraq by declaring that such an option could not be completely ruled out. At the same time, however, Soviet leaders emphasized repeatedly that political compromise and diplomatic solutions had not been exhaustively explored and that the last ray of hope for a peaceful settlement should not be abandoned.

These moves on the part of the Soviet Union made it plain that while it was opposed to Iraqi aggression, it intended to keep distance from the United States in order to maintain its influence in that region and among Arab nations. Besides voicing its reservations about the dispatch of troops to the Gulf by the United States, Moscow wanted to leave a way out for Iraq. The Soviet Union stressed that sanctions were not intended to destroy Iraq and kept open a channel for official dialogue with Iraq throughout. As far as the relationship between the Iraqi-Kuwait conflict and the Middle East problem as a whole was concerned, the Soviet position was that although the latest crisis could not be directly linked to the solution of the larger Middle East problem, the former was interwoven with the latter and must be considered in the overall context.

As the United States steadily escalated its forces in the Gulf, the Soviet Union also sent two military vessels there, claiming that their mission was to ensure safe shipping for Soviet merchant ships and did not form part of the multinational deployment. In reality, this Soviet move was prompted by a desire to signify Soviet presence in the Gulf. In his address to the UN General Assembly, Foreign Minister Eduard Shevardnadze indicated that he would not rule out the sending of troops to take part in the UN-led multinational coalition. Upon returning home, however, he immediately corrected himself by noting that the decision whether or not to send troops to the Gulf must be made by the Supreme Soviet. Soon afterward the foreign minister stepped down.

The Soviet Union also launched a flurry of diplomatic activities in a diligent effort to seek a political solution to the Gulf crisis. President Gorbachev sent several written messages to President Saddam Husayn. The two also received special envoys from each other. By keeping open lines of communication with Baghdad, the Soviet Union tried to persuade Iraq to accept the UN resolutions and pave the way for resolving the crisis peacefully. The Soviet Union also took pains to maneuver among Arab nations by supporting their effort at mediation and appealing to them to play an even more energetic role. A round of shuttle diplomacy was undertaken by Primakov [2528 6849 7456 4430 1133], a member of the Council of Ministers, and deputy foreign ministers Belonogov [0446 3157 6179 2047 1133] and Petrovskiy [1764 1779 5012 1133 2448 1015] in a desperate bid to force Iraq to withdraw under political pressure.

Only after its diplomatic activities failed did the Soviet Union vote to support Resolution 678 at the UN Security Council, which authorized the use of all necessary means to restore international peace and security in the Gulf if Iraq refused to carry out by 1 January 1991 [as published] all relevant resolutions previously passed by the Security Council. It did so despite the risk that its 3,000 nationals stranded in Iraq might be taken hostage and that it might alienate an ally.

Differences between the United States and the Soviet Union were not obvious before the multinational forces, headed by the United States, launched "Operation Desert Shield." Despite several unilateral diplomatic moves on the part of Moscow, the public United States position was one of understanding. Both countries took pains to emphasize superpower cooperation, which was in their common interests.

4. Soviet Union Intensified Effort To Defend National Interests after Gulf War Broke Out

After the United States-led "Operation Desert Shield" went under way, the Soviet Union stepped up its activities to urge Iraq to withdraw from Kuwait in order to save its military forces and avoid several military losses in a last ditch effort to keep its ally intact.

In the small hours of 16 January, one hour before the United States attacked Iraq, U.S. Secretary of State James Baker telephoned his Soviet counterpart, Aleksandr Bessmertnykh and notified him accordingly. In the scores of minutes available, President Gorbachev called President Bush to propose that the former contact Saddam Husayn directly to get him to announce an immediate withdrawal from Kuwait. At the same time he instructed the Soviet ambassador to Baghdad to get in touch with the Iraqi authorities to convey Gorbachev's appeal to Saddam Husayn, stressing that Saddam Husayn must declare instantly his readiness to leave Kuwait for the sake of his people and the peace of the region, thereby heading off war and saving Iraq from heavy losses and destruction. There was no way Gorbachev's effort would come to fruition in just one hour. In the end, the multinational forces headed by the United States moved against Iraq and the war was on.

On 17 January on Soviet Central Television, Gorbachev made known the Soviet Union's basic stance on the outbreak of the Gulf war. He expressed his regrets about the outbreak of hostilities but emphasized that it was Iraq that was responsible. He called on the world community to work together to stop the war from spreading and demanded that both sides take actions to end the fighting without delay and restore peace to the Gulf. The Soviet Union, he said, had no intention to get involved in the Gulf conflict.

The Soviet Union continued to keep in touch with both parties in the fighting and other interested nations in an effort to shorten the bloodletting and prevent the war from spreading and escalating. One hour after the war started, a letter from President Gorbachev and addressed to President Saddam Husayn, which demanded that Iraq withdraw from Kuwait, was handed over by the Soviet ambassador to Iraq to the Iraqi foreign minister, Tariq 'Aziz. Meanwhile, the Soviet Union urged Egypt, Saudi Arabia, Syria, and other Arab nations not to be drawn into a regional war. Gorbachev also wrote to the leaders of Arab nations stressing the danger of the times and advising them to be wary of any moves that might aggravate the feelings of the Arab people. The Soviet Union also criticized Iraq's Scud missile attacks on Israel as an attempt by Baghdad to turn the Kuwait issue into a region-wide confrontation, a move calculated to set the whole Near East ablaze. The Soviet Union hoped that the "Iraqi leader would realize that in the end his actions will only mean sacrifices and destruction for the Iraqi people and bring even greater misfortune to the whole region." On 22 January, Gorbachev warned that the Gulf war might escalate. On 9 February, Gorbachev issued a statement claiming that the Gulf war was threatening to exceed the mandate authorized by the UN. A U.S. spokesman countered that it was not the goal of the United States to destroy Iraq. The same day Gorbachev made an emergency appeal to Saddam Husayn asking him to demonstrate pragmatism and avoid even heavier casualties and destruction. He also added that he would dispatch his personal representative to Baghdad to meet with Saddam. On the 12th, President Gorbachev's personal envoy, Primakov, arrived in Baghdad and held talks with Hussein. After the meeting, Primakov described the talks "as giving one hope." On the 15th, Iraq announced a conditional withdrawal, which Gorbachev called a "positive sign." On the 17th, Foreign Minister 'Aziz of Iraq arrived in Moscow for a visit. On the 18th, Gorbachev received Aziz and laid out a new plan to end the Gulf war. Under the plan, Iraq would withdraw its troops from Kuwait unconditionally, followed by a ceasefire between the belligerents. Subsequently the Soviet Union would commit itself to preserving the state structure of Iraq as well as its borders. No sanctions would be imposed against Iraq or Saddam Husayn personally. Clearly the Soviet plan was designed to protect Soviet interests and highlight the Soviet role. On the 19th, President Bush rejected the proposal, saying that it was hedged with too many conditions unacceptable to the anti-Iraq coalition. On the 23d Gorbachev revised his plan put forward on the 17th by adding language that held Iraq responsible for the conflict. The proposal was accepted by Iraq. That same day Gorbachev held a telephone conference with the leaders of the United States, Britain, France, Italy, Egypt, Germany, Japan, Iran, and Syria in which he defended the Soviet proposal as being hardly different from the ultimatum of unconditional withdrawal issued by the United States. The U.S. response was that Iraq must act in accordance with the ultimatum issued by President Bush and that the time by which Iraqi withdrawal must be completed was a matter between Iraq and the U.S.-led multinational coalition, "of which the Soviet Union is not a member." Clearly the United States was not about to let the Soviet Union get involved just as victory was within grasp so that Moscow could reap a windfall of political capital merely by sitting on the sideline. On the same day that the Soviet Union held talks with the leaders of the United States and other nations concerned, the Soviet representative at the UN asked the Security Council to call an emergency meeting to discuss finding a peaceful solution to the Gulf conflict. To avoid a public confrontation with the United States, however, Moscow agreed not to put the Soviet peace plan to a vote at the Security Council.

Brushing aside the string of proposals from the Soviet Union, the United States decided that the multinational forces should launch a ground offensive on the 24th. After

the fighting began, the Soviet government issued a statement expressing its regrets about missing an opportunity for resolving the Gulf conflict peacefully. This brought an end to the jockeying between the United States and the Soviet Union to seize the initiative in resolving the Gulf conflict. On the 26th, to mend fences with the United States, an aide to President Gorbachev told a press conference that whatever the outcome of the Gulf war, the Soviet Union would "discuss its moves with the United States at the Security Council" and that Moscow would "not put any pressure on the United States"

After four days of ground fighting, Iraq's ground forces were virtually annihilated. On 27 February, Iraq announced that it would accept UN Security Council Resolutions 662 and 674 which dealt with the Gulf crisis, agreed to consider the principle of paying reparations to Kuwait, and dropped its territorial demands toward Kuwait in exchange for a cease-fire. In a national televised address on 28 February, President Bush declared that the independence of Kuwait had been restored and the U.S.-led multinational coalition declared a cease-fire at 1 PM the same day. Thus the six-week Gulf war ended in the victory of the United States

5. The Soviet Union and Post-War Gulf Arrangements

With the war over, rearranging the pieces in the Gulf became a burning issue. The Soviet Union went all out to protect its interests and influence in the region as a superpower. The day after the cease-fire, Soviet Foreign Minister Aleksandr Bessmertnykh told a press conference that several tasks needed to be tackled after the cease-fire. First, totally eliminate the possibility of any kind of renewed military action in the Gulf. Accordingly, military representatives from the various parties would be brought in touch with one another. The Soviet Union would strongly assist such contacts. Second, a meeting of the Security Council would be called. To begin with, there would be an emergency meeting of the permanent members of the Security Council to discuss fully resolving the Iraq-Kuwait conflict. Third, begin building without delay a new structure for the Gulf region after the war to create a security system that would avoid another military conflict in the area. The Soviet Union would stay in touch with the United States. The foreign minister also emphasized that the peoples of the nations in the area should be left to decide their own destiny. "The Soviet Union is convinced that there will be no solid security system in the region if Iraq is not allowed to play a role in it." On 7 March, Deputy Foreign Minister Belonogov said in Teheran that even if Saddam Husayn were overthrown, the friendship treaty signed by Moscow and Baghdad in 1972 would remain in effect.

At a briefing on 16 March, a spokesman for the Soviet Ministry of Foreign Affairs elaborated the Soviet Union's six-point attitude on the postwar arrangements in the Gulf: 1) The postwar arrangements in the Gulf should not be directed against anybody but should enhance cooperation between all the nations in the region as well as those which are not directly involved but which make significant contributions to peace and stability in the area. Any future agreement on the region should be based on such well-established principles as nonintervention, mutual renunciation of the use of force or the threat to use force, the resolution of disputes through peaceful means, and the recognition of the sovereignty and territorial integrity of all nations in the area; 2) Prevent the proliferation of nuclear weapons, chemical weapons, and other weapons of mass destruction in the region, accompanied by an earnest effort to discuss the issue of cutting back on arms supplies to the area in a balanced manner; 3) Foreign military presence in the region should not exceed the level of 1 August 1990. If extensive military support is needed during a specified period, then UN peace-keeping forces and observers or forces from other Arab or Muslim nations might play such a role; 4) International cooperation must be mobilized to make good the losses incurred by the war; 5) The UN should play a major role in coordinating postwar arrangements in the region; and 6) Create more favorable conditions for resolving the Arab-Israeli conflict as soon as possible in order to eliminate the political causes of instability and conflict in the region.

Judging from Soviet proposals concerning postwar arrangements in the Gulf, Moscow has the following concerns. First, set up security in the Gulf. The Soviet Union hopes to set up some kind of security system in the Gulf with American cooperation, at the same time reducing American military presence there. Second, maintain friendly relations with Iraq. As much as possible the postwar settlement should not be targeted against President Saddam Husayn personally or interfere in the internal affairs of Iraq. Third, limit the flow of weapons (primarily from the United States) to the region. Fourth, establish a linkage between the postwar settlement and the resolution of the Arab-Israeli conflict in order to improve Soviet relations with the Arab nations. The postwar Gulf policy of the Soviet Union marks a departure from the old emphasis on confrontation with the United States. The new Soviet Gulf policy stresses cooperation with Washington. As far as the differences in their interests are concerned, the Soviet approach is one of compromise and trying to accommodate both its own interests and those of the United States so as not to worsen any conflict.

Soviet policies toward the nations in the Gulf would be free from ideology and would aim at improving and furthering bilateral relations. To help solve its economic difficulties, the Soviet Union would seek financial aid from oil-exporting nations like Saudi Arabia.

That the United States and the Soviet Union have different interests in the Gulf is an objective fact. Since the situation in the Gulf and other neighboring countries is extremely complex, what with their bewildering web of conflicts, the new Soviet Gulf policy faces a severe test.

Countering Peaceful Evolution Strategy

91CM0543A Shijiazhuang HEBEI SHIFAN DAXUE XUEBAO: SHEHUI KEXUE BAN [JOURNAL OF HEBEI NORMAL UNIVERSITY: SOCIAL SCIENCE EDITION] in Chinese No 3, 17 Jul 91 pp 34-39

[Article by Zhang Ji (1728 7535); responsible editor, Feng Chunming (7458 2504 2494): "On the New Characteristics of the Peaceful Evolution Strategy Adopted by the West and China's Strategy of Countering the Peaceful Evolution Strategy"]

[Text]

I.

That socialism has appeared in the world as the opposing principle to capitalism and the eventual replacement of capitalism is the result of internal contradictions which have evolved in capitalist society and also because this was determined by the developmental law of social history. However, since 1917, when the first socialist state came into being, Western capitalism has never once abandoned its strategic objectives of overthrowing the leadership of the Communist Party, of eliminating the socialist system, and of eradicating all Marxist ideology. From 1917 to the early years of the 1950's, the capitalist world of the West has on several occasions tried to eliminate socialism by force of arms or by wars but has never achieved its anticipated objective. Now, so much later, its efforts concentrate on peaceful evolution, hoping to be able by other than warlike means to achieve its criminal and evil objectives of subverting socialist countries, overthrowing communist leaderships, and restoring a uniformity of capitalism throughout the world.

Since entering the 1980's, in the wake of developmental changes in the world situation and after the emergence of a new direction in East-West relations, the Western countries, while continuing to pursue their strategy of peaceful evolution against the socialist countries, readjusted certain particular tactics and imparted to them some new characteristics:

First is attempting a breakthrough at a critical point to enable realization of the entire strategy. When the Western countries first put forward their strategy of peaceful evolution, they had no systematic tactics and were not very clear about the objectives they pursued and the steps and methods to take. Therefore, when unrest occurred in some socialist countries of the East in 1956, the "liberation strategy" of Dulles could not muster sufficient capability for this kind of a "liberation," and the Dulles strategy was therefore later criticized by Kennedy as "empty talk and fantasy." However, in his own time, Kennedy too did not formulate a set of specific and perfect measures. Once into the 1980's, some socialist countries, in their continuous efforts to perfect the socialist system, began one after the other to reform and open up to the outside world, and were actually very successful in doing so. However, reform is an arduous and complex piece of system engineering, as it is also a grand undertaking without any historical precedent. The socialist countries could therefore not avoid certain setbacks and errors in the course of their reforms and also could not avoid the occurrence of some contradictions and clashes. The West regarded these as sure signs of communism's failure and as the historical opportunity for which they had been waiting for such a long time. In his speech at the London Conference on 8 June 1982, U.S. President Reagan officially sounded the trumpet signal for "peaceful attack" against the socialist countries. Reagan declared that the ultimate decisive factor in the ongoing struggle between the two diverse systems will not be nuclear bombs and missiles but the test of strength of willpower and ideology. He shouted that he will throw Marxism onto the garbage heap of history and as soon as possible will establish an environment of freedom and democracy in all countries. Thereafter, all top-ranking personalities and members of think-tanks in the West contributed on every occasion and with different points of emphasis various plans and tactics for the promotion of the peaceful evolution strategy. As a consequence, they endowed this strategy with greater detail and made it more complete than it had been in the beginning. The following are some of the areas of specific manifestation of these efforts:

1) As to the objectives of the peaceful evolution strategy. The initial objective of the peaceful evolution strategy of the West was to win a victory over socialism without a fight, in a world war where no shot would be fired, in order to build a new world of Western type so-called freedom and democracy. In his official foreign policy statement as president, Reagan declared that the United States will give powerful leadership to the whole world and that it is an objective of the United States to promote democratic revolutions throughout the world, creating multiparty systems in the world and a world without despotic rule of any form or shade. Thereafter, it became the specific objective of the Western capitalist countries in promoting peaceful evolution to take advantage of the reform in the socialist countries during the years following the 1980's and to urge the socialist countries to institute multiparty systems, private ownership in their economies, Westernization in the social sphere, and liberalization in their ideology.

2) As to the key points for activating peaceful evolution. The Western heads of state have repeatedly emphasized that they would adopt policies that would deal with the socialist countries in differentiating ways. Former U.S. President Nixon, when asked his opinion about the foreign policy of the current President Bush, declared that it would be necessary to take action in three directions in order to solve the East European problem: first, to exert pressure to spur on East European peaceful evolution; second, to pursue policies toward the East European regimes with certain differentiations, i.e., to differentiate between those regimes that show a willingness to have their countries institute reforms toward a multiparty system and those regimes that are unwilling to institute such reforms; third, to place the East European question on the agenda of U.S.-Soviet talks and to demand from the Soviet Union that the East European people be allowed to choose their own forms of government in true elections. It is not difficult to see that the main thrust of peaceful evolution

was directed against Eastern Europe and that the subsequent objectives would be the Soviet Union and China.

3) As to the steps taken in pursuit of the peaceful evolution strategy. In the early years after the war, the proponents of the peaceful evolution strategy pinned their hopes on the third and fourth generation in the socialist countries. Since entering the 1980's, the West substantially advanced the clock for achievement of peaceful evolution. They reckoned that since Eastern Europe had already become an economic and political powder-keg that would soon blow up, the 1990's would unavoidably see a great political upheaval. They therefore forecast that capitalism could win a victory without any fight by the year 1999. Brzezinski asserted categorically that the demise of communism would occur before the end of the 20th century. Although they hoped that the socialist countries would soon "peacefully evolve," they still emphasized in the specific execution of measures toward that result the need to act cautiously, carefully, and also with patience. Brzezinski warned: The West must give up the vain and foolish hope of quick victory; every specific step must be done cautiously, carefully, and step-by-step to coordinate Western aid with the advance toward genuine political diversification. Shultz also emphasized that the advance toward democracy and broad and extensive freedom may possibly be a slow process and that patience is required. If we were to use our strength and push some of our own allies, that are not democratic, too far and too fast, we may, on the contrary, possibly destroy the hope for broad and extensive freedom.

Second is alternating the use of various measures to forcefully spur on realization of the peaceful evolution strategy. Although the West had already put forward its peaceful evolution strategy in the early years of the 1950's, they had not been clear about how to carry it out and what measures and methods to use. Since entering the 1980's, the Western countries tried to accelerate execution of the peaceful evolution strategy by adopting, as far as measures and methods are concerned, the tactics of hitting out at all positions and stepping up attacks with every possible means at their disposal in all fields, i.e., in politics, economics, foreign relations, culture, education, and religious beliefs.

1) Political infiltration and subversion. First, interfer in the internal affairs of socialist countries by flaunting the banner of human rights. Human rights is originally a concept put forward by the proponents of modern bourgeois enlightenment in their opposition to feudal rule and feudal privileges but was used after the war by the Western capitalist countries as a weapon to bring about peaceful evolution of socialism. After Carter assumed the presidency in 1977, they really did unfurl that banner of human rights in their efforts to substitute their claim to righteousness for what they lacked in military strength, challenging Eastern Europe and the Soviet Union in matters of human rights. After Reagan became president, the human rights foreign policy was pursued with even greater frenzy and was closely integrated with political infiltration and subversion of foreign countries. Examples of this are the pressures on China exercised in recent years by the U.S. Congress through systematic interference in China's internal state affairs in such questions as China's Tibetan question, in the question of family planning, in questions of democracy and human rights, and in the question of the so-called political criminals. Second, take advantage of international cultural and academic exchanges and the mutual visits of personnel, making efforts to win people over and build up a pro-Western force. In October of 1982, at a meeting called by Shultz at the U.S. State Department about the democratization of communist countries, he said, one important factor in the democratization of communist countries is the development of internal forces in them. Only when we have a hold on the people of these countries can we bring full pressure to bear, as necessary to implement reforms. Only then will we have the opportunity to shape our own destiny. He therefore proposed that the U.S. Government should utilize these internal forces and engage in even more activities to support the emergence of democracy in the communist countries. Mark Palmer, the U.S. ambassador in Hungary, then proposed: The West should seize the present opportunity, when some East European communist parties are discussing the meaning of democracy and the rule of law, to take up relations with more parties in the East European countries and to especially strengthen relations with dissenting parties and factions. In the last few years, the United States has directed the focus of its attention on Chinese students studying abroad and on visiting scholars in the belief that these groups will be the future leaders at all levels, that they will be tomorrow's stars. The United States therefore attached particular importance to instilling in the minds of these groups of persons the basic value concepts of the United States. One American congressman said, we are harboring a clear and definite foreign policy objective. Our objective is to have the Chinese students studying in the United States become deeply saturated with the principles of freedom and democracy which constitute the foundation of American statehood. Third, instigate internal unrest within the socialist countries. In the pursuit of their subversive activities, the West is making the most of every error and setback in the socialist countries to create crises and instigate turmoil, in order to gain victory in the subsequent upheaval.

2) Economic enticement, pressure, and domination. In the last few years, the Western countries have very obviously increased the use of economic measures, as they now emphasize the use of foreign aid to achieve their objectives. In 1983, the U.S. Congress passed the "National Endowment for Democracy Act," and the next year, the U.S. Congress set up a National Endowment for Democracy Commission. This is a unique composite organization. Its running expenses are annually allocated by the Congress, and its activities are directed by the two parties, the Democratic and the Republican Party. Through underground organizations and refugees in foreign countries they instigate infiltrations and subversions in socialist countries. The West believes in not giving aid without conditions; there are not to be "free lunches." The conditions are that the economy of the socialist countries be

transformed into free market systems, and that their political system be transformed into a multiparty system. They call it by the fine-sounding name of supporting the reform in the socialist countries. The more of such reforms are carried out, the more aid will be given; limited reforms will be given little aid, and where no reforms are produced, aid will be stopped. In June of 1989, the Solidarity trade union in Poland gained its great election victory, and in September a government was formed in which the Solidarity trade union was in dominant position. In the belief that the events in Poland would be taken as an example and would be emulated by other communist countries, all Western countries got busy and generously opened their purses. On the other hand, when China in June of 1989 put down a rebellion, the West imposed its despicable economic sanctions against China. It is not difficult to see the political motives in any economic aid granted by the West.

3) Psychological attack on culture and ideology. The West believes that the most effective and reliable way to stamp out socialism in its very foundations is by the influence of Western ideas and culture to fight a war without a shot and to capture the minds of the people in the socialist countries. Nixon once said: Although the competition between the United States and the Soviet Union is military, economic, and political, the root of it is, however, ideological. If the United States is defeated in the ideological fight, all its weapons, treaty, trade, foreign aid, and cultural relations will be of not the slightest use to the United States. It is for this reason that they unload on the socialist countries so large an amount of books, magazines, and newspapers filled with Western bourgeois ideas of liberalization and also ship in so large an amount of Western films full of sex and violence. In Budapest, the United States built an "American House." This is a culture center equipped to perfection, having a library and a theater, but it is at the same time an amusement park for the spread of Western culture and lifestyle, which is indeed of considerable effect in corrupting the minds and souls of the young.

In the course of this war of ideologies, where no shots have been fired, Western broadcasts, such as by the Voice of America, Radio Free Europe, the British BBC, and the Deutsche Welle, have had a particularly powerful effect. Day and night they unremittingly beamed their inflammatory propaganda to the socialist countries, embellishing capitalism, detracting socialism, and sowing doubt in the minds of the people. Nixon boasted that it was Radio Free Europe and other free radio stations that prevented the Soviet Union from fully imbuing the people of Eastern Europe and of the Soviet Union with the communist ideology. Reagan once said, the Voice of America is a power that lights a fire in the darkness of the communist society.

In the psychological attack on ideology, religious forces in the East European countries had become important tools of the West in its fight against Marxist ideology. They spread much ideological sentiment that stirred the people up and incited them to dissatisfaction with their authorities. They blamed Marxism and called upon their followers to engage in a persistent struggle against materialism.

4) Military threats and containment. The Western countries have never relented in the use of military means in their dealings with socialist countries. However, the military deterrent of the 1980's has characteristics that are different from the deterrent force of the 1950's and 1960's, in that the military deterrent force is now regarded as either a prerequisite or as a backup force for peaceful evolution. It is no more, as in the times of Truman and Johnson, primarily a means of directly applying military measures. Nixon said that a precondition for peaceful evolution is military deterrent. "Without military strength and the best of tools, together with the resolve to selectively use this strength, we would be defeated in our competition with the Soviet Union." Bush also said, "deterrent is the core of our defense strategy. The most important component of our defense strategy is maintenance of an effective deterrent force, namely to demonstrate to our allies and to our enemies the strength and resolve of the United States." This shows that the peaceful evolution strategy of imperialism is not at all purely a "peace" strategy, but a peaceful strategy that is fraught with war and the smoke of gunpowder.

Third, is coordinated steps, united action, and joint moves against the socialist countries. Before the 1980's, when the West pursued its peaceful evolution policy toward the socialist countries, it had not yet been aware of the importance of coordinated action. There is additionally the fact that the various countries of the West had their mutual differences as regards specific policies toward the socialist countries, so that actions of the Western capitalist countries frequently appeared to be not well coordinated. However, fundamentally, in the question of opposing the socialist system and in the question of having the socialist countries "evolve peacefully," interests and objectives of all Western countries had been identical. It was after entering the 1980's that the West enhanced its coordination and in united action moved jointly in its dealings with the socialist countries. In June of 1983, Mrs. Thatcher, the British prime minister, proclaimed at the Conference for the Establishment of the International Federation of Democracies, that the peaceful evolution of the socialist countries is the "common objective" of the West. In July of 1984, Nixon also pointed out in his talk with the correspondent of the French newspaper LE FIGARO that regardless whether it is in their relations to the Soviet Union or to the developing countries, the major developed countries, i.e., all members of the North Atlantic Treaty Organization [NATO] and Japan, must strengthen their joint economic policies and must no more act at cross purposes with one another. In July of 1989, at the summit meeting of the seven Western nations, in departure from the normal rule, political questions were placed at the head of the agenda, and the meeting prominently discussed the question of Eastern Europe, and coordinated the strategy of the seven countries to promote peaceful evolution in the socialist countries. As soon as the summit meeting of the seven Western nations was concluded, the various Western countries immediately went into action. On 1 August, at the Brussels meeting of the executive commission of the European Communities, participated in by 24 Western

countries, a four-point understanding was arrived at to support the economic reforms in Poland and Hungary.

On the question of economic sanctions against China, the West also displayed coordinated uniform action. On 6 June 1989, the United States declared that it would impose a five-point sanction against China. Thereafter, Britain, Japan, Denmark, Sweden, Norway, Germany, Belgium, and Canada also declared their resolution to impose sanctions on China, and the World Bank and the European Communities, controlled by the West, also issued statements of a series of sanction they will impose against China.

Fourth, intensified peaceful evolution under the pretext of relaxing the international situation. Since the second half of the 1980's, major changes have occurred in the international situation. The Yalta system, maintained for a long time after the war and characterized by the cold war, disintegrated, and political and military relaxation became a world trend. The Western countries, headed by the United States, however, took advantage of the relaxation in the international situation. On the one hand they set all propaganda mass media in motion to build up a large momentum for relaxation, demonstrating hopes for peace, opposition to war, and thereby they also induced a paralysis in the socialist countries and their people. On the other hand, in order to hold out a lure of economic and technological aid in an intensified "peace attack" against the socialist countries, they actively utilized the new technological revolution that is presently occurring throughout the world and also the tide of economic competition to intensify their contacts and intercourse with the socialist countries. For instance, the United States, on the one hand, officially and distinctly proclaimed at NATO summit meetings that the Soviet Union is no more an enemy of the West and that the United States is seeking to establish a new form of partnership with the Soviet Union. On the other hand, it increased its pressure, demanding that the Soviet Union and the East European countries accelerate political democratization and their conversion to market economy and that they draw closer in their foreign relations to the foreign policies of the West. Relaxation in the international situation has therefore become something of a pretext for the West to persist in promoting peaceful evolution in the socialist countries.

II.

It is not difficult to see from the above analysis that since the beginning of the 1980's, the Western countries have shown many new characteristics and new variations in their peaceful evolution strategy. Against these activities we must maintain a high degree of vigilance, must closely watch the new developments, and at the same time must meet squarely all their intentions, earnestly study the situation, and come up with a comprehensive strategy for China to counter peaceful evolution.

First, we must effectively take in hand the buildup of the ruling party itself. Materialist dialectics tells us that in the course of developmental change of a matter, the external causes are the conditions of change, the internal causes are the basis of the change, and that the external causes become operative through the internal causes. It is therefore of the first importance that the buildup of the ruling party itself be strengthened. At present, we must in particular accomplish the following:

1) We must conduct education on the basic theories of Marxism on a broad scale among the high- and medium-ranking cadres and among the ordinary party members to continuously raise their ideological consciousness and the level of their theoretical knowledge in order to enable the party organization and the leading cadres of the party to lead the masses in critical and complex situations in an advance along the correct road.

2) We must strengthen the democratic centralism of the party. We must, on the one hand, safeguard the solidarity and unity of the party, strengthen the cohesion within the party, and, on the other hand, enhance democracy within the party, bring about a normal atmosphere in the life of the party, oppose arbitrariness in decision-making, and oppose special privileges, subjectivism, bureaucratism, and personality cults.

3) We must establish close relations between the party and the masses. We must resolutely eliminate within the party all kinds of misuse of power for personal gain and also all kinds of negative phenomena, such as extravagance, decadence, and alienation from the masses. We must exert efforts to restore and further the excellent tradition and workstyle of the party, and raise high the prestige of the party among the masses.

Second, we must give a high degree of attention to the struggle in the ideological field, firmly and unremittingly conduct education throughout the entire party and among all the people of the nation to affirm the socialist faith. Utilizing the ideological ground to launch psychological attacks is an important characteristic and part of the tactics of the West in their efforts to promote peaceful evolution in the socialist countries. Against these intentions we must maintain a high degree of vigilance. We must in theoretical respects and in our propaganda expound the fact that there exists class struggle, within certain limits, in the socialist society, and expose the intentions and plots of imperialism in its efforts to promote peaceful evolution in the socialist countries. Not only that, we must also pay close attention to the points of particular emphasis which international imperialism chooses at different times in its attacks in the ideological field and must in good time launch rational and forceful counterattacks. In the struggle in the ideological field, we must pay particular attention to the education of the large number of our youths. Winning over the youths of the socialist countries is a key point in the efforts of the West to promote peaceful evolution. They use every means in every possible way to lure, win over, and corrupt the youths, while the youths are just at the age when their world view is developing and taking shape. Education of the youths is therefore particularly important. The struggle to win over the youths is going on imperceptibly and through subtle influences. If we loose this fight to win them

over it would ruin all achievements of socialist construction, and all hopes and prospects of the motherland would melt into thin air.

Third, we must firmly uphold the socialist direction in reform and opening up to the outside world and make a success of economic construction. One important reason why Western imperialism launched its fierce move for peaceful evolution against the socialist countries in the 1980's is that it thought it had the backing of comprehensive national might. It was developing in relative stability socially, had powerful economic strength, had advanced science and technology and a rich material life, all of which could serve as a lure and a means to propagate in the socialist countries its political and economic patterns and thereby lure and pressure the socialist countries into diversions in their reforms. In the new international situation, we must be absolutely clear: Reform is a self-perfection of the socialist system and not a change in the foundations of the socialist system. The objective of reform is to continuously bring out the superiority of the socialist system and to raise to great heights the material and cultural living standard of the broad masses. This is the only way to forcefully prove the superiority of the socialist system and the accuracy of China's socialist road. It is also the only way to even more forcefully foil the peaceful evolution plot of imperialism.

Fourth, we must firmly uphold the principles of independence, self-determination, and self-reliance. Under the conditions of a gradually growing integration of the economy of the whole world, conducting socialist construction behind closed doors and in isolation would never be successful. We must therefore adopt a policy of opening up to the outside world and, on the basis of equality and mutual benefit, develop economic relations with all countries and also expand intercourse and cooperation with foreign countries, including importation of foreign capital, advanced technologies, managerial skills, and also beneficial elements of culture. But in all this we must firmly uphold our principles. Our basic requirement is independence, self-determination, and self-reliance. The purpose of our expansion of economic intercourse and in gaining foreign assistance is to build socialism with Chinese characteristics. In our intercourse and cooperation with foreign countries, we must always maintain a sober mind, and adopt long-range vigilance and the concept of resistance to Western peaceful evolution. Under no circumstances must we lose our vigilance in the clamor for mutual friendship, and lose our national prestige in the course of friendly relations. The dramatic changes in Eastern Europe are proof of this point. If socialist countries rely economically too much on foreign countries, rely on foreign borrowing to support one's own country's economy and the people's livelihood, it will not only invite economic disaster to one's own country, but will also bring about domination by the West, and provide an opportunity for Western-style peaceful evolution.

Peaceful evolution has been, since the end of the war, the most important means used by Western capitalist countries, and their most consistent strategy, to subvert socialism. At different times, their points of emphasis have differed, but in the general overview, the objective of the strategy has become clearer since the 1980's, its points of emphasis more conspicuous, its means more flexible, its methods more comprehensive, and its deceptive character and seductive character more extensive. For this reason, we must always maintain a sober mind and must also formulate a perfect strategy that will counter peaceful evolution and will thoroughly defeat the plot of the Western capitalist countries.

Call for 'War' Against 'Peaceful Evolution'

91CM0526A Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 7, 8 Jul 91 pp 15-18

[Article by Chen Yeping (7115 6851 5393): "Fight a Protracted War Against 'Peaceful Evolution'"]

[Text] In his "Struggle To Build the Party Into a Stronger Vanguard of the Worker Class—Speech at the Party-Building Theory Study Class," Comrade Jiang Zemin pointed out: "We must fully recognize the grim situation that the party faces and the heavy historical responsibility it bears and fully recognize the serious harm to our party of 'peaceful evolution' that international hostile forces are pursuing with more intensity." Not long ago Comrade Song Ping [1345 1627] also said that to resist the "peaceful evolution" pursued by imperialism, we must build our party well so that it will pass the test in the struggle to oppose corruption and prevent evolution. Since the Fifth Plenary Session of the 13th CPC Central Committee, the leadership collective of the party Central Committee, with regard to "peaceful evoluton," has been clear in its understanding, correct in its countermeasures, vigorous in its measures, and good in its results. However, to implement to the end the party Central Committee's spirit, we need to do arduous work without letup. The first point is to make the entire party establish the idea of long-term battles, integrate the struggle against "peaceful evolution" with the building of the party, and fight a protracted war against "peaceful evolution."

I. Current Situation in Struggle Against "Peaceful Evolution"

The strategy of "peaceful evolution" is imperialism's established policy. This reactionary strategy surfaced in the fifties, was quiescent in the sixties and seventies, and retook the offensive in the eighties. For several decades, even if important political figures in the West have come and gone, this reactionary strategy has, from first to last, been strictly pursued by the West's monopoly capitalist class. Of course, following the changes in the situation of international struggle, its specific tactics changed accordingly, and, therefore, "goods of various brands" appeared: Truman's "containment strategy," Dulles' "liberation policy," Kennedy's "peace strategy," Reagan's "peaceful political offensive" strategy, and Bush's "beyond-containment" strategy. (see Notes) Although the same old thing was put in new guises, it was nothing more than a replay of the same old game.

From first to last, imperialism has made communism its mortal enemy, and it will not be content until it wipes out communism. In the past it made direct use of military force to support reactionaries and suppress revolutionary forces in various countries and to interfere in the socialist countries, and it imposed economic blockades on socialist countries. Later it invented "peaceful evolution" and made this its main strategy in opposing the communist movement, trying in vain to achieve its goal of "victory without war" by infiltration through political, ideological, and cultural channels.

Imperialism uses in turn two hands to oppose revolution: with one hand it shakes your hand and with the other it holds the knife. The ruling parties in the socialist countries should use the two hands of revolution in dealing with the two hands of counterrevolution: with one hand, heighten vigilance, strengthen national defense, and be prepared at all times to wipe out invading enemies; with the other hand, in all domains wage a struggle against infiltration, against subversion, and against "peaceful evolution." If any ruling communist party forgets the basic conclusions on imperialism in Lenin's *On Imperialism* and abandons class struggle and proletarian dictatorship, it will suffer defeat in the worldwide struggle between the two classes and the two social systems. This is not theoretical propaganda; in certain countries it has become a living reality. I think that this is only the phenomena on the surface and that in reality there is a process from quantitative change to qualitative change, from gradual change to sudden change. "It takes more than one cold day for the river to freeze three feet deep"—the trouble has been brewing for quite some time. In some countries imperialism has expanded its original capital, and has "cast a long line to hook a big fish." As early as 1959 Kennedy proposed the use of flexible economic instruments to promote peaceful reform behind the "Iron Curtain," cultivating the seeds of "freedom" that would gradually have an effect. In the early eighties when certain organizations were making trouble, America helped the so-called "democratic forces" to establish "independent trade unions, churches, political parties, newspapers and periodicals, and judicial organs." After opposition factions came to power the West's monopoly capitalist class enouraged them with capital to promote "peaceful evolution." Bush has a big appetite. He said that the objective of his "beyond-containment" policy is to go beyond "what was imagined by his predecessors," viz., not just to contain Soviet expansion but "to blend the Soviet Union into the great international family" and to fuse Eastern Europe and Western Europe into an "integrated, free Europe." Bush also declared: "We are nearing the end of an historic trial of strength between the two goals (socialist and capitalist)." He added: "One country after another has shaken off communist rule and crossed the threshold of the democratic system of government." From his appearance he looks to be immensely proud and wild with joy.

The causes of the drastic changes in certain countries are complex. The main internal cause is the unchecked spread of the ideological trend of democratic socialism within the communist parties, and the main external cause is the effect of imperialism's "peaceful evolution" strategy. Imperialism is now congratulating itself on its success in certain countries, and is preparing to spend $100 billion in these countries to implement a "new Marshall Plan" with the objective of promoting the change to capitalism in these countries. However, just as Comrade Deng Xiaoping has said, they should not rejoice too soon. It is true that the success of imperialism's "peaceful evolution" in these countries has been a serious setback to the socialist cause and the international communist movement, but the objective laws of the development of history cannot be fundamentally changed. In his speech at the 40th National Day rally, Comrade Jiang Zemin said incisively: "To only see certain whirlpools and adverse currents but not be able to see the surging forward of the long river of history only shows the political shortsightedness of the observer." The true Marxist-Leninists in all countries will not lightly abandon their faith and will not "lower their banners and muffle their drums"—cease all activities. In these countries there are not economic depression, price rises, and seething popular discontent. The stuff that they are practicing has not shown any superiorities. The "peaceful evolution" originally imagined by some people has passed, and it only shattered their fond dream that they could immediately lead the rich life of the developed countries of the West. I believe that the revolutionary forces in these countries will certainly regroup, adopt new tactics, continue to struggle, and gradually develop and grow in strength.

II. Clearly Discern the Macroclimate, Develop the Microclimate

The concepts of the macroclimate and the microclimate were put forward by Comrade Deng Xiaoping after he curbed and suppressed the upheaval and counterrevolutionary rebellion in 1989. He said: "This disturbance was bound to occur sooner or later. It was determined by the international macroclimate and China's own microclimate. It was bound to occur and was something that could not be changed by people's will."

The international macroclimate and the domestic microclimate are in a relationship of external cause and internal cause. The external cause always plays its role through the internal cause. China has, with certain countries, a common international macroclimate; that is to say, we all face the "peaceful evolution" offensive of imperialism. However, because each country's internal cause is different, the effect is not the same. China decisively curbed and suppressed the upheaval and counterrevolutionary rebellion, contained the rampant offensive of imperialism's "peaceful evolution," and strengthened the important positions of world socialism, but certain countries are sliding down the capitalist road.

At present the drastic changes in some countries, as an important element in the international macroclimate, have become an assault against us. Some people say: Some countries that practiced socialism for several decades have collapsed at one fell swoop. Will you Chinese communists be all right? I say: Why would we not be all right! Provided

we clearly discern the macroclimate and develop the microclimate, we certainly can be in an invincible position.

In distinct contrast with the international macroclimate, our domestic microclimate is getting better day by day. Specifically speaking, there are at least the following aspects: First, the new central leadership collective with Comrade Jiang Zemin as the nucleus, which was established by the Fourth Plenary Session of the 13th CPC Central Committee, is the fundamental organizational guarantee for our advancing along the party-building line of Marxism-Leninism and Mao Zedong Thought. Second, after the curbing and suppression of the upheaval and counterrevolutionary rebellion, the party correctly distinguished and handled the two different types of contradictions and further stabilized the political situation. Third, the party continues to implement, truly and thoroughly, the basic line of "one center, two basic points," to strengthen the foundation of the state and to take the path of a powerful nation. Fourth, the economic situation is getting better day by day, and the 10-Year Program and Eighth Five-Year Plan, which were discussed and approved by the recently held Fifth Session of the Seventh National People's Congress, show that China's economy is aiming at higher goals and that it will leap to a new stage. Fifth, party committees at all levels, from the center to the localities, have conscientiously put party building on their daily agenda. The attention of the entire party has already been focused on the situation in party building and so on and so forth.

However, from a look at the situation within the party, we must soberly see through sorting out and checking that although the party members have been reregistered and the party's fighting ability has been improved, the problems of ideological impurity, political impurity, organizational impurity, and work style impurity have not yet been completely solved, and also that, under the new circumstances, they have been newly manifested. This is the hidden danger in the struggle against "peaceful evolution."

—Ideological impurity. In organization some party members have joined the party, but in ideology they have not joined the party. We must put ideological building in first place in the building of the party; continue unremittingly to get a good grip on the basic theories of Marxism, the party's basic theories, and the party's basic knowledge and education; raise the ideological and political levels of the party members; and enhance the party spirit of party members so that every party member establishes the world outlook of science and masters the methodology of science. Comrades Deng Xiaoping and Jiang Zemin have both stressed that we must, from the height of upholding the party's leadership and socialist road, of insuring the achievement of the party's general goals and general tasks, and of frustrating the hostile forces' "peaceful evolution" plan and strategy, fully understand the importance of arming all the cadres and the party with Marxism. To discern and frustrate the "peaceful evolution" plot of the hostile forces at home and abroad, it is most important to arm the entire party with Marxism-Leninism and Mao Zedong Thought and in ideology to build a great wall of steel to withstand "peaceful evolution."

—Political impurity. The motive of some party members for joining the party was not pure—they joined either for fame and postion or for power and money. Some, as Fang Lizhi [2455 0536 0037] said, joined the party in order to transform it. The people lying low in the party and waiting for the opportunity to act are the hidden peril of "peaceful evolution," and they are most dangerous. Still other party members, at the critical moments in the political struggle, e.g., the upheaval and counterrevolutionary rebellion in 1989, "straddle two boats"—have a foot in either camp—and are of two minds. They are typical fence sitters. This type of person is politically unreliable. We must be on guard against them and be good at discerning them. Once we find out who they are, we must deal with them decisively.

—Organizational impurity. Some party organizations do not guard the "entrance barrier" for developing party members, lower the standards for party members, and drag unqualified people into the party. Some party organizations cannot implement the policy of strictly running the party, and party members who should be punished are dealt with tardily. Now, some political speculators and opportunists, and even political opposition factions, have not been completely expelled from the party.

—Work style impurity. Some party members, particularly leading cadres, have completely forgotten the party's three important work styles; their work is not in tune with reality, and bureaucratism is serious. Some of them pass the letters from the masses down to lower levels and even pass letters exposing someone to the one being exposed. In particular, all sorts and kinds of negative, corrupt phenomena are precisely the breakthrough point for "peaceful evolution."

To clearly discern the macroclimate we must sound the tocsin for a long time, and never let up, about the danger of imperialism's "peaceful evolution." The key to developing the microclimate is to build our party well, to resolutely implement the policy of strictly running the party, and to conscientiously put ideological building in first place in order to solve the problem of ideological impurity; to clear out elements who are politically independent of the party in order to solve the problem of political impurity; to guard well the "entrance barrier" for developing party members and to expel unqualified party members in order to solve the problem of organizational impurity; and to implement the resolution of the Sixth Plenary Session of the 13th CPC Central Committee, and restore and develop the party's fine traditions and work style, in order to solve the problem of work style impurity. To build our party well, not only must there be determination and measures, but also there must be contingents and positions. In recent years in the party there has been formed a Marxist party-building theoretical contingent in which there are a number of young and middle-aged cadres whose political quality is good and whose theoretical level is high. With

regard to them, we must be good at discovering and training them, be bold in using them, and fully display their role. In the future, this generation of people will become the main force in the struggle against "peaceful evolution." The party's newspapers and periodicals must continue to publicize the Marxist party-building ideology and the center's party-building line, and with regard to the followers of bourgeois liberalization, get deeply involved in criticism and follow up victory with hot pursuit.

III. Countermeasures Against "Peaceful Evolution"

First, strengthen the consciousness of governing, improve governing skills, and comprehensively improve the party's fighting ability so that the party is able to face any political storm.

In the political aspect, we must strengthen the party's leadership. At the same time we must conscientiously improve the party's leadership style and activity style, and fully display inner-party democracy and people's democracy. Comrade Jiang Zemin has pointed out that Western-style parliamentary democracy absolutely cannot be practiced by us. In this great socialist country of ours, the West's multiparty system, once practiced, would cause chaos. There are a wide variety of "theories" advocating the multiparty system, which in the final analysis amount to one proposition: negation of our party's ruling position. An "elite" who rebelled and fled abroad once revealed a secret: Our practice of the mulitparty system would be a case of "asking a tiger for its skin"—asking someone to make an impossible sacrifice. Therefore, we are diametrically opposed to and refuse to yield an inch to the political position of all sorts of expropriators of the Communist Party's ruling authority.

In the economic aspect, we must raise up the national economy and heighten the total national strength. In the past 10 years China's gross national product increased by 1.36 times. This is a glorious figure, and reflects the rate of growth of our total national strength. While proposing the Eighth Five-Year Plan, the Seventh Plenary Session of the 13th CPC Central Committee also proposed the 10-Year Program, indicating that our party's understanding of socialist modernization and the laws of a planned commodity economy had risen to a new height and that the scientific nature and predictive nature of its decision making had risen to a new level. From now on, no matter what happens in the world, we must stress two points. First, stabilize and unify the country's political situation. Second, on the basis of stability, with one heart and one mind engage in construction and handle China's own affairs well. With a solid material foundation we will have the strength to struggle against "peaceful evolution" and can be in an invincible position.

Second, conscientiously and thoroughly implement the Central Committee's instructions on keeping the party's leadership authority at all levels in the hands of people loyal to Marxism.

Jiang Zemin has said: "Insuring that the leadership authority of the party and the state at all levels is held by people loyal to Marxism is an extremely important strategic issue. It directly relates to the prosperity or decline, the rise or fall of the party and the state." The international hostile forces are trying in vain to open a breach in the third and fourth generations of people in our party in order to achieve their hoped-for "peaceful revolution." Under these complex circumstances, we must show great foresight, take vigorous measures, and build the leading groups well at all levels in order to insure that the cause initiated by the older generation of proletarian revolutionaries is passed on from generation to generation.

How are we to insure that the leadership of party and government organizations at all levels is held by people loyal to Marxism? 1) To implement the policy of strictly running the party, first of all we must enhance with strictness the building of the cadre contingent in party affairs departments and improve the quality of this cadre contingent. 2) In cases of having both ability and political integrity, political integrity takes first place. We must comprehensively and conscientiously implement thoroughly this point and make regular inspections. This is the fundamental issue in keeping the leadership authority at all levels in the hands of people loyal to Marxism. 3) Organization departments of party committees at all levels must understand and master the essential nature of cadres and party members, i.e., not only understand the phenomena but go through the phenomena to see the essential nature, and the main thing is ideology and moral character. This is an formidable project but is also an important project that must be built. 4) In developing party members, we certainly must strictly uphold party member standards, insure quality, and put quality before quantity.

Third, the education of the younger generation must be enhanced.

The younger generation is the focus of the "peaceful evolution" contention. Speaking in a certain sense, whoever wins over the youth will win the future. We must train and educate the youth in Marxism, making a point of developing party members and selecting cadres from among youth so that the fond dream of imperialism's prophets that pins its hope of "peaceful evolution" on the younger generation goes bankrupt.

We have lessons on the question of youth education. Comrade Deng Xiaoping has said that the greatest error in 10 years was made in education, including youth education. Since reform and the opening up to the outside world, the ideology and the culture of the West's bourgeoisie have poured through our country's gates, and we did not do timely good work, causing many youths who had seen little of the world to fall captive to this ideology and this culture. In the political storm of 1989, when spring was turning into summer, many naive youths were deceived.

Since the liberation of the entire country, our party has waged a struggle against "peaceful evolution," and it has amassed experiences and lessons in it. For the past 30 years, imperialism's "peaceful evolution" strategy has proven ineffective. In addition to various objective social and historical conditions, our party's and people's high

degree of political vigilance has been a key factor. Comrades Mao Zedong and Deng Xiaoping have constantly stressed the importance of opposing "peaceful evolution." After the eighties began, in our minds the "bowstring" of struggle against "peaceful evolution" was loosened. We one-sidedly stressed "detente." Also, the "trend toward unification" and the idea of "imbuing the world with love" gave imperialism an opportunity to take advantage. In 1989 hostile forces inside and outside the country colluded to do evil and instigated a soul-stirring political storm which reawakened us as if we were suddenly enlightened. The experiences of history are worthy of attention. From now on, in construction and reform we must under no circumstances forget that imperialism, glaring like a tiger eying its prey, has not given up its intent to subjugate us. The struggle against "peaceful evolution" is a long-term struggle, and it will run through socialist modernization from beginning to end. In China, people who obstinately uphold the position of bourgeois liberalization and the corrupt and degenerate elements in the party, are the yes-men, agents, and social base for imperialism's pursuit of "peaceful evolution." The struggle against "peaceful evolution" includes the struggle against bourgeois liberalization and also includes the elimination of corrupt phenomena in the party, the display of people's democracy, the acceptance of the masses' supervision, and the unearthing of soil in which "after the self-corruption of matter, insects come to life." This is also a long-term struggle. We must wage a protracted war against "peaceful evolution." This is an issue relating to whether the party and the state will change color or not, an issue relating to whether our party can advance throughout the ages along the Marxist road. Therefore, from now on we must set to work in a solid fashion to lay a good foundation for the future with the provision that while engaging in construction, we do not forget to guard against corruption and evolution. Then, imperialism's fond dream of "peaceful evolution" will not become a reality in China.

(Notes)"Containment strategy": In March 1947 U.S. President Truman put forward the "Truman Doctrine," which raised the hue and cry for "resisting the expansion of Soviet communism." In May of the same year, the "State Department's Policy Planning Staff," headed by George Kennan, ambassador to the Soviet Union, formulated the "containment policy" in an attempt to force the Soviet Union to exercise restraint and to act with caution, and the policy promoted certain trends to cause the collapse of the Soviet regime.

"Liberation strategy": This strategy was put forward by Dulles in 1953. He called the peoples of the socialist countries "enslaved peoples" and advocated that they should be "liberated" and become "free peoples." He said: This "liberation can be achieved by a method short of war" and "it must and can be a peaceful method."

"Peace strategy": After being elected U.S. president in 1960, Kennedy clearly put forward a "peace strategy" for promoting the evolution of the Soviet Union and Eastern Europe, and at the same time he replaced the "massive retaliation strategy" of the Truman-Eisenhower era with the strategy of flexible response because America at that time had lost its absolute superiority in monopolizing nuclear deterrent forces.

General strategy of "peaceful political offensive": In October 1982 the U.S. State Department, based on President Reagan's intention, held in Washington a conference on "the democratization of communist countries" which decided on "measures to promote the development of democracy in communist regimes." In November an "international conference on free elections," which America initiated and in which respresentatives of 34 countries took part, studied a general strategy of "peaceful political offensive" and "a series of the most effective ways and means to attain this end."

"Beyond-containment" strategy: This strategy was put forward by Bush from the mid-eighties to 1989. "Now is the time for a strategy beyond containment in which a policy for the nineties is to be formulated," and the strategic goal is not just to contain Soviet expansion but "to blend the Soviet Union into the great international family."

On Nature of Reform: Socialism or Capitalism

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[Article by Chen Zhonghua (7115 0112 5478) of the Philosophy Department, Beijing Normal University: "Bringing Up Again the Question of Whether Its Name Is Socialism or Capitalism"]

[Text] From a look at some recent articles, I see that it is necessary to bring up again the question of whether its name is socialism or capitalism. Asking whether the name of reform is socialism or capitalism is a common expression for the question of whether reform will uphold the four cardinal principles. Upholding reform and the opening up to the outside world while upholding the four cardinal principles is a truth that has already been proved and will continue to be proved by facts. The so-called injunction "do not ask whether reform's name is socialism or capitalism" originally was a smoke shell fired by "elites" in order to do one thing under cover of another. To achieve the second strategic goal, China must unswervingly deepen reform. However, where and how reform is to be deepened is a question of whether its name is sociaism or capitalism. The opposition between being named socialism or being named capitalism will not vanish because of the successes of the previous 10 years of reform and the ideological trend of criticizing bourgeois liberalization. It—either open or concealed, either intense or relaxed—will run through reform in the future, and with regard to reform our minds must be a little more clear and complex.

The question of upholding the diversified economy structure, in which socialist public ownership is the main part, has already been clearly discussed many times. However, the problem of how to do it and how to implement it has not, as some comrades say, already been solved or will it be easy to solve. The collective economy, private economy,

and other economic components must be developed in a suitable manner and must not be developed in an unlimited manner—herein lies the problem of maintaining a quantitative limit within the quality of a thing. Mao Zedong once pointed out: "If one does not understand the quantitative demarcation line that determines the quality of a thing, one will not have a good idea of how everything stands, and one cannot but make mistakes." Only by accurately grasping the degree of the development of the collective economy, private economy, and other economic components can we put forward correct policies and principles for guiding economic reform. At the same time we must fully recognize this: Even though the development of the collective economy, private economy, and other economic components is inevitable and necessary for the development of history, it must be suited to the demand for the development of productive forces in China's initial stage of socialism. They have a dual nature: one aspect is that they are advantageous for the national economy and the people's lives, and they have a beneficial effect on the public ownership economy; the other aspect is that they have a certain negative effect, an effect of unsuitable guidance and destruction. If this point is not admitted, we will not conform to reality and will also run counter to Marxism. Therefore, with regard to the development of the collective economy, private economy, and other economic components, there must be correct management and guidance, and they must not be allowed to slide.

In distribution, it is primary to have distribution according to work and also to take the road to the common wealth, in line with the distribution. Practicing polarization is a fundamental difference between the two views of reform named socialism and capitalism. The common wealth is the essential characteristic in which socialism is superior to capitalism. Comrade Deng Xiaoping has warned us: In letting part of the people become rich first in order to attain the common wealth, "if our policies cause polarization we will fail." Because polarization is an absolute law of capitalism's pursuit of surplus value and is something that existed long ago and did not need to be created by communists, the Communist Party led the people to shed their blood and to sacrifice for the revolution. Was this done for the purpose of reestablishing a polarized society? The reform of socialism must eradicate egalitarianism and prevent polarization. Egalitarianism violated the principle of distribution according to work and is also unfair distribution. However, we must not, from eradicating the unjust distribution of egalitarianism, move on to a more unjust distribution—polarization. The initial stage of socialism gives an extremely small number of millionaires and multimillionaires the right to exist and the right to develop, but they cannot expand and develop excessively. This is also stipulated by the nature of the socialist system. In income, will the broad masses of people be content with a gap in development of several dozen times, several hundred times, and even a thousand times? History and reality provide people with this kind of information: If in the great land of China there is polarization, the productive forces will be unable to develop in a sustained, stable manner, and it will be impossible to envisage a tranquil society. Therefore, during reform, to only stress letting one part of the people become rich first and not stress the common wealth is a problem of direction. It is empty shouting to say that the purpose of letting part of the people become rich first is to let them help people who have not yet become rich; not making real efforts for the rich to help the poor is also a problem of direction.

How to develop the productive forces is also a question of whether the name of reform is socialism or capitalism. Socialism is not the concoction of a small number of people; it is the final goal and inevitable result of the development of the productive forces of modern society. To talk about socialism separate from the development of the productive forces is mistaken in theory and harmful in reality. Productive forces are the final decisive forces in social development and are also the highest standard (not the only standard) of social progress. In their nature, productive forces are not divided into socialist productive forces and capitalist productive forces. However, in how to develop the productive forces, there is a division between socialism and capitalism because the development of the productive forces always proceeds under the relationship of a certain system of ownership. The anarchic state of a capitalist economy is detrimental to the development of the productive forces. However, socialism, on the basis of the public ownership of the means of production, practices a planned economy which fully displays its superiority by promoting the rapid development of the productive forces. It is only because there are too many and too rigid controls in its plans that a socialist economy loses its vitality. In view of this fact, we practice a planned commodity economy, which fully displays the superiorities and advantages of both. Therefore, in the relationship between plan and market, whether to uphold the invigoration of the planned economy with market regulation or to take the road of the market economy is a question of whether the name is socialism or capitalism. The international hostile forces have pursued a strategy of "peaceful evolution" and have exerted all kinds of pressure to make the socialist countries produce the market economy. Is their purpose to strengthen socialism? From this should we not gain a little enlightenment?

Will asking whether the name of reform is socialism or capitalism hinder the emancipation of people's minds? Some people regard them as opposites. However, the reform of socialism and the emancipation of the mind are consistent. In reform, not to ask whether its name is socialism or capitalism is not an emancipation of the mind but a retrogression of the mind. Therefore, the misgivings produced in people about whether the name is socialism or capitalism are not obstacles to the emancipation of the mind. Rather, they make people, when emancipating their minds and boldly advancing, more carefully consider things and more carefully do things in order to reduce or avoid errors and setbacks. If reform is not questioned as to whether its name is socialism or capitalism, its future will be dangerous. Comrade Jiang Zemin has profoundly stated: If China were to practice "capitalism, it could only be a primitive, comprador-type capitalism and could only mean that the people of all nationalities in China would

again sink into being the dual slaves of foreign capital and China's exploiting classes." All Chinese people who are unwilling to be dual slaves, when advancing on the great road of reform, have the responsibility and also the right to ask whether the name is socialism or capitalism and also to always guard against a deviation in the direction of reform.

NATIONAL AFFAIRS, POLICY

Straightening Out Central, Provincial Relations

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[Article by Bao Feng (7637 2800): "Bringing the Economic Relationship Between the Central and Local Governments into Balance; Assuring Stable Development of the National Economy"]

[Text] The "Outline for the 10 Year Program of National Economic and Social Development and the Eighth Five-Year Plan," which was passed by the Fourth Session of the Seventh National People's Congress, clearly states the need to "readjust and clarify the authority of various levels of government over fiscal matters as well as economic regulation and control, all the while maintaining the unity and flexibility of the national economy and bringing the enthusiasm of the central and local governments into play. We must work to strengthen the capacity of the central government for macroeconomic regulation and control, increase the effectiveness and authority of macroeconomic regulation and control, and expand the authority of local governments to utilize economic levers by an appropriate degree." If we are to achieve this, we must carry out a relatively thorough readjustment of the way various interests are distributed so as to facilitate stable and healthy development of the national economy. In view of China's current situation, readjusting the economic relationship between the central and local governments and bringing them into balance will be an important aspect of China's economic life over the next 10 years and during the Eighth Five-Year Plan.

I. The Economic Relationship Between the Central and Local Governments: Current Status, Problems

Since the implementation of economic reforms, the economic relationship between the central and local governments has basically been characterized by a continual expansion of the economic authority of local governments. Enterprise autonomy has been expanded. At the same time that government and enterprise operations have been separated, management authority over some enterprises and institutions which had been under the direct jurisdiction of the central government has been devolved down to the local level. The management authority of local governments in the economic sphere has been increased. The role of central cities has been emphasized, and 14 large- and medium-sized cities are under the jurisdiction of counties which gives them the economic authority of a province, and a system in which municipalities exercise leadership over counties has been implemented. Regional economies have developed, and more than 50 regional economic groupings have developed throughout the country. All of these developments have played a role in breaking up the vertical and horizontal isolation of various sectors of the economy.

These readjustments of the economic relationship between the central and local governments have played a great role in bringing the enthusiasm of local governments into play, revitalizing the economy, and promoting the development of the productive forces. However, we must also be aware that an increasing number of conflicts and problems are manifesting themselves in this new relationship between the central and local governments. The main ones are described here.

1. The macroeconomic regulation and control of the central government has become noticeably weakened, the overall economy is unstable, and the economy is in chaos. This is due first of all to the fact that the instruments of macroeconomic regulation and control have been continually whittled down. The central government has controlled ever decreasing percentages of total fiscal and foreign exchange revenues, and the percentage of all goods and materials in the economy subject to its unified allocation system has been falling. Second, the central government has been too quick to decentralize its powers, doing so before all the necessary preparations have been completed. What is more, the central government has allowed some authority over macroeconomic management which should belong to the central government to become decentralized. Provincial governments, in turn, have made the same mistake at the next level down. Third, as authority over macroeconomic management and decision-making has devolved downwards, policies have been issued from diverse sources and the loci of decision-making have been scattered. It has been common for different parts of the government to interfere with each other and encroach upon each other's turf.

2. Within the context of mutually entangled government and enterprise operations, local areas have cut themselves off from the national economy, markets have become distorted, and the tendency of the unified national market to break down into mutually isolated segments has grown more severe. In the past few years, these problems have combined with and exacerbated other economic problems, continually causing overall imbalance and structural weakness in China's economy. The result, since 1988, has been serious inflation. In the face of these serious problems, many people have called for drastic administrative measures to strengthen the control of the central governments. Others feel that economic interest entities have become much more diversified in recent years and that economic relationships are becoming more and more complex, and that if we are to truly resolve the economic difficulties facing us, we must carry out a thorough readjustment of the way economic interests are currently distributed. It appears that, in the midst of the program of improvement and rectification, there is a growing consensus that certain necessary readjustments of the economic relationship between the central and local governments must be carried out.

Since the founding of the republic, and especially since 1958, the degree of centralization of authority over economic regulation has undergone several major readjustments. In particular, the major readjustments in the economic relationship between the central and local governments over the past 10 years have been clearly

unique in several aspects. First, separating government and enterprise operations has been identified as the key to solving the vexatious problem of "centralization versus decentralization," and vigorous efforts have been made to promote lateral economic ties and partnerships based upon the enterprise. During the redistribution of central and local government authority, particular stress has been placed upon the expansion of enterprise autonomy, the separation of government and enterprise operations, and development of a market system. Bringing the role of the market mechanism into play has begun to be accorded a position of greater importance. Second, we have switched away from the previous single-minded emphasis upon the devolution of authority to local governments and are stressing municipalities, particularly the central cities as the recipient of this authority. However, as the focal point of contradictions between various isolated segments of the government, municipal governments will find it very difficult under current circumstances to resolve these conflicts and to play their proper role. Third, special economic zones in Shenzhen, Zhuhai, and elsewhere have been established, as have 14 coastal economic and technology development zones. Special policies have been formulated for these zones, which have been opened up to the outside world. Fourth, in an effort to put the division of authority between the central and local governments on a solid footing within the legal system, many laws have been promulgated, including the National People's Congress Organizational Law, the State Council Organizational Law, organizational laws for local people's congresses, and organizational laws for local governments. Fifth, in order to change the economic regulatory function of the government, experimental reforms of governmental agencies have been carried out in 10 or 20 medium-sized cities throughout the country, and a large-scale program of reform and readjustments of organs within the State Council was carried out in 1988.

After 40 years of experience in national reconstruction, and especially after the past 10 years of readjusting relationships between the central and local governments, we can draw the following few conclusions:

First, in handling the relationship between the central and local governments, we must so with an eye to the relationship between governments and enterprises. Although a number of measures have been taken in recent years to expand the autonomy of enterprises, enterprises have yet to escape their status as adjuncts to administrative activity. They are still vertically subordinate to government administrative organs. Due to the existence of the one firm one command and because it has been impossibility to stamp out improper requisitions of enterprise funds by local governments, enterprises have found it possible and attractive to leave funds in the hands of local enterprises instead of handing them to the central government. In order to arrest the fiscal slump which has already clearly occurred in many localities, the central government has had to change its fiscal policy by further strengthening the system in which local governments take responsibility for their own fiscal affairs. The entanglement of government and enterprise operations has gotten the government's administrative functions mixed up with the functions of various economic organizations, and the government's management of state-owned property has gotten mixed up with its management of regular economic activities. This has made it extremely difficult to draw a boundary between the functions of the central and local governments. For this reason, the national economy will not develop in a stable and healthy manner without a rational separation of the economic regulatory authority of the central and local governments, carried out in a manner consistent with the degree of separation between government and enterprise operations as well as the degree of market maturity.

Second, within the context of a macroeconomic regulatory authority which is relatively concentrated in the hands of the central government, the central and local governments must truly work to achieve a combination of responsibilities, authority, and interests. They must also achieve a unity of fiscal and governmental authority. This is a fundamental principle which has guided efforts to handle the relationship between the central and local governments in recent years, but in reality we have not acted completely in accordance with this principle. In the past few years, in our effort to streamline and decentralize the government, we have taken some types of macroeconomic regulatory authority which should belong to the central government and allowed it to devolve to lower levels. This is a major reason why macroeconomic activity has been imbalanced. For another example, the central government used to exercise unified control of all income and expenditures, but it is now responsible for more than 50 percent of all expenditures while it is unable to take in 50 percent of all revenues, which has plunged the central government budget into the red year after year. The central government is facing basically the same situation with regard to foreign exchange. For this reason, the responsibilities of the central and local governments are not clear, and responsibilities, authority, and interests are divorced from one another, which has inevitably led to arbitrariness and instability in the relationship between the central and local governments. In our latest readjustment of the relationship between the central and local governments, we must strive to avoid the occurrence of new conflicts which occurred as a result of the past several simplistic efforts at decentralization. The most important thing is that when authority and interests are devolved down to the local level, the responsibilities of local governments must also be increased, so that there will be a true balance between responsibility, authority, and interests at all levels.

Finally, the economic relationship between the central and local governments must be backed up by a legal system. Although there are some stipulations within China's constitution and governmental organization laws dealing with the economic regulatory authority, fiscal authority, and responsibilities of the central and local governments, the division of these authorities has still not been identified in a detailed and concrete manner. Under these circumstances, not only would it be impossible for the central and

local governments to exercise legal and administrative discipline, but the system is also lacking in stability. For this reason, in the relationship between the central and local governments, all mature methods and systems must be formally established through legal means so that there will be laws in place which can be enforced.

While working to readjust and bring into balance the relationship between the central and local governments, we must resolve the problems which have piled up in recent years, and we must be aware of and take into consideration actual problems that we are facing. For some time to come, the task of industrialization will be an arduous one for China. Markets are not highly developed, and the conditions do not yet exist which will bring about self-discipline among the great majority of state-owned enterprises or allow for the formation of a self-development mechanism in the event of crisis. Under these circumstances, if we are to bring the relationship between the central and local government into balance, we will inevitably be faced with many difficult choices.

First, the economic tasks taken on by the government will be much greater in number in China than in other developed countries for quite some time to come. Local governments in particular will have to carry out central government policies even as they implement numerous local economic development tasks. For this reason, it is very difficult in China to completely separate economic and administrative authority. Government agencies in charge of economic tasks now account for about 40 percent of all central and local government agencies, much more than in Western countries with market economies. For this reason, if we are to readjust the structure of the forces of production, carry out the state's industrial policy, and bring the enthusiasm of local governments into play, we must to a great extent rely on administrative districts to organize and manage the economy. We are caught between two difficult choices, and the problem is how to handle this choice.

Second, there is an excessively wide gap between the development of different regions, and these regions all face different problems, so their governments must be assigned different tasks. For this reason, when we divide up tasks between the central and local governments, we will not be able to make everything uniform all at once; neither can we allow too great a discrepancy in policies, tasks, and authority either.

Third, if we are to fundamentally bring the relationship between the central and local governments into balance, we must carry out a major readjustment of the various systems by which local governments take responsibility for their own fiscal situation, and we must separate government and enterprise functions more quickly. However, it will be impossible to carry out these measures all at once because existing conditions would not allow it, and because we must consider their impact upon the economy.

II. Some Concrete Proposals for Bringing the Relationship Between the Central and Local Governments Into Balance During the Next 10 Years and the Eighth Five-Year Plan

During the next ten years and the Eighth Five-Year plan, we should set about resolving the most pressing problems facing us. The boundaries between the economic regulatory authority of the central and local governments must be readjusted and redrawn.

First, we must strengthen and readjust current macroeconomic regulatory authority policy-making authority and regulatory authority over important economic activities which has an impact upon the stability and unity of the national economy must be relatively concentrated in the hands of the central government. This macroeconomic regulatory authority involves: the formulation of a program and strategy for national economic and social development, industrial policy and the structure of productive forces, the issuance of currency, fiscal revenues, the level of fixed asset investment, major projects, the growth rate of consumption funds, total wages, policy on foreign exchange, foreign trade and foreign investment, the allocation of key goods and commodities, circulation, prices, etc. Decisions on some of these matters will be made directly by the central government, while others will be delegated to provincial and municipal governments. In principle, macroeconomic regulatory authority which is delegated to provincial level governments will not devolve further down to any level of government below the province. At the same time, in order to strengthen the effectiveness of the central government's macroeconomic regulation and control, major reform must be carried out on the current fiscal policy as well as the regulatory system for foreign trade and foreign exchange, and a major readjustment of the distribution of benefits between the central and local governments must be carried out. After these reforms are carried out, the fiscal revenues of the central government should account for about 60 percent of all fiscal revenues in the nation, and the central government's foreign exchange revenues should account for about 50 percent or more of all foreign exchange revenues in China.

Second, while adhering to the principle of leaving authority over matters connected with the national economy or interregional affairs in the hands of the central government and resolutely decentralizing such authority as rightfully belongs in the hands of provincial and municipal (county) governments, economic regulatory powers and administrative authority should be divided among the central and local governments in the following manner: There are four matters which should be decided and directly administered by the central government: 1) The formulation of a strategy and program for national economic and social development, national industrial structure, fiscal and tax policy, monetary policy and money supply, as well as and credit supply and interest rates. Also included is regulation of securities exchange, foreign exchange, and customs. In addition, this category includes inspection and regulation of foreign debt, import and export permits, etc. 2) Allocation and regulation of funds and materials which affect the people's well being and

economic stability; regulation and delegation of regulatory authority over some large and medium-sized state-owned enterprises and enterprise groups which have an impact upon the lifeline of the national economy; development of key energy resources, raw materials, and transportation facilities; coordination of major interprovincial projects to improve the infrastructure of agriculture (irrigation), forestry, animal husbandry, and fisheries; and protection and development of key forests, etc. 3) Responsibility for regulation of the unified market, including regulations governing monopoly sales and marked exchanges, as well as statistics, audits, and oversight. In addition, the central government has decided to delegate mainly the following matters to provincial governments: implementation of fiscal policy, some price policies, resource protection policy, higher education policy, industrial and commercial policy, land management policy, etc. The authority of provincial governments should allow them to formulate and administer policy in the following areas: 1) provincial fiscal and tax policy; 2) infrastructure projects and the building of facilities for agriculture, forestry, animal husbandry, and fishery which involve more than one city or county; 3) regulation of state owned enterprises under provincial jurisdiction; 4) oversight of market activities within an individual province, prevention of improper competition, and opposition to protectionism within a given region. The main authority of municipalities (counties) includes the building of infrastructure for municipalities and villages, and the regulation of agriculture, commerce, middle and elementary school education, environmental protection, and land use.

Third, we must separate government and enterprise operations more quickly and further enterprise reform. 1) Government behavior must be subjected to standards, and government must divest itself of its economic functions. The administrative regulatory function of government must be separated from its ownership function. 2) We must class state-owned large- and medium-sized enterprises into different categories and regulate them accordingly. 3) We must implement a tax sharing system, rigorously enforce tax law, etc. At the same time, we must do a careful job of divesting governments at every level of their economic regulatory functions and resolutely accord to enterprises whatever autonomy rightly belongs to them. To the greatest extent possible, governmental regulation of enterprises must be subjected to standards, laws, and systems.

Finally, the relationship between the central and local governments must be made subject to the legal system more quickly. When appropriate, China's constitution should be supplemented in order to clarify the economic regulatory authority of the central and local governments and to serve as a clear standard for governments at all levels. In addition, a "planning law," a "budget law," and a "banking law" should be formulated as quickly as possible in order to provide a legal basis for multilevel economic regulation by the central and local governments, and to institute a legal system.

Liu Guoguang on Planning, Market Integration

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[Article by Liu Guoguang (0491 0948 0342): "Thoughts on Planning and the Market"]

[Text] **I. Expanding the Impact of Reform**

Establishing economic operating mechanisms which combine market regulation with the new socialist structure of a planned commodity economy and a planned economy is, as a result of the "Proposal" on the 10-year program and Eighth Five-Year Plan passed by the Seventh Plenary Session of the 13th CPC Central Committee and the "Program" passed by the Seventh Session of the Fourth National People's Congress [NPC], considered a basic requirement of China's economic development strategy for the next 10 years. Documents from the National Work Conference on Economic Structural Reform held not long ago pointed out that we have to grasp opportunities, make the best use of situations to guide action, strengthen the leadership of reform, and expand its impact. "Expanding the impact of reform" is sometimes referred to as "expanding the strength of reform" and sometimes "further speeding up the pace of reform." The meanings are the same. They are now well-known throughout the country. This is the inevitable result of more than two years of improvement and rectification and an objective requirement for further improvement and rectification and for economic development during the next 10 years. Bringing up expansion of the impact of reform at this time is not to be and should not be construed as underrating the major significance and results of improvement and rectification. During the period of improvement and rectification, we adhered to the policies of reform without change. Many reform measures preserved stability and continuity, and several fairly significant reform measures were brought out for such things as straightening out prices. Improvement and rectification were instrumental in improving the imbalance between aggregate supply and aggregate demand and generally steering the development of the national economy in the proper direction. During the initial stages of improvement and rectification, we had to adopt more administrative methods and relatively centralized measures to resolve the relatively shallow-layered problems of an economy overheating and rapidly cooling off. During the follow-up period of improvement and rectification, we had to adopt even more economic measures relating to even more economic structural reform and reform of the mechanisms themselves to resolve the relatively deep-layered problems of economic structure. Consequently, expanding the impact of reform must be done at the right moment.

Not only is expanding the impact of reform an important move in winning even greater success in improvement and rectification, it is the only way to realize the goals of China's economic and social development strategy in the nineties. The emphasis of the country's economic development during the period of the Eighth Five-Year Plan and throughout the nineties is: first, to preserve an overall balance and maintain overall stable growth; second, to

realize coordinated development structurally and to modernize the structure and put it on a rational basis; and third, to improve overall quality in the national economy. No matter whether it is stable growth, readjusting the structure, or improving efficiency, it is the economic mechanisms which are crucial. If economic mechanisms are not put in order, the tasks of the nineties that we are discussing here will not be properly resolved. This means that, if we are to expand the impact of reform, we must first transform economic mechanisms. The relatively relaxed economic climate created by improvement and rectification has also brought extremely favorable conditions for further expanding the impact of reform. We must take full advantage of this fine opportunity. In planning for the pace of development and the scale of construction for the Eighth Five-Year Plan and for the next 10 years, we must carefully maintain and consolidate the relaxed economic climate we worked so hard to obtain and quickly switch China's economic mechanisms onto the new track of a planned commodity economy.

In the process of forming the "Proposal" and the "Program," views of various kinds were incorporated, including suggestions to expand the impact of reform. If the reform portion of the "Proposal" and "Program" is compared with the basic thinking that went into the planning of the Eighth Five-Year Plan and 10-year program and compared with the preceding stage of improvement and rectification, we can see that the impact of reform was really expanded a great deal. It does not necessarily show up in the figures. It shows up in the content. Below I raise several issues concerning people's equivocal thinking of sometime ago and the clarifications and reclarifications in the "Proposal" and the "Program."

First, the "Proposal" and the "Program" explicitly declare, "We will establish a new system of a planned commodity economy during the current 10 years." The proposal to establish within a short period of time a new system with Chinese characteristics was put forth as early as the CPC Central Committee's "Proposal" for the Seventh Five-Year Plan. At the time, it stated, "We must work to establish a base for a new system within five years or a somewhat longer period." Exactly how long "a somewhat longer period" would be was not spelled out at the time. Everyone knows that, when there were complications in the reform process later on, people were somewhat mixed up as to when the new economic system could be basically established. It was heartening that the "Proposal" and the "Program," based on the complicated course of reform of the previous several years and the new situation, made an unequivocal call for the initial establishment in the next 10 years, that is, before the end of this century, for a new economic system and operating mechanism.

Second, with respect to the relationship between a planned economy and market regulation, that is, between the three forms of economic administration of mandatory plans, guidance plans, and market regulation, there was a period in the past when the direction of reform to narrow the scope of mandatory plans and widen the scope of guidance plans and market regulation was not mentioned. Only the need for timely readjustment of relationships between the three according to differing circumstance was emphasized. The reiteration in the "Proposal" and in the "Program" that mandatory plans should be narrowed, and that guidance plans and market regulation widened, cleared up people's misgivings on this point.

Third, with respect to the changes described above, the "Proposal" and the "Program," in dealing with the issue of prices, reemphasized that the purpose of commodity price reform was not merely to straighten out prices but, what was more important, to establish mechanisms for their rational formation. They also reemphasized that, except for a small number of product prices controlled and administered by the state, prices of most ordinary commodities and labor would be market regulated.

Fourth, in dealing with market issues, the previous period emphasized the need to expand the amount of materials controlled by the state. Now, a capital goods market has been reintroduced and more explicit mention has been made of the need to develop a production factors market which would include markets for capital, technology, information, real estate, and labor. This would enable a coordinated development with the commodity market.

Fifth, in dealing with enterprise reform, aside from continuing to perfect the contract responsibility system, the principle of "separating government administration and enterprise management" as the direction of enterprise reform has been reintroduced. This is an issue of fundamental importance. Whether we can genuinely separate government administration from enterprise management and, in the process, properly resolve the issues of property rights and operating mechanisms is of vital importance to the success of enterprise reform and even to the success of economic structural reform.

Sixth, the transition in macroeconomic administration from giving priority to direct control to giving priority to indirect control, which was first set forth in the "Proposal" for the Seventh Five-Year Plan, was also not mentioned for a while. The current "Program" has reintroduced the concept of combining direct control with indirect control, emphasizing the need to stress indirect control. Not long ago, the National Work Conference on Structural Reform even more clearly affirmed the need to move reform of macroeconomic control toward indirect control.

Seventh, in dealing with the coordination of various aspects of reform, the inclusion of the commercialization of housing in the reform of social welfare and the social security system has been emphasized.

In conclusion, the intention to expand the impact of reform can be clearly seen in the "Proposal" and the "Program" for the Eighth Five-Year Plan and the 10-year program, as well as in the relevant documents of the National Work Conference on Structural Reform that was held not long ago. They eliminate the misgivings that people had toward reform in the previous period and strengthen their determination to persist in reform. In discussing the expansion of reform's impact, it is important to present the above-mentioned listed and unlisted

series of policies and measures on speeding up reform. The overall spirit of these policies and measures are in accord with the requirement to develop a socialist planned commodity economy. While upholding the principles of a planned economy, they emphasize even greater use of market mechanisms and expansion of market regulation and shifting macroeconomic control toward giving priority to indirect control.

II. The Market Orientation of Reform

In the past, many economist comrades referred to the reform orientation associated with expanding market mechanisms as "market-oriented" reform. Generally speaking, changing our economic system through reform means shifting from the overly centralized planned economic system of the past—a system based on a natural economy and a product economy and which excludes the market—to a new system of a planned commodity economy which combines planning and the market. In a sense, we cannot exclude considering this type of reform as market oriented. The results of reform have, above all, shown the market-oriented progress China's current planned economy has made. We know that, prior to reform, owing to a unitary system of ownership, economic operating mechanisms then consisted mainly of management by mandatory plans and direct administrative control. It was "the bigger, the more public ownership, the purer," the better. This was a system which rejected on principle the role of the market and market mechanisms. Following reform, there emerged in China's ownership system a multiple structure with the emphasis on public ownership whereby, within the public ownership system, enterprise decision-making power was expanded. This furnished the conditions necessary for them to operate according to market laws. Meanwhile, market mechanisms also began to gradually develop and grow in our market system, and macroeconomic management began to stress indirect control. So-called indirect control simply meant exercising control through the market, through the use of market methods, and through price levers. These changes showed that, in every way, the reform process was essentially a process to steadily expand and deepen market orientation. Of course, the "market orientation" we are talking about is not based on private ownership. It gives priority to public ownership. It is not oriented toward an unrestrained, anarchistic market economy. It is oriented toward a market system characterized by guidance plans and macroeconomic controls. Some comrades, in contrasting the concept of "market orientation" with that of "planning orientation," bestow on the former an "anti-planning" meaning that it never had. At the very least, this betrays an extremely inaccurate understanding.

In the final analysis, has it been administratively imposed mandatory plans which have contributed to the development and success of reform for the past 10 years and more or has it been expansion of market functions? It would appear that the answer leans toward the latter. If we make some comparisons, we can see that this is probably correct. For example, compare China's reform with past reforms in the Soviet Union and East Europe. Why, since the advent of reform in China, has economic life become quite lively, market commodities extremely abundant, and people's lives materially improved, whereas the Soviet Union and East Europe have not achieved this, have economies which are now in extreme difficulty, and have greater shortages in market commodities than in the past? Why has this happened? Leaving aside other political and economic factors, a very important element has been the market-oriented reform that China has rather earnestly imposed during these years. Despite having encountered various difficulties and problems, the progress made during reform has been genuine and practical. Recently, certain scholars have made a major shift. They once thought that the difficulties would be too great and there would not be any results if we were to use 300 or 500 days to enter a market economy. But domestically in China, in whatever region, whatever sector, and whatever enterprise, the more their orientation is toward the market, the more vigorous is their economy. It has been the same with the recent economic recovery. Those parts of regions and sectors where recovery has been the most rapid have been those parts with close market ties. Recovery has been slower for those parts which have distant ties, which only rarely take part in the market, and which seldom use it. These are the plain facts. They cannot be avoided. Accordingly, reform for the next 10 years should continue to advance along the road it has taken for the past 12 years. It must continue to develop market-oriented reform with guidance plans and macroeconomic control, pushing forward on the extensively developed base attained in the previous 12 years.

Prior to reform, China's administratively planned management practically encompassed the whole of economic life. The market only existed in certain crevices of the unified domain of planning and control. At present, having experienced more than 10 years of reform, at the microeconomic level of control, plan regulation and market regulation each account for about one-half of the national economy. Some people say that the market regulation portion actually accounts for more than one-half. Naturally, not every sector is quite the same. Among industrial and agricultural products, the market regulated portion of agricultural sideline products is higher, among industrial consumer goods, market regulation is in second place, and among industrial capital goods, the market regulated portion is lower. At present, the situation in every locality is steadily changing. A few days ago, there were news reports that 70 percent of the circulation of capital goods in China's largest industrial city, Shanghai, was now relying on the market and only 30 percent was relying on planning. The question now naturally arises as to what the proportional relationships will be between planning and the market five and 10 years from now after we have completed the Eighth Five-Year Plan and the Ninth Five-Year Plan. This is also a question which we cannot avoid. In fact, the "Proposal" and the "Program" have already answered it. The scope of market regulation (as well as the scope of guidance plans that are closely linked to market factors) is to be further expanded. This means that the scope of market regulation will, during the period of the

Eighth Five-Year Plan, increase a certain number of percentage points from its current base of more than one-half and that, by the year 2000 at the end of the Ninth Five-Year Plan, it will again have increased a certain number of percentage points. How large it will be is hard to say right now. However, what is clear is the overall trend. In our view, even when we have initially established a new system of a planned commodity economy at the end of 10 years, we must not say that macroeconomic control will, throughout, be the natural realm of state planning, and microeconomically, we cannot and should not expand market regulation to 100 percent coverage. The reason is that, despite indirect control and regulation being stressed at the macroeconomic level in the new system, "being stressed" does not, after all, mean that indirect control and regulation will operate "across the board." The national economy will always have certain key positions and links, certain naturally monopolistic industries and sectors, and certain important products and services where the flexibility between supply and demand is exceptionally slight. These will still need direct state control. With respect to where the pace of market orientation should be fast and where it should be slow, we have to distinguish between the different regions, sectors, and products, distinguish between different situations, set up different programs, and make different arrangements. There naturally can be no doubt about this.

III. In Implementing a Market Orientation, We Must Not Make a Fetish of the Market; In Adhering to a Planned Economy, We Must Not Make a Fetish of Planning

As discussed in the documents of the Seventh Plenary Session of the 13th CPC Central Committee, the purpose of establishing a new system of a planned commodity economy and economic operating mechanisms which combine a planned economy and market regulation was to fully exploit the advantages and strong points of both planning and the market. The strong point of planning is that it can, on a society-wide scale, amass necessary financial, material, and manpower resources to accomplish several large tasks and it can regulate income distribution and maintain social fairness. The strong point of the market is that it can, through competition and replacing the inferior with the superior, promote technical and managerial progress and suit production to demand. The exploitation of both these strong points is, theoretically, the advantage of combining planning with the market. However, as a practical matter, the two do not combine well. It is not the advantages and strong points of the two which combine, but the drawbacks and weaknesses. Or, we take a subjective approach to combining planning and the market. In which case actual economic life is both without planning, which is not thoroughly implemented, and without the market, whose competitive mechanisms for replacing what is inferior with what is superior are not put into effective operation. Therefore, in discussing the establishment of economic operating mechanisms derived from combining economic planning with market regulation, I set forth two views. First, we must adhere to a planned economy, but not make a fetish of planning; and second, we must push market-oriented reform, but we cannot make a fetish of the market. In sum, we have to do away with the fetishes. We will first discuss not making a fetish of the market.

So-called market regulation is what Adam Smith called regulation by the "invisible hand," that is, spontaneous regulation by the law of value. We should pay attention to the law of value, but we must not think that it alone can take care of everything, that we can let it spontaneously regulate everything. In my opinion, the following things cannot be totally relegated to the law of value. First, the overall balance of the economy. If the overall balance of the economy is allowed to be totally controlled by the market and the law of value, the result can only be a return to cyclical shocks and frequent economic crises. Second, a large readjustment in the economic structure. We expect that, within a relatively short historical period, for example within 10, 20, or 30 years, the country's industrial structure will be modernized and improved at relatively small cost. By distributing resources through spontaneous market mechanisms, we will inevitably reach this point. However, it will be a slow process, and if we experience many large reverses and crises, the cost could quite high. We cannot put it off for such a long time, nor can we afford the heavy cost. Third, fair competition. To think that the market can guarantee complete competition, is only a myth. It was not even possible under natural capitalism. The law of the market is that the big fish eats the little fish, with monopolies and unfair competition inevitably occurring. Even the governments of Western capitalist countries have passed laws in this regard to prevent monopolies and to protect fair competition. Fourth, the ecological balance, environmental protection, and what the economists refer to as "external diseconomies." Market mechanisms are powerless to deal with these types of problems. They can even do damage. If we allow the market to be completely spontaneous, it will damage the interests of society and even those of our grandchildren. Fifth, the relationship between fairness and efficiency. The market cannot effect genuine social fairness. The market can only effect exchange at equal value and, to a certain degree, fair competition, which are advantageous to improving efficiency. However, the spontaneity of the market is bound to bring social polarization, that is, wide disparity between rich and poor. Certain symptoms of this have already emerged in the course of market-oriented reform, leading to social instability and affecting people's enthusiasm. The government cannot ignore this. It will have to take effective measures to prevent this type of phenomenon from becoming worse.

We can see from this that, at least with respect to the areas listed, we cannot let the market operate completely under the guidance of the "invisible hand." We still need a visible hand. That means state planning and government control to intervene in these matters. The so-called complete and pure market economy is essentially not the direction in which our market-oriented reform is heading. This type of market economy is changing even in Western capitalist countries. The intervention of government policies and planning has rendered their market economies

less complete and less typical. To advocate total marketization, aside from ideological considerations, would, at the very least, be naive. Since we are implementing a socialist planned commodity economy, we can even less afford to make a fetish of the market during our market-oriented reform. We have to emphasize the guiding role state planning and macroeconomic regulation and control.

At a symposium during the summer of 1990, I spoke on my own understanding of Comrade Chen Yun's economic thinking. I stated that his analogy comparing the planning and market relationship with the relationship of a bird and its cage had aroused the probing interest of personages at home and abroad. Later when RENMIN RIBAO carried the speech, it attracted a great deal of censure from foreign publications, which dubbed it the "bird cage theory of economics." Certain foreign personages, one after another, made further inquires about my views on the subject. I declared that they were perfectly normal. Every country that controls its economy has cages. State financial budgets are very strong cages. The monetary policies and the financial policies of Western countries all have the characteristics of cages. For example, when the U.S. Federal Reserve Bank raises interest rates, the cage of economic activity shrinks because of increased investment costs. When interest rates drop and banks loosen up, the cage of economic activity expands. The planning cage can be either small or large. This is determined by the specific circumstances of the sector and the product. In addition, cages can be made of different materials. For example, they can made of steel and be rigid, or they can be made of plastic or rubber and be elastic. Mandatory plans are rigid, while guidance plans and planning by policy are elastic. When I was in the United States, I saw government cages of economic control which were more solid than China's planned economy. For example, to control urban development, they would draw a circle for the urban expansion. Development was only permitted within the circle. Any development outside the circle would be subjected to prohibitively high taxes.

In implementing our market oriented-reform, we cannot make a fetish of the market and we cannot neglect the essential roles of guidance plans and government control, nor can we neglect the essential role of cages. This is why, when implementing our market-oriented reform, we basically have to include planning system reform, making sure that we strengthen effective planning and controls.

On the other hand, while we must adhere to a planned economy, we must be careful not to make a fetish of planning. Making a fetish of planning can likewise lead to errors. Being based solely on public ownership, a planned economy makes it possible to conscientiously effect proportionate development. However it does not guarantee it nor make it a certainty. If planning work does not take into consideration market supply and demand and the law of value, it will likewise lose control and blunder. We have had a great deal of experience in this regard. More than once in the past, hugh imbalances and wide fluctuations have occurred in our traditional planned economy. And in the course of reform, we have even seen macroeconomic loss of control. In recent years, approval authority for fixed-asset investment projects at the county level and above has been in the hands of local governments. Submissions for approvals are made via planning organizations at the various levels. And now are not all the large number of duplicate projects that have been introduced and that have been constructed approved by planning departments and governments at the various levels? We have to realize that planning work is work done by people. People have their limitations, and planning work has its limitations. There are a number of contradictions that are not easy to overcome. For example, the contradiction between subjective and objective is a principle contradiction in planning work. First, owing to the limitations of a subjective understanding, our understanding of the objective situation and objective laws is also limited. We, therefore, commit errors such as being out of touch with national conditions, exceeding the nation's strength, and being impatient for quick results. Second, there are limitations to objective information. Planning work relies on information. However, collection and transmission of information can never be perfect. Even using widely distributed future-generation computers with enhanced performance, we would still be unable to collect, process, and cope with all economic information on a timely basis. Third, there are limitations having to do with the relationship of an issue to one's own interests and having to do with the standpoint from which it is observed. This is because planning organizations and organizations exercising macroeconomic control do not belong to our region but to another, they do not belong to our sector but to another, and they are not looking at things from our point of view but from another. They all represent their own specific interests and are constrained by them. These limitations prevent them from acting completely in accord with objective laws. Instead, they are likely to deviate greatly from objective conditions, thus, committing mistakes in planning and macroeconomic control. Therefore, to comply with objective laws and objective conditions and especially to take into consideration market supply and demand and the law of value, we have to steadily improve our own understanding and awareness and steadily improve and perfect our planning work while persisting in a planned economy.

In sum, we must adhere to a planned economy but not make a fetish of planning; we must carry out market-oriented reform but not make a fetish of the market. In combining planning with the market, we must not only fully exploit the advantages and strong points of the two but also overcome their weaknesses and shortcomings. Of course, this is an extremely complicated task requiring a great deal of exploration and study of many aspects. It will require the joint efforts of departments of planning, finance, and banking, and even departments in charge of markets, trade, and resources to gradually resolve the issue properly.

IV. Certain Theoretical Concepts

The relationship between planning and the market is not a new issue. Since the Third Plenary Session the 11th CPC

Central Committee, we have constantly discussed the problem. It has been 12 years now. The issue is permeated with different formulations. For example, if we were to mention "combining planning regulation with market regulation," or "combining planning mechanisms with market mechanisms," or "combining a planned economy with a market economy," many people would simplify these formulations to "combining planning with the market." Since 19 June 1989, official documents have established the formulation as "combining a planned economy with market regulation." Documents of the Third Plenary Session of the 13th CPC Central Committee, in discussing the issue, said that, when formulating or implementing policies on the necessity and capability of combining a planned economy with market regulation, we must not again raise doubts and waver, and as for the differing views of specialists and students from academic circles, they can continue to have their own points of view. I think this spells it out quite well. I endorse what I wrote in a 1983 article which declared that the issue of planning and market relationships is a global issue that will be discussed for a long time to come. We not must be in a hurry draw conclusions about specific courses of action and formulations pertaining to planning and markets relationships—conclusions which will restrain later generations, and we must not restrain our contemporaries from doing theoretical studies. In fact, we should only, by practice and constant exploration, seek solutions to problems which are applicable to present conditions. For example, a solution worked out for the period of economic improvement and rectification could differ from a solution for a period of normal economic development. Of course, as a practical matter, we have to have a yardstick, a standard theory. We therefore still have to act according to formulations of the central authorities. We must not again raise doubts and waver. This does not prevent final conclusions from being drawn up theoretically or keep a hundred schools of thought from contending academically.

For example, debate on most issues of this type is ultimately somewhat sensitive. However, we think the discussion must continue. This pertains to whether we can raise the issue of a "socialist market economy" and whether we can mention that, although a special concept of capitalist society, "market economy" is also a general concept applicable to societies with socialized production and commodity economies. When we recall the outcome of the past debate over Sun Yefang's mention of socialist profits and when we recall, during the initial period of reform, the outcome of the controversy over only being able to mention "commodity production and commodity exchange" in a socialist economy and not being able to mention a "commodity economy," it is not hard to see whether the "market economy" concept will ultimately become a part of socialism's political economy or only a negated one-sided stubbornly held view of a small number of economists. Never mind how difficult it has been to gain wide acceptance for the concept of a socialist market economy. In the socialist political economy of the past, not even the concepts of a socialist commodity economy and market regulation could hold their ground. With the advance of reform, we constantly refurbished our theoretical understanding and constantly enriched the content of the socialist political economy. We gradually understood that, as a planned commodity economy based on public ownership, our socialist economy needed market regulation and needed to combine the market with planning. This is why various types of different formulations for the relationship between planning and the market emerged.

Our present deliberations on the relationship between planning and the market are no longer at the levels they were almost 13 years ago. The two concepts of planning and the market have themselves greatly changed. Their content is much richer than it was in the past. Take planning, for example. First, we used to think that it only referred to mandatory plans. Stalin said that planning was not forecasting but rather orders that had to be carried out. Second, planning included everything. It controlled everything. The macroeconomy had to be controlled, and the microeconomy had to be controlled. Personnel, finances, resources, production, supply, sales, they all had to be controlled. Third, planning referred to administration of targets, chiefly material targets. For example, there were production targets and targets for the allocation and transfer of goods which obligated you to produce a certain amount of certain goods and to distribute a certain amount of certain resources. These targets in terms of material products gave expression to planning. Our concept of planning has greatly changed now and is much richer. First, planning does not simply refer to mandatory plans. It also refers to guidance plans and policy-type plans. For example, industrial policies are a type of planned guidance. Second, planning does not include everything. State plans should only control the larger issues, the macroeconomic issues. At the microeconomic level, at the enterprise level, control should chiefly be exercised by the market and the enterprises themselves. Third, planning is not mainly or completely the administration of targets. Even though there is administration of targets, for the most part the targets are not material products. They are rather value targets. Of course, a certain small number of important categories, sectors, and enterprises dealing in critical materials and products must have targets. However, what state plans should mainly include is overall control, control of the large structure. For example, this would include a balance between aggregate supply and aggregate demand and would include the structures of agriculture, light industry, and heavy industry. It would also include such things as investment and consumption. These should all use value targets. Meanwhile, as we effect aggregate control and structural readjustment, we also have to use value levers. As we greatly change the content of our planning, we have to use tools such as prices, profits, exchange rates, and taxes to make the transition from relying mainly on targets that pertain to material products to relying mainly on targets that pertain to value.

In the same way, the market as we now understand it differs greatly from our understanding of it 13 years ago. First, we used to think that the market and public ownership were incompatible and that it could only be based on private ownership. We now know that we need neither

private ownership nor capitalism to have a market. A public ownership system not only can have a market, it needs the workings of a market. Markets and public ownership systems are both compatible and can be combined. The market, market mechanisms, and market regulation all result from developing socialized production and a commodity economy. They represent an approach to resource distribution that differs from planning, planning mechanisms, and planning regulation. They are not the criteria which distinguish socialism from capitalism. What distinguishes socialism from capitalism does not lie in these market concepts but is found in the two conditions discussed by Comrade Xiaoping, that is, public ownership as the main part and common prosperity. Second, we used to think that the market could only be ungoverned and haphazard and that it was in opposition to and incompatible with planning. If you wanted to strengthen planning, you had to cut back on the market; and if you wanted to develop the market, you had to cut back on planning. We know that the market is by no means ungoverned and haphazard. And because it can include guidance plans and macroeconomic control, planning and the market can be combined. Third, we used to think that, if we were to have a commodity market, it could only exist to fill in the crevices of a planned economy as a very small consumer goods market and that the greater portion of consumer goods would have to be supplied on the basis of ration coupons. These were not commodities in the true sense, nor was this an introduction of the market in the true sense. At present, except in extremely few instances, almost the entire array of consumer goods are sold on the market. We did not used to think that capital goods were commodities. Now, however, the circulation of capital goods is becoming more and more commercialized. Fourth, in the past we never realized that a socialist economy contained anything like a market for production factors. Land, capital, and labor were not commodities. How could there be a market for them? Along with the development of reform, we have gradually formed the concept of a factors market, including markets for capital, labor, real estate, information, technology, etc. This could never have been imagined 13 years ago. Of course, this type of market, from theoretical understanding to practical policies, is still highly imperfect. The new concept of a socialist market system is still being formed.

To sum up, 13 years of experience with reform and theoretical exploration have greatly deepened our understanding of market and planning concepts. Unlike the past, we no longer have to always rigidly stick to certain tangled formulations. If this is not all that important, then what is important is that we must review our experience in order to study and probe how we can, in the final analysis, combine planning and the market. What form is the integration to take and what means are to be used? This is how we have to guide our discussions.

In the past, there were many formulations concerning the approach to combining planning and the market. Some focused on theoretical patterns and others on controls. For example, three approaches were described for combining planning and the market; that is, mandatory plans, guidance plans, and market regulation. These chiefly concerned microeconomic control. Mandatory plans pertained to direct control, guidance plans pertained to indirect control, and the market, which nominally did not pertain to planning control, was, in fact, within the scope of macroeconomic regulation and control and under the indirect control of plans covering society's overall macroeconomic balance. The directions in which these three segments of microeconomic control were headed were clear. Mandatory plans would be further reduced, and guidance plans and market regulation further expanded. As for macroeconomic control, generally, the overall plans and overall controls covering all of society had the characteristics of a guidance plan (See the special discussion on guidance plans by Shen Liren in issue No 1, 1990 of GAIGE).

After we got rid of the planning and market "theory of opposition" or "theory of mutual exclusion," theorists over the past several years came up with a number of other theories dealing with the relationship between planning and the market, such as "tectonic plate integration," "osmotic integration," "colloidal integration," and "organic integration," as well as, the "theory of superposition," and the "theory of the double cover." These were set forth from a theoretical point of view. (Some of them, such as the colloidal theory, the superposition theory, and the cover theory, are almost the same, calling for an organic integration of planning and the market.) So-called plate integration consists of a clearly demarcated joining of planning (mainly early mandatory plans) and the market. Traditionally, planning has not considered, or only rarely considered market factors. For example, long-term fixed plan prices are too far removed from actual market supply and demand relationships. And with the free market as a supplemental segment outside of the plan, it is not subject to the control of the plan. So-called osmotic integration leaves planning and the market in two segments. However, the planning segment takes into consideration the factors of market supply and demand, and the market segment has to be subject to the influence economic policy guidance and macroeconomic planning. The two segments are each part of each other, with not very clear lines of demarcation. The lines are not clear-cut like those of plate-type integration. Organic integration of planning and the market (such as colloidal integration and superposition integration) is not in two segments but a single fused entity where all of society and the entire national economy are covered by planning and the market. The documents of the 13th CPC Congress presented the formula "the state regulates and controls the market, the market guides the enterprises." This fuses planning, the market, and enterprises into a single entity. The documents of the 13th CPC Congress called this type of organic integration "internal integration." It used to be thought, and it was my view as well, that the course of structural reform, with respect to the planning and market relationship, by and large went through the following process. Starting from the vast centralized planning control which existed prior to reform,

there initially began to emerge out of reform a supplemental market which developed into double-plate integration of planning and the market. Later, plate-type integration developed into osmotic-type integration. Finally, osmotic-type integration developed into organic internal integration of the colloidal type. Although the reform process we have described here is generally correct, we should not be too rigid in our approach. We cannot draw clear lines of distinction between the stages of development. For example, we must not think that the final integration that covers society as a whole will be an organic integration of the colloidal type and that plate-type and osmotic-type integration will totally disappear. It would appear that the two patterns of integration will in the end never completely disappear but will, to a substantial degree, exist for a long time. This is because, as we said before, even though China's economic system will make the transition to a new system of macroeconomic control in which indirect control is stressed, it will still have to retain some direct control in cases where there are natural monopolies, where there is a lack of elasticity between supply and demand, and where things are for public use. In today's market economy, countries of the West, certain public utilities, and certain issues relating to environmental protection are under the direct control of the governments. However, the trend is still to gradually reduce this segment of direct control, and as reform deepens and standards of control are improved, we must make every effort to expand the scope of indirect control.

In imposing direct administrative control, we naturally must respect objective laws. The mandatory plans we now stress must also reflect the law of market value, which means, when imposing direct planning control, we must, as much as possible, take into consideration market supply and demand and its law of value. In this sense, plate integration and osmotic integration are basically inseparable. What was clearly demarcated, unadulterated plate integration existed in the traditional planned economy of the past. However, with the advent of reform, it is not likely to do so again. We also have to point out that, in regarding direct planning control, that is, mandatory plans, we now cannot do what has generally been assumed, but must resolve problems in full compliance with the law of value. If we can genuinely act in full compliance with the law of market value to resolve problems, then we do not need any direct-control mandatory plans and can make the shift to indirect regulation and control. The reason forced administrative intervention and direct mandatory plans were needed was because the market regulation which we referred to before was not universal. Market mechanisms have various drawbacks. Some are long-term and have overall implications. We cannot act in total compliance with the requirements of market supply and demand and the law of value. If we did, we would endanger the interests of society. Some things must be subject to direct intervention by the state. Since, under direct planning control imposed by the state, the state must directly control enterprise production and construction and not indirectly exercise control by detouring through the market, the formulations of "state regulation and control of the market and the market guiding enterprises" are not applicable. Of course, even in these circumstances, the state still must take the law of market value into consideration. However, it cannot act wholly in compliance with it. That is to say, while the state must take market factors into consideration when it is controlling the economy, its control is not exercised through the market. In this sense, the formulations "state regulation and control of the market and the market guiding enterprises" do not have an all encompassing meaning for all of society. However, whether it is referred to or not, under indirect regulation and control, which will be the principle method of macroeconomic control, control must always be exercised through the market and enterprises guided through market regulation and control. In this sense, the formulations "state regulation and control of the market and the market guiding enterprises" are intertwined in the process. The important position that they hold in the new economic operating mechanisms resulting from combining a planned economy with market regulation cannot be overlooked.

PROVINCIAL

Guangdong State-, Nonstate-Run Enterprises Differ

92CE0051A Chongqing GAIGE [REFORM] in Chinese No 4, 20 Jul 91 pp 92-93

[Article by the Chinese Association of Industrial Economics: "Differences Between Guangdong's State-Run and Non-State-Run Enterprises"]

[Text] In Guangdong, which has moved ahead of the rest of the nation in reform and the open policy, state-run enterprises are governed by less stringent policies and exist in a more relaxed business environment compared to their counterparts in the interior. For instance, price control on most of their products has been lifted. However, there remain numerous differences between state-run enterprises, on the one hand, and the three kinds of enterprises that are either partially or wholly foreign-owned as well as township and town enterprises, on the other. An analysis by the Guangdong Economic Planning Commission has identified the following differences:

1. The tax burden is different. State-run enterprises are required to turn over contract profits to the government at varying rates. In addition, they must dip into their own funds to make contributions to the energy and transportation fund and the budget regulating fund. In contrast, the three kinds of enterprises that are partially or wholly foreign-owned as well as township and town enterprises are exempt from paying taxes for two years and enjoy a tax cut for the subsequent three years, starting from the year they turn in a profit. They are not required to make payments to the energy and transportation fund or the budget regulating fund.

2. The enterprise leadership system and internal management mechanisms are different. A state-run enterprise follows the factory director responsibility system. It is he who runs the show when it comes to production management and operations while the party committee plays a

central role and serves as the supervisor and guarantor in political and ideological matters. On the contrary, the three kinds of enterprises that are either partially or wholly foreign-owned, as well as township and town enterprises, follow a factory director responsibility system under the leadership of the board of directors. In this system, one level is in charge of the next and decisionmaking is effective. Management organs are established in accordance with the principles of efficiency and "lean and mean," whereas state-run enterprises, which emphasize having the same number of people at the top and at the bottom, are overstuffed and inefficient.

3. Government agencies adopt different management methods toward the three categories of enterprises. State-owned enterprises are under too many "mother-in-laws" and are subject to too much interference. It takes seven or eight signatures just to have a toilet built in the factory. Any project worth more than 10,000 yuan must go through the process of seeking authorization and acquiring a permit. In contrast, there is little interference in the three kinds of enterprises that are either partially or wholly foreign-owned as well as the township and town enterprises. They enjoy considerable decision-making authority and are free to act as soon as they take a decision. Take Xinhua Electric Fan Company (a Sino-foreign joint venture) in Shunde County, for instance. Barely eight months after the town government signed a contract with a foreign businessman, a new factory with a production capacity of 6 million electric fans valued at 500 million yuan was built from scratch. Negotiations were held, a contract was signed, capital construction was put in, and the plant went into production and started earning a profit—all within 1 year.

4. The personnel systems are different. In state-run enterprises, the "iron rice bowl" and "iron chair" are commonplace. Workers can be promoted but not demoted, hired but not fired. In the three kinds of enterprises that are either partially or wholly foreign-owned as well as township and town enterprises, on the other hand, the contract system is applied universally. Workers are demoted as well as promoted, fired as well as hired.

5. The wage and distribution systems are also different. In state-run enterprises, the iron wage system is pervasive. The enterprise may be making or losing money. The worker's contribution may be big or small. No matter, he is paid a wage and given a subsidy all the same. In terms of internal distribution, the state-run enterprise treats all its workers alike. Basically it is still an egalitarian system, with everybody eating off the big rice pot. In the three kinds of enterprises that are either partially or wholly foreign-owned as well as township and town enterprises, the wages of a member of the managerial staff are tied to his post. How much he makes depends on his responsibilities. Most production workers are under a piece rate wage system. The wages of all employees can float upward or downward.

6. The extent of specialization also varies. What we have in township and town enterprises and partially or wholly foreign-owned enterprises is specialized production. Parts, components, and packaging materials are mostly imported. Consequently they are able to develop new products within a short period of time. They offer a variety of products which they can adjust rapidly to suit the needs of a changing market. Zhonghua Bicycle Company, for example, depends on exports for almost 60 percent of its parts and components and has about 40 percent of them made domestically, making just a tiny portion on its own. Hence its fast-paced R&D. It developed over 1,500 new products in the past five years, its product turnover rate exceeding 80 percent each year. In contrast, most state-run enterprises are either large and comprehensive or small and comprehensive. Guangdong Bicycle Company, for instance, has 14 factories underneath it. Apart from tires, it makes all the parts and components itself. There is little choice when it comes to the specifications, variety, quality, and performance of a product, complicating R&D. With a product turnover rate of less than 20 percent annually, the company cannot adapt to changes on the market.

7. Operating methods are different. Township and town enterprises and the three kinds of enterprises that are either partially or wholly foreign-owned are oriented toward the domestic and international markets and operate in accordance with international practices, ever quick to adjust product design, specifications, and prices, marketing methods, and sales policies in response to market changes. State-run enterprises, on the other hand, are often ill-informed and, due to a variety of constraints, unable to operate in accordance with international practices. They cannot set the prices of a majority of their products,including those outside the plan, and their marketing methods are inflexible. For instance, Zhonghua Bicycle Company in Shenzhen was free to ask a foreign firm to be its agent, paying it $1 as commission for every bicycle sold. In addition, it has purchased a bicycle marketing company overseas to take full advantage of the latter's marketing channels, information, and personnel. As a result, the company has been able to turn out high-priced upscale products that meet foreign needs. Guangzhou Bicycle Company, in contrast, has long depended mainly on the domestic market and is ill-informed about the foreign market. It caters principally to the lower end of the market with low-priced products. Its bicycles fetch a little over $30 apiece on the world market, merely a third of the price commanded by a Zhonghua bicycle (over $100). The more it exports,the greater its losses.

8. The financial management systems are different. Township and town enterprises and the three kinds of enterprises that are either partially or wholly foreign-owned are free to accelerate the depreciation rate based on the current value of their fixed assets and even their output value. R&D funds are reimbursable and are entered in the books as costs; they are not subject to restrictions. In contrast, state-run enterprises still follow the financial management practices of the product economy to a large extent. There is strict cost control; even funds at the disposal of the enterprise are stringently controlled. A state-run enterprise can take depreciation based on the original value of its fixed assets for the number of years fixed centrally by the

state. According to 1989 data, the combined depreciation for all state-run industrial enterprises in the budget in the province was 5 percent. Take away contributions to the energy and transportation fund and the budget regulating fund, and the rate was actually a mere 3.76 percent. At that rate it will take 30 years for an enterprise to replace all its fixed assets, even assuming no change in the prices of such assets. Under provincial regulations, an enterprise may set aside 1 to 5 percent of its revenues as R&D funds, but due to various constraints, not every enterprise has been able to do that. Reportedly three quarters of large and mid-sized state-run enterprises spend less than 1 percent of their revenues on R&D.

9. Worker welfare and benefits are different and the burden on the enterprises also varies. A state-run enterprise is responsible for all aspects of a worker's life: food, illness, aging, housing, transportation, even providing jobs for his children. As more and more problems arise in social services offered by enterprises, the burden on them also gets heavier and heavier. In contrast, township enterprises and the three kinds of enterprises that are either partially or wholly foreign-owned are not required to provide housing for their workers, pay retirement pension, or provide health care. The burden on them is light.

SMALL-SCALE ENTERPRISES

Technology Important to Township Enterprises

92CE0040A Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 26, 28, 30 Aug, 2, 4, 6 Sep 91

[Editorial: "Technology Seen as Pivotal to Township Enterprises' Development"]

[26 August 91 p 1]

[Text] We are facing a profound change in which economic construction will depend on technical progress. Township enterprises, as important parts of the national economy, will rely on scientific and technical progress and are important tasks for the future.

Science and technology is a primary productive force. In the contemporary world, developing productive forces in all countries, and increasing comprehensive national power, to a large degree depends on developing science and technology. Only by promoting the progress of science and technology and increasing competitiveness, will the continuous development of township enterprises actually move towards a sound direction based on raising economic efficiency.

Technical progress will play a more important and more outstanding role in the development of township enterprises in the next ten years:

First, the continuous, coordinate, stable and healthy development of the national economy, and continual raising of the national industrialized level, cannot go on without the development and improvement of township enterprises that account for one-fourth of the national economy, one-third of the gross value of industrial output, and one-fourth of foreign exchange earnings. This fact simply forces future development of township enterprises not to rely on old patterns. Over the past several years, township enterprises developed so rapidly that they accumulated the problems of product mix, industrial mix, and technical structure not suiting the market. At present, these problems still have not been solved. The small scale, scattered distribution, backward equipment and poor management, which exist in township enterprises at different levels, bring high cost and low efficiency, as well as lack competitiveness in variety, quality and price. Moreover, the market environment and competition have changed greatly. First, joint ventures have advanced equipment, flexible operations and smooth information channels. It is very hard for township enterprises to compete with them. Second, large and medium state-owned enterprise have more advanced technical and management levels than township enterprises, and are protected by the state and preferential policies. In addition, the state has a series of policies to invigorate them. In comparison, township enterprises have only a flexible operation system. Obviously, township enterprises face a severe challenge. Therefore, only by speeding up technical transformation, can township enterprises increase competitiveness to ensure its position in the national economy.

Second, township enterprise development up to now, and the position and function of township enterprises in the national economy are recognized by society. To maintain and raise this position, and continue to play this important role, township enterprises have to further raise their level. According to the requirements of the Eighth-Five Year Plan and 10-Year Development Program for township enterprises, output value will reach 2.5 billion yuan by the year 2000, an increase of 1.5 billion yuan over the end of the Seventh-Five Year Plan. To increase such large output, it is obviously unrealistic and impossible to develop mainly under the low level of expanding reproduction. The only way is to increase technical investment; depend on technical progress; and raise the development level. It will adjust current capital storage and raise the management level. Therefore, we should have a sense of urgency about improving technology.

Third, analyzing the consumption market, by the year 2000, the standard of consumption will rise greatly in our country; the structure and level of consumption will change enormously; the choice of consumption will increase widely. Therefore, market competition will be fierce. To compete, township enterprises should raise the grade of products, have some leading ideas, and quickly get their products in the international market and domestic market. To reach this target, they have to depend on technical progress.

Fourth, from the view of product variety and level of township enterprises that already have entered the international market, most are light industry products, textiles, garments and craft articles. Their competitive advantage is low price and cheap labor. With the continuous change of international markets, some countries are implementing trade protection, import limitation and quota policies.

Therefore, our export products should be high grade and high value-added. To achieve this goal, we have to depend on technical progress.

Fifth, from the angle of raising economic efficiency of township enterprises, at present, township enterprises still have quite serious problems with raw materials, energy and working hours waste, plus some management problems, that caused economic efficiency to decline during the past several years. To increase township enterprise's efficiency, they need to save energy, reduce costs, improve product quality, and increase income through technical progress.

In a word, external pressure for further development of township enterprises primarily comes from technical competition. The internal motivation, as well as the main potential for further development, is from technical progress.

[28 Aug 91 p 1]

[Text] In accordance with the requirements of the Eighth Five-Year Plan and the 10-Year Development Program, township enterprises, in their efforts towards scientific and technological development, should have a clear objective that is in line with the needs of national development.

In view of the current level of development of township enterprises throughout the nation, the main objective of township enterprises in pursuing scientific and technological progress should be to improve product quality, improve overall enterprise quality, and strengthen product competitiveness. In connection with this objective, enterprises must achieve a competitive edge for their products, obtain advanced technology, become specialized in their production activities, become group-oriented in their organization, make their management more scientific, become more service-oriented, and increase the knowledge of their cadres. Enterprises must vigorously restructure and optimize the combination of various production factors. Products must be upgraded, enterprises must become larger in scale, technology must be improved, and management must move on to a higher level.

To say that products must be upgraded means that enterprises must, by readjusting industrial structure and the product mix, basically achieve the formation of a product mix in which the main products are new, enjoy name brand recognition, fill a special market niche, exhibit superior quality, or earn foreign exchange. Chinese products must enjoy a competitive advantage in terms of quality, variety, production costs, and economic benefits. Our products must facilitate the effort to readjust national industrial policy, and they must be in line with consumption patterns in China and abroad. It is hoped that by the end of the Eighth Five-Year Plan, about 85 percent of the total output value of township enterprises throughout the country will be accounted for by products in high demand, and that 15 percent or more of their products will be for export. In order to achieve this, localities everywhere should formulate more concrete objectives.

In order to expand the scale of enterprises, they must be restructured so as to bring about the following characteristics: appropriate scale; coexistence of large, medium, and small size enterprises; group orientation; orientation toward foreign trade; specialization; and relative concentration. This would enable enterprises to achieve greater economies of scale and concentration. By the end of the Eighth Five-Year Plan, the percentage of township enterprises throughout the nation classified as key enterprises (annual sales of more than 10 million yuan, annual foreign trade of more than 3 million yuan, and annual profit taxes of more than 1 million yuan) should increase to 15 percent from the current 2 percent. The main task of the great number of small enterprises is to increase their degree of specialization so as to bring about a situation characterized by small commodities, large production runs, and large markets. New enterprises, new projects, or technological upgrades should result in enterprises which operate at a high degree of technological expertise, and these enterprises should concentrate in small industrial zones.

In order to improve technology, the technological structure of enterprises must be readjusted so as to bring about a situation characterized by relatively high-quality equipment, advanced technology, and well-considered production processes. By the end of the Eighth Five-Year Plan, the equipment, technology, and production processes of the great majority of key township enterprises needs to have reached an advanced 1980's domestic level, and for some enterprises it needs to have reached an advanced 1980's international level.

In order for management to move on to a higher level, basic enterprise management work must be launched so as to bring about a unique form of township enterprise management characterized by scientific management and higher overall enterprise quality. It is necessary that the basic management work of about 80 percent of the entire country's township enterprises be inspected and approved by the end of the Eighth Five-Year Plan, and that quality control in the great majority of key enterprises be adjusted up to standard.

It will be quite difficult to achieve these goals, but as long as we work hard, pay attention to the important points, and spur on the enterprises where performance is mediocre, we can achieve these goals.

Under the current circumstances, we feel that if we are to improve the technology of township enterprises, we must focus on the key industries, enterprises, and products. In this manner, we will have a focus, will move forward one step at a time, and will work toward our objectives relentlessly. The goal of improving the technology of township enterprises can certainly be achieved.

[30 Aug 91 p 1]

[Text] For an enterprise, relying upon scientific and technological progress means more than the mere importation of a few pieces of advanced machinery or a few advanced production processes. Merely importing equipment does not provide the necessary integration with systems or the

corresponding technical personnel and management capabilities, without which equipment cannot play its proper role. In this regard, experience has taught us many lessons. For this reason, in our effort to improve the technology of township enterprises, we must pay special attention to improving the overall quality of enterprises and tap into the advantages of overall quality.

Under the current circumstances, the following approaches should be adopted toward the comprehensive improvement of the overall quality of township enterprises:

First, our efforts must be focused upon products, and upon the basis of this focus, we must determine what has to be done in order to improve overall quality. It is extremely important to an enterprise to develop new products. Enterprises must gradually develop a support system for "one generation of production, one generation of development, and one generation of design." They must also have the corresponding equipment, personnel, funds, facilities, and management expertise. Only in this manner will they be able to "develop products, make decisions quickly, bring products into production quickly, begin batch production quickly, and gain market share quickly." In addition, consolidating and developing old products is an aspect which cannot be ignored. Although some products have been in production for years, as long as they have not yet started to decline, we should be sure to continue taking advantage of them. Some products take on new life after being improved in some way, and enterprises should have a system to make sure such improvements are made.

Second, upgrading equipment, including the upgrading of old equipment and the improvement of production processes, is another method for achieving this goal. In some enterprises right now, the phenomenon of "a big horse pulling a small cart" is quite common. Sometimes the productive capacity of upstream and downstream processes are not well matched; sometimes the productive capacity of key equipment and regular equipment is not matched. This causes waste. For this reason, if key equipment is integrated into the overall process so that everything is well matched, the result will be a clear improvement in either output or quality. This project should require little investment and yield great benefits.

Third, we should assure success by continually improving the cultural and technical understanding of personnel. If people are not of high quality, no matter how advanced the equipment, there will be no one to operate it, and no matter how advanced the technology, there will be no one to apply it. In order to resolve their shortcomings in personnel, township enterprises should attract people from outside and train their own people as well. They should actively choose workers and staff with elementary and high school education who show aptitude and send them for training to institutions of higher education. At different levels and in different manners, they should carry out comprehensive training of current cadres, workers, and staff. At the same time, they should actively attract specialists of all sorts so as to establish a corps of workers and staff with a high productive capacity and a strong ability to carry out scientific management.

[2 Sep 91 p 1]

[Text] Technological progress in township enterprises must be achieved primarily by attracting outside talent, equipment, technology, production processes, management methods, etc. These factors must be attracted from a broad variety of sources, including foreign countries, scientific research institutes and institutions of higher education in China, state-owned enterprises throughout the country, and from within the township enterprise system.

We should use the same method Japan did in the early stages of its economic development—eclecticism. We should borrow from everything abroad that is good and put it to our own use. This would be a quick way to achieve our aims. Naturally, we would have to adhere strictly to Chinese and foreign principles of fairness. We must bring in new products, new technologies, new production processes, new equipment, new materials, and new inventions. We must also bring in all sorts of specialists.

However, in pursuing this course of action, township enterprises must deal properly with the following matters:

1. The relationship between bringing things in and improving what is on hand. Bringing things in is no panacea. What has been acquired must be integrated into the Chinese context, and it must be compatible with domestic and international markets. Some things, while good for other people, are not necessarily useful to us until they have undergone necessary changes. For this reason, even as we bring things in, we must pay special attention to bring into play the enthusiasm of the great masses of workers and staff for technological upgrading. We must preserve and stimulate their enthusiasm for inventing things. We must see to it that broad use is made of technological advances that are applicable in township industries.

2. We must bring things in in a goal-oriented, analytical, selective, and focused manner. We must not always think that other people's things are always good. Township enterprises have their own strengths, and borrowing indiscriminately may lead to mistakes and waste.

3. The relationship between borrowing other people's know-how and strengthening our own. Hiring outside know-how and developing our own are both indispensable aspects of our effort. We must do both in order to establish a high quality corps of workers and staff.

4. The relationship between what is modern and what is practical. Considering the level of development of township enterprises, it is not necessarily true that the more advanced and scientific the things are that we bring in the better. They should be both advanced and practical. They must be appropriate for township enterprises. The funds of township enterprises are very limited, these enterprises are not so high in quality, and the development of township enterprises is meant to achieve an important objective—to employ the large reserves of surplus rural labor. These

factors must all be given full consideration. If the equipment that we brought in were so advanced and automated that it displaced large numbers of workers, and if the price of this equipment was extremely high, we would be overreaching. For this reason, we must bring things in in a practical manner.

5. The relationship between bringing things in and assimilation. From the enterprises' perspective, equipment, production processes, and technology are brought in in order to improve competitiveness. However, from the perspective of township enterprises as a group, technological progress should be coordinated with China's actual conditions. Existing facilities must be improved so that what we bring in can be truly assimilated and can play a more significant role.

[4 Sep 91 p 1]

[Text] The shortage of funds will be a big problem for township enterprises for some time to come.

So where are township enterprises to get the funds for technological progress? We feel that a variety of measures to raise funds must be adopted. There must be priorities, and funds must be used rationally.

1. Because township enterprises are collectively owned enterprises run by the great masses of peasants themselves; because the state's fiscal resources are very right; and because the technological upgrading problems of state-run enterprises are very pronounced, the state will not and cannot come up with many funds in the near future to assist the efforts of township enterprises to achieve technological progress. For this reason, the funds required for technological progress in township enterprises will be raised primarily by peasants and by township enterprises themselves.

2. The burden of township enterprises must be lightened to enable them to raise funds. We must be aware that township enterprises now carry a heavy burden. In addition to regular taxes paid to the state, fees charged by local governments are numerous. In some areas, the various burdens shouldered by township enterprises are more than they can bear. We must take action as quickly as possible to eliminate exorbitant fees and fines.

3. We must take full advantage of some policies which have already been established by the state. The state has already provided many clear policies and regulations. Township enterprises must scrupulously retain only the percentage of earnings allowed by regulations. Depreciation, major repair expenses, development funds, education funds, etc., must be left to enterprises in their entirety. The Ministry of Agriculture and the Ministry of Finance have provided clear regulations stating that "60 percent of after-tax profits must revert to enterprises, where they will be used to expand reproduction." These regulations must be rigorously enforced.

4. We must make use of joint operations. We must use the advantage of flexibility possessed by township enterprises and use wide ranging cooperation to attract foreign funds. In addition to using foreign funds, there are a lot of idle funds within China. Township enterprises should, on the basis of mutual benefit, attract these funds and put them to use.

5. A separate category of funds for technological progress in township enterprises must be established. Management organs at all levels in township enterprises should establish such a category of funds as quickly as possible. These funds should be established at different levels, and their sources should be diversified. One part should come from management fees charged to township enterprises, another part should come from fiscal circulating funds, a third part should be provided through tax exemptions to township enterprises, and a fourth part should be taken from the profits of township enterprises. These funds must be used where they are most needed; they cannot be scattered like pepper out of a shaker.

6. The funds provided by the state to support township enterprise development must be properly used and managed. Since the 1980's, the state has disbursed 350 million yuan in circulating funds to township enterprises every year to support the development of township enterprises in border areas, poverty stricken areas, and areas where the population is aging or scarce. This money must have amounted to about 3 or 4 billion yuan in circulating capital by now. If we use these funds properly and get them to start circulating, their potential for spurring technological progress in township enterprises would be great.

[6 Sep 91 p 1]

[Text] The need for township enterprises to rely upon technological progress is not just a matter of resolving the problem of backward technology; this matter touches upon a series of issues, such as the training of personnel and the perfection of management. For this reason, if the overall quality of township enterprises is to be truly raised by means of technological progress, we must be sure to handle the following issues properly:

1. In seeking technological progress, we must consider the question of economies of scale. On the one hand, this has to do with the ratio between technological inputs and production output. On the other hand, in some instances, enterprises cannot reap the benefits of advanced technology unless they are of sufficient scale. We have often encountered the situation where a certain technology which yields excellent results for one enterprise does not yield such success for another one. This is because enterprises vary in scale.

2. Another issue is the relationship between township enterprise flexibility and technological progress. Township enterprises are hardy survivors because of their flexibility. People believe that technological progress and the maintenance of township enterprise flexibility are completely compatible, but in reality, problems sometimes arise. Township enterprises are generally small in scale. A small boat is easy to turn around, but some advanced technologies require that an enterprise be large in scale. What to do? Furthermore, workers and staff in township enterprises have no "iron rice bowl." They come and go, but advanced technology requires a stable work force which

can increase its skill. What to do? These issues must be handled properly if enterprises are to remain healthy and technological progress is to proceed vigorously.

3. Another issue involves the relationship between technological progress and the need to maintain the traditions and characteristics of certain products. Township enterprises manufacture many products with many different characteristics. Some satisfy a very specific need while others satisfy special requirements present only under certain circumstances. For this reason, in seeking technological progress, we must consider product characteristics and social needs. For example, consumers prefer that some products be hand-made and that they have a traditional feel. If we switch to mechanized production in order to increase labor productivity, thereby sacrificing traditional characteristics, a product for which there was strong demand might see its sales drop off.

In summary, the effort to achieve technological progress in township enterprises is a systems engineering project. When attempting to achieve enterprise development through such means, we must also consider all aspects of the work of enterprises. Only in this manner will technological progress truly spur continued, stable, coordinated, and healthy development in township enterprises.

FOREIGN TRADE, INVESTMENT

Export Potential for Middle East Markets

91CE0785A Beijing GUOJI SHANGBAO in Chinese 8 Sep 91 p 3

[Article by Qi Wei (4362 0251): "Cursory Analysis of Measures Whereby China Can Further Open Up the Large Middle Eastern Market"]

[Text] The Gulf area in the Middle East is an economic and trade market holding enormous developmental potential. It possesses abundant foreign exchange, imports a wide variety of commodities, and has low import duties and few limitations; consequently, market competition in this region is extremely intense. The steady turn for the better in the fiscal, financial, and professional situation in each country in the region, and the steady expansion of its import trade have increasingly attracted the serious attention of more and more countries of the world. Following the recent conclusion of the Gulf War, in particular, this region seems once again to have become a paradise in which foreign business can make a quick profit. Market competition is extremely intense.

The Middle East is an important market for China's export of commodities, contracting of projects, and provision of labor services. Since the 1980's, China's foreign relations and trade relations with an overwhelming majority of middle eastern countries have improved markedly, the export trade, project contracting, labor services cooperation, and joint investment business all seeing fairly rapid development. Nevertheless, by comparison with other countries and regions of the world, China's volume of trade with this region is still relatively small.

During the 1990's, world competition to sell in the Middle East market intensified causing all concerned constantly to readjust and change their sales tactics to win a greater share of the trade. China must not miss the opportunity for vigorous opening of Middle East markets, further widening its export trade and developing economic cooperation in order to improve the country's economic position in Middle East market competition. Therefore, analysis of China's advantages and disadvantages in Middle East market competition in conjunction with the realistic recommendation of attendant measures to be taken seems extremely and urgently important.

1. China's Advantages in Opening the Middle East Market

1. Policy Advantages: The series of policies beneficial to reform and opening to the outside world that China has drawn up since the 1980's have hastened the pace of development of foreign economic relations and trade. In addition, the increasingly serious attention given to the development of economic cooperation and trade with the Gulf states has produced marked results. Faced with a new situation in the Gulf states of the Middle East during the 1990's, the Chinese Government has taken more positive actions for the development of new cooperation with the countries of this region in economic, scientific and technical, and cultural fields, thereby oepning a new chapter in the history of friendly cooperation between China and the Gulf states of the Middle East. The development of foreign political relations and the stability of domestic economic policies will promote fairly rapid development of China's economic relations and trade with this region.

2. Commodity Advantages. China's exports to Gulf state markets in recent years have consisted primarily of light industrial goods, textiles, handicrafts, specialty agricultural by-products, hardware and minerals, chemical industry products, small machines, lathes, electronic products, and recreation and sports equipment. These products were of fairly high quality, moderately priced, and of numerous varieties. They have already established a fine reputation in Middle East markets, are definitely competitive, and have increased the volume of China's export trade to this region. In 1988, China's commodity exports to eight petroleum producing Gulf states of the Middle East totaled $971 million in a 7.1 percent increase over 1987. This was a year of rise in total volume of imports and exports, which totaled $1.35 billion for a sharp 51.3 percent rise over the 1987 total and producing a $246 million favorable balance of trade for China. Pertinent data show that China ranked twelfth among the 15 largest exporting countries to Saudi Arabia.

The Middle East countries have substantial foreign exchange. In general, they are not much concerned about balance of trade matters. In recent years, China has consistently maintained a fairly large favorable balance of trade, and a consistent increase in exports to Middle East countries. Some countries in the Middle East also hope very much that China will expand its exports of distinctive premium quality products to satisfy their huge domestic consumer demand. Therefore, China's foreign trade enterprises must make fullest use of the various advantages its

export products enjoy, and use every available means to expand transactions with the outside world in an effort to increase greatly its export trade with the Gulf states of the Middle East.

3. Advantage of Identical Religious Belief: The religions of the Gulf states are of numerous colors and complexions; thus, the economic and trade activities of these countries are also imbued with a rich Islamic coloration. This is manifested in special production technology, product packaging, exterior design, trademark, and color requirements for many commodities.

China is a large multiracial nation in which minority peoples like the Uygurs and the Huis inhabiting North China areas such as Xinjiang, Gansu, Ningxia, Shaanxi, Shanxi, and Hebei are also believers in Islam. In ancient times, goods flowing from these areas to Arab countries via the "Silk Road" played a positive role in economic and cultural exchanges. Today, not only are the products of many northern China provinces having minority communities well-known, of premium quality, and special, but they also possess a pronounced ethnicity. Many export commodities are imprinted with the Arabic words for "purity" [or Islam], thereby conveying to the markets of Arab countries an ethnic sense of genuine goods at a fair price. Identical religious belief and ethnic customs enable the products of some of China's provinces and regions to enter middle eastern markets fairly readily, increasing their competitiveness.

4. Advantages in Product Contracting and Labor Services:

When world petroleum market prices experienced an upturn during the late 1980's, the economic situation of oil-producing near eastern countries also took a turn for the better with the steady increase in oil revenues. The long depressed project contracting and labor service markets in this region began to revive and become increasingly lively. The new changes in the project contracting and labor service markets of the Middle East attracted the attention of numerous countries of the world. Some Western economists believed that the Gulf region would be a fine place for investment both at that time and in the future.

In recent years, China has also made initial breakthroughs in middle eastern project contracting and labor service markets, a rise occurring in both number of construction projects and in total total numbers of labor service personnel. Contracts China signed with middle eastern countries to build projects and provide labor totaled $410 million in 1987, up 80.4 percent from 1986. Countries signing construction project contracts with China included Kuwait, Iraq, Jordan, Iran, and North Yemen. During these years of cooperation, the technical personnel and the laborers that China sent abroad observed discipline, were highly professionally qualified, did a solid job, were willing to work hard, performed premium quality work, completed jobs on time, and enjoyed a rather high reputation in many Arab countries. These are advantages that China enjoys now and in the future for the opening up of the project contracting and labor markets of middle eastern Gulf states.

2. Disadvantages China Faces in the Opening of the Middle East Market.

China got off to a fairly late start in its economic and trade cooperation with the Gulf states of the Middle East. It has only been since the 1980's that a certain amount of development has occurred, many opportunities having been lost prior to this time. Because of the late start, China's economic relations and foreign trade personnel lack a pround familiarity and understanding of the middle eastern market; thus, China is still at the stage of exploration and feeling its way as regards operating methods and operating goals. In 1989, for example, when China's total exports to the give countries of Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, and Oman accounted for only 1.67 percent of those countries' total imports, while the exports of some developed Western countries accounted for between 5 and 20 percent of these countries total imports. By comparison, China's volume of trade is extremely small, and trade channels are also undiversified.

3. Actions China Must Take To Open Up the Large Middle East Market.

The Gulf states of the Middle East offer very great consumption potential, and are an intensely competitive market. As to how to open up this market to expand export trade and further develop economic cooperation with this region, I will now offer the following suggestions:

1. Vigorously develop the export of China's traditional merchandise and new commodities.

The Gulf states of the Middle East are an area for the development of free trade. In addition to petroleum products, the amount of local market demand for all sorts of commodities is substantial. However, the make-up of goods that the region imports from other countries shows that imports of major commodities such as machinery, mechanical equipment, transportation conveyances, communications equipment and electronic products is monopolized by developed countries such as the United States, Japan, and the European Economic Community. Imports of other consumer goods such as food, pharmaceuticals, light and textile products, and small machines is from developing countries in intense competition with each other. Therefore, all Chinese enterprises engaged in foreign trade must make fullest use of the advantages they hold in exporting traditional commodities and commodities having a distinct ethnic character in the vigorous opening of Middle East markets. At the same time, they must expend much energy on researching and developing the export of some new products to meet new market demand. In addition, China must work hard on electrical and mechanical products and construction materials, daring to compete with developed countries.

2. Adoption of flexible trade methods to establish extensive sales channels.

In developing the Middle East market, China must not only use entrepot trade, but must also employ even more mostly direct trade to expand exports. Since each of the countries of the Middle East is developing rapidly, some of

them even privatizing state-owned enterprises, the market appears extremely lively. Private enterprises are characterized by quick access to information, widespread operations, numerous network outlet points, and numerous kinds of commodities, which account for a substantial amount of market competition. Therefore, China's foreign trade enterprises and government departments concerned not only have to work closely with government agencies in the region, but they must also be sure to accredit some professionally capable organizations, as well as select well-informed and professionally capable local private enterprises as agents for China's exports in the establishment of extensive sales channels to widen China's export trade.

3. More market investigation and research for timely readjustment of sales tactics.

In the markets of the Near East where commodities from every country in the world compete extremely fiercely, commodity prices frequently change. In order to meet market competition, all of China's foreign trade enterprises must be sure to watch changes in the market situation at all times. They must obtain all sorts of information promptly, constantly analyze it, and study the trends of development of this regional market in order to readjust their operating tactics and change the make-up of their export commodities to improve competitiveness. At the same time, departments concerned must set up agencies having the sole purpose of doing overall planning to improve industrial management so that foreign trade enterprises will avoid cut-throat competition with each other, shaping instead a competitive advantage in the form of unanimity toward the outside world.

4. Active efforts in the vigorous opening up of Middle East project contacting and labor service markets.

Most of the technology-intensive and capital-intensive engineering projects for which contracts are let and labor provided in the Middle East are monopolized by developed western countries, primarily the United States, while most labor-intensive projects are also contracted by engineering corporations in the Middle East countries themselves. Clearly, even though potential is very great and prospects optimistic for development of the project contracting and labor service market in this region, competition is likewise extremely intense.

American contractors reacted quickly to the enormous lure of projects for the rebuilding of Kuwait, finding various means to get 70 percent of them. The United Kingdom, France, Germany, Japan, and South Korea also swarmed in, each of them exhibiting skills, and pushing their way into competition for the contracting of Gulf rebuilding projects.

Faced with new market circumstances, Chinese departments and units concerned have to proceed from their own actual circumstances to make active efforts to seize favorable opportunities to engage in market competition.

(1) All contracting corporations in China must further improve the technical quality and professional level of their construction corps to assure higher quality of engineering skills, thereby attracting the attention of Middle East traders in the construction contract and labor service markets, improving the name recognition of China's corporations, and expanding China's deals with the outside world.

(2) Better market analysis for the purpose of selecting projects for contracting in which China can compete. Since some developed Western countries are keen on large projects in the Middle East contract labor market, China's corporations will have to put efforts on medium-sized and small projects, selecting for contracting those projects in which it enjoys a competitive advantage. It should be realized that the technical competence that China possesses in petroleum, the chemical industry, fire extinguishing, cleaning up marine pollution, road building, bridge construction, civil engineering, and various basic facilities is not to be ignored. We must use various means to make fullest use of this advantage, seize the opportunity, and actively conclude deals rapidly, do more contracting, and cooperate more with Gulf states traders in the Middle East for further opening up of China's economic cooperation with this region.

(3) Better coordination, and greater cooperation and closer relations among China's individual contracting corporations in joint competition with the outside world. At the same time, the fairly low price of China's labor, and the strong sense of responsibility of Chinese workers may be used in active development of cooperation with corporations in Taiwan, Hong Kong, and Southeast Asia whose advantages in capital, information, and technology may be also put to use in jointly seeking the contracting of projects to open up the Middle East market.

5. Vigorous publicity abroad to expand China's influence in the Gulf states and Middle East region.

At the present time, China's economic relations and trade, and its technical cooperation in the Middle East market is still in the initial stage of development. Volume of export trade, earnings from project contacting and labor services remain an extremely small percentage of the total market share. One reason for this is China's late entry into the Middle East market, and the custom of Arabs in the Gulf region of waiting for customers to come to them. Thus, their unfamiliarity with China's circumstances, and their lack of sufficient understanding of the products that China has for export has hurt the development of China's economic relations and trade with that region. In the future. China's foreign trade enterprises and departments concerned must use all kinds of commodity trade fairs, and technical negotiation meetings to publicize the advantages of China's products and technology, thereby providing the Arabs a greater understanding of China and familiarity with China, and advancing friendship and active cooperation for greater development of mutual economic relations.

August Foreign Trade Value Figures Released

HK2509143191 Beijing CEI Database in English 25 Sep 91

[Text] Beijing (CEI)—Following is a list showing the total value of China's foreign trade in August of 1991, released by the General Administration of Customs:

	(Unit: 100 million U.S. dollars)		
	Aug. 1991	Aug. 1990	Change (percent)
Total	120.78	101.05	+ 19.3
Export	64.77	55.13	+ 17.2
Import	56.01	45.92	+ 21.9
Balance	+ 8.76	+ 9.21	

Foreign Trade Reform Creates Problems for Bank

92CE0061A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 8, 30 Aug 91 pp 15-17, 48

[Article by Li Huaping (2621 5478 1627) and Fu Guolong (0102 0948 7893): "Problems for Bank of China Created by New Foreign Trade System"]

[Text] After reviewing the experience with the foreign trade contract management responsibility system in recent years, particularly the past three years, the State Council decided to further reform the foreign trade system in 1991. Essentially it proposes to adjust the exchange rate of the renminbi. That accomplished, it would then abolish the financial subsidies the state is now shelling out to foreign trade and exports, and establish a mechanism whereby foreign trade enterprises assume responsibility for their own profits and losses so that over time they can compete on a level playing field, enjoy decisionmaking authority in their operations, combine industry with trade, adopt the agent system, and present a united front to the outside world. This is a major change in foreign trade operating mechanisms.

1. The new foreign trade system is needed to make foreign trade more profitable and achieve the goals of China's foreign trade development strategy.

The introduction of the new foreign trade system will be a turning point in the development of foreign trade. It will powerfully unleash the initiative and creativity of foreign trade companies so that they will accomplish the planned tasks in foreign trade imaginatively and on their own initiative even as they make foreign trade a more profitable proposition and fulfill or over-fulfill the strategic goal of quadrupling China's foreign trade by the end of the century.

First of all, other than key export commodities assigned by the state, specialized foreign trade companies and production enterprises authorized to engage in foreign trade that assume responsibility for their own profits and losses shall be free to make export decisions on their own depending on the market conditions at home and abroad. Since they must practice independent accounting and be held accountable for their own profits and losses as far as exports are concerned, the state no longer assuming overall responsibility for profits and losses, the companies and enterprises will inevitably feel a sense of urgency and necessity about conducting research on international market conditions as they relate to the commodity in question to enable themselves to improve product quality endlessly, upgrade their exports, and better design, variety, and packaging so as to make their exports competitive enough to corner a larger slice of the world market.

The export agent system, which is part of the new foreign trade system, is also an effective way to make foreign trade more profitable. The old system was one of procurement and storage. Under this system, the foreign trade sector was required to buy up some goods that were poor in quality and costly to make but which did not meet international market demand in terms of design and variety. The consequence was a serious overstocking problem for foreign trade enterprises, which had a depressing effect on their profitability. As part of the new foreign trade system, the export agent system solved the problem of "eating off the big rice pot of the state" at its root as well as forcing enterprises that manufacture exports to improve product quality, design and variety, lower production costs, and make their products popular on the world market.

2. Problems facing the Bank of China under the new foreign trade system

The introduction of the new foreign trade system is a powerful force in the development of China's foreign trade. It presages a new quantum leap in China's foreign trade in the future. At the same time, it places new demands on the work of the Bank of China and poses new problems for its foreign trade credit work. In our opinion, the Bank of China is faced with three major problems as foreign trade reform intensifies:

1) Bad Debts in Foreign Trade

Before the new foreign trade system was introduced, foreign trade was not held accountable for its own profits and losses. Whether or not foreign trade was profitable had no direct bearing on the interests of the leaders and workers of a foreign trade company. Since its profits and losses were the responsibility of the state, the foreign trade company often came to look upon exports as a tool to earn foreign exchange to import use value. In their single-minded preoccupation with maximizing their foreign exchange earnings, foreign trade enterprises were prepared to export any commodity that could earn foreign exchange, regardless of costs. This inevitably resulted in a money-losing foreign trade sector, causing the state unjustifiable losses and making foreign trade less profitable. Nationwide, bad loans amounting to billions of yuan were taken out during the contract period, including 600 million yuan in Jiangxi alone as of late 1990. Thus a major task in the bank's foreign trade credit work is to solve the problem of bad loans and prevent new ones. This is a serious problem that cries out for solution under the new foreign trade system.

2) Returns on Foreign Trade Loans

In recent years people in foreign trade often focused on the importance of expanding exports and foreign exchange earnings, emphasizing the volume of exports while ignoring the profitability of exports. Export at all costs. Foreign trade enterprises rely primarily on banks as the principal source of funds for procuring exports. For years the state was ready to subsidize the losses of the foreign trade sector so that the banks were not overly concerned about the safety and profitability of lending to the foreign trade sector. The upshot was that the foreign trade sector was never turned down for a loan and borrowing became a supply kind of credit. The new foreign trade system that went into effect this year, which holds one accountable for one's own profits and losses, makes the increase of profits the bottom line of foreign trade work and puts the contribution of foreign trade to the national economy at the heart of foreign trade work, as well as turning it into the yardstick for assessing the quality of foreign trade work. It seeks to expand exports and foreign exchange earnings provided it is profitable. Exporting at a loss will be strictly limited. The further intensification of foreign trade reform makes even more stringent demands on the Bank of China and poses it with the need to examine whether or not its foreign trade loans are well spent.

3) Repaying Foreign Exchange Loans

Under the new foreign trade system introduced this year, foreign exchange earnings derived from exports are to be divided up in full. In the case of most commodities, 20 percent of the foreign exchange is turned over to the central government for free, 30 percent is turned over to the central government with compensation (20 percent from the foreign trade export enterprise, 10 percent from the enterprise that supplies the merchandise), 10 percent is turned over to the local government for free, and 40 percent is retained by the foreign trade export enterprise. Since the enterprise that makes the export has no foreign exchange earnings, local foreign exchange earnings decrease correspondingly and the after-tax profit-retention and loan repayment system still obtains. This foreign exchange retention system creates new problems for foreign exchange loan repayment. At the heart of the problems is the unfavorable external environment for repaying both old and new foreign exchange loans, resulting in diminished foreign exchange resources for loan repayment.

The Bank of China, we believe, should take appropriate measures in response to the three major problems mentioned above that have been caused by the new foreign trade system:

1) How to solve the problem of bad loans in foreign trade? As we see it, the problem of bad loans in foreign trade is a highly complex one, something that cannot be fully resolved by anyone sector alone. The government should take the lead and put the agencies involved in overall charge to provide broad coordination. The leaders of governments at all levels as well as those of the departments in charge should put the resolution of over-borrowing on their agendas. They should find out what the facts are, pinpoint the causes, and put forward solutions. The array of preferential policies and measures the state is now offering the foreign trade sector should be fully utilized. Comprehensive planning should be intensified. Make an effort to absorb the loans. In Jiangxi Province, for instance, bad loans exceed 600 million yuan. To absorb these loans, the provincial government has taken many effective measures and demanded that the departments involved lend their strong support. For example, it has demanded that the tax department promptly refund taxes in full in accordance with state regulations on export drawbacks in order to help the drive to increase exports and foreign exchange earnings. Customs, commercial inspection, and transportation departments as well as banks must all provide quick and convenient services to expand exports and increase profits.

As a bank, in what ways can the Bank of China help the foreign trade sector absorb losses and prevent future ones? We think we should coordinate actively to put equal stress on services, support, and supervision.

The most important thing in services is to help foreign trade make good use of its funds. First of all, help foreign trade enterprises take stock of their assets and liabilities fully and really figure out what they own. Second, analyze their inventories. Ascertain what can be exported, what is overstocked, and which are unmarketable. Classify and prioritize them and deal with them accordingly. Third, overdue loans should be fully cleared up. An aggressive effort should be made to collect any overdue unpaid loans, domestic and foreign. Only by helping foreign trade enterprises free up their funds and bringing idle funds back into circulation can we enable them to cut their losses.

The key in support is this: Under the new foreign trade system, we should raise funds energetically to support the foreign trade sector's effort to increase exports and foreign exchange earnings. Over-borrowing incurred before late 1990 should be put under a system of specialized account management. During the period of absorption, lending will not be halted, interest rates will not be raised, and no penalty will be imposed on interest rates so as to help the foreign trade sector assimilate its losses.

When it comes to supervision, we must first assist local governments determine the overdue amount, analyze the reasons why over-borrowing occurred, and set a time by which the enterprises must solve the problem. Second, tighten loan management. At present banks make loans to the foreign trade sector to make good losses—in violation of bank lending rules. This practice should be corrected. In the future banks should abide by the principle that lending should be planned and be backed by adequate material guarantee, and strictly comply with every lending system and its rules formulated by the state to prevent foreign trade loans from being used to cover losses.

2) How to increase returns on foreign trade loans? First, the Bank of China must put an end to its practice of making foreign trade loans, supply-style. The Bank of China is the specialized bank in foreign exchange and foreign trade and it is one of its prime responsibilities to support foreign trade and exports. Under the new foreign trade system, however,

the bank must base foreign trade lending on economic profitability, closely abide by the principle of "support whoever that makes a profit exporting, and classifies and prioritizes export commodities." When the commodity in question is unmarketable, when its costs of earning foreign exchange are too high, and when no source of funds exists to cover losses, the bank should firmly refuse to lend. When the commodity in question has a limited market, or when the costs of earning foreign exchange are relatively high but a source of funds exists to cover the losses, the bank may lend as appropriate. When the commodity in question is in demand on the world market, has a high rate of earning foreign exchange at low costs, then the bank should give it strong financial support. In the case of Jiangxi, the Bank of China and the department in charge of foreign trade have worked together based on the actual conditions in the province to draw up an export commodity procurement catalog and set the maximum prices for export commodities procured. Second, keep a tight leash on loans, the prime concern being the need to make foreign trade loans more profitable. Put an end to enterprises' disregard for profitability by modifying the ways in which the bank issues and recalls loans. Do not lend to enterprises that raise prices and engage in panic procurement or whose commodities are of a poor quality and are being exported at low prices, incurring heavy losses. Stop enterprises from procuring shortsightedly. Avoid overstocking, which is wasteful. Urge foreign trade enterprises to replenish their working capital and get a grip on overstocked goods in the warehouses. Funds derived from price increases should be used to supplement working capital at the enterprise's disposal. Make sure that enterprises set aside a fixed percentage of the after-tax retained profits to supplement the working capital at their disposal. Help the foreign trade sector tap potential and cut losses by improving management to begin with. Clear up inventories in earnest and pay off unpaid overdue loans. Accelerate commodity and fund circulation so as to put foreign trade credit funds to work. Finally, as far as the internal operations of the bank are concerned, both the bank's international trade account settlement and domestic account settlement must be updated in the wake of foreign trade reform so as to keep pace with the improvement of the profitability of foreign trade loans. In international account settlement, bills must be reviewed for accuracy and sent out in a timely way. The foreign exchange collection period must be shortened and the rate of foreign exchange settlement must be raised. In domestic account settlement, discipline must be tightened to prevent the enterprises from falling behind on loan repayment.

3) About the repayment of foreign exchange loans, the new foreign exchange retention rules of the new foreign trade system have complicated the Bank of China's foreign exchange credit business and put it in a bind. Under the new set of circumstances, what tack should foreign exchange credit work take? In our opinion, foreign exchange lending should meet the requirements of the new situation. We should do two transitional jobs well:

a) As far as foreign exchange loans are concerned, we should go about collecting overdue unpaid loans aggressively. To do a good job here, the leaders must first make this their priority and really put it on their agendas. Second, the measures taken must be effective and feature a combination of economic, legal, and administrative tools. Finally, the measures must be implemented all the way down to the level of credit workers. Their performance in this area must be considered in determining awards and punishments to ensure that loans due or overdue are paid back. Second, do a good job in the changeover of guarantors. Since foreign trade loans are highly risky, we started a guarantee system. In the past, some foreign trade loans were guaranteed by economic commissions and finance departments at the prefectural and municipal level as well as the foreign trade enterprise or the enterprise that supplied the merchandise for export. As a result of the new foreign trade system introduced this year, however, enterprises that supply the merchandise for export have no retained foreign exchange while the foreign exchange at the local level is centralized in the hands of the provincial government. Apart from planning and economic commissions and finance departments at the provincial level, therefore, prefectural and municipal economic commissions, finance agencies, and foreign trade enterprises have practically ceased to be eligible as guarantors of foreign trade loans. For this reason, the Bank of China in the various prefectures and municipalities should pay close attention to the task of changing foreign trade loan guarantors. Make sure that someone is held liable for repaying the loan and avoid a situation where the bank would have nobody to go after when the loan becomes due in the future. Such a loan would then become an unpaid overdue loan.

b) When it comes to issuing new foreign exchange loans, take pains to match the newly infused credit funds with the terms and conditions of loan repayment in order to minimize the number of overdue unpaid loans. With that in mind, we should focus on the following:

First, adjust the mix of foreign exchange credit. Give the most support to key national construction projects based on the national industrial policy. The principal recipients of foreign exchange loans should be those large- and medium-sized state enterprises that export and earn foreign exchange on a large scale, have a solid ability to repay loans, and can take chances. Also, we must give promising enterprises the appropriate amount of support to carry out technological transformation based on the need to adjust the national product mix. Essentially the loans should be spent to import advanced technology and equipment, upgrade product quality, and make them more competitive on the international market. In choosing transformation projects to finance, priority should be given to enterprises that are major exporters and earners of foreign exchange, have guaranteed means of repaying the loans, meet all borrowing requirements, and are making a profit. Second, tighten foreign exchange credit management. This is an important task that is critical to ensuring that loans are repaid safely and risks are minimized. Responsibilities

should be spelled out for every step of the lending process—research, assessment, examination and approval, loan issue, and loan recall—to ensure that foreign exchange loans are repaid. Third, closely scrutinize the borrower to determine if it meets the terms of the loan and if there is a source of funds for repayment. Screen projects to be funded by foreign exchange loans rigorously. Under the new foreign trade system, examine a borrower's eligibility to determine if it meets the terms of the loan in light of the adjusted loan repayment policy as well as check its sources of loan repayment. If the project is of a poor quality and does not meet the terms of the loan and there are no certain sources of loan repayment, the bank should firmly refuse to issue the loan.

Reaction to U.S. Designation as 301 Violator

92CE0059A Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 7, 27 Jul 91

[Article by Wang K'ang-mao (3076 1660 2021), Professor, University of California at Berkeley; Business College, Hong Kong University: "Critical Analysis of America's Designation of China Under the 301 Provisions, and the Countermeasures That China Should Adopt" as excerpted from Hong Kong HSIN PAO]

[Text] **[Box p 1] Editor's Note**: *Mr. Wang K'ang-mao's article provides a brief explanation of the 301 provisions, and it expresses his own views. It is excerpted here for the reference of readers.*

On 26 April 1991, United States Trade Representative [USTR] Carla Hills designated India, China, and Thailand as countries to be added to the list of priority countries to be monitored for violations of intellectual property rights under the Special 301 Provisions of the [Omnibus] Trade [and Competitiveness] Act of 1988. At the same time, Hills announced that Brazil, the EC, and Australia were to remain on the list of "priority countries to be closely monitored."

Designation of Both Western and Major Asian Countries

As a result of this trade policy, the United States actually divides its global trading partners into three categories under the 301 provisions. In the first category are a total of six countries to be closely watched, including Brazil, the EC, Australia, and the recently announced India, China, and Thailand. In the second category are 23 countries (or territories) to be watched. These are Germany, Greece, Italy, Hungary, Cyprus, Spain, Turkey, Yugoslavia, Canada, New Zealand, Egypt, Saudi Arabia, the United Arab Emirates, Argentina, Chile, Columbia, Venezuela, Japan, South Korea, Indonesia, Pakistan, the Philippines, and Taiwan. Of this number, 10 are western countries, eight are in Europe, one is in North America, one is in the Pacific Ocean, four are in South America, three are in the Middle East, and six are in Asia. All of the four small dragons of Asia except Hong Kong have been designated. In the third category are ordinary countries.

Problems About Two Types of Chinese Industrial Products

The United States feels that the main problem with China is the lack of patent protection for products of the pharmaceutical and chemical industry and the lack of copyright protection for books in the publishing industry, which causes economic losses for American industry and commerce.

The problem with India is that the patent protection period is overly short and mandatory certification limits are too broad. This results in flagrant infringement of patents or copyrights for pharmaceuticals, books, video tapes, sound tapes, computer software, and movies.

The problem with Thailand is no copyright protection and insufficient patent protection. There are flagrant infringements of pharmaceutical, movie, sound tape, and computer software patents and copyrights causing serious losses for American industries concerned.

The main problem with the EC and Australia is their blocking of the export of American television programs to their countries. They discriminate against the purchase of American telecommunications and electronics equipment.

Among the countries newly added for priority monitoring, it is India that has violated intellectual property rights in the most industrial categories covering six major categories, namely, the pharmaceutical, publication, tape recording, video recording, software, and movie industries. Thailand's violations cover four categories, and China's violations cover only two, namely the pharmaceutical and publication industries.

Countries Having a Large Market Easily Designated

Countries having a large market capacity base figure are likely to be placed at the head of the list no matter what they do; thus, Brazil, India, China, and Thailand, which have now been designated under the Special 301 Provisions, are all populous countries having a fairly large market capacity. Theoretically speaking, countries having a large market capacity must do a better job than countries in general in both legislating and enforcing intellectual property rights in order to avoid being designated.

In the same document that was published on 26 April, the USTR also noted objectively that China has made progress in two regards. First was the affirmation that China had drawn up a copyright law that took effect on 1 June 1991, and second was the affirmation that in May 1989 China had approved copyright protection for computer software.

Even though China has done much in the way of legislation of intellectual property rights during the period of reform and opening to the outside world, having drawn up a trademark law (1983), a patent law (1985), and a copyright law (1991) that have been quite effectively enforced, from the bilateral trade improvement angle, China still departs from international standards and American demands in the following three ways.

First, laws pertaining to intellectual property rights emphasize only protection of those "registered in China,"

without regard to "original" patents or copyrights; thus, the main point in a revision is expansion of the "registered in China" to "original." Second, China must become a part of relevant international agreements as soon as possible, signing immediately the Bern Treaty on the protection of literary and art works, (which also benefits China since China can pursue economic losses from foreign countries' copying of Chinese curios and paintings), and the international publishing rights treaty. Third, China must better enforce legal punishments and penalties. In provisions for the protection of computer software and pharmaceutical patents, for example, it must enact detailed penalty provisions. It is recommended that both the Ministry of Public Security and the Ministry of Justice jointly establish an intellectual property rights office for judiciary examination and control of intellectual property rights violations, holding open court trials. Cooperation between Chinese and American experts or international cooperation can also be conducted in this regard.

China Should Improve Its Trade Negotiation Skills

America's designation of China under the Special 301 Provisions sends several signals. One is a separation of the intellectual property issue and the most favored nation [MFN] treatment policy. Because the Special 301 Provisions are separately handled in accordance with legal provisions and sanctions independent of MFN, the legal basis for the two being different, and the Special 301 Provisions not being essentially a trade matter, the author believes that future MFN policy will rest more on original definitions and original laws, or be subject to certain political factors, and that problems that come up in Sino-American trade will be dealt with within the framework of the Special 301 provisions. Secondly, it shows a very fast rise in the volume of China's exports, China replacing Taiwan and other Asian exporters of low quality manufactured goods. A corresponding improvement of bilateral trade negotiation skills is required to keep up with this new situation. Third, future Sino-American trade negotiations will repeat the experiences of the past several years in the American-Japanese, American-Taiwan trade system. As a matter of principle, the United States will transfer the burden of its own huge trade deficit to these major Asian exporting countries, and it will seek individual resolution through bilateral trade negotiations. When the United States feels dissatisfied, or when deficit pressures are great, the Special 301 Provisions will become a conventional weapon that the United States will use to put pressure on trading partners concerned.

Negotiations Replicate the Japan and Taiwan Models

For many years, Asian exporting nations such as Japan, Taiwan, and South Korea have gone through the alternating relaxation and tightening of Special 301 Provisions pressures. China is now following in the footsteps of the great Asian exporting nations in playing this kind of role. Japan's and Taiwan's experiences and methods used in negotiations with the United States merit study in China since future Sino-American trade will face more negotiations of the same type.

In principal, the structure of trade between China and the United States is complementary, and the products that both sides export to each other are fixed. The United States exports mostly wheat, fertilizer, and aircraft to China, and China exports manufactured consumer goods to the United States.

In order to maintain a bilateral trade balance when bilateral trade between the two nations increases, both parties will have to expand the kinds of goods they export. In addition, the trading partners will have to consider effective means of helping China increase its foreign exchange earnings in order to be able to expand its imports.

Developing Fujian's Trade With ASEAN Countries

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[Article by Huang Suhui (7806 4790 5610), affiliated with the Fujian Party Committee School: "Thoughts on Strategies for Developing Fujian's Foreign Economic Relations and Trade With the ASEAN Countries in the 1990's"]

[Excerpts] The five ASEAN countries (of Singapore, Malaysia, Thailand, the Philippines, and Indonesia, with Brunei being temporarily excluded in this article) are Fujian's neighbors, and also key partners in Fujian's development of foreign economic relations and trade. While Fujian and the Southeast Asian countries had previously had a long history of trade contacts, our bilateral foreign economic relations and trade were subsequently almost suspended for a variety of reasons. But as our bilateral foreign economic relations and trade have resumed and developed steadily in the 1980's, it is predicted that Fujian's foreign economic relations and trade with the ASEAN countries will continue to develop and intensify in the 1990's. [passage omitted]

II. Fujian's Foreign Economic Relations and Trade With the ASEAN Countries Will Continue To Develop in the 1990's

As Fujian's development of foreign economic relations and trade with the ASEAN countries in the 1990's will depend not only on subjective factors, but also on objective ones, I will analyze the matter here only from the perspective of the world economic order and Fujian's objective needs.

First, the world economy is likely to maintain a slow growth momentumm in the coming decade, which will provide the material basis for our bilateral development of foreign economic relations and trade. My analysis shows the following general development trends for the world economy in the 1990's: The world economy is likely to continue to maintain a slow but unstable growth rate for a considerable period of time, with the average growth rate for the economies of the developed capitalist countries being about the same or slightly higher than its 2.8 percent for the 1980's. While the growth rate for the economies of the developing countries will also likely be higher than its 2.7 percent for the 1980's, it will not reach the 5.6 percent

that it had achieved in the 1970's. While the Asian economy is likely to continue its strong development, with the "four little dragons" entering a period of stable economic growth, it is predicted that the ASEAN economy will grow sharply, achieve an average economic growth rate that is higher than that of the "four little dragons," and become the region of the fastest economic growth in the world, with Thailand and Malaysia likely to become Asia's rising industrialized countries. China and Fujian's economy will grow at a rate of 6 percent a year. By the year 2000, we will have achieved our second strategic modernization aims of quadrupling our GNP and providing our people with comparatively prosperous living standards. While our faster economic growth will undeniably provide one basis for bilateral development of foreign economic relations and trade, it is estimated that the economic development of the developed countries will also create a higher demand for manufactured goods and agricultural products from the ASEAN countries, China, and Fujian than in the 1980's. The shift of traditional industries to developing Asian countries from, and increased investment in Asian countries by, Japan, South Korea, and Taiwan, will provide opportunities for the ASEAN countries, China, and Fujian to increase exports, attract foreign investment, import foreign technology, and speed up our industrialization and modernization. Of course, world economic development will also bring certain unfavorable factors, such as an increase in trade protectionism by developed capitalist countries due to world economic collectivization, the shocks of the regular pattern of capitalist economic cycles on the ASEAN economy, and the impact of S&T advances in not increasing demand for raw materials by developed capitalist countries, and in not raising international trade prices for primary products, except oil. While all of these may limit our bilateral economic development, the unfavorable factors are generally outweighed by the favorable ones, as the favorable ones can be promoted and the unfavorable ones can be curbed. Both the ASEAN countries and China will continue to open up to the outside world and expand our foreign economic relations and trade, which will include the consolidation and expansion of foreign economic relations and trade between the ASEAN countries and Fujian. This will also have a certain favorable impact in keeping primary product prices from falling and withstanding the increase in trade protectionism by developed capitalist countries.

Second, Fujian must and can continue to develop foreign economic relations and trade with the ASEAN countries. In order for Fujian to apply the coastal zone economic development strategy and open up more to the outside world in the 90s, we will have to adhere to the principles of multidimensionalism, diversification, prioritization, and pragmatism, by focusing on the development of economic relations and trade between Fujian and Taiwan, while taking vigorous steps to open up Southeast Asian markets, and gradually turning them into one of our key overseas markets. Moreover, the continued development of foreign economic relations and trade between Fujian and the ASEAN countries also contains the following possibilities:

1. Fujian has bright prospects for opening up ASEAN markets because of the following favorable conditions: (1) We have a geographic advantage and a long history of bilateral trade contacts. Fujian is located on China's southeastern border, not far from the ASEAN countries. Direct and indirect airlines are mostly open and marine transportation is convenient between Fujian and all ASEAN countries. It is only 922 nautical miles from Xiamen via Hong Kong to Manila, the Philippines, 1,742 nautical miles from Xiamen via Hong Kong to Singapore, and less than 2,000 nautical miles from Xiamen via Hong Kong to Jakarta and from Xiamen to Malaysia. It is precisely the historical factors of being close to each other geographically and having longstanding through airlines and trade relations, that make the trade relations between Fujian and the Southeast Asian countries so rare among China's border provinces and cities. (2) Fujian has considerable economic might. In 1990, Fujian had a GNP of 45 billion yuan, a GVIO [Gross Value of Industrial Output] of 52.699 billion yuan, and a GVAO [Gross Value of Agricultural Output] of 22.869 billion yuan, which figures are expected to increase at average rates of 8 percent, 10 percent, and 5 percent, respectively, during the Eighth Five-Year Plan. Moreover, we have begun to complete a set of fairly integrated industrial systems in fields, such as electric power, coal, electronics, food, textiles, papermaking, machinery manufacturing, petrochemicals, building materials, and forestry, of which light textiles, machinery, and electronics are Fujian's strengths. Except for grain, Fujian also has clear agricultural product advantages over the rest of China in our sugarcane, tea, fruit, aquatic products, and timber output. (3) Fujian has the advantages granted to us by the Central government of preferential policies, flexible measures, and permission to take advanced steps in reform and opening up to the outside world. Opening up more to the outside world is one of Fujian's priorities for the coming decade. We are going to focus on developing an externally oriented economy, by striving to break into international markets, utilizing foreign investment more actively and effectively, and developing more extensive international economic and technological cooperation, in order to speed up our pace of opening up to the outside world. (4) As far as Fujian is concerned, the ASEAN countries are a very attractive, large-capacity market. In 1988, the six ASEAN countries had a combined trade turnover of $204.3 billion, including exports worth $102.67 billion and imports worth $101.66 billion. Moreover, they have a diversified demand. While their imports emphasize capital goods, they are of a wide variety and diversity, with sizeable imports of everything from primary products and consumer goods to manufactured and capital goods. As the ASEAN countries are rich in economic development potential, the size of their import markets will continue to grow. And as they exercise less control over imports than other developed and developing countries, such as Singapore being a free trade port, they also have a stronger foreign exchange payment capability. (5) The Southeast Asian region has many overseas Chinese and Chinese of Fujian descent. Statistics show that the Southeast Asian countries, such as Indonesia, Malaysia, Singapore, the Philippines, and Thailand, now have more

than 6.5 million overseas Chinese and Chinese of Fujian descent, who are engaged in a variety of industries, such as commerce, light industry, manufacturing, industrial mining, agriculture, construction, transportation, banking, and finance. Overseas Chinese in Indonesia, many of whom are of Fujian descent, make up 5 percent of the population and have almost 90 percent of the economic might. As their economic might and cultural level have improved greatly in recent years, and large numbers of industrialists and professionals who are concerned about and support the development of their native land have emerged among them, they are going to continue to play a role in our future development of bilateral foreign economic relations and trade.

2. The ASEAN countries also have aspirations and certain favorable conditions for developing foreign economic relations and trade with China and Fujian. As most of the ASEAN countries are developing ones with limited natural resources and small domestic markets, where increasing exports and foreign exchange income has a direct impact on the realization of economic development strategy aims, as all of them lay particular emphasis on diversified exports of manufactured goods and agricultural and mineral products, and as they are taking active steps to increase their trading partners and export markets among developing countries in the Asian-Pacific region, they consider China and Fujian as huge potential markets. A vice minister of trade and industry from a certain ASEAN country said recently that China, with its huge population and trade potential, was becoming an increasingly important nontraditional market for them.

3. Fujian and the ASEAN countries have the following varying degress of economic mutual complementarity and factors that will contribute to market development: (1) The differences between Fujian and the ASEAN countries in geographic conditions, development priorities, and other areas form a certain amount of objective mutual complementarity. If we contrast Fujian with particular ASEAN countries instead of with ASEAN as a whole, this economic mutual complementarity is even more clear. For instance, Fujian and Indonesia have many products that can be traded. Indonesian oil products, lumber, rubber, palm oil, and copra are all suited to Chinese markets, and many of Fujian's industrial and agricultural goods, including light industrial goods, such as mechanical equipment and household electronics products; medicines, hardware, and industrial chemicals, are also well received on Indonesian markets. (2) Although the ASEAN countries have achieved rather rapid economic growth in recent years, they have not yet each established integrated industrial systems, and certain of their industrial sectors, such as iron and steel, machine manufacturing, and industrial chemicals, are still quite weak. Even in Thailand, which is about to join the ranks of rising industrialized nations, the industrial base is still not solid and categories are incomplete. In comparison, China and Fujian have fairly well-integrated industrial systems. In 1989, electronics and industrial mining products accounted for 16.47 percent of Fujian's exports, which also included 17 or 18 primary product varieties. This shows that there is quite a bit of room for maneuver in bilateral mutual complementarity. (3) The ASEAN countries are experiencing a relative shortage of managers and technicians in their industrialization process, which statistics predict is going to continue to be a limiting factor in their respective economic development in the 1990's. For instance, Malaysia has a manpower shortage, particularly as to mid-level managers and technicians. Thailand has only one-half of the technicians that it needs, with only 80,000 scientists and technicians in a population of 50 million, while Fujian has 206,000 people with professional natural science skills in a population of a little over 30 million. Thus, there are good prospects for widespread development of bilateral labor and technical exchanges. (4) Wages are increasing in the ASEAN countries. Statistics for 1989 show that wages increased 10-20 percent in Malaysian joint ventures, the minimum daily wage in the Philippines increased 39 percent, and the labor shortage in Singapore raised labor costs, which increased 10 percent in 1990, so that rising wages has become the trend in the ASEAN countries. As Fujian can now (and will be able to in the future) maintain relatively low wages, our advantage of having abundant and cheap labor is precisely our most favorable condition for expanding our foreign trade and international economic and technical cooperation.

III. Thoughts on Strengthening the Foreign Economic and Trade Relations Between Fujian and the ASEAN Countries

The 1990's is going to be a particularly crucial decade for Fujian's socialist modernization, and will also be a key stage in our realization of the second objective of our economic development strategy. While the current international situation is quite grim, it still contains many favorable factors and quite a bit of room for maneuver. Industrial structures are still being adjusted on a worldwide scale, with the transformation of the industrial structure of the Asian-Pacific region certainly not having ended in particular, world trade market capacity is still continuing to increase and, while the international money market supply fluctuates, it is still possible to acquire needed funds. These things are providing Fujian with opportunities for developing our foreign economic relations and trade. We should seize the favorable opportunity to consolidate and expand our foreign economic relations and trade with Taiwan, the Hong Kong-Macao region, and all of the ASEAN countries. However, difficulties also exist. While Fujian has made a certain amount of progress in developing foreign economic and trade relations with the ASEAN countries, a comprehensive management target analysis shows problems between Fujian and the ASEAN countries, such as too similar levels of economic development, roughly identical export products, less mutual complementarity of products than that of developed countries to the point of limiting our foreign economic relations and trade, most of our trade being a cooperative division of labor between different products on the same level, and adversarial competition over foreign investment. Even so, we should still expand our foreign economic and trade relations with the ASEAN countries. As Premier Li Peng pointed out at a recent news

conference, we are prepared to maintain and continue to develop good relations with Southeast Asian countries in all areas, such as politics, economics, science, and education.

Fujian's strategic considerations in expanding foreign economic and trade realtions with the ASEAN countries should be to focus on development of export trade, by continuing to develop mutually complementary trade, increasing exports of in-depth manufactured goods, striving to strengthen our bilateral cooperation in international economic, technical, and labor exchanges, and making efforts to expand our foreign economic and trade relations with all ASEAN countries in diversified forms and channels and all dimensions.

1. We should adopt a different policy toward, and take active steps to adjust our export commodity mix with, each ASEAN country based on its respective national conditions. With the exception of Singapore, most of the ASEAN countries still export mostly primary products, such as processed agricultural and mineral products. But as each ASEAN country emphasizes different kinds of foreign trade, we should apply to each a different trade mix policy as follows: (a) We should continue to consolidate our existing product exports, by increasing our export volume and manufacturing in greater depth. Malaysian foreign trade has always relied heavily on production for export of a few agricultural and mineral products. Oil palm, rubber, cocoa, and logs account for over 75 percent of Malaysia's GVAO, and crude oil and tin account for over 90 percent of the gross value of its mining industry output. Over 90 percent of these products are exported, and over 65 percent of Malaysia's manufactured goods are electronic appliances and textiles. Fujian's current exports to Malaysia are mostly products, such as food, tea, and paper. In addition to continuing to consolidate and increase our existing export commodities to Malaysia, we should make greater efforts to export to Malaysia more goods that are manufactured in depth. Over 60 percent of Fujian's exports to Indonesia in 1989 were various types of mechanical equipment, and mechanical eqiupment and household electronics products accounted for about one-half, and light industrial products, such as food and feed, accounted for more than one-quarter of Fujian's exports to the Philippines in 1980. We should continue to increase our exports of all types of mechanical equipment and higher-technology-intensive products. (b) We should develop export products that are more suited to ASEAN markets. Thailand is industrializing its agriculture. Except for textiles and integrated circuits, most Thai export products are processed agricultural products, which are almost identical to Fujian's foreign trade export mix. In addition to continuing to increase our exports to Thailand of some mechanical equipment and light industrial handicraft articles, Fujian should focus on developing exports of machinery for special purposes, such as farming, grain processing, textile-making, and industrial chemicals. (c) We should maintain our export product diversity, and increase exports of products made by Fujian's superior industries. Over 40 percent of Fujian's exports to the four ASEAN countries (excluding Indonesia) go to Singapore, to which we export a wide variety of products. In 1989, about 44 percent of our exports to Singapore were food and paper tinsel, and most of the rest were mechanical equipment and light textiles. We should increase exports to Singapore of mostly various kinds of mechanical equipment, high-grade paper products, building materials, and finished light industrial handicraft articles. In short, we should make a gradual transition in the product mix of our exports to the ASEAN countries toward highly-manufactured labor-, technology-, and capital-intensive products, and strive to gain a higher standing than the ASEAN countries in the international division of labor of the Asian-Pacific region.

2. We should bring the role of Overseas Chinese as go-betweens and bridge-builders into full play, and do all that we can to expand our investment cooperation with the ASEAN countries. Capital flow in today's world is usually two-way, i.e., there is both introduction of foreign investment and export of capital, in which process the five ASEAN countries are no exception. While the ASEAN countries achieved a certain amount of success by taking active steps to attract foreign investment geared toward developing export industries in the latter half of the 1980's, as this foreign investment was not adequately oriented toward the frontline and reserve domestic industries of the various countries, it did not have a very clear direct promotional impact on other industrial sectors of their domestic economies. Moreover, Asian capital flowed mostly toward small and medium-sized labor-intensive enterprises, which competed with small and medium-sized local ASEAN enterprises, and the competitive advantages of foreign investment in the area of capital and technological resources curbed the development of small and medium-sized local ASEAN enterprises. All of this, in addition to the shortage of local manpower and rising wages, caused the two-way trend of ASEAN countries taking active steps to attract foreign investment geared toward developing export industries on one hand, while local ASEAN enterprise capital went abroad looking for investment opportunities on the other. Moreover, Fujian has achieved marked success in reform and opening up to the outside world in recent years, by taking active steps to attract foreign investment and striving to create a favorable investment climate, which has attracted some Southeast Asian investment, particularly from certain patriotic Overseas Chinese of Fujian descent in ASEAN countries who were eager to invest in the development of their native land. For instance, the Zhengda Group from Singapore and Thailand and the Lin family from Indonesia have invested actively in Fujian. In 1989 alone, Fujian attracted $5.95 million in investment from the ASEAN countries, which were our fifth largest foreign investor. Moreover, Fujian has also invested in the ASEAN countries, re our investment in the Thai rubber industry. Along with the developing political and economic relations between China and the ASEAN countries, and the increasing economic interdependence of the Asian-Pacific region,

Fujian's investment cooperation with the ASEAN countries will increase, and Fujian will be able to take advantage of Singapore as a banking center in which to raise funds, in order to utilize foreign investment in diversified channels and forms.

3. We should bring China and Fujian's technical and manpower advantages into maximum play, by expanding our international economic, technical, and labor cooperation. It is predicted that the ASEAN countries will continue to suffer from a shortage of technicians for some time to come. Even Thailand, which has been called Asia's "fifth little dragon," still has a weak technological base. All of the equipment in Thailand's biggest factories, such as the Taimeicang textile mill and the Wangkacai sugar refinery, and Southeast Asia's biggest rolling mill, the Thailand Fotong Foundry Corporation, was made in and supplied by China. China has a formidable engineering industry with 100,000 factories and almost 10 million staff members and workers. It accounts for one-quarter of our industrial output value, and has designed and built 85 percent of our domestic equipment and over 900 foreign aid projects. Its various types of small-scale equipment for making things, such as paper, cement, and textiles, and its traditional agricultural irrigation technologies are all suited to the needs of certain ASEAN countries, such as Thailand. Thailand's flax papermaking technology, new orchid-cultivation technology, and business management and administration methods and experience are all worthy of our study. Thus, over 800 Sino-Thai S&T exchanges have completed 230 projects in recent years. Fujian also has a certain amount of technical advantages. In 1990, Fujian applied to China for 540 patents, of which 276 won patent rights. As Fujian has 116 independent natural science reaearch institutes and a great number of natural scientists and technicians, we should strive to coordinate our trade, technology, and investment, in order to make new breakthroughs.

As Fujian now has about 8 million urban unemployed, superfluous enterprise personnel, and rural surplus labor, our manpower resource surplus is not going to change no matter what else does. As a manpower shortage is a precise disadvantage of the ASEAN countries, and just as Fujian has developed a seaman's labor market in the Southeast Asian region, we should expand our labor cooperation with the ASEAN countries in many ways and forms and on many levels.

4. We should strive to expand our Southeast Asian tourist market, in order to speed up the development of foreign economic relations and trade between Fujian and the ASEAN countries. Fujian's exceptionally rich and colorful tourism resources have already attracted many overseas tourists. Since 1985, Fujian's international tourist trade has grown very quickly. Excluding our compatriots from Hong Kong, Macao, and Taiwan, ASEAN tourists account for the most, or about 90 percent, of the foreign guests in our hotels. Almost one-half of the over 50,000 visits to Fujian each year are by businessmen. Their characteristic tourist activities, such as sight-seeing, vacationing, seeking out and paying respects to their ancestors, visiting religious sites, and going on cultural and archeological expeditions, have deepened their understanding of Fujian and increased their knowledge of Fujian's economic climate. Thus, along with the increasing numbers of foreign tourists visiting Fujian, the direct investment in Fujian by foreign businessmen has also been increasing sharply. We should strive to better publicize tourism in Fujian, continue to build more complete tourist facilities, develop better tourism software, improve the quality of our tourist services, and combine tourism, industry, and trade focused on tourism, in order to earn more foreign exchange from tourism and expand the scope of our foreign economic relations and trade.

Export Product Pricing Problems, Remedies

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[Article by Gao Binhuai (7559 3453 3232): "Thoughts on the Problems of Export Commodity Price Reversion"]

[Text] **I. The Problem of Price Reversion**

The exchange rate for the renminbi was adjusted downward by 9.57 percent on 17 November last year. This provided the necessary conditions for expansion of exports and the establishment of a new foreign trade mechanism in which traders take responsibility for their own profits and losses. The exchange rate is the relative price of the currencies of two countries when they are exchanged, and the readjustment of exchange rates inevitably causes the price of export commodities to change. In terms of changes in current export commodity prices, the devaluation of the renminbi and the elimination of loss subsidies for exports has caused an overall rise in the level of export commodity prices. However, a new price trend has arisen among big money losing commodities and money making commodities. Domestic procurement prices and export prices for the great majority of big money losing commodities for which costs relative to foreign exchange are relatively great have changed in inverse proportion, i.e., procurement prices have fallen while export prices have risen. On the other hand, the domestic procurement prices and export prices of profitable commodities with relatively low costs in terms of foreign exchange have been changing in precisely the opposite manner, i.e.—procurement prices have risen in step with exchange rates to a greater or lesser degree, and export prices, because of the pressures of competition, have declined in trade ports. As this trend has developed, money losing commodities have lost less and less money while profitable commodities have earned less and less. Their price levels are regressing closer and closer to the national average foreign exchange earnings/costs curve. Such price trends as these have had two entirely different affects—one positive, one negative—upon foreign trade under the new system. In the face of these new price trends which have arisen since the exchange rate was readjusted, a pressing need has risen in theoretical economic research and in practical work to explore for the most appropriate course of action to take under the current circumstances.

II. An Analysis of the Causes of Price Regression and Its Positive and Negative Impact

Price reform is an inevitable manifestation of economic laws. In international trade, the question of how to slow down the regression of the prices for profitable commodities toward the average foreign exchange earnings/costs curve, and how to accelerate the approximation of prices for money losing commodities toward the average foreign exchange earnings/costs curve, is of important and practical significance to the economy. Since the devaluation of the renminbi and the elimination of loss subsidies, enterprises have had to cut down on exports of money losing commodities and expand exports of profitable commodities under the new system, in which they are responsible for their own profits and losses. Because of changes in supply and demand, export prices of big money losing commodities have increased while domestic procurement prices have decreased as a result of weakened demand. Because China's export markets are quite concentrated (Hong Kong, Macao, Japan, the United States, Canada, and West Europe account for about 72 percent of China's total exports), and because market volume for most of China's profitable exports commodities is inelastic, once market supply reaches a critical point, export prices drop sharply as supply increases, and foreign exchange earnings per unit of commodity also drops sharply. This is the main cause of price reversion.

Price reversion has demonstrated a positive impact upon the development of China's foreign trade primarily in the following three ways:

First, it facilitates further readjustment and optimization of China's export commodity mix.

Since the currency devaluation and the elimination of loss subsidies for exports, and with the discipline of the new foreign trade mechanism, which requires that enterprises take responsibility for their own profits and losses, the various regions have adjusted their export commodity mix in response to different costs in terms of foreign exchange and changed export commodity prices. On the one hand, this expands exports of commodities which do not lose much money, sell well, or make money. This assures the achievement of the three requirements of the contract responsibility system (maintenance of total trade levels, foreign exchange earnings, and foreign exchange handed over to the state). Secondly, exports of big money losing commodities have been reduced, thereby adapting the economy to the new foreign trade system, in which enterprises are to take responsibility for their own profits and losses. This has resulted in a clear improvement and optimization of China's overall export commodity mix.

Second, the overall economic benefits of exports have improved noticeably.

Observing the export situation in the first half of this year and in the spring trade fair, we find that the export prices of the great majority of money losing commodities have risen to one degree or another, and excessive losses and debts have been brought under control. The various regions had been driving up prices in bidding wars for domestic materials and driving down export prices in their competition to export products, but this phenomenon has undergone a fundamental change. Under unified policy and a new system of competition among equals, prices in the various ports have gradually converged, and competition and price wars between the various regions have given way to efforts to improve exports and tap domestic potential. Not only has this further strengthened the competitiveness of China's exports, but it has also greatly improved the economic benefits provided by these exports.

Third, it has further strengthened the ties between our domestic price system and the international price system.

The readjustment of the exchange rate and of export commodity prices has further strengthened ties between the domestic and international markets, and it has brought about the formation of a relatively rational mechanism for guiding enterprise export activities as well as their operational interests. Enterprises can readjust their strategies for domestic and international sales on the basis of changes in domestic and international market demand, correctly choose how to earn foreign exchange and profits, actively increase the supply of export commodities, and expand import volume. This has played a positive role in spurring correction of relative commodity prices at home and abroad, and in promoting reform of the price and foreign exchange systems.

At the same time that we fully affirm the positive effects of currency devaluation and export commodity price reversion, we must also be clearly aware of its side effects:

1. The export price of profitable commodities drops, costs in terms of foreign exchange rise rapidly, and foreign exchange earnings per unit of commodity plummet.

Exchange rate fluctuations provide a margin for the readjustment of export commodity prices. As for the domestic situation, after exchange rates are readjusted, all export production enterprises demand that the foreign trade procurement prices for profitable commodities be raised. Foreign trade enterprises attempt to increase their procurement of profitable export commodities by preventing local goods from being siphoned off to other parts of China, and by going to other parts of China to buy exportable goods, so they themselves tend to cause prices to rise. It would be very difficult to check the tendency of industry and foreign trade, propelled by their own interests, to hike procurement prices for export commodities as exchange rates rise. As for export activities, after foreign exchange rates are readjusted, foreign firms always seek to lower the export price of China's profitable commodities, and they even try to modify or terminate contracts which have already been signed. In the meantime, some Chinese trading companies, in the face of competitive pressure from other trading ports, adopt price cutting or disguised price cutting measures in order to maintain their own export volume. Although export firms, chamber of commerce and trade and industry corporations implement some price coordination measures for certain big ticket sensitive commodities, in practice these measures have

generally existed in name only, due to the lack of effective enforcement mechanisms. In this manner, due to the compound effects of domestic and foreign factors, it has been difficult to control the tendency for export prices of profitable commodities to drop and for export costs to rise. Export profits have been shrinking, and price reversion has caused relative profits from trade to diminish and disappear.

2. Exports of some commodities with relatively high costs in terms of foreign exchange have been severely affected, and markets have been decreasing in number and volume.

Because the elimination of foreign trade loss subsidies and the readjustment of the exchange rate have not yet had their full affect, costs in terms of foreign exchange for a large percentage of commodities are now higher than foreign exchange earnings (when adjusted to account for export tax rebates and retained foreign exchange earnings). For such commodities, foreign trade enterprises have drastically curtailed procurement and export activities, which has had a severe impact upon some commodities with relatively high costs in terms of foreign exchange. Some export channels which had taken years to form have been cut off, and markets have grown smaller in volume and number, which has affected efforts to expand exports and diversify export markets.

We should do a concrete analysis of some export commodities for which costs are relatively high in terms of foreign exchange. It will be necessary to reduce or eliminate exports of some big money losing commodities. This will facilitate efforts to readjust the commodity structure and improve the economic benefits of exports, but we must comprehensively consider the following factors:

1) Some high quality, name brand products are made primarily for export and they have no markets within China. 2) Some new commodities (especially new products, machinery, electronics, and high tech products) are still in the stage of export growth and require government support and protection. As technology matures and these products go into batch production, their costs will fall. 3) Domestic markets for some export products are already saturated. 4) International markets for some products are in the midst of cyclical fluctuations.

If we indiscriminately cease procurement and export of all commodities for which costs in terms of foreign exchange are relatively high, some enterprises which have been engaged in export production for a long time will inevitably be forced to switch or suspend production. This would have a serious effect upon the economic benefits yielded by these enterprises, and it would even have a negative impact upon social stability. By the time international markets for such products improve, it would be impossible for China to take advantage of the situation because export markets and clients will have already been lost, and enterprises will have already shifted or suspended production. China's exports would be susceptible to unhealthy cycles of boom and bust, which would not favor China's overall, long term interests.

3. Regional imbalances in export activities will be exacerbated.

Because the industrial and agricultural base and the level of economic development varies from one region to the next, the ability of different regions to engage in foreign trade and deal with losses varies greatly. Although the implementation of a new foreign trade system (in which policies are unified and competition takes place among equals) has eliminated the policy-related factors in unequal competition between different regions, there are nevertheless stark differences from region to region as reflected in foreign trade expertise, ability to deal with losses, and export costs in terms of U.S. dollars. This is due to sharp contrasts in the economic strength and the level of industrial development in different regions. Because of price reversion and the gradual convergence of export price levels, some regions with relatively undeveloped economies face a difficult choice between suffering excessive losses and going into debt, on the one hand, or allowing exports to shrink. This has a great effect upon efforts in these regions to develop an outwardly oriented economy.

4. Because the export commodity mix differs from one region to the next, the ability to exercise overall management of export profits and losses differs from one region to the next. Under the new system of foreign trade, new factors of unequal competition have arisen.

Let us examine the issue from the perspective of costs to China in terms of foreign exchange. Since the elimination of export loss subsidies, local governments have exercised unified control over profits and losses. Since this situation arose, different localities have exhibited widely varying degrees of ability to exercise unified control over profits and losses because different regions have different export commodity mixes, and different export commodities have different costs in terms of foreign exchange. After local governments began redistributing profits and losses by taxing profitable export commodities heavily in order to make up for unprofitable ones, the assessed costs in terms of foreign exchange for a particular commodity have varied widely from one place to the next. The difference has been more pronounced between some provinces where commodities which yield either a low loss or a slight profit (such as silk, light industrial products, and textiles) account for a relatively large percentage of output, versus some provinces where various commodities with relatively high costs in terms of foreign exchange (such as grain, edible oils, and livestock) account for a relatively high proportion of output. This has given rise to factors of unequal competition between different regions. In the face of price reversion and convergence, the foreign trade activities of some regions have been severely curtailed.

III. Thoughts on How To Deal With Price Reversion

1. We must determine the proper export volume for different classes of commodities based on each commodity's demand elasticity and market volume in order to maintain relatively high export prices and to maximize the relative profitability of trade in international transactions.

Demand elasticity and market volume varies greatly from one commodity to the next. If we are to prevent export prices of profitable commodities from reverting toward the foreign exchange earnings/costs curve, we must maintain export volume at the appropriate level. We can carry out relative and quantitative analyses of statistics on changes in the export volume and export prices of every category of commodity over the years in order to determine what volume of exports will allow us to maximize profits. With regard to certain commodities for which international market volume is great, demand and price elasticity is high, and potential for increased domestic production is good, we can lower export prices by an appropriate amount in order to expand exports and increase foreign exchange earnings. For certain commodities with relatively low demand and price elasticity, or for which China already controls a relatively high percentage of total market volume, we can raise prices by limiting our exports. In our everyday work, we must formulate annual export quotas for different markets depending on changes in international market demand, price trends, and the supply capacity of various provinces and municipalities, and we must use planned targets, export tax rebates, export permits, and the active issuance of quotas in order to control total exports of various categories of commodities as well as the regional structure of export activities, thereby strengthening our macroeconomic regulation and control of big ticket, sensitive commodities, and enabling the plan and the market to exercise control over these activities hand in hand.

2. Responsibility for the redistribution of export profits and losses should be transferred from local governments to the state.

The export commodity mix differs from region to region, costs in terms of foreign exchange differ from one category of commodity to the next, and the ability to exercise unified control over profits and losses differs from one region to the next, so we recommend that responsibility for redistributing profits and losses be transferred from local governments to the state. The state should levy export regulation taxes upon certain commodities which have relatively low costs in terms of foreign exchange, then use these revenues to subsidize certain commodities for which costs in terms of foreign exchange are relatively high but which, for a certain period, need to be developed (particularly certain labor intensive and technology intensive products and some high tech products for which exports are now in the growth stage). This course of action offers several advantages: 1) It would eliminate the systemic discrepancy in the ability of different regions to exercise unified control over profits and losses, and it would create unified and equal conditions for foreign trade activities. 2) By levying an export regulation tax, we can prevent domestic procurement prices for profitable commodities from rising along with exchange rates, and we can prevent export prices from reverting toward the foreign exchange earnings/costs line. 3) It would help labor- and technology-intensive industries and high tech industries to make a smooth transition through the export growth period and the stage of trade support and protection. 4) We could prevent the unhealthy cyclical fluctuations in the exports of various categories of commodities which are caused by abrupt readjustment of the commodity mix.

3. We must diversify our international markets and gradually readjust and optimize China's export commodity mix as well as our regional export structure.

Diversifying international markets is an important strategic measure for the development of China's foreign trade. It is particularly important in view of the prevalence of trade protectionism, the further strengthening of various nontariff trade barriers, and the new multipolarization and regionalization of international trade. By readjusting our export commodity mix as well as our regional export structure, and by appropriately diversifying our markets, not only will we enable profitable commodities to maintain a relatively high price level in their main markets, but we can also bring the demand curve back up and spur the prices of big money losing products to revert toward the cost line. Currently, we must make a special effort to develop markets in Latin America, Africa, the Middle East, and Northern Europe, aggressively expand the worldwide coverage of Chinese export commodities, use various forms of trade to reduce the areas in international markets where Chinese export commodities are not represented, and gradually increase our market share in our secondary markets.

4. We must strengthen regulation of export commodity prices and make the export volume index and the export value index increase at the same pace.

The current overall price level of China's export commodities is too low, and the main way to increase foreign exchange earnings still involves increasing volume and not economic efficiency. According to statistics in the *Chinese Yearbook of Foreign Economic Relations and Trade*, the export value index has not been increasing at the same rate as the export volume index in recent years. In comparison with 1980, the export volume index had risen by 266.5 percent while the export value index had only risen by 237.7 percent, a difference of 28.8 percentage points. In other words, average foreign exchange earnings per unit of commodity has declined. For this reason, we must change the traditional marketing strategy of "good product, low price" which is so prevalent in China, discontinue the method of setting export prices merely by figuring backwards from domestic procurement prices, and adhere to the principle of "excellent product, excellent price" as well as the operational strategy of acting in harmony with the market. Analyzing the situation from the perspective of this year's Guangzhou Spring Trade Fair, the key reason why higher export prices did not affect the completion of export transaction was the unanimity and continuity of price levels. At this point, we must further strengthen the coordinated management function of export firms. In particular, we must strengthen coordinated management of prices for big ticket, sensitive commodities as well as commodities whose production involves more than one economic sector. For the export of some big volume, price-sensitive commodities, we can adopt a system in which contract signing authority is limited and contracts

are subject to review. In other words, either trade companies or designated provincial companies would exercise unified control over the signing of contracts with foreigners, and they would also formulate detailed regulations and procedures governing contract review and price coordination, and divide management responsibilities among different levels, thereby gradually subjecting the coordination and management work of firms to standards, regulations, and procedures.

5. We must establish a rational volume of export production and maintain the stability of export price levels.

Changes in supply and demand are one of the main factors affecting price fluctuations. Analyzing the situation from the perspective of the great ups and downs which have occurred in recent years in the export of such commodities as mink skins, latex gloves, and party lights, the main cause has been that domestic production, under the mistaken guidance of price signals, has outstripped demand for exports. For this reason, maintaining an appropriate volume of export production is an important precondition for the maintenance of stable export price levels. Industrial and trade departments must (on the basis of the export production capabilities, quality control methods, product reputation, on time delivery, and after sales service of the primary export production factories in China) identify a large number of select export production enterprises and issue certificates of quality to the factories serving as the primary providers of export goods. They must also (on the basis of changes in market demand) schedule production in a rational manner, and (on the basis of product overhead, average profit ratios in various industries, and domestic and international price levels) determine rational procurement prices for export products, thereby maintaining price stability. For certain big ticket, sensitive commodities, we can set maximum and minimum procurement prices and use export risk funds as a method of price regulation, thereby gradually forming a self-discipline mechanism for enterprise export production and perfecting a rational price formation mechanism. Industrial and trade departments must also (on the basis of the advantages in natural resource and industry enjoyed by different regions) establish export commodity production bases, thereby forming supply channels for the major commodities. By stabilizing production, stabilizing supply, and maintaining rational export price levels, and by promoting continued and stable growth of foreign trade, we can enable China's exports to gradually become intensive and yield greater economic benefits.

ECONOMIC ZONES

Pudong Role in Chang Jiang Delta's Development

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[Article: "All Who Benefit From the Chang Jiang Must Join Hands in Developing and Opening It Up to the Outside World—A Fudan University Economic Studies Center Taskforce Proposal for a 'Single-Pole, Triple-Axis Development Plan for the Chang Jiang Delta With Pudong as Its Development Pole'"]

[Text] The Chang Jiang Delta is situated at the intersection of China's eastern coastline and the Chang Jiang river basin, which gives it comparative regional advantages for externally oriented economic development. In the 1990's, it will face grim challenges, but be presented with favorable opportunities.

The Chang Jiang Delta Externally Oriented Development Situation: Challenges From the North-South Pincer Attack, but Opportunities Presented by Pudong's Development

International capital in the 1990's is going to retain its investment orientation of mostly an interflow among the three large regional groupings of the North American Free Trade Zone, the Unified Greater European Market, and the Asian-Pacific Region on one hand, while flowing more toward the eastern Soviet Union and the ASEAN countries on the other, which will form a "north-south division" trend. Capital from Japan and Asia's "four little dragons," the Asian-Pacific region in which the Chang Jiang Delta is located, will flow south mostly to Southeast Asia, including ASEAN countries, such as Thailand, Malaysia, Indonesia, and the Philippines; Vietnam, and China's southern coastal provinces, such as Guangdong, Fujian, and Hainan, and SEZ's, such as Shenzhen, on one hand, while flowing north mostly to Northeast Asia, including the far eastern Soviet Union, Korea, and China's northern coastal provinces of Liaoning and Shandong on the other.

Since China began to reform and open up to the outside world, our externally oriented economic development has occurred faster in our eastern coastal region. Southern provinces, such as Guangdong and Fujian, and northern ones, such as Shandong and Liaoning, have developed particularly fast. This eastern coastal region has achieved progressive annual increases in foreign investment, export volume, national income, and GNP, spearheaded our national development, and built up a north-south pincer attack on all provinces and cities in the Chang Jiang Delta.

Under such conditions, the Shanghai, Pudong, and Chang Jiang Delta region is being squeezed from both sides. The situation is very much like that described by Mr. Xiao Linshi [1420 2651 1395], the Japanese economist, in a special report given at the Third Sino-Japanese Studies Symposium that was held recently in Shanghai, in which he said that the Asian-Pacific region is divided into a five-part economic circle of the Bo Hai [sea], southern Fujian, south China, the Indo-China Peninsula, and the Malaysian Peninsula, from which Shanghai, Pudong, and the whole Chang Jiang Delta are excluded, having been skipped over and turned into a foreign investment "frigid zone," so are facing grim challenges and a very difficult predicament as far as externally oriented economic development is concerned.

The Chang Jiang Delta region has always been a closely integrated economic entity. Geographically, it is part of the Tai Hu [lake] drainage area, with which it "shares common

waters." Culturally, it belongs to the Shanghai (Suzhou) dialect or cultural zone, of which Shanghai is the city which people have immigrated to from all parts of the delta, so is its "common native cultural base." Economically, the region has a Shanghai-centered economy, with a structure similar to a myriad of stars surrounding the moon and adding radiance and beauty to each other, and is China's economic, communications and transportation, domestic and foreign trade, banking, industrial, scientific, technological, and cultural center, and most developed region.

Separatism and respective local interests have steadily dispersed the economic relations among all parts of the Chang Jiang Delta in recent years, so that it has tended to have redundant economic structures in areas, such as being small but complete, large and complete, and industrially decentralized, and having redundant industrial and export commodity mixes. This industrial redundancy has ruled out a coordinated division of labor, led to internal competition and monopolies, caused conflicts over raw materials, markets, personnel, investment, and exports, led to duplicate disposition of resources and construction, created too much similarity and too little mutual complementarity, caused mutual conflicts, and weakened the regional economy's overall efficiency and strength.

Thus, the Fudan University Economic Studies Center Taskforce on Pudong's Development and the Chang Jiang Delta Region's Externally Oriented Economy has proposed in a research report that Pudong's development and opening up to the outside world is providing the Chang Jiang Delta with an externally oriented economic "development pole," which will be able to radiate and promote the externally oriented development of the Chang Jiang Delta and Chang Jiang River basin economies. This is presenting an unprecedentedly favorable joint opportunity for all parts of the Chang Jiang Delta. Only by taking full advantage of this opportunity, using Pudong's development and opening up to the outside world to overcome centrifugal forces and refocus centripetal ones, helping each other like people in the same boat, rebuilding economic relations between all of its parts, establishing a regional common market or community for its externally oriented economic development, and bringing all of its comparative regional advantages into full play, will the Chang Jiang Delta be able to develop and improve its overall regional economic efficiency, gain an invincible position in the face of the north-south pincer attack, and preserve its economic standing as China's most developed region.

The Chang Jiang Delta Externally Oriented Structural Construct: To Use Pudong as a "Development Pole" Around Which To Form Three "Growth Axes."

A country or region's economic growth is usually promoted by a "development pole." A developing country or region that lacks a development pole should adopt an uneven development strategy to create one. Moreover, it should use this development pole's exemplary role and proliferation effect to form certain "growth centers," which can promote the economic growth of the whole country or region.

Shanghai was one of the Chang Jiang Delta region's "development poles" in the 1930's and 1940's. As the greatest banking, trade, and economic center in China and even the Far East at that time, Shanghai promoted the coordinated economic development of the Chang Jiang Delta region.

Spurred on by the exemplary, proliferation, and promotional roles of development poles, such as the Shenzhen and Zhuhai SEZ's, growth centers, such as Guangzhou, Zhongshan, Foshan, Jiangmen, and Dongguan, sprang up in the Zhujiang Delta region in the 1980's, and promoted the economic development of the whole Zhu Jiang river basin and the south China region.

Pudong has been cited as China's priority region for reform and opening up to the outside world in the 1990's. It is backed up by Greater Shanghai, and has the Chang Jiang Delta and Chang Jiang river basin as a vast hinterland. As Pudong is establishing a tax-free zone, introducing foreign banks, and allowing foreign firms to operate tertiary industries, and is going to be a window for or leader of the externally oriented development of the Chang Jiang Delta and Chang Jiang river basin, it is already equipped with the basic prerequisites of a "development pole."

Fudan University Economic Studies Center economists, such as the two young associate professors, Wang Zhan and Lu Deming, proposed the following in a "Research Report on Pudong's Development and the Chang Jiang Delta Region's Externally Oriented Economy": The keys to developing Pudong into a "development pole" will be to enable it to pioneer new systems and technologies, open up more to the outside world, acquire more preferential domestic policies, and establish itself as an international and future standard for urban development. As a pioneering zone, the Pudong development pole will have an exemplary effect on and play a promotional role in an extensive surrounding region. As Pudong's radiation and proliferation region, three economic "growth axes" could be established along the Chang Jiang Delta railway lines, the Chang Jiang, and the Chang Jiang Delta coastline. Each economic growth axis would be composed of a number of growth center cities above the provincial government level, whose extensive communications networks would radiate and promote the growth and development of the whole Chang Jiang Delta's regional economy.

Pioneering New Systems: Market-based and business-focused systems should be formed in the new Pudong Zone.

Pioneering New Technologies: On one hand, a number of pioneering enterprises should be established to constantly pioneer new technologies, techniques, products, and markets. On the other, industrial development models should be based on new and high-tech industries, upgrading of traditional secondary ones, and even more so on pioneering new and high-tech tertiary ones.

Opening Up More to the Outside World: Pudong has already been granted various particular policies so that it can free itself from old ideas and use its resources fully, well, and flexibly. Particular emphasis must be put on accomplishing fully and well "priorities," such as introducing foreign banks, setting up a tax-free zone, and attracting foreign investment in tertiary industries.

Acquiring More Preferential Domestic Policies: In addition to being more preferential, Pudong's domestic policies should be focused even more so on dual-oriented (internal and external) links and circulation. On one hand, Pudong must attract from the interior all key production factors, such as investment, qualified personnel, and technology. On the other, Pudong must also radiate and proliferate externally through media, such as personnel mobility, material circulation, and information flow. In particular, it must emphasize external (interior) investment. Shanghai must be "magnanimous," by basing itself on diversification, not fearing a brain drain, and providing windows and services to other provinces and cities through actions, such as holding exhibitions and setting up purchasing centers.

Establishing Pudong as an International and Future Standard for Urban Development: From now on, Pudong must be judged by modern and ultramodern criteria in areas, such as roads, communications, bridges, housing, environment, public facilities, and all other urban planning and development, in order to lay a good foundation for its the future. Pudong could set aside about 100 sq km (including the tax-free zone) in which to design and build a 21st century "air harbor." This not only could pave the way for future new and high-tech industries in the Changjiang Delta, but also could attract joint participation in the development and use of this air harbor by Japan and the "four little dragons" of Asia.

The Chang Jiang Delta Railway Line Growth Axis: This growth center system should be established along the Beijing-Shanghai, Shanghai-Hangzhou, Zhejiang-Jiangxi, Huainan/Huaibei-Nanjing, and Anhui-Jiangxi railway lines that connect over 20 cities above the provincial level, such as Shanghai, Nanjing, Hangzhou, Hefei, and Nanchang, and extend from Xuzhou in the north to Nanchang in the south. This would be in keeping with the demands of the goal of externally oriented economic development, based on respective comparative advantages in areas, such as resources, and in concert with Pudong's development, a unified adjustment of industrial structure and distribution, and a coordinated division of labor, by forming around the growth axis a chained, dominant industrial complex that would be organically linked and mutually complmentary.

The Chang Jiang Growth Axis: This would include more than 10 growth center cities in the lower reaches of the Chang Jiang, such as Shanghai, Nantong, Zhangjiagang, Jiangyin, Zhenjiang, Yangzhou, Nanjing, Ma'anshan, Wuhu, Tongling, Anqing, and Jiujiang. It would link Pudong's development to that of the lower reaches of the Chang Jiang, take advantage of Chang Jiang water transport and the port city complex, and use methods such as through river-sea transport, to expand foreign and entrepot trade.

The Chang Jiang Delta Coastline Growth Axis: This would include mainly the mouth of the Chang Jiang, Hangzhou Wan [bay], the Zhoushan Qundao [archipelago], and the Ningbo seashore zone. It would reach north to the northern Jiangsu coastal city of Lianyungang, connecting with the Eurasian land bridge at the eastern end of the Gansu-Huang Hai [sea] line, and south to include the southern Zhejiang coastal economic center of Wenzhou. It could use its deepwater harbors in the area of the mouth of the Chang Jiang and Hangzhou Wan with which to develop industries, such as iron and steel, and petrochemicals, which use mostly imported raw materials, Pudong's Waigaoqiao bridge to the new harbor and tax-free zone with which to develop domestic and foreign entrepot trade, and Ningbo's Beilungang harbor as an international trade circulation and transfer center. In addition, it should use its resources to develop its fisheries, salt industry, and other coastal port manufacturing industries.

The Fudan University economists, such as Lu Deming and Wang Zhan, noted the following: Radiation and proliferation from the Pudong "development pole" along these "growth axis" will promote the coordinated development of the Chang Jiang Delta economy. The keys to this will be harmonizing interests based on the "single-pole, triple-axis" structure, breaking free from and guarding against the "small circle" regional development structure that is based on administrative division, and using the principles of comparative advantage and coordinated division of labor to form a structure and distribution in which industrial distribution is rational, and unified adjustment trends are assimilated. In short, it will be necessary to change the former regionally slanted policy to a new industrially slanted one, and effect overall regional coordination.

The Chang Jiang Delta Externally Oriented Development Policy: To Achieve Industrially Slanted Regional Coordination Based on the "Single-Pole, Triple-Axis" Structure

The Chang Jiang Delta must take joint development of an externally oriented economy as its policy aim and the "single-pole, triple-axis" structure as its main industrial coordination line, gradually evolve economic operating forces that lead to relative mobility of key production factors and relatively fair competition among enterprises, eliminate its defects of redundant industrial competition and too much administrative separation, establish an open regional common market focused on the Chang Jiang Delta region in the short and medium term and the Chang Jiang river basin in the medium and long term, and lay the groundwork for a gradual transition to a unified regional market. The realization of these aims will require a regionally coordinated system.

The Fudan University Economic Studies Center Taskforce designed in its research report the following framework for

a system of regional coordination in the Chang Jiang Delta:

The Government's Role in Regional Coordination would be to set up a joint conference system for provincial governors and city mayors, with which to coordinate the formation of an appropriate regional common market.

The Enterprise Role in Regional Coordination would be to establish market operation forces in areas, such as manpower, finance, material, supply, production, marketing, and pricing, and to use lateral enterprise links and transregional operations, those of externally oriented and the three kinds of foreign trade enterprises in particular, with which to form a unified regional market composed of all types of transprovincial and transmunicipal corporations, mainly transprovincial and transmunicipal banks, multipurpose business organizations, and interlocked enterprises.

The Regional Coordination Operating Forces would be the application of unified GNP statistics-keeping norms by all provinces and cities within the region, the testing of a standardized financial tax sharing system, the formation of regional stock, foreign exchange transaction, commodities, and other spot and futures markets, the organization of transprovincial and transmunicipal entities, such as trade associations, "pricing cartels," and "marketing cartels," and the gradual evening up of the tax burdens of enterprises of all ownership types within the region.

The Regional Coordination Industrial Disposition would be to adapt to externally oriented economic development demands by having Shanghai and Pudong develop in the 1990's mostly tertiary industries and high added-value, in-depth manufacturing industries, such as banking, trade, information, and real estate, in order to achieve a fixed industrial growth rate that is slightly lower than that of Asia's "four little dragons" and slightly higher than that of our coastal region. Moreover, the other regions in the Chang Jiang Delta could develop appropriate industries with which to achieve an industrial growth rate that is slightly lower than that of Shanghai and Pudong. This would be in line with the principles of comparative advantage and coordinated division of labor, by achieving an overall regional coordination and rational disposition of dominant and basic industries within the "single-pole, triple-axis" context. The dominant industries to be developed could be mostly the automobile, complete sets of equipment, machine tool, communications equipment, and electronics industries.

The Regional Coordination Industrial Slant would be that, as the key to successful regional industrial coordination would be to enable all provinces and cities within the region to integrate their industrial advantages, in order to achieve a diversification effect and avoid the negative impact of redundant industrial competition and, as applying a regionally slanted policy only toward the new Pudong zone might add to Pudong by taking away from other regions, and cause policy conflicts, the relations between a development pole and a growth axis should be used to adopt an industrially-slanted policy for the Pudong "development pole," and to move toward the adoption of an industrially slanted policy that is suited to a growth axis for the "growth axis" in the rest of the region. The single-pole, triple-axis industrial orientation should be developed separately at the three levels of the city, the development zone, and the enterprise. The functions and mutual complementarity of cities should be enhanced to improve the overall investment climate of the Chang Jiang Delta economic growth center. The functions and mutual complementarity of the development zones should be enhanced to form an overall structure of externally-oriented economic development for the Chang Jiang Delta. And the product advantages and mixes of enterprises should be enhanced to reduce regional product-mix redundancy and sales competitions that force down export prices.

LABOR

Three-Way Employment Policy Faces Problems

92CE0044A Beijing JINGJI CANKAO BAO in Chinese 16 Sep 91 p 4

[Article by Wang Xiaoming (3769 2556 2494): "Factors Handicapping the Three-Way Employment Policy"]

[Text] Reducing the multiple goals of enterprises, tapping new sources of employment; creating a type of system environment in which no matter what department personnel are employed in, no matter what type of work they are engaged in, all should enjoy equal social status, and all should possess the right to equally enjoy state transferred payments. Based on the above, and taking into consideration social and economic efficiency, the party and government have proposed implementing a "three-way" employment plan involving labor department suggested employment, voluntary organization generated employment and self employment. It seeks to reform state plans guiding employment by changing administrative type mandatory arrangement of employment to voluntary type arrangements, giving full rights to units in need of personnel, while changing from a purely arranged situation to one where there is choice in both directions. It seeks an even newer concept of job choice involving the encouragement of employed personnel voluntary organizations generating employment and self employment, and not relying on the government to arrange jobs. However, due to the lack of a complete interconnected system, implementation of the "three-way" employment policy has been obstructed by a number of factors.

The first impediment has been the rigidity of the interests of the existing employment guarantee system. The essence of the employment guarantee system is the fact that through "unified hiring unified distribution," the system allows each laborer to have a stable job and makes it possible to achieve full employment. On this basis, when the state and collective view the essence of their work, and bring in the household registration management system, this confirms and provides for a certain degree of social well-being for staff and workers and their families. Proceeding from a consideration of means of livelihood, employed personnel must rely on government employment arrangements. The risk is too great with voluntary organization-generated employment and self employment. Not

only does the social identity of the employed not obtain full affirmation, but it is also affects the gains received from state transferred payments. This is why in recent years after making money some individual households have closed their businesses and then waited for employment, seeking government arrangements and the "iron rice bowl."

The second impediment is nonsocialized social security, housing and public service facilities, social security facilities oriented towards supplying elderly, sick, disabled, and unemployed workers with living security, building worker and staff housing, and some entertainment, collective welfare, and living facilities, the tasks of which are all directly undertaken by the enterprise unit. This situation is especially apparent at large- and medium-sized enterprises, enterprises have undertaken strengthening the welfare coloring of housing distribution and public service facilities. Even though on the job, workers and staff enjoy material benefits outside of wages, because of different enterprise production and management scales, profits, and salaries, basically it is possible to have a minimum subsistence guarantee. When it comes to the enterprise handling corrupt social practices, looking at this from the angle of employment, its major point is that it limits the social covering of social security and public service facilities. Even though old-age pension and free medical service expenditures constitute an effort to implement a comprehensive social system, apportion funds, reform the society's unified management, and begin changing the way enterprises handle social realities, they do not cover all the workers in society, and there is as yet no integrated principle which expresses the idea of social security for all the people, hence the risk element has not been socialized. When the enterprise directly undertakes social security, the results of social welfare strengthen the feeling of reliance workers and staff have towards the enterprise when it comes to their economic life, and nonstaff laborers are removed from enjoying public welfare, and walk an ever narrower path in their reliance on the government for arranging employment.

The third impediment is the limitation on labor mobility. The employment system under the employment guarantee system places restrictions on labor mobility. This limiting power is a latent coercive type, and stems from China's nonsocialized security system. If labor moves among different industries and enterprises, the vested interests of workers and staff linked with housing and services could be lost. As for the essential factor of labor flow among regions, because of a set of related factors touching on the housing environment, family relations, registration of permanent residence when moving, and welfare guarantees, no social service net for moving families exists, and thus such a flow is basically severely limited. At present, we are faced with a very difficult problem, namely, with personnel employment placement already experiencing difficulties, if restrictions on mobility are relaxed, reducing redundant personnel, during the contract time satisfying other job seeking opportunities, and workers who are not happy with their present job wish to resign to look for other work, will inevitably increase the pressure on employment placement, and it will be difficult to ensure the social welfare of this group of people.

The real essence of employment placement is the guaranteeing of worker livelihood. The problem we currently face is, under the premise of guaranteeing livelihood, how to change the reality of enterprises directly undertaking social welfare, to eliminate the rigidity of employment placement interests, to rationalize the employment placement structure, and to allow each laborer to equally enjoy the welfare opportunities supplied by the social security system. Reducing the pressure on state placement does not mean relying on using labor power to promote society, and cast off the burden by market regulation. Simply put, our system should set about solving a set of problems related to employment, and in particular, properly solve the following issues:

Establish a socialized social security system whereby social security covers all of society's workers. This reform itself has extremely important significance in terms of eliminating the identity dividing lines between workers and discriminatory tendencies in the social welfare shield. In accordance with China's economic situation, there is a need to prioritize when it comes to approving social security items. Looking at the problem from the employment angle, at present the first problem to be solved is a comprehensive plan to provide old-age and unemployment insurance, and then health care protection and other social welfare issues.

Making income dominant, and socializing and commercializing housing services. Making income dominant, and changing hidden subsidies into open subsidies, can reverse the situation where control is lost over income outside of wages, will benefit establishing a normal wage increase mechanism, and initiate housing reform. Looking at some current pilot projects, due to low income, state workers still rely on state subsidies, and planned housing. To get housing reform under way by increasing rent, can only be achieved after making income dominant. At that point, enterprises will not again monopolize social public service facilities including housing allocations, but will only provide laborers with appropriate payment for labor, and workers will use a portion of their new wages to rent housing, and move into "commodity" dwellings. This could lead to different categories of employed personnel in the same position, in order to adapt to the needs of workers in different systems of ownership type enterprise employment and mobility.

Stabilize the rural economy, relieve the employment pressure of the agricultural floating population. In the past, with the inappropriately highly exaggerated effect of the movement of surplus rural labor power to the cities and towns, the movement of labor to cities and towns was underestimated, particularly the social phenomena of the flow to urban regions and the colossal urbanization costs associated with this. If no rational diversion of rural labor is conducted, and people are guided by the attractive factor of urban type income being higher than rural income, this will give rise to a whole set of social problems, such as an increase in the pressure on cities to raise their capacities,

confusion in household registration administration, straining of passenger transport, vacancies in the posts of city employment personnel, etc., but will also create an unstable rural economy. It is necessary to transform the current one-sided situation where the locality demands a "grain ration" and those outside engaged in work demand "ready cash," link the urban and rural economies, and increase the opportunities for employment in rural areas. State employment policy must strengthen the planning guidance for rural employment. We advocate rural surplus labor being diverted within rural areas, laying particular emphasis on agriculture-industry-trade businesses that absorb rural employment, and take processing and marketing of agricultural products as an organic whole. This will change the present situation where peasants rely on the cities' ability to radiate wealth to obtain their cash incomes, stabilize the rural economy, create new employment opportunities, postpone large scale rural to urban region migrations, and reduce employment pressure.

POPULATION

Population Control Key to Higher Living Standard

92CE0046B Beijing ZHONGGUO RENKOU BAO in Chinese 9 Sep 91 p 2

[Article by Sun Huaiyang (1327 2037 7122), Director of the State Bureau of Statistics' Population Statistics Department and Deputy Director of the State Council's Population Census Office: "Speeches Delivered at Forum Sponsored by ZHONGGUO RENKOU BAO To Study the Party Central Committee's 'Decision'—Solving the Population Problem Is Fundamental If We Hope To Become Comfortably Off"]

[Text] The CPC Central Committee and the State Council's "Decision On Intensifying Family Planning Work To Tightly Control the Population Increase" fully demonstrates that the Party Central Committee and the State Council are paying serious attention to the population issue. This piece of document will no doubt play a very important role in further unifying the party's thinking, providing stronger leadership in family planning work, and mobilizing the whole party and the whole nation to work hard to complete the population plan for the next 10 years and during the Eighth Five-Year Plan period.

The population issue is an important issue that affects the country's overall situation. For many years, China has had outstanding success in controlling the population increase, but the situation is still serious and pressing. The family planning task is a very arduous one. Between the third nationwide population census of 1982 and last year's fourth national census, there has been a net population increase of 16 million people a year over the eight-year period. This is almost the population of a medium-sized country. Each year, nearly one-quarter of the newly created national income is eaten up by the added population, and this is jeopardizing the development of the national economy and the improvement in the nation's living standard. By the year 2000, the nation's grain production is projected to top 500 million tons, and if we can control the natural rate of population increase to within an average of 1.25 percent a year for the next 10 years, per capita grain consumption will reach 772 jin, higher than the current level but still lower than the 788 jin-level of 1984, and we are still far from reaching the 800-jin-per-person goal. China ranks first in the total output of many important products, but our ranking plummets on a per capita basis. What will be our biggest problem in the next 10 years? The population. It will stand in the way of our becoming comfortably off, becoming stronger as a nation, and achieving the second stage of our strategic goals. We must thoroughly understand this fact. Tightly controlling the population increase is a necessary condition for achieving the second and the third stages of our strategic goal. We have no choice but to focus on this issue, and we have no time to lose. It is significant that at this very crucial point in time the "Decision" is appealing to the whole party and the whole nation to seize family planning as hard as we seize our economic undertakings and make a firm decision to keep population-growth under control.

Population control in China faces three critical problems:

First, the number of women of peak child-bearing age has increased, and the birth rate has increased. An analysis of the fourth population census showed that in the 10 years between 1991 and 2000, there will be as many as 110 million women in the 21-29 age group each year who will be at the peak of their child-bearing age. This averages 25 million more a year than in the 1980's. A surge in the number of women of peak child-bearing age means that the birth rate in the 1990's will no doubt be higher than in the 1980's. If in the next 10 years, the total birth rate of the women of child-bearing age should remain at the current level of 2.25, the average population increase will exceed 24 million a year, about 1 million more than the 23 million a year rate in the 1980's.

A second serious problem is that the number of women who already have one or two children has increased, and the probability of their having even more children has increased. A sample of 1 percent of our data shows that of all the newborns delivered in 1989, 49.5 percent were first-born, 31.2 percent were second-child, and 19.3 percent were third-child. Compared to 1980, the percentage of first-born and second-child has increased and the percentage of third-child has decreased over the eight-year period. This is due mainly to the increase in the absolute number of first-born and second-child in 1989. The situation is even worse in the rural areas. According to data gathered by the State Family Planning Commission in 1988, 93 percent of the women in the rural areas who already had one child gave birth to a second, and 47 percent who had two children gave birth to a third, and 28 percent of those who had three children had a fourth child. In the next 10 years, if we fail to make inroads in controlling family size, then the probability of people having a second and a third child will increase significantly.

The third serious problem is that women are having children at a younger age, and the percentage of couples having children sooner has increased. Comparing 1989 to 1981, women in China are having their first child 2.13 years

earlier than they did eight years ago, and the average age of women having their second child now approximates that of women who had their first born in 1981. The lower average child-bearing age today is due mainly to the fact that a larger percentage of the couples are having children sooner. Women giving birth between the age of 15-20 accounted for 3.68 percent of all women giving birth in 1981, compared to 12.16 percent in 1989. In 1989, nationwide, 3.01 million women 20 years old and under gave birth, and 14.2 percent of those were to their second child. This means that in 1989, one out of eight babies was born to a mother who was under or was barely of legal marrying age. Obviously, the problem of women having babies too soon is very serious.

Today, for the third time, China's birth rate has reached a peak. The Eighth Five-Year Plan period will mark a crucial period for controlling the rapid population increase. How well we are implementing the family planning policy, how successful we are in launching our family planning task, and whether we can control the excess population increase not only will directly affect the completion of our population plan under the Eighth Five-Year Plan, but will also determine whether China can control its population to within the goal set by its 10-year program by the end of the century, and it will also have a major impact on China's peak population figure in the next century. To achieve the next stage of our strategic goal, we must seize the Eighth Five-Year Plan and resolutely implement the CPC Central Committee and the State Council's "Decision," and put our focus on keeping couples from having too many children, marrying too early, and having children too soon. This is particularly important in rural areas. We must make every effort to keep down the peak value as China's birth rate peaks for a third time.

As pointed out by the CPC Central Comittee and the State Council's "Decision," "the higher-level party committees and governments must monitor and examine the lower level party committees and governments more closely to see how the population plans are being carried out and make sure that the data are accurate. Submitting fraudulent and deceptive reports are strictly forbidden." Party committees and governments at all levels are paying special attention to the family planning task and have implemented a goal-oriented management responsibility system. Meanwhile, they are also paying special attention to population data collection, because the data are the important basis for assessing whether we are reaching our goal, and they are the basis of scientific decisionmaking. Since they are the basis, we must make sure that the data are accurate and genuine. Only then can we provide the party committees and the governments at all levels with the basis for formulating the annual population plan and implementing the goal-oriented family planning responsibility system. If we are linking family planning work to political achievement, we must prevent people from tampering with the data. First, the party and government leaders and statistical and family planning departments at all levels must comply with the "Decision," do everything according to the law, and insist on seeking true from facts. They must report true population figures, handle matters impartially, and never resort to deception. At the same time, they must do a good propaganda job and mobilize the people, ease any concern the masses may have, cooperate with others and win their support, and report everything strictly according to the facts.

AGRICULTURE

Low Grain Prices Threaten Future Production

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[Article by Zhu Minglong (2612 2494 7893): "Low Grain Prices and the Possibility That Grain Production Will Shrink"]

[Text] Apart from weather, land productivity, policy, science and technology, and investment, the initiative of peasants to plant grain is the most important factor influencing grain production. However, there are currently two serious problems affecting the peasants' initiative to plant grain: grain purchase prices are low and it is difficult for peasants to sell grain. This article discusses briefly the relation between these two problems and grain production.

I. The Current Situation of Low Grain Purchase Prices

Grain purchase price refers to both the negotiated price and the state's fixed price for grain. The state's fixed purchase price (a contract fixed price was in effect for a while) has historically been low and unable to reflect grain supply and demand with any sensitivity, does not reflect accurately the value of grain, and thus reflected only state policy. The state (or contract) purchase price for grain has not been adjusted since 1989, further exacerbating low prices. The negotiated grain price is the state's guiding price and in recent years, owing to abundant harvests, the price level has dropped substantially, making it difficult to guarantee even the lowest price. This severe dip has severely harmed agriculture.

A. Grain prices have always been at the bottom in the entire price system. After the establishment of New China, especially since 1978, China's grain price levels rose considerably, the 1990 grain purchase price index was 840.1, with 1950 as the base year. However, for historical reasons and differences in improving the rate of industrial and agricultural labor productivity, and the effect of policy, it has been difficult to eliminate the price "scissors" of China's industrial and agricultural products. In the last two years this differential has also grown. With 1950 as 100, the overall price parity index for industrial and agricultural products for 1988 was 28.6, and in 1989 and 1990 it rose to 29.6 and 31.7, respectively. Of farm product prices, grain was obviously the lowest. In 1990 the national retail price index rose 2.1 percentage points over 1989, but the grain price index declined 4.8 percentage points (primarily a decline in negotiated grain prices). Compared with 1989, the 1990 Anhui Province price index rose 1.9 percentage points, the farm product price index declined 3.8 percentage points, but grain prices declined 10.5 percentage points. This year, negotiated grain prices have

continued to drop. The grain purchase price in some places is clearly below the state's lowest guaranteed price. For example, the negotiated corn price in Shulan County, Jilin Province is now 0.34 yuan/kg, 35 percent lower than the 0.52 yuan/kg state stipulated lowest guaranteed price. The real grain purchase price (negotiated) in Hebei Province is lower than the guaranteed price. If the peasants have grain they cannot sell it, and even if they sell it, it is at reduced prices. Thus, it is hard for peasants to get the funds needed to buy such production materials as fertilizer and pesticides so they can plant next season's grain.

B. The price parity of grain to economic crops and breeding crops is irrational, and the benefits of growing grain is too low. In Jian'ou County, Fujian, the per mu output value of grain (paddy rice) peasants planted compared to growing lotus and raising fish was 212.08 yuan and 1,545.38 yuan lower, respectively, the net output value was lower by 214.14 yuan and 966.04 yuan, respectively, and net earnings after taxes (per mu) were lower by 170.58 yuan and 518.36 yuan, respectively. For many years now in Henan the price parity between cotton and wheat (the ratio between the overall average of the actual purchase price of cotton and the actual purchase price of wheat, i.e., the fixed price and negotiated price, ditto below) was 1:8; in 1990 it grew to 1:13 (1 kg of cotton was equal to 13 kg of wheat); the price parity between cotton and wheat in Jiangsu in 1990 was 1:13.51, a historically high level.

C. The increase in the grain purchase price is less the increase in the price increases for farm production materials. The costs of planting grain have increased so fast that peasants produce more and earn less. For example, from 1987 to 1989 in Xinjiang, prices for urea, er'an [0059 6941] and sanliao [0005 2436] superphosphates have increased 55.5 percent, 75.6 percent and 69.9 percent, respectively. The prices of the pesticides Rogor, Furadan and DDVP increased 204.1 percent, 161.2 percent and 183.9 percent, respectively. The price of Dongfanghong 75-style tractors, five-shared plows, and seeders have risen 172 percent, 156 percent, and 186.4 percent, respectively, but during the same period grain prices have stayed much the same, or risen only slightly. Since 1990 grain prices have shown a downward trend. The large increase in the prices of farm production materials has increased grain production costs substantially. For example, the average cost to the peasant in Yongzhou City, Hunan, of planting a mu of early paddy rice in 1990 was 61.50 yuan, an increase of 27.10 yuan, or 78 percent, over 1987. However, grain prices have risen only slightly. This situation is bound to cause the peasants' benefits from planting grain to decrease, so even increasing production reduces income. For example, Jinmen City, Hubei increased grain production over 50 million kg in 1990, but peasant earnings declined over 40 million yuan.

D. There is still a big disparity between the state's fixed price and the negotiated price for grain. The ratio between the negotiated price for grain and the market price is low, but the state fixed price is even lower. In 1990 the negotiated price for wheat in Beijing was 46 yuan/50 kg, in the south it was 41 yuan/50 kg, 78.1 percent and 58.7 percent higher than the (national average) 25.83 yuan/50 kg state fixed price. The very low fixed state price for grain has created a contradiction between the interests of the state and the interests of the peasants, which affects peasant initiative to plant grain.

Difficulty Selling Grain and Its Causes

Difficulty selling grain includes having grain but being unable to sell it, selling grain but having difficulty collecting for it, income from selling grain not being enough to pay taxes on time, and the low price for grain making it difficult for peasant's to accept. This phenomenon often appears in years of bumper harvests, and is the most important reason afecting peasant initiative to plant grain.

In populous areas of China, grain per capita has not yet reached the world average. Each year we still must import some grain (we export coarse grains and import flour and rice). This grain shortage has existed for a long time, but the "difficulty of selling grain" still occurs repeatedly. There was a bumper harvest in 1990. Grain output increased over 10 billion kg, but by the end of December only 34.99 billion kg were sold at negotiated prices (including special reserve grain), a 10.9 percent decrease from the same period in 1989. Producing more but earning less has left at least 10 billion kg of unsalable surplus grain in the hands of peasants. Beside insufficient granaries, the irrational nature of the grain pricing system is also an important element in this strange phenomenon.

A. The seasonal nature of grain production, and the intense harvest period puts pressure on grain departments to purchase grain. Departments involved in negotiated price grain are responsible for their own profit and loss, and the government will not subsidize their losses. But the grain that is purchased must also be stored, and there is spoilage. These departments must bear the risk, and must also bear the interest on grain loans. There is no seasonal differential between the grain purchase price and the selling price, and the price differential cannot compensate departments for storage losses and interest charges. Thus grain department think that "it's better to store less than more, and it's better to store late than early," which has a direct bearing on grain purchases.

B. Grain purchase prices and sales prices are unified provincially and even nationally, and there is little difference between the prices at the place of production and the prices at the place of sale, and this is most unfavorable for the movement of grain. Without regional price differentials there is no advantage to grain operations, and if grain departments lack enthusiasm to manage grain, producing areas will be unwilling to sell grain to consuming regions at low prices, and places of production that have grain either have no place to sell the grain or are unwilling to sell the grain at low prices.

C. The topsy-turvy situation in grain purchasing and marketing prices is another important reason grain production areas are unwilling to procure more grain. Because every additional jin of grain procured creates losses, and local finances find it difficult to bear.

III. Prospects for Grain Production Are Pessimistic

The dual pressures of falling grain purchasing prices and rising prices of farm production materials, plus the "difficulty selling grain" have dealt a major blow to the peasants' initiative to plant grain. Spurred to realize their interests, the peasants, whose commodity consciousness is growing stronger, naturally will shift such factors as capital and labor to economic crops and nonplanting agriculture, and in many places contraction of grain production will occur to varying degrees. The primary manifestations are:

A. Large amounts of capital and labor are shifted to more profitable economic crops, expanding the area planted in economic crops and reducing the area planted in grain. According to a survey of the accounts of 1,100 rural households in Weifang City, Shandong, the area planted to economic crops in 1991 was 75 percent greater than in 1990, but the area planted in grain declined 17 percent. The area planted to paddy rice in Jingzhou, Hubei, declined 23.54 percent over the previous year, but the cotton area increased 4.8 percent over the base year 1990.

B. The young labor force is shifting towards nonagricultural work, either going to the city to find work in factories or earning their living at handicrafts, leaving "386,199 brigades" (the peasants' disparaging term for the primary agricultural labor force: that is women "38", children "61" and the old, weak, ailing and disabled "99") to farm the land. In many places this has become a universal phenomenon.

C. Land and labor are both idle. Because growing grain is unprofitable, substantial numbers of the labor force go elsewhere, so some land in grain-producing regions lies fallow, and land resources go to waste. Peasants who do not have another way to earn a living do not have much incentive to plant grain that requires intensive cultivation, so a large part of the labor force is semi-idle.

D. People buy grain to hand over to higher levels. Although they leave the land fallow, some rural households that engage in industry and business, have money so they buy grain cheaply in the market to hand over as contract grain, or directly pay peasants to grow grain. If more peasant households follow this bad example, the consequences are unimaginable.

The above conditions show that the grain production situation is less than ideal, and now is the time to adopt measures to improve it.

Proposals and Ideas

In the relation between grain prices and grain production, the grain marketing price has no direct bearing on grain production, or the impact is unclear. The purchase price is an important factor affecting grain production, and has an "immediate impact" on either promoting or restraining grain production. Thus, in the current situation, to turn around the slump in grain production, first, increase the grain purchase price so peasants will have a reason to plant grain. Next, reform the grain pricing system to solve the problem of "difficulty selling grain."

A. Increase the grain purchasing price substantially. The grain purchasing price involves the interests of the state, the peasant, and grain departments. First, conform to the overall interests and long-term interests of the state. Next, increase the peasant's initiative to plant grain, and protect and expand the benefits of grain farmers. Third, have management that is favorable to grain departments, and is favorable to promoting rational circulation of grain. But the role of current grain purchasing prices in these three areas is inadequate, and is especially uneffective protecting peasant initiative to produce. In the long term, this situation is not good for the stable and coordinated growth of the national economy. The best way to change this situation is to increase the grain purchase price gradually, so that after deducting grain production costs, grain sales fees, and agricultural taxes, the peasants still can expect some profit. Also the rate of increase in grain purchase prices should be faster than the rate of inflation of farm industrial goods prices, especially farm production materials.

In line with the state's financial situation for some time into the future, the process of raising grain purchasing prices should proceed in several stages. The first stage should bring the state grain purchase price close to the state negotiated price, at the same time make the negotiated price for grain help safeguard the interests of the peasants, and promote grain production. The urgent task now is establishing a state guaranteed price to prevent grain prices from dropping too much. The second stage should bring state fixed prices and negotiated prices close to the market price for the same period. Finally, while bringing about a large increase in agricultural labor productivity, and fundamentally balancing grain supply and demand, the state should gradually decontrol grain prices, and carry out such macroeconomic regulation and control methods as formulating the highest and lowest guaranteed prices.

B. Maintain rational parity prices of grain and economic crops and the breeding industry products, so that peasants' earnings from planting grain are not lower than the earnings from planting economic crops and engaging in breeding. This is a fundamental condition for raising the peasants' initiative to plant grain, and stabilizing grain production.

C. Link movement of the prices of farm production materials and the prices of agricultural products, including grain. The prices of farm production materials should maintain basic stability. The rate of increase in the prices of agricultural products, especially grain prices, should rise faster than the rate of inflation of the prices of farm production materials, so that the earnings of grain farmers can still grow steadily after deducting increased costs due to increases in the prices of production materials.

D. Reform the grain pricing system, and improve the managerial initiative of grain departments to solve the problem of "difficulty selling grain." First, implement on an extensive scale regional price differentials in grain buying and selling so the prices of grain-producing areas are lower and grain buying area prices are higher. This will conform to the laws of commodity circulation, so the

expenses and losses of moving grain from producing areas to marketing areas can be compensated in some sensible form, and the state can reduce or even eliminate grain management subsidies (marketing subsidies of fixed price purchased grain.) Second, implement seasonal grain purchasing price differentials, i.e., in peak grain buying seasons, the grain should be bought at the state's lowest guaranteed price, in other times, the purchase price should be higher. This stimulates grain departments to buy grain in the peak season, prolongs the peak grain buying season, and under certain conditions reduces pressure on grain departments to procure grain.

E. While increasing grain purchasing prices, the grain selling price should be further increased depending on the situation, gradually solving the problem of grain buying and selling prices being upside down. This not only will have a direct role in solving the "difficulty selling grain," but also is necessary for continued development of grain production.

On Transformation of Chinese Social Structure

91CM0530A Chongqing GAIGE [REFORM] in Chinese No 4, 20 Jul 91 pp 172-176

[Article by Liu Yun (0491 5089): "The Evolution, Features, and Reform of the Structural Model of Chinese Society"]

[Excerpt] [passage omitted]

II

The current Chinese social structure carries forward to a considerable extent China's traditional structural model, which had lasted without basic change for over 2,000 years and had great vitality. The sources of this vitality were as follows:

1. A small-scale peasant economy had always held sway in Chinese feudal society. A prerequisite for the transition from a traditional social structure to a modern one is the development of a commodity economy. A self-sufficient small-scale peasant economy is unable to supply enough products and surplus labor for a commodity economy. Many factors were involved in the difficulty in developing a commodity economy in China, the key one being the longstanding use by the ruling class of various man-made means to suppress it because the stability of a small-scale peasant economy contributed to the stability of the feudal order and feudal rule.

While the 1911 Revolution ended feudal rule, the development of national industry and commerce remained beset with difficulties. Bureaucrat capital represented by the four great families completely controlled old China's banking and commerce and put many restrictions on national industry. As feudal production relations remained in effect in the vast rural areas, peasants were unable to either truly free themselves from the land or to provide the vast commodity markets needed for industrial development. Old China's commodity economy and industrial production were very backward and thus were powerless to promote or effect a social transition to industrialization and modernization.

2. As China had a vast territory and a large and dispersed population, great differences existed among the habits and characteristics of its various regions and nationalities. In order to keep such a huge country under tight control and preserve unified rule, successive dynasties of feudal rulers invariably gave first priority to a strong bureaucratic machinery and unrestrictedly exploited their imperial and bureacratic power by laying down a set of laws and through various political and economic means. While the rulers' subjective desire was to strengthen their political control, the sustained existence of such political control in China was inextricably linked to the small-scale peasant economy pattern and to the concepts and ideas that went with it. Karl Marx made the following penetrating analysis of this point: "As only regional links existed among the various participants in the small-scale peasant economy so that the identity of their interests certainly did not lead to the evolution of any common interests, national ties, or political organizations, they did not evolve into a class. Thus, they were unable to protect their class interests by name through either parliaments or national trade unions. As they were unable to represent themselves, they were forced to rely on others, who were simultaneously their masters, to represent them. Such authority was far removed from them, was unlimited political power, protected them from encroachment by other classes, and granted them sunshine and rain from on high. Therefore, in the final analysis, the political impact of the small-scale peasant economy was social control through executive power." (Footnote 1) (Marx: "The Hazy Month and 18 Days of Louis Bonaparte," *Selected Works of Marx and Engels*, Vol 1, p 693)

3. Ways of thinking were rigidly conservative. A flourishing phase of contention among a hundred schools of thought appeared in Chinese ideological and academic circles during the Spring and Autumn and Warring States periods. However, after the first emperor of the Qin Dynasty unified China, in order to meet feudal-imperial unification needs in areas such as politics and economics and ideologically uphold the draconian laws of the Legalists, he practiced the so-called "education through law, and officials as teachers," which was an extremely ruthless policy to wipe out the Confucian and Taoist schools. By the time of Emperor Hanwudi (140 BC), along with the reestablishment of a unified political order, a policy of shackling ideology and education was adopted again in order to "ban the hundred schools and venerate Confucius alone." From that time on, Confucian thinking was venerated in China as the feudal ruling ideology for over 2,000 years.

The formation of this unified empire and its longstanding economic and cultural dominance over surrounding nationalities and countries also engendered the unchecked development of a superiority complex. By the time this unchecked development of a superiority complex had evolved to a certain degree, it resulted in parochial and conservative thinking, an inability to see others' advantages, and a refusal to accept outside cultures and ideologies.

4. Geographic factors played a role in the vitality of China's traditional structural patterns. China was bordered on the east and southeast by the sea, separated on the south and southwest by high mountain ridges, and traversed on the northwest and north by the desolate Gobi Desert. Such harsh geographic conditions objectively blocked exchanges between China and the outside world, even more so in ancient times when technology was so backward in particular.

Of course, the ups and downs and development pace of a country and nationality are not determined by economic, political, ideological, cultural, and geographic factors alone nor do these four factors act in isolation from each other. Their interaction and interdependence, in addition to certain other factors, sadly resulted in the slow development and even the stagnation of Chinese society.

Although the 1911 Revolution overthrew feudalism and set up a new outer structure of republicanism, it was unable to establish the inner core of a modern social

structure in areas such as economics, politics, ideology, and culture, so that the relations among and impact of its various social elements remained unchanged.

III

While many people have given brilliant explanations of the causes and laws of historical development and the features and basis for existence of the structural model of a society, such explanations have been unrealistic for a variety of reasons. As our stand is precisely to be realistic, we must bring realism to our social structure theories and historical experiences by studying the impact of the current structural patterns of Chinese society.

I think that the current structural model of Chinese society is basically still traditional and pyramidal. As the PRC, since liberation, has established socialism in which production relations are the overriding factor, some may ask this: How could the Chinese social structure still adhere to the traditional model, and how could such an analysis not be a denial of the superiority of socialism?

While I do not intend to deny the impact on social development of production relations or, as some say, of the form of ownership of the means of production, neither do I intend to simply admit that they play the decisive role. We must clarify whether production relations are established on the basis of lofty ideals and revolutionary zeal or on the level of development of the productive forces. If we think that we can rely on lofty revolutional ideals and zeal alone in order to determine changes in production relations, automatically suit newly established production relations (such as public ownership) to the level of development of the productive forces, and promote the rapid development of the productive forces, then we are denying the most basic laws of historical materialism on social development. While the relations between the productive forces and production relations as well as those between the economic base and the superstructure are interactive and interdependent, the productive forces still ultimately determine production relations, and the economic base ultimately determines the superstructure, instead of vice versa. The structural model of a particular society and the form of internal organization and operation of its various social elements are a result and reflection of its economic and conceptual development levels and are certainly not inevitably tied to its form of ownership of the means of production or, as some say, to its social system. While a social system may promote or obstruct the development of the productive forces, it certainly cannot determine their level of development. Similarly, there is no inevitable link between the form of internal organization and operation of political elements and production relations. For instance, universal suffrage, which is a key symbol of bourgeois democracy, certainly did not come whole-blown with the birth of capitalism. Even as late as 1837, almost 200 years after the British bourgeois revolution, the movement of the British working class to acquire the constitutional right of universal suffrage was suppressed by their bourgeois government. The general establishment of universal suffrage in Western countries occurred in the late 19th and early 20th centuries. While a review of certain third world countries shows that, after becoming independent, they copied contemporary Western political and economic systems or the socialist pattern, thinking that they could thus skip a stage of social development and become modern societies in one step. The harsh reality was a completely different picture of constant suffering from declining production, uninterrupted natural and man-made disasters, famine, and civil war. While these countries acquired a hollow outer shell of Western separation of powers and parliamentary democracy, its inner core had long since been eaten away, and their social structures continued to adhere to traditional models.

That the traditional Chinese social structure was not basically changed after the founding of the PRC was a result of many factors.

The objective cause is that the key factor that determines the structural model of a society is its level of economic development. While economics is the most dynamic element in a social structure, and economic development affects and drives the development of all other social elements such as politics, law, and the mass media, as well as ideology, New China's legacy was the shambles left by the KMT government. It was obviously impossible to set up all at once a brand new structural model for a modern society under such backward economic conditions. In addition, as the transition from an old to a new social structure requires a period of evolution, and the process in which the new structure sprouts grows within and finally replaces the old one takes a long time, it cannot be accomplished in one overnight move along with a change in state power and production relations.

The subjective causes are as follows: 1) The impact of production relations was overestimated through thinking that socialism could be realized directly by establishing socialist ownership in the field of production relations. In fact, as production relations are determined and restricted by the level of development of the productive forces, whether they can promote the development of the productive forces depends on whether they are suited to the level of development of the productive forces, in addition to the impact and limitations of other social elements, such as politics and law. The rural reforms that were carried out after the Third Plenary Session of the 11th CPC Central Committee abolished "leftist" organizational forms, such as people's communes, liberated in a few short years the productive forces that had long been stifled, and brought about a basic change in the appearance of the rural areas. This is full proof that if production relations and the superstructure are not suited to the level of development of the productive forces, a heavy price will be paid. 2) The importance of establishing modern and rational organizational forms of operation (i.e., systems) within political and other elements was neglected, which is related to the above cause. The impact of our historical legacy and the Soviet model caused us to set up a political system in which power was overcentralized after the founding of the PRC. Such a system actually played a positive historical role, in particular during the early post-liberation period when centralized power was able to mobilize all manpower

and material resources to help build up the economy. However, after the national economy had recovered from the ruins of war, and, after the scope and contents of production had further developed and accumulated in particular, overcentralized organization and operation within the political element and too much political control over other elements blocked the development of other elements, while limiting political development itself.

Such a political system, in which power was highly centralized, not only stifled the reactions of other elements, but also eliminated or weakened external supervision and motivation and forced the ruling party and the state machinery to rely on their own forces, whose sensitivity, speed, and capability were limited, for self-regulation and self-improvement. As the relations among the various elements of the social structure naturally affect and restrict each other, not allowing other elements to play their proper roles was bound to obstruct the improvement and healthy development of the ruling party and the state machinery and to limit improvement of their quality, decisionmaking capability, and management proficiency.

IV

Some people felt two years ago that highly centralized power was the key defect of our current political and economic systems and the source of the turmoil and mistakes of socialist countries. Thus, they advocated that our reforms must be totally Westernized, that we must establish separation of powers and a multiparty system, and even that we should abolish the leadership of the Communist Party and overthrow the government.

While the superficial issue raised by those who held this view was certainly the defects that existed in the social structures of China and certain socialist countries and thus, held a certain amount of false allure, the real issue was how to go about "changing our world." The stand for wholesale Westernization ignored our legacy and stage of social development, disregarded the decisive impact of the productive forces and social consciousness on the structural model of society and on the formation and development of specific social element patterns, such as political and economic systems. In short, it was impracticable because it was divorced from China's national conditions. An assessment of an institution or a system must not be divorced from existing objective conditions. Losing contact with a country or society's stage of development of the productive forces and the level of development of national consciousness, blindly transplanting certain social institutions and systems and trying to use them to achieve the goal of changing the social structure, and speeding up the development of the productive forces would be bound to lead to commission of the error of subjectivism, create new social shocks, and consequently slow the pace of reform and the course of social development.

I think that the following three political reform matters must be recognized: 1) We must adhere to and enhance the leadership of the party. 2) We must carry out simultaneous economic, political, and ideological reforms. 3) We must distinguish the differing levels and effects of the various elements in the social structure and proceed flexibly in stages and step by step according to specific conditions. Due to space limitations, I will discuss only the first matter here.

A review of ancient and modern, Chinese and foreign, and historic and current conditions shows that no thorough transformation can occur without a strong leadership core. While all reforms, whether economic, political, or in other fields, are revolutionary as far as existing irrational and outdated things are concerned, a more significant aspect of reforms is that they prepare and lay foundations for future developments. As reforms are revolutionary, inevitably infringe on some people's vested interests, and change in varying degrees a host of people's traditions and customs, they are bound to be consciously or unconsciously opposed and resisted by various parties. Without strong leadership forces to guide reforms in an orderly and step-by-step way, reforms easily miscarry, cause upheavals, and thus bring results that are contrary to their anticipated objectives.

Except for the CPC, China has no other political party with either the leadership experience and ability to develop a great nation with a population of 1.1 billion people or the strength to unite the people to carry out reforms. While there is no need to be reticent about the serious mistakes that the CPC has made since the founding of the PRC, and during the reform period in particular, it must be acknowledged that it has conscientiously summed up its past experiences and lessons, made many political readjustments, and promoted thorough economic reforms since the Third Plenary Session of the 11th CPC Central Committee.

In summary, socialism has taken a significant pioneering step in the history of mankind. However, just as capitalism has undergone a difficult and tortuous path and experienced countless transformations and innovations since it emerged from the womb of feudal society, socialism has not experienced smooth sailing, and the socialist system is not the acme of perfection, so must be reformed. Of course, reform is an extremely formidable and complex kind of systems engineering. As many of the laws within and among various elements have not yet been discovered or grasped and as many new issues and laws may emerge in the reform process, plans must be made for a long-term reform struggle. Only after our economy is fully developed can a modern social structure that is suited to a developed economy gradually evolve.

Inner Mongolia Commander on Political Education

92CM0038A Hohhot NEIMENGGU RIBAO in Chinese 1 Aug 91 p 2

[Article by Commander Xi Congxun and Political Commissar Yang Enbo of the Inner Mongolian Military District: "Persistently Use Thought of 'Four Frontiers' To Unify Troops"]

[Text] When Jiang Zemin, Chairman of the Military Commission, inspected the troops in our region in September last year, he fully reaffirmed and highly praised the efforts to educate cadres and fighters with the thought of "cherishing the frontier, feeling at ease on the frontier, safeguarding the frontier and building the frontier." He also wrote an inscription in this connection. Chairman Jiang's instruction and inscription not only greatly inspire and spur us on, but also constitute an earnest hope for and demand on our frontier troops. We must do a good job in studying and mastering them, and firmly implement them on a solid basis.

Guide troops in exerting strenuous efforts to give full play to the essence of the thought of "four frontiers." When Chairman Jiang reaffirmed and appraised the thought of "four frontiers," he pointed out: "This slogan is excellent. It embodies patriotism and the spirit of arduous struggle among the frontier guards." This has elucidated the ideological essence of the thought of "four frontiers." To give full play to this thought, we must concentrate on what is of basic importance in this connection. Only by doing so, will it be possible to let the thought of "four frontiers" strike deep roots in the minds of the cadres and fighters, and use it to unify the troops.

To promote the thought of "four frontiers," we must vigorously bring into full play the spirit of patriotism. For many years, the broad masses of officers and men have turned their ardent love for the motherland into their love for the frontier and for their own outposts and duties. They have fully realized that to cherish the motherland, they must cherish the frontier, and to cherish the frontier, they must feel at ease on the frontier. Only by feeling at ease on the frontier, will it be possible to safeguard and build the frontier. The thought of "four frontiers" that reflects the spirit of patriotism of the frontier guards combines the traditional virtue of the Chinese nation with the professional ethics and utter devotion of the military and with their lofty spirit in defending the motherland; and is the source of strenght to dedicate themselves to the motherland, the nation and the people. Promoting the thought of "four frontiers" means to specifically foster the feelings of patriotism among the frontier guards.

To promote the thought of "four frontiers," one must bring into full play the lofty ethics of dedicating oneself selflessly. The most essential and realistic aspect in the thought of "four frontiers" is selfless dedication and self-sacrifice. Under the inspiration of the thought of "four frontiers" for scores of years, the broad masses of officers and men have cared little about fine living conditions, abandoned happy and comfortable lives with their families, and given no thought to personal interests or their own gains or losses. For over a decade and more, they have consistently dedicated themselves without saying a word. They have "worked themselves to the bone, subjected their wives to long years of hardships, and hindered their children's growth." Although they have lost many opportunities, their determination to cherish the border areas and to defend the frontier does not waver, and their conviction to remain loyal to the party, to the people, to socialism and to their own posts does not swerve. They have composed songs of self-sacrifice and dedication with their sweat, blood and lives, winning praise from the party and people.

To promote the thought of "four frontiers," one must bring into full play the fine tradition of arduous struggle. In the course of defending the motherland and safeguarding the frontier for the past years, generations of cadres and fighters have considered their hardship as happiness and worked hard to pursue their cause. Some of them ceaselessly patrol the dense forests, eat in the wind and sleep in the dew. At times they have to eat biscuits with snow. Living in desolate and uninhabited places under extremely harsh living conditions where there is no chance to bathe, see a movie, or use electricity, some are still determined to stay in border areas, perform their jobs with ease, work hard and exert their utmost strength to make contributions. Others fight heaven and earth under poor living conditions where "grass fails to grow on the ground and stones fly all about in strong winds." They build a "little oasis north of the Great Wall" in the Gobi Desert, and create a fine living and working environment. The frontier guards have precisely relied on this type of spirit of arduous struggle that they are able to withstand extra hardship and fight particularly hard; and make contributions to the motherland and the people along the 8,000 li frontier.

To foster the thought of "four frontiers," it is necessary to put the stress on cadres. To carry forward and bring into full play the thought of "four frontiers" among frontier guards and turn such thought into their conscious action, it is essential to put the stress on cadres, because cadres serve longer in the military, and they stand up to more tests in terms of position, pay and honor. In addition, many comrades have also been faced with all types of actual difficulties such as husband and wife living in different locations, and trouble finding living quarters, child-care centers, schools, employment, and marriage partners. Therefore, it is extremely realistic and necessary to regularly carry out ideological education among them. Cadres are in a position to train and educate soldiers. They constitute the mainstay in army building. To help solve their problems and bring into full play their exemplary and leading role will help enhance their persuasion power in educating the troops. Otherwise, it will be difficult to firmly foster the thought of "four frontiers" among the frontier guards when cadres say one thing and do another.

To promote the thought of "four frontiers" among cadres, the major task at present and in the future is to devote time

and effort in settling the issue regarding a sense of dedication and responsibility, and help them firmly foster the spirit of dedicating themselves to the cause of national defense. As seen from the current situation among the cadres, a great majority of comrades feel at ease in border areas and carry out their work enthusiastically. However, there are also some comrades whose ideological standards are not so high. They have difficulty keeping up with the current situation and fulfilling the tasks in safeguarding the frontier. Failing to withstand the difficult circumstances over a long period of time, some of them show the feeling of "three leaves"—leaving the basic-level unit, the frontier and the military. Others "do not work hard with all their hearts, although they feel at ease in border areas." They "do not feel attached to the army, although they stay in the army." Still others link their positions and pay with their work enthusiasm as if it is a mathematical function. They often demonstrate higher spirit and work harder, when their positions become higher or when they get a pay raise. Efforts must be made to use the thought of "four frontiers" to mold their temperament; help them understand the relations between hardship and happiness, between honor and disgrace, and between one's status as a government official and one's dedication to the cause; and inspire their fighting will with the revolutionary spirit of selfless dedication in border areas. We must help them to realize that doing something for a good cause is the "highest realm in life"; foster the thought of "vitalizing one area during one's tenure in office"; try and work hard to make even greater contributions to strengthening border defense.

Efforts must be made to explore effective ways in fostering the thought of "four frontiers." The emergence, formation and development of any kind of thought are invariably affected by various factors. It is also impossible to accomplish one's aim in one step. To vigorously promote and popularize the thought of "four frontiers" and help it strike roots, blossom and bear fruits in the minds of the cadres and fighters, it is essential to regard this task as a systematic, comprehensive project, adopt various means and carry out our work arduously and meticulously in all fields. The experience of some units show that we must mainly work hard in the following four aspects:

Educational enlightenment. We must start our work when new fighters have just begun their enlistment and new recruits are first assigned to any unit. We must regularly talk about the basic demands imposed on the officers and men in border areas by the international situation and China's strategic position. We must help them to always bear in mind that the frontier is the outpost of the motherland, and remind them of their heavy responsibilities and matchless glory. We must often speak of the spirit of selfless dedication and that of boldly making sacrifices, and make it clear that the greatest value in life is to dedicate oneself. We must always talk about the glorious traditions of the veteran frontier guards in waging arduous struggles and doing pioneering work with arduous efforts. We must make them understand that for the people's happiness and for the tranquillity in the motherland, they should feel it a joy to work under hard conditions. In an effort to systematize and standardize ideological education on the thought of "four frontiers," the party and the state, for some years, have given preferential treatment to frontier guards. For example, frontier cadres' pay and chances for promotion or transfer to civilian work are better than their counterparts in the hinterland. Conditions for military dependents to live in the army are more flexible. Commanding officers and high ranking officials of various government organizations and local governments often send their greetings to the military dependents on New Year's Day or other festivals. Outstanding cadres and fighters of the frontier force and their wives often receive decorations, and veteran frontier guards are often invited to rest in sanatoriums for convalescence. We must make full use of these vivid examples which show the loving care of the government and the people for the border guards and their dependents to inspire and educate the frontier guards and continuously raise their morale.

Tempering frontier guards with practice. The thought of "four frontiers" is formed during the prolonged practice carried out by generations of frontier officers and men in defending the motherland and safeguarding the border areas. To promote the thought of "four frontiers" under the new situation, particular efforts must be made to guide the frontier guards to temper themselves with practice. Without practice, there will be no solid foundation for the thought of "four frontiers." We must guide cadres and fighters to devote themselves to the study of the profound meaning of frontier and motherland in their sentry towers, in front of boundary markers, along the border line and on their patrol route. We must guide them to rouse the feelings of loving the motherland, the frontier and their outposts. We must help them to consciously temper their revolutionary will in remote, thickly forested mountains, in the Gobi desert and in boundless grasslands or under other adverse circumstances. We must help them to stand up to all tests in face of the sharp differences between the frontier and the hinterland and the hardships experienced by themselves and their family members; and strengthen their resolve unswervingly to become staunch guards that are loyal to the motherland and to the people.

Setting examples to inspire frontier guards. Examples have boundless strength. The advanced typical models who emerge in the practice of defending the country and safeguarding the frontier grow up in frontier units. Close to the frontier cadres and fighters, they have strong influence and persuasion power among the cadres and fighters. During different periods of time, we must pay attention to using advanced typical models of different traits of the times to inspire everyone to defend the country and safeguard the frontier. For example, Qian Demen, who was awarded the title of the "Model in Cherishing the People" by the Military Commission of the CPC Central Committee; "Gobi Red Willow" He Weihong who attended the All-Army Congress of Heroic Models; Wang Xinmin, who was awarded the title of "Lei Feng Type Army Doctor in Safeguarding Frontier and Caring for the People" by the Inner Mongolian Autonomous Regional Government; and the Fourth Company of the Frontier Fourth Regiment that was awarded the title of the "Model Company in Waging Arduous Struggles" by the Beijing

Military Command, invariably find echoes among the frontier guards, and serve to whip up the revolutionary fervor of the cadres and fighters in rendering meritorious services and making contributions on the frontier.

Creating a warm environment. It is hard to firmly foster the thought of "four frontiers" and keep on doing it for a long time without a definite material foundation and a fine living environment. In the course of promoting the thought of "four frontiers" in the past, various units have invariably attached importance to creating an environment to retain people in the border area. In many companies, cadres are always concerned with the well-being of the fighters. In daily life, they have showed loving care of the fighters, while in work they have set examples for them, and used actions to develop a collective life of warmth and friendship. All this has linked the cadres and fighters together even more closely. Many regiments and companies have tried hard to solve problems on shortage of water and vegetable supplies and on lack of medical care and newspaper and television sets at the basic-level units, thus greatly improving the living environment culturally and materially. Everyone feels that the more they work, the more enthusiastic they become. Facts prove that the more we talk about selfless dedication, the more we should concern ourselves about the well-being of the frontier guards, and the more vigorously we should improve relations between the cadres and the fighters; and that the more enthusiastically we promote the thought of waging arduous struggles, the more actively we should help the border areas solve their real problems and create a fine "little environment." Only by doing so, will it be possible to better educate and inspire the broad masses of cadres and fighters to cherish the frontier, feel at ease on the frontier, safeguard the frontier and build the frontier.

Business Connections of Ex DPP Chairman Described

92CM0032A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 234, 8 Sep 91 pp 40-42

[Article: "Every Billionaire Is His Old Friend - The Business Connections of Ex DPP Chairman Huang Hsinkai"]

[Text] Several days ago Democratic Progressive Party [DPP] legislator Wu Yonghsiung's assistant Chiang Haotun reported to the Investigation Bureau that the head of Linyuan Enterprises Group Ts'ai Wanlin gave 1 million yuan to Wu Yonghsiung. Chiang accused Ts'ai Wanlin of bribing Wu Yonghsiung and trying to influence the draft revision of the Insurance Act which was under the review of the Legislative Council.

Chiang Haotun also called a press conference, and the target was the DPP Chairman Huang Hsinkai, who was accused of trying several times to stop him and Wu Yonghsiung from exposing the event for "fear of cutting off the financial source of the DPP." Chiang Haotun also said that when necessary he would make public the recorded telephone conversation.

Huang Hsinkai was not willing to see his name being blackened. He went to the Legislative Council immediately and explained to reporters. He accused Chiang Haotun and Wu Yonghsiung of "not being kind" and "harming people on purpose" in taking such an approach. He also talked about their "indecent personalities" in doing so.

Based on Huang Hsinkai's story, Wu Yonghsiung voluntarily expressed to Ts'ai Wanlin that because of insufficient funds he was not able to open an office. At the beginning of the month, therefore, Wu Yonghsiung visited Ts'ai Wanlin and requested a donation. Afterwards, Ts'ai Wanlin wrote Wu Yonghsiung two checks in the amount of 500,000 yuan each. After Wu Yonghsiung took the money, he changed his mind and wanted to report it. He also told Ts'ai Wanlin's son Ts'ai Hongtu about it. Ts'ai Wanlin was very unhappy when he learned this and questioned Huang Hsinkai on the phone: "Is it reasonable to do such things to me?"

Huang Hsinkai therefore tried to persuade Wu Yonghsiung and Chiang Haotun not to take such an approach. He said: "You guys first asked for money and afterwards wanted to expose it. Who would dare to donate money to DPP in the future?" He was surprised that Chiang Haotun went to report to the Investigation Bureau regardless.

Huang Hsinkai also told reporters that "when Wu Yonghsiung was campaigning for the legislative election, Ts'ai Wanlin gave him 500,000 yuan and I also gave him 300,000 yuan. He has not returned the favor yet, and now he is acting like that. He really shouldn't have done that." Afterwards, Huang Hsinkai passed on this issue to the Central Assembly of the DPP and the local branches of the party.

According to an insider of the Linyuan Group, "Wu Yonghsiung did this because he was not satisfied with just 1 million yuan." He also revealed that "many things had happened between the time Wu Yonghsiung received the money and the time he returned it." Many people were puzzled: why would Huang Hsinkai recommend a man like Wu Yonghsiung to join the party and support him? Huang Hsinkai said that "at first I felt that he was hard-working, and that's why I supported him." It is said that Wu Yonghsiung, a former telecommunications worker, passed examinations for the Research Institute of the Communication University. Huang Hsinkai was impressed and therefore provided financial support for his election campaign.

This event of Ts'ai Wanlin giving 1 million yuan to Wu Yonghsiung has been linked to the financial source of the DPP Chairman Huang Hsinkai and the DPP. The general public regarded Wu Yonghsiung's "show" as a farce. They are more curious to know the financial source of Huang Hsinkai and the DPP. At least, the business connections of the DPP has been, for the first time, made public and open to discussion.

In fact, the financial difficulties of the DPP have always been an open secret. The expenses on the activities of many DPP offices have to be advanced by the chairman. When election comes, all candidates, in addition to fundraising from their own past connections, hope that the DPP Central Committee will pay part of the expenses. Therefore, Huang Hsinkai has a particularly heavy burden on his shoulder.

Business people, for the purpose of making money, always try to avoid politics. They are particularly reluctant to join an opposition party. This is why there are few businessmen among DPP members. There are also few DPP members who have personal connections with the business community. For example, Hsu Rongshu has many business friends, but they are mostly in small and medium enterprises. Only Huang Hsinkai alone has friendship with large enterprises. Huang Hsinkai has known an old generation of Taiwanese entrepreneurs for a long time. Ts'ai Wanlin, Chang Jungfa, Chen Chongkuang, for example, are all his old friends. He also knows Wang Yongching and Wu Hoshih very well. Huang Hsinkai mentioned on more than one occasions his friendship with Ts'ai Wanlin and revealed that he felt proud to have such a friend.

Ts'ai Wanlin has been listed several times in FORBES magazine as one of the richest people in the world. But he is relatively less known domestically and he is not willing to be a public figure. Many years ago, for instance, when the cases of "Shih Hsin" and "Guo Hsin" were exposed, many news medium blamed him for not supporting his own nephews, and giving rise to the domestic financial storm. During that time, Ts'ai Wanlin purposely isolated himself from the outside, and tried to avoid the news media. His contact with various circles was also reduced to a minimum. He was little seen in the social salon of Taipei.

Ts'ai Wanlin's two public appearances recently were both of bad luck. The first time was when new banks were being examined, Ts'ai Wanlin went in person to be investigated. When the names of new banks were published, his bank was one of the four rejected banks for "over concentrated

share holding." The second time he appeared in the media was due to the report made by Wu Yonghsiung. Ts'ai Wanlin was interviewed by the Beichi Division of the Investigation Bureau and could not help sighing "it's difficult to be a good person!"

Recently, Ts'ai Wanlin carelessly slipped on the floor in his home and broke his bones. "Misfortune never come singly." It is really an unlucky year!

Ts'ai Wanlin did not have many good friends to start with. Because of his deliberate avoidance, his friends have become even fewer. Huang Hsinkai has almost become the only one who is able to find him at anytime and have meals and chat with him.

According to Huang Hsinkai, Ts'ai Wanlin is a very thrifty entrepreneur. He smokes only domestic cigarettes and is reluctant to smoke imported ones. Moreover, for several decades, he has been reluctant to eat at restaurants. He does not initiate any banquet, nor does he accept invitations from others. As time goes by, people tend not to invite him to their banquets. His image therefore has become even more mysterious.

Huang Hsinkai and Ts'ai Wanlin have a common interest. Both of them like to invest in land. In the past they often went out together on holidays "to look at land." Because Huang Hsinkai's father was good at land investment, Huang Hsinkai also understands the tricks of the trade. Huang Hsinkai is from Hsi Ts'i and his home town is still there. He still owns much of the land in Hsi Ts'i.

Huang Hsinkai was once put into jail because of the Meili Tao event. Before he went to jail he was concerned that he might be tried for the crime of treason, and that his land might be confiscated by the government, thus losing the properties of the family. Therefore, he transferred the land title to other people and did not even dare to sell it at discretion. It had not been expected that several years ago the price of land would spiral, and the value of Huang Hsinkai's land property in Hsi Ts'i also climbed to billions of yuan.

After he became involved in politics, Huang Hsinkai has no longer been engaged in business operations. First, he does not have enough time for business. Second, his specialty and interest lie in land; he does not have any experience in any other profession. Take stocks for example, Huang Hsinkai has never managed or decided to buy and sell any stocks. He just gives money to the son of his sworn brother, who works as an agent in the stock exchange, to help manage the accounts for him. Moreover, after he entrusts money to others, he has never bothers about it and never intervenes. It is said that his income from stock investment is rather handsome. He seldom loses money.

People tend to believe that given the connections between Huang Hsinkai and Ts'ai Wanlin or other major entrepreneurs, Huang Hsinkai would have entrusted his money to those people. But that is not the case. Huang Hsinkai once said with pride that: "I never ask my friends to do this or that, nor do I ever take the initiative to ask those big businessmen to invite me to dinner or make donations. Therefore, people have a sense of security when they are with me."

Huang Hsinkai appears to have made a fortune by managing his accounts lightly. With a view to giving a helping hand to the younger generation, he entrusted money to the children of his friends to set up businesses. The younger generation seldom lets him down, and always make money for him. For example, he helped a friend set up a chemistry plant, which turned out to be very successful and made a lot of money for Huang Hsinkai.

Because of long-term friendship, Huang Hsinkai often receives donations for the DPP from business friends, and he also adheres to the business principle of "nonexposure." Those donations are made to the DPP mainly because of Huang Hsinkai's personal connections. Therefore, whenever elections come, Huang Hsinkai is often seen giving thousands of yuan to DPP candidates. Moreover, he keeps a clear account in his own mind and never asks people to act on his behalf. According to someone who is close to Huang Hsinkai, Huang Hsinkai cares very much about the votes for the DPP. Once there was an election and there was a shortage of funds. Huang Hsinkai sold a piece of his own land to support the election campaign of the DPP.

Some say that it was because of his money that Huang Hsinkai became chairman of the DPP. If fact, however, there are people other than Huang Hsinkai within the DPP who have abundant financial resources. To be fair, it was not because of his money that Huang Hsinkai became the chairman of the DPP. Rather, it was because he was able to give out his money to meet the needs of others in return for what he needs. Huang Hsinkai is popular with people and a lot of donations were made because of him. He is also generous in giving out money. If he accepts a DPP candidate, he acts as if he were the big brother to be depended upon and provides financial support. Thus, as times goes by, he has won the support of the party.

Unlike the Kuomintang, the DPP does not have various party-managed businesses as its source of funds. Not long ago, Hsu Jungshu was trying to operate a DPP bank. Unfortunately, the business failed after it was swindled by some crook. The major expenditures of the party have to be financed through the personal connections of the party chairman. The next DPP chairman will have to set up a political contributions system. Otherwise, the new chairman will have a tough job once Huang Hsinkai's financial support is gone.

Lukewarm Business Response to Premier's Lecture

92CM0030A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 236, 22 Sep 91 pp 32-33

[Article by Lin Ying-ch'iu (2651 3853 4428): "Hao Po-ts'un Is Like a Roving Official for Anti-Taiwan Independence Thought"]

[Excerpts] In recent years the education of "anti-Taiwan independence thought" has become a required course of political warfare in the army. This education even has the

tendency to gradually establish itself as a "famous school." Furthermore, Executive Yuan Premier Hao Po-ts'un's role in the last week or two has become more and more of a "roving commissar of anti-Taiwan independent thought" in the army. He continuously lectures on the topic of "anti-Taiwan independence," at first to the business community, then to the labor force, and finally to farmers and fishermen with no exception.

On 6 September, 53 representatives from business and industry participated in a discussion held in the Executive Yuan. The Executive Yuan had originally planned to invite more than 80 representatives from business and industry to attend, and divide them into a morning session and an afternoon session. Because of hasty decision and short notice on the part of the Ministry of Economics, however, many people in business and industry failed to attend; they were either "busy" or "afraid." For instance, Ku Lien-sung (6581 3425 2646) of China Trust was busy chairing the Sino-Korean Economic Conference; Hung Min-ch'ang (3163 2404 2490) of Kuo-ch'i Industry was busy attending the Sino-Japanese Industrial Conference; Chang Kuo-an (1728 0948 1344) of The Feng-chun Industrial Group was in Japan and could not return in time for the meeting. Other company executives were afraid of Hao Po-ts'un's "unhappy fund raising" and made other excuses not to attend. Consequently, only 53 people were planning to attend and the Ministry of Economics had to change the original schedule one day prior to the meeting to one session only at 8:30 am.

Shortly upon the arrival of the participants from the business community before 8:30 am, the ceremonial officer suddenly asked the participants to stand up and applaud Hao Po-ts'un's arrival. Some participants complained in private: "Why? This is not the emperor's inspection." Others responded: "If the premier does a good job, there is no fear that nobody will stand up and applaud him." The majority of participants thought that "it would be very unnatural if the ceremonial officer had to remind everyone to stand up." When Hao Po-ts'un arrived, everyone indeed acted uniformly, thus the ceremonial officer's request was met.

The meeting was open to photographers for five minutes after everyone took seats, then the discussion formally opened. First, Hao Po-ts'un gave a nearly 50 minute speech. He started with the social stability and harmony in Taiwan in the last 40 years, proceeded to the changes in Eastern Europe and the Soviet Union and the deterioration of communism, and he suddenly switched to the topic of Taiwan independence. He showed serious concern for the regional changes in Taiwan, and was afraid that such changes may bring economic stagnation and create negative effects.

Hao Po-ts'un emphasized that Taiwan independence could not be tested. It was a minority view. Some even propose "Taiwan Republic." It was not the case that the government was unable to deal with the issue of Taiwan independence; rather, the government did not want to create violence and social instability, thus give the outside the impression that "Taiwan was in chaos" and destroy its international image. He further pointed out that at present the relationship between the two sides of the Taiwan Strait was difficult to mollify, and the topic of Taiwan independence would provoke the Communist Chinese. He also heard that pro-Taiwan independence organizations were collecting "political contributions" from businessmen. He understood that businessmen had no choice, but financial support for Taiwan independence, was equivalent to supporting violence, damaging social stability, and was the source for Molotov Cocktails.

During Hao's long lecture on anti-Taiwan independence, some participants were confused about whether they had come for anti-Taiwan independence political propaganda, or for a business discussion. Others lowered their heads, looked at their watchs, and helplessly watched the time. Others made notes for later speechs. Some listened carefully, frequently nodding in approval to leave a good impression on the premier; others frowned; and others looked around aimlessly...[passage omitted]

Hao Po-ts'un used the occasion for his anti-Taiwan independence lecture, but failed to get any response from the audience. Apparently, representatives from business and industry were not willing to buy it. Naturally, Hao had no patience to listen to what business and industry had to say either. Hao Po-ts'un's anti-Taiwan independence lecture was out of place with the business community. However, both sides had to share the same stage because of space limitations. No wonder the performance was so absurd.

Reorganization of Mainland Policy-Making System

91CM0521A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 226, 14 Jul 91 pp 26-29

[Article by Weng Wen-ching (5040 2429 7234): "Cover Story: Six People Hold Secret Talks, Party Central Committee Goes All Out To Establish Beachhead; Behind the Scenes Policy Making of the KMT Central Committee's Mainland Guidance Small Group and Its Effect"]

[Text] After the National Unification Commission [guo tong hui 0948 4827 2585], the Mainland Commission [lu wei hui 7120 1201 2585], and the Overseas Foundation [hai ji hui 3189 1015 2585] were formed one after another, people seemed to forget the existence of the Kuomintang's (KMT) Mainland Guidance Small Group. It became an organization by means of which the party found it almost impossible to be involved in mainland policy. As a result, on 3 July, the KMT Central Standing Committee carried out a personnel reorganization of the Mainland Guidance Small Group, dividing it into a Guidance Small Group and a Policy Planning Small Group. Most of the middle-level officials this readjustment brings together to run mainland affairs are from current party and government departments. This will enable the group to free itself from the embarrassment of having been a rubber stamp for the past three years and become the unit with the greatest decision-making authority on current mainland policy.

The reorganization has had the effect of bringing back to life a group which seems to have bordered on the moribund. What is more important is the party's resumption of dominant authority over mainland policy, especially with respect to Secretary General Sung Ch'u-yu [1345 2806 3842], who undoubtedly will reconsolidate his control over mainland policy. In the newly organized Mainland Guidance Small Group, Sung is both one of two conveners of the Guidance Small Group and concurrently convener of the Planning Small Group. His dual capacity as convener will enable him to play a decisive role in mainland policy making within inner party circles. This has to be one of the reasons for the party's vigorous shake-up of the "Mainland Guidance Small Group."

Prior to the group's reorganization, the only position of responsibility Sung Ch'u-yu had within the current mainland policy-making system was his membership in the National Unification Commission. However, because its effectiveness is greatly limited by such an enormous number of people and by having so many old men who are there only in a token capacity, Sung, according to reports, seldom spoke at the commission.

The Mainland Guidance Small Group was established within the party in August 1988 by the "Chinese Kuomintang Mainland Policy Proposal for the Current Stage" passed by the plenary session of the party's 13th Congress. Although it was the KMT's mainland policy-making center, only routine matters were discussed there, such as how to lift the ban on civil servants visiting mainland relatives and the ban on mainland reporters coming to Taiwan. This lack of clear-cut function was related to the political situation at the time. Two to three years prior to its being established, KMT policy toward the mainland was extremely conservative and slow moving. As a result, the function of the group was limited. Afterwards, under Li Teng-hui, the center for making policy on the mainland shifted from the party to the government. This was likewise done to avoid the suspicion of party-to-party contacts between the Communists and the KMT. What it did though was to weaken the Mainland Guidance Small Group, and Sung Ch'u-yu during this period had, as a consequence, no way of being fully utilized. The KMT's Mainland Work Committee is considered to be an advisory unit to the Mainland Guidance Small Group. After Cheng Hsin-hsiung [6774 1800 7160] became director, he urgently wanted to break away from the old political coloration and make adjustments in concert with the new changes in mainland policy. However, he was constrained by the vagueness of the Mainland Guidance Small Group's function. The Mainland Work Committee was left merely to deal with policies of the status quo as its contribution to the Central Standing Committee's analysis of mainland affairs. It had no influence whatsoever on the decision-making of mainland policy. After the National Unification Commission, the Mainland Commission, and the Overseas Foundation were set up, mainland policy for a time was dominated by the executive branch. With the Mainland Small Group reduced to a rubber stamp, it members lost their enthusiasm. Ni Wen-ya [0242 2429 0068], the former convener asked to resign. With He Hsuan-wu [0149 1357 2976] temporarily acting, the group's activities seemed to stagnate even more. Meetings went from once a month to once every several months. It seems that the party had no influence on mainland policy.

However, Sung Ch'u-yu, as a private citizen, still regularly invited Shih Ch'i-yang [2457 0796 2254], Ma Ying-chiu [7456 5391 0046], and Ch'iu Chin-i [6726 6651 4135], the officials really responsible for mainland policy, to get-togethers to further his participation and understanding of mainland policy decisions. Furthermore, the reorganization in fact came about from discussions held at a get-together led by Sung Ch'u-yu and Cheng Hsin-hsiung, the results of which were subsequently reported to Li Teng-hui, who then decided on it and notified those concerned.

Reorganization of the Mainland Guidance Small Group was inevitable from the beginning. Various factors that made the reorganization of the Mainland Guidance Small Group a certainty are these: the unresolved issue of Ni Wen-ya's request to resign; Hsu Shui-te [6079 3055 1795], one of its members, taking up the post of representative in Japan; many of the members of the original group not actually taking part in mainland work; some of the members showing a lack of interest; the original issue of veterans returning to their villages; and participation in the group by Hsu Li-nung [6079 2980 6593], director of the Vocational Assistance Commission for Retired Servicemen, when the issue of veterans was no longer a current priority of mainland policy.

For more than a month now, reorganization of the group has formally reached the stage of intense consultations. Meetings headed by six people, Sung Ch'u-yu, Cheng Hsin-hsiung, Ch'iu Chin-i, Shih Ch'i-yang, Sung Hsin-lien [1345 1800 3425], and Ma Ying-chiu, gradually became once-a-week gatherings and, in the days to follow, became the Planning Small Group in embryonic form. The newly appointed director of the Mainland Commission, Huang K'un-hui [7806 2492 6540], although also a member of the Planning Small Group, did not take part in the get-together hosted by Sung Ch'u-yu, perhaps because he was new in his assignment.

According to reports, this get-together was basically led by Sung Ch'u-yu and Cheng Hsin-hsiung. During the past month, Ma Ying-chiu returned from abroad during the middle of June and Ch'iu Chin-i spent a week in the hospital having a physical examination and a week in Hong Kong. However, the get-together proceeded as usual. During this period, the leading role of party headquarters can be seen from Sung and Cheng being the only ones to have held up on leaving the country. There are also sources who point out that Executive Yuan Vice President Shih Ch'i yang has given extremely vigorous support to the reorganization. As for his having been removed as chief member of the Mainland Commission after diligently working for several years on mainland policy, the Mainland Guidance Small Group not only restored his leading role with respect to mainland policy, he will now be far more influential than he was as chief member of the Mainland Commission.

The reorganization greatly exceeded the expectations of Guidance Small Group member Shen Ch'ang-huan [3088 2490 3562]. The majority are all middle-level officials who have been actually responsible for mainland work at the present stage. At the same time, the Mainland Guidance Small Group has made a slight organizational adjustment, establishing a Policy Planning Small Group under the Guidance Small Group. The Policy Planning Small Group will obviously become the most important and elite policy-making group on mainland policy. The Policy Planning Small Group is responsible for the planning and design of policy decisions and will have the authority to decide the topics to be discussed by the Guidance Small Group, as well as how they are to be discussed. It can be inferred that the Policy Small Group will inevitably play a key role in making policy.

Why, after the executive branch of government has been forming and operating the mainland policy-making system for a period of time, are they revamping the party's mainland policy-making system? Ch'iu Chin-i thinks that, even though the National Unification Commission, the Mainland Commission, and the Overseas Foundation were linked with each other, they were not in touch with each other. It was sometimes hard to avoid each going its own way. After they were operating for a period of time, it was discovered that their lateral contacts were inadequate and that perhaps the party needed to provide closer coordination. In commenting on its performance, Ma Ying-chiu says that, in the past, the Mainland Commission met twice a month with more than 30 people in attendance. Its ability to achieve results was limited. It was impossible to reach a consensus. By putting the Policy Planning Small Group in charge, it is easier to quickly achieve common agreement because the participants are all officials who deal directly with mainland affairs.

The mainland policy-making system in the executive branch has been more or less fixed. After operating for a period of time, the several senior officials actually responsible for mainland policy realized that there was a lack of lateral contact between various departments. This was especially apparent after the Chinese Communists' recent propaganda barrage toward Taiwan. Expressions such as "This is nothing new" and "It needs further study" kept cropping up. Senior officials were inclined to think that a policy-making small group in charge of coordination should be set up. Although the Mainland Commission itself held meetings that cut across the Executive Yuan's various ministries and commissions, because the commission has almost 20 people, its efficiency is poor. As a result, the Executive Yuan all along intended to set up a policy-making small group. Later, after several middle-level party and government officials responsible for mainland policy consulted with each other and because party participation in decision making was being considered and also because of the need to reorganize the party Mainland Guidance Small Group, the actual decision-making authority for future mainland policy was shifted from the Executive Yuan to the party.

If there was to be concerted action on mainland policy, setting up an effective policy-making system was necessary from the start. After the National Unification Commission and the Mainland Commission were operating for a while, flaws continuously showed up, especially in the effectiveness of policy making. The results of initial thinking could not be fully realized. Since the research committee of the National Unification Commission has been in operation it was thought that it could continue to function in an advisory capacity. However, because of the urgency of researching issues such as bipartisan negotiating techniques and promoting a better understanding of the national unification program and because it had no decision-making function, present operations had to be limited to these aspects, even though two gatherings studied and discussed how to respond to the Chinese Communist statements.

The National Unification Commission is, even more, lofty window dressing. These high-ranking old men, many of whose pronouncements are considered frivolous, have no binding authority on the Mainland Commission. Their decision-making function is nonexistent. After the reorganization of the KMT's Mainland Small Guidance Group led by a small elite group of middle-level people, the National Reunification Commission is afraid that in the days to come it will even more be but a huge piece of window dressing.

The Mainland Commission was originally designated as a mainland policy-making unit. However, because its meetings were attended by so many members, it lacked flexibility. Senior officials in charge of mainland affairs wanted to substitute the huge and ineffective commission meetings for a policy-making center made up of a small number of people. This also gave the party, under the pretext of coordination, the opportunity itself to oversee the establishment of a policy-making center which genuinely had effective authority and to set it up within the party. In addition to allowing participation of party personages such as Sung Ch'u-yu, the party could not see any reason not to have them approved by the party secretary general. This was why it was so easy to give the Mainland Guidance Small Group led by Sung Ch'u-yu the authority to decide mainland policy and why, in the days to come, the Mainland Commission will inevitably be reduced to an executive organ. And this is how the party, which originally was unable to involve itself in mainland policy, became its most authoritative leader.

Chinese Communist propaganda from across the straits often calls for party-to-party negotiations. Despite vociferously refusing party-to-party contact, the KMT did create this mainland policy body as part of its internal party reorganization, thereby making the executive system and the party system one. People cannot help comparing this with the recent consolidation by the Chinese Communists of their Central Committee Taiwan operations with those of the State Council.

A member of the research committee of the National Unification Commission who is unwilling to have his name used is baffled by this reorganization by the KMT and the strengthening of its Mainland Guidance Small Group. He thinks that this phenomenon of the same group

of people waving the same signboards is self deluding and that it easily gives the impression to outsiders that the KMT intends to have party-to-party contacts and especially gives the impression that our side has all along been striving, together with the Chinese Communists, for political equality for both sides. The Chinese Communists all along have hoped for party-to-party contact for the purpose of discrediting our side. Where our side should strive to position itself in the relationship between the two shores could become a bipartisan issue. This member of the National Unification Commission's research committee questions whether the KMT era of "party-led government" is not a thing of the past and asks why we want to fall back again now on the party for guidance on mainland policy. At the same time, he thinks that, if reorganization of the Mainland Guidance Small Group is an inner party redistribution of power, it cannot for that reason forfeit our side's effort to achieve political equality.

Speaking of the KMT, at the beginning of June the chief member of the Mainland Commission was replaced. According to reports, the mainland thinks that this move by Taiwan authorities showed an obvious lack of attention to mainland work, and it has, as a result, increased its appeals to Taiwan for party-to-party talks. The KMT's strengthening of its internal mainland policy-making bodies at this time could help to relax this tense situation. However, domestically, it could create misgivings.

The desire to set up a policy-making center to improve efficiency is admittedly an important consideration. However, with the reorganization of the KMT's internal Mainland Guidance Small Group, it seems that it has now been decided to make use of the dominant authority of the party affairs system with Sung Ch'u-yu as its head to set policy for recovering the mainland. In days to come, this concentration of middle-level elite personnel who are currently responsible for mainland affairs will become the principle decision-making center for mainland policy. This can be seen from its enthusiastic attempt to meet once a week on a fixed basis.

In addition to strengthening functions and unifying and allocating authority, this concentration of party middle-level elite personnel should even more consider whether or not to enter the party-to-party morass, which devalues the living space for which we have so anxiously fought; domestic concern for party-to-party talks is probably an even bigger landmine. We have no choice but to be careful.

Special Interview With New Taipei Police Chief

91CM0520A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 227, 21 Jul 91 pp 64-66

[Interview with Chen Hsueh-lien (7115 1331 1670), chief of police of Taipei City, by Tung Ching-feng (4547 3237 1496): "Special Interview With Chen Hsueh-lien, New Director, Taipei Municipal Bureau of Police—Police Work Is Not Like a Production Line of a Factory"]

[Text] After some drinks, Liao Chao-hsiang [1675 0340 4382], chief of police of Taipei City, said things he should not have said and offended Mayor Huang Ta-chou [7806 1129 3166], whereupon Liao requested early retirement. Selection of his successor had the attention of many quarters, and after a fierce tussle, Chen Hsueh-lien, deputy director of the National Police Administration (NPA), was chosen for the job.

Chen Hsueh-lien is 63 years old and due to retire in a little over one year. As we understand, the appointment of Chen Hsueh-lien by the NPA has already been approved by the Ministry of the Interior, but when submitted to Premier HAO Po-ts'un [6787 2672 2625] for confirmation, he opposed the appointment because Chen was so near to retirement age and as head of the police bureau of the capital would therefore hardly bring long-range planning of developments to his work. However, on the strong assurances from Chuang Heng-tai [8369 0077 1486], director of the NPA, and Sung Hsin-lien [1345 1800 3425], head of the National Security Bureau, Chen Hsueh-lien was finally appointed. The saying goes: "A good man cannot be kept down much as an awl point is bound to stick out of the pocket."

Chen Hsueh-lien, a native of Shantung Province, has been in police work for 40 years; he had been a police inspector, head of a police subbureau, and during 1976 had headed the school affairs group of the police college. He was later transferred to be deputy chief of a county police bureau and in 1980 promoted to chief of police of Keelung Harbor. After serving there for somewhat over one year, he was appointed chief of police of Nantou County. This was a very important stage in his police career because Lee Teng-hui [2621 4098 6540] was at that time provincial governor at Chungyang Hsintsun, and the two have therefore had opportunity for personal contacts; Lee Teng-hui remained deeply impressed with Chen Hsueh-lien's good work attitude, and this was the greatest support that Chen received for his present appointment.

Later, Chen Hsueh-lien was promoted to deputy director of the provincial police bureau and last year to deputy head of the NPA.

Chen Hsueh-lien indicated that he had learned from the newspapers that he was to be appointed director of the Bureau of Police of Taipei City. Nobody had told him so beforehand. As to why he was selected, he himself thought it very strange. The following is the gist of an interview with Chen Hsueh-lien by this periodical:

Question: Do you have specific ideas on straightening out public order in Taipei City?

Answer: In Taipei's security problems, the most serious occurrences are robberies, break-ins, and looting of unoccupied houses. They cause great insecurity among the citizens. According to statistics, robberies account for 50 percent of all criminal cases. Preventive measures could reduce the occurrence of robberies, and that would solve the public security problem by one-half. However, because of the great frequency of robberies, it is difficult to clear up all cases, and that gives people the impression that public order in Taipei is in a bad state.

Moreover, although Taipei is the capital and ought to be a model district, it is also the place where many evil elements mingle. Daredevils from all over the province, who are inclined to perform heroics, seem to congregate in Taipei. Some belong to gangs, some are vagrants, and some are prominent gunslingers. This has made Taipei the gathering place for criminals. As the ultimate key to cleaning up and controlling Taipei's security problem, it is therefore necessary to expand more energy on this side of the problem.

Question: How is this to be done?

Answer: At present there are already certain fixed plans in place, if they could be thoroughly implemented, they will be effective. The first point in safeguarding public order is to go after privately owned firearms. The second point is to mop up all vagrants. The third point is to speedily clear up the major cases. The fourth point is to catch and arrest escaped criminals. The fifth point is to forestall extortion cases. In these respects there has already been some improvement. Finally, action has to be taken against thefts. These are the six important points in our investigative and crime prevention work. While we shall aim our efforts at all these six important problems, our methods are to implement our plans in the particular ways that will suit the particular cases. If we can carry out these plans effectively, we are certain to see results.

Question: When Chuang Heng-tai, director of the NPA, first selected candidates for the position of Taipei police chief, he made it known that his condition is that he expects results. Have you set yourself a timetable for the accomplishment of certain objectives?

Answer: I cannot make predictions. All we can do is to give it our best because there are some objective factors. For instance, some criminal circumstances arise because crimes are being committed in unpredictable situations. This is beyond my control. Is there any police chief today who can say that he can eliminate crime within a certain time? Today, nobody dares to say that, nobody has that ability. My objective is to reduce the occurrence of criminal cases. With effective preventive work, public security work would then already be halved.

In the past, the press has often said that we demand definite results at the basic level, but such achievements cannot be forced. We hope that our work will be effective. In the past, the press also said that we have set ourselves a limit for clearing up a certain number of cases, but actually we have never had this kind of a rule because this kind of a demand is unreasonable. Today, if it would be work of a very mechanical type, it would of course be possible to make some demand of this kind, but police work is not like the production line of a factory. If no criminal cases occur, what cases would we have to clear up? To insist on demanding achievement of certain norms is something that, we are afraid, would need very careful consideration.

Objective Circumstances Do Not Permit Transitional Measures

Question: Because you will reach retirement age next year, some people believe you will hardly have a long-range plan for the straightening out of public order but will be satisfied with merely "transitional" measures.

Answer: Here it is not a question of transitional or not transitional; today we police organs carry out our work within the purview of the law. The duties of the police are ruled by fixed rules and regulations; everyone must perform in this way, and no one is allowed to go off in his own variations. Of course, in some technical points of importance a person may decide for himself. A person's number of years is nothing else but a marker of the stages of a man's life. As long as he is healthy, physically strong, and mentally alright, he must not be rejected in any respect merely because of his age.

Question: Quite a few members of Taipei's City Council thought that since your term of office cannot be very long, police officers at the basic level will have a somewhat "ephemeral" mentality and will also downgrade your attachment to the force. What are your views?

Answer: Whether I am chief for one or for two years, will I not demand that they do their duty? Will I not supervise and test them? Will I not educate and train them? No way! If I go today to serve for only one year as chief, you would want me to properly do my duty. If there is a change of person, you would still want me to do my duty. Today it is not so that if I have only one year to serve, I could apathetically muddle along without doing any real work? Today Taipei City is in a state that does not allow muddling along without doing something. Even if I am chief for only one day, I would do my job to the end because Taipei City, this objective environment, will not allow anyone to be "transitional." Even if you would try to be "transitional," you could not do it.

According to my observation, I have often done duty throughout the whole night together with young police officers, and when it comes to physical stamina, I found that some of them were not as good as I was.

Question: As I understand, when the selection for the job was first made, Premier Hau was also critical of you, mainly because of your age.

Answer: I do not know about that; I do not know at all what happened higher up. According to the law governing the services of public servants, we merely have to obey orders, and one should not come up with new propositions and also should not express aberrant wishes. Today, this is the lowest limit that we have to comply with as public servants.

Question: It is said that director Chuang of the NPA has high regards for you and has made a strong recommendation on your behalf?

Answer: I am very grateful for his opinion that I can do the job; I may as well follow orders.

Question: Taipei's Mayor Huang once indicated that the new police chief for Taipei must fulfill the following conditions: he must be of strong physique, must be level-headed, and must be free of unhealthy addictions. Do you believe you fulfill these conditions?

Answer: I do not know about that matter. I cannot ask myself to have my merits acknowledged; I myself am not in a position to make the evaluation; and it would be more appropriate for him to evaluate me.

Question: Police Chief Liao Chao-hsiang had to retire because he insulted Mayor Huang with wild talk. What relation do you feel should be maintained between police chief and mayor?

Answer: Today he is my superior and I am his subordinate; there cannot be any problem about our getting along.

Question: Taipei City is the seat of the central government, and there are regularly mass demonstrations for which a large police force must be deployed. It happens, therefore, that the limited police force available to maintain public order may at times not be equal to the task. What role, in your opinion, should the Police Bureau of Taipei City play during mass demonstrations?

Answer: Mass demonstrations have by now become part of the new social culture. According to the provisions of the constitution, the people have the freedom to petition and to demonstrate. However, society will not tolerate violations of law, vandalism, and violence. We are now enforcing law according to law. However it is prescribed in law, that is the way we shall act, but we will not purposely seek confrontations with the masses. The way these situations should be handled today is to have points of special effort. To have points of special effort means to do what has to be done and to gain a firm grasp of the situation. Next is to observe points of balance, i.e. in enforcing the law we must be very careful to much do so with proper restraint.

Question: Have you ever had to deal with mass demonstrations?

Answer: I had, directly and indirectly, but this is something that is not too easy to deal with.

Question: What is your principle?

Answer: Safeguard whatever is legal, suppress whatever is illegal, and restrain acts of violence, acting according to these three principles and using one's own discretion.

Question: The people castigate the police for its conduct and discipline problems. As you have served as superintendent in the NPA, what do you think should be done?

Answer: It is today most important that the police force itself must be sound throughout; only in that state will it be firmly established. Its attitude displayed in speech, uniform, deportment, behavior, and service, and also its work efficiency and a sober and calm style of character are all extremely important things. If these cannot be accomplished, unanimity with the masses of society cannot be achieved. Although we have today broken up many large cases, we have not necessarily gained the support of the common people. The reason is that the people have raised their standards. There are expressions of deep affection for the police and there are also severe accusations against the police. Especially when we do something wrong, society will focus its censure on the police; the main thing is still the problem of conduct and discipline.

In problems of conduct and discipline, there are no other ways than to teach and educate and to understand special circumstances. Supervision, guidance, and evaluation are the principles, but conditions differ in different places. We have to act as best suited to the times, localities, and persons involved. I believe there are still very many cases of corrupt conduct and discipline of the police force, and we must exert efforts in this respect and get these cases cleared up and completely eliminated before they erupt. This is something that will require much of our attention and energy.

United Democrats in New Legislative Council

92CE0033A Hong Kong MING PAO in Chinese
16 Sep 91 p 33

[Article: "The Major Strength of the United Democrats of Hong Kong"]

[Text] The election of the Legislative Council has come to an end. The public is expecting a new atmosphere in the new Legislative Council. As the first major party in the direct election, what role will the Hong Kong United Democratic Alliance play in the new Legislative Council?

The role of the Hong Kong United Democratic Alliance has caught public attention, not only because of its publicity in the election, but also for other factors. The Hong Kong United Democratic Alliance has always been regarded as an opponent by the Communist Chinese. If the Hong Kong United Democratic Alliance plays an active role in the Legislative Council, what reaction will the Communist Chinese have? In addition, democratic parties in the past were active outside the Legislative Council, mainly engaged in criticizing the Hong Kong government and making trouble for the government. As the major democratic party, will the Hong Kong United Democratic Alliance create more trouble for the government within the Legislative Council?

In terms of the numbers of seats, the members of the Hong Kong United Democratic Alliance in the Legislative Council are the minority with no decisive roles. In terms of the votes it received in the election, however, the Hong Kong United Democratic Alliance was far ahead of any other party in the Legislative Council. Such discrepancy may bring about many variables to the potential functions of the Hong Kong United Democratic Alliance.

First, the Hong Kong United Democratic Alliance can play the role of a co-governing party. There is no democratic system in Hong Kong; it is governed by the colonial government. Therefore, there does not exist a governing party. Nevertheless, the Hong Kong government invites nonofficial personnel to the decision-making process. These people share part of the governing power. A political party will not become a governing party by cooperating with the government, but it can be a co-governing party instead.

There was a period when the Hong Kong United Democratic Alliance was considering appointing the chairman of the Hong Kong United Democratic Alliance Li Ts'u Ming to the Administrative Council. But because he opposes the collective leadership and rules of confidentiality of the Administrative Council, his chance of getting into the Administrative Council is believed to be remote. The Hong Kong government does not intend to transfer all political power to the Hong Kong United Democratic Alliance. On the other hand, the Hong Kong United Democratic Alliance does not want to be just a quiet and minor partner of the government. If no unexpected events take place, the Hong Kong United Democratic Alliance will not become the governing party; it will only be an opposition party.

As an opposition party, the first role the Hong Kong United Democratic Alliance can play is to be the mouthpiece of the public. This is the most important advantage of the Hong Kong United Democratic Alliance. Voters understand that the election of the Legislative Council will not lead to a change of government. Those who vote for the Hong Kong United Democratic Alliance mainly appreciate its outspokenness and its fearlessness of mighty power. If members of the Hong Kong United Democratic Alliance become silent once they get into the Legislative Council, they will lose the support of the voters. Some people hope that after democrats are elected into the Legislative Council and are given more responsibilities, there will be fewer activities outside the Legislative Council and on the streets. This is just a good wish. Because the Hong Kong United Democratic Alliance is excluded by the government from the decision-making process, it is a minority party in the Legislative Council. In society, however, it is the majority. This pattern will determine that in the future the Hong Kong United Democratic Alliance will often resort to the masses as it did in the past and continue to organize activities outside the Legislative Council, acting inside with forces from outside the Legislative Council, and play the role of public mouthpiece and social conscience.

In addition to its role of public mouthpiece, the Hong Kong United Democratic Alliance can play other roles in the Legislative Council. For instance, the Hong Kong United Democratic Alliance can form united fronts on different problems and mobilize enough votes to balance the policies and legislative acts of the government. Of course, so doing would ensue compromise. The traditional habit of the Hong Kong United Democratic Alliance, however, is not to compromise. But in the next few years, if the Hong Kong United Democratic Alliance is willing to learn and to fight for concrete results for the public without sacrificing principles, it will perfect its role as a public mouthpiece.

Moreover, the Hong Kong United Democratic Alliance can make use of the patrician forces in the Legislative Council that are responsible for various policies, and nurture selected members to become experts on particular policies. In the past 23 years, the U.S. Democratic Party only served four terms in the White House, but they have enormous strength in congress and have prestigious spokesman on various policies. Although the party is not able to be directly involved in decision-making, it can act as an expert and influence government decisions.

It is the major strength of the Hong Kong United Democratic Alliance to be a public mouthpiece, but the Hong Kong United Democratic Alliance is not so strong at forming united fronts and conducting policy research. In the long run, however, it will be better for the Hong Kong United Democratic Alliance to be good in several fields. It will soon become clear whether the Hong Kong United Democratic Alliance members of the Legislative Council will have long-term views, and master new skills to make the best use of the opportunities provided by the Legislative Council.

Various Views on Abolition of Capital Punishment

91CM0509A Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 55, 15 Jul 91 pp 50-51

[Article by staff reporter: "Should Hong Kong Restore Capital Punishment?—Interview With Figures of Various Circles"]

[Text] **Editor's note: Hong Kong's public order has recently worsened, touching off debates in the Legislative Council on the question of whether capital punishment should be restored and carried out. This magazine has interviewed figures of various circles on their views on this question, and the majority of them have expressed opposition to the restoration of capital punishment.**

Liu Ching-jui [0491 2529 3843], (translator): I agree with Mr. Li Chu-ming [2621 2691 6900]. I think that capital punishment is not the fundamental way to solve social problems. The country ruled by the Chinese Communists still has capital punishment, but the result is still a mess. Capital punishment will only make people act abnormally; capital punishment will only create unjust, false, and mistaken cases. A country that depends on capital punishment to maintain public order is not a healthy, powerful country. The major Western countries abolished the capital punishment law because they saw this point.

The year 1997 is getting close. Hong Kong should abolish capital punishment a little in advance of this year in order to avoid its abuse by the Chinese Communists in the future. Of course when the time comes, perhaps the Chinese Communists will change the law and restore capital punishment, and there will be nothing the Hong Kong people can do about it, which would be a real tragedy.

Wei Chi-shun [7279 1015 5293], (television program director): There is no essential difference between the government's abolishing or not abolishing capital punishment. Hong Kong has had capital punishment for more than 20 years, but it has never been carried out. Would it not amount to the same thing if it were abolished now?

Some people say that no advanced country in the world has capital punishment. I do not agree. Is not the United States an advanced, major country in the world? Yet, the United States has capital punishment. Although, for a period of time in the history of the United States, capital punishment was abolished, it was quickly restored; therefore, the effect of capital punishment should be admitted.

Other people say that life imprisonment is more cruel than capital punishment. I think these are two different concepts that should not be oversimplified by mixing them together.

Chang Ch'ing-sung [1728 7230 2646], (magazine editor): About a dozen years ago I strongly endorsed the restoration of capital punishment, but now I totally oppose it. Why? The reason is because for Hong Kong there is the year 1997.

I endorsed Hong Kong's restoration of capital punishment in the past because I believed in Britain's perfected legal system. If a person commits a capital crime the trial and sentencing procedure of the courts is multilevel and can even require a dozen years' time. Trials are conducted extremely cautiously. However, the Chinese Communists' judicial procedure for convicts sentenced to death is very likely to be accomplished in one day; they drag them in batches to the execution ground and finish them off in one go. In all previous political campaigns, the Chinese Communists killed people as if they were completing an ordinary task. If after 1997 Hong Kong does not have capital punishment, the Chinese will not find it too easy to kill people. They will have to consider the pressure of international sanctions and will have to weigh the advantanges and disadvantages to their interests.

Huang Yu-min [7806 3022 3046], (university associate professor): This question should be looked at from four aspects.

First, there is the legal aspect. Hong Kong has always had capital punishment; it has just never been actually carried out. This time the motion put forward by Hsueh Hao-jan [5641 3185 7544], member of the Legislative Council, for really carrying out capital punishment was rejected. Li Chu-ming [2621 2691 6900] put foward the opposite motion, calling for the abolition of capital punishment, and it was passed and will in the end be put into law. That this motion received a favororable show of hands by eight office-holding legislators reflects the fact that Hong Kong's legislative and administrative powers are quite extensive.

Second, there is the political aspect. Over the past two years, the Hong Kong government has been busily playing politics and has put a lot of energy into doing so, but in the actual work of increasing the deterrent force, it has been very deficient.

Third, there is the public order aspect. Hong Kong's public order has recently been poor. Historically, once public order became poor, some people in Hong Kong have proposed the carrying out of capital punishment, hoping that it would have a deterrent effect. I myself think that "paying with one's life for committing murder" is not a mature idea. Severe provisions in the law cannot save society from troubled times, and so the restoration of capital punishment cannot have a deterrent effect.

Fourth, there is the human rights aspect. I think that capital punishment is a violation of human rights. Some people worry that if capital punishment is restored, it will be abused by the Communist Party after 1997. I think this is an unnecessary fear. If the Communist Party wants to kill people, after 1997 it will revise a law, which means that even without a law on capital punishment, the Chinese Communists will have a way to deal with dissidents.

Liao Yao-chu [1675 3852 3796], (lawyer): From my own observation the Legislative Council's passage of the motion abolishing capital punishment represents an opinion different from that of the great majority of the Hong Kong people. Obviously, the Hong Kong Legislative Council is not an organization that represents the great majority of the Hong Kong people.

I myself think that, on the human rights issue, the Hong Kong people need not blindly pursue any international standard; in fact, the so-called international standards are monopolized by the white man's society. If the staff members of the Legislative Council would solicit the opinions of the majority of residents of Hong Kong City, this would be respecting Hong Kong's human rights; if they do not, this would be infringing on these human rights.

Ling Feng [0407 6912], (special column writer): I endorse the abolition of capital punishment for two main reasons:

First, there is the fear that after 1997 the Chinese Communists will abuse capital punishment in dealing with political offenders; and in dealing with other criminals there will be no abuse. Since the Chinese Communists took power, in each major program they have pushed they have killed a number of people, and among these killings there was no lack of unjust, false, and mistaken cases.

Second, Hong Kong's public order has recently been really poor, but I think these desperados do not care and that capital punishment would not have a deterrent effect. Capital punishment, on the contrary, is a kind of deliverance for the serious criminal; a serious criminal has more fear of a heavy sentence or a sentence of life imprisonment. However, in this respect there must be a precondition, viz., in a heavy sentence there cannot be at will a special pardon or a change in the original sentence; otherwise, it will be equivalent to no heavy sentence at all.

Liu Nai-ch'iang [0491 6621 1730], (manager): Given the concepts and viewpoints of the legal system of modern civilization, I do not advocate capital punishment. The pros and cons have been talked about too much, so I do not want to talk about them here. People who advocate the restoration of capital punishment should read books on criminal psychology.

Yeh Chih-ch'iu [5509 4249 4428], (special column writer): First of all, I myself do not favor the restoration of capital punishment. The deterrent efect of capital punishment on criminals is small. It is like a man who wants to jump off a building—if he wants to kill himself it is very difficult for other people to save him. Before this type of criminal commits a crime he thinks he can get away with it and he ignores the consequences. Thus capital punishment does not make him give up his criminal behavior. Gamblers only think of how to win power and prestige; very few of them consider what they will do if they lose. This is a truth.

Lao Ko [5071 2047], (salesclerk): I oppose the abolition of capital punishment. I firmly oppose it! My brother-in-law on the mainland did not do anything good all day. He has engaged in beating, smashing, and looting. Who says criminals do not fear death? He has done many bad things, but what he fears most is death. Once a despicable friend of his was executed by shooting for taking human life. For several months my brother-in-law was afraid and did not know what to do. Now he has changed for the better. He has become a householder and no longer makes trouble. It is the same with Hong Kong. Why is public order in such a mess? Although capital punishment cannot stamp out crime, it should be the punishment and retribution for those who commit the most heinous crimes. Some people think that sentencing a criminal to death deprives him of his human rights and that sentencing him to life imprisonment is too cruel. May I ask them this: For us city residents who abide by the law and behave ourselves, where is the guarantee for fairness then?

Chou Huang-fa [6650 7806 7569], (factory technician): Generally speaking, I favor the restoration of capital punishment. To imprison major criminals for a long time is a waste of society's resources and a waste of the Hong Kong taxpayers' money. If killing them is a case of not respecting their human rights, then the actions of the murderers themselves were cases of violating human rights so how do they qualify for human rights!

My only worry about the restoration of capital punishment is that there will be mistaken verdicts and mistaken executions. Once a person is dead he will not return to life. As for the worry by some people that after 1997 capital punishment will be abused by the Communist Party, this idea in itself shows a lack of understanding of the Communist Party. If the Communist Party really wants to make a certain person disappear, why would it go to the trouble of sentencing him to capital punishment? It is in the same category as a traffic accident or a certain person suddenly gone missing without a trace. What is the difference between these cases and executions by shooting?

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