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29 November 1991

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UNITED STATES

Active, Passive Foreign Policy Aspects

91CM0545 *Hong Kong NAN PEI CHI [NORTH AND SOUTH POLES]* in *Chinese No 253, 18 Jul 91*
pp 35-36

[Article by Ding Guo (0002 5470)]

[Text] China's foreign policy is based on consideration of her real interests, and slight changes have been noticed recently in issues dealing with human rights and arms limitation. Is this an unavoidable change, or is it an active revision of a long-term policy?

In a series of editorials written recently on China's foreign policy, I have mentioned, time and again, the problem of integrating principle with strategy and combining into one the two aspects of politics and foreign policy. I have emphasized strongly that the five basic principles (peaceful co-existence) comprise an idealistic concept in foreign policy that cannot be a magic cure that is a substitute for actual strategy and even less an excuse to refute certain value concepts (such as basic human rights) shared by all of mankind. Furthermore, I made some constructive suggestions on what I thought to be the way in which China's foreign policy can break through this difficult situation. What is causing some optimism now is the fact that recently China's foreign policy is steering closer to my views. It is along these lines that I am making some brief comments.

I. Breakthroughs in Issues of Human Rights and Arms Limitation

At present, the most complex problem in China's foreign relations with the West is the divergent views of both sides on problems dealing with human rights, nuclear arms limitation, and the role of strategic arms. China feels that the West, the United States in particular, is hoisting the banner of human rights as a front in its design to interfere with China's internal affairs and to thereby change China's political system. In limiting the sale of arms, the West, especially the United States, aims to monopolize the world's military weapons market and hopes, on the basis of it, to extract political benefits. On the basis of this knowledge, China has been maintaining a hard attitude toward these two problems and is distancing itself even more from the West. This has not led to any basic reduction of the West's sanctions applied after the "4 June Incident." Exchanges on the prime minister level between China and the West is still zero (with the exception of Japan whose naval minister will be making an official visit in August). We cannot say that this is a huge loss in China's foreign policy, but after the United States began to focus on extending the agreement to grant China most-favored-nation status in trade, China started to consider her real interests and her foreign policy has shown some slight change.

On limiting the dispersion of arms, China has announced, for the first time, that she will attend the

United Nations' five-member Executive Council meeting on safety to be held in Paris in July, where they will discuss the problem of limiting the sales of weapons to the Middle East. Before this, China had taken a pessimistic view toward this meeting, which she felt the United States would use to criticize China. Furthermore, when Assistant Secretary of State Bartholomew of the United States visited Beijing in June and met with Foreign Minister Qian Qichen [6929 0366 3819] and Deputy Foreign Minister Liu Huaqiu [0491 5478 4428], he brought a message from Secretary of State Baker warning that if China insisted on selling surface-to-surface missiles to the Palestinians and Syria, the bilateral relationship between the United States and China would suffer. What attracted some attention is the fact that during the time the assistant secretary of state was in Beijing, he was also holding direct discussions with officials of the committee on science and technology industries for national defense, who are in charge of Chinese arms sales.

China has always been very sensitive about the human rights issue, and this sensitivity was heightened after the "4 June Tiananmen Incident." However, it is not possible to sidestep this problem in talking about international relationships. So China has indicated recently that she would start discussing this problem with the West. The proof is seen in two events. The first involves the visit of an Australian human rights group to Beijing on 10 July, the first such foreign human rights group to be approved by the CPC to visit China. The second concerns a four-member team to be sent on a visit in September to the United States and Canada to discuss the West's human rights laws with their students and human rights groups. Furthermore, global human rights monitoring organizations, "Asia Observation" teams etc. have either been approved or are prepared to visit China. Opening the door to discussion of human rights is quite important, for China cannot stop it, nor can she cut herself off from the international community. To see such a new change in China, we should clap our hands for joy.

II. The Distance Between Being Active and Being Passive

Even as welcome changes occur in her foreign policy, China will always convey the impression that such changes are inevitable and, worse yet, a defeatist feeling that they are overruled by actual interests. This explains why China still lacks a long-term strategy. Her thoughts on foreign policy are inhibited by the effects of two previous wars and the cold war. The distance between being active and being passive here also demonstrates China's lack in understanding new characteristics in the present international situation. I wish to discuss this problem from these two aspects.

In the first place, we must recognize that the human rights issue is one affecting universally held values throughout the world. The fact that so many U.S. Congressmen have been concentrating so hard on China's

human rights problem is not because they particularly love human rights, but because of pressure from their constituents. Though Americans are particularly concerned about this problem, other European countries, such as France, also show this interest. It can be seen that protecting the basic rights of people (including the right to live and the right to free thought and speech) tally with the universal ideals and universal needs of mankind. Have we not seen how apartheid as practiced in South Africa has met with sanctions from the whole world? If China cannot face examination of her human rights problem by the international community, it is no different from cutting herself off from this community and not receiving the acknowledgement of the world citizenry. Consequently, any talk about modernization and internationalization are but empty phrases. From this, we can see that China's slow pace in understanding the human rights issue and her ineffective way of dealing with it have greatly damaged her international image. What is more important, this inattention to human rights has seriously damaged the Chinese people's self interest, self respect, and confidence, leading to a weakened national vigor (the brain drain is one example). I fervently hope that China's progress with the human rights problem is not just a foreign policy expedient, but it will form instead the basis for building the state so that human rights within China (including the rights of women and children) will receive wide respect. China's population is a quarter of the world's population, and the Chinese Government cannot ignore this problem.

Next, I wish to discuss the functional problems of international organizations. At the end of the cold war, the power of the superpowers to control world affairs diminished rapidly. The importance and necessity of international organizations, particularly the United Nations, to coordinate world affairs became obviously clear. Besides regional conflicts, the management of arms became a great problem facing international organizations. The Gulf conflict has told us that strengthening the arms of certain countries, without thought of balance or limitations, must necessarily threaten the

world and countries that still sell them the arms. The United States has learned a lesson (the Iraq problem) from this. So has China (the Vietnam problem). Therefore, it is necessary for the important arms exporting countries (such as the United States, China, France, Great Britain, Italy, the USSR) to sit down and discuss the problem of limiting arms sales. It is particularly important for the United Nations to organize and sponsor such activity. We must recognize that China is also a part of the world community and not a special world of her own. We must be in concert with the world and not act independently on our own. If the United States is biased on the problem of arms sales, then China should explore this with her at a conference of international organizations to obtain fair treatment and not use the mistake (possibly a big mistake) of others to cover up one's own mistake (possibly a little mistake). This is not fair to many smaller nations and those troubled areas of the world. I personally feel that international organizations are sound for the more that various views expressed at the table are discussed, the less likely will there be an opportunity for power and hegemony to hold sway. With respect to political dialogue on the home front, China has learnt a lesson in blood. Will she repeat the same mistake for political dialogue on the international level? Dialogue is the start to resolving problems as well as being the basis for developing a foreign policy strategy at the same time. If we do not assume the right to actively master the dialogue, our foreign policy implementation will necessarily take on a passive role.

Conclusion

In the foregoing discussion, I focused on the human rights issue and an international conference on arms limitation to analyze the active and passive aspects of Chinese foreign policy and pointed out the dead-end taken by the thinking behind the mapping of a foreign policy strategy for China. Perhaps all of this is general knowledge, but we have discovered that the tragedy of the world, or that of just one country, often originates from indifference and disrespect of this general knowledge. We should remember this and learn from it.

NATIONAL AFFAIRS, POLICY

Japanese Forum Views Economic Outlook for 1990's

92CE0008A Osaka JETORO SENSE [JETRO SENSOR] in Japanese No 3, 1 Jul 91 pp 81-109

[Article by the China-North Asia Team, including roundtable discussion by team members Akira Fujimoto, Kobe University Economics Department professor; Yoshiyasu Kojima, Daitobunka University International Relations Department professor; Masayuki Imai, JETORO Economic Information Center chief researcher; and moderator Yuzo Kano, JETORO Overseas Research Department, China-North Asia Team leader: "Toward a Unique Socialist Construction"]

[Text] It is said that the 1990's will be an era of an Asia vibrant with life. What will be the trend in China, which will bear one wing of it? In the midst of a mountain of such problems as population growth, unemployment and pollution, the development of China's coastal zone, which is deeply related to foreign countries, is striking. How far will these zones raise the economy as China's locomotive? We approached the domestic situation, foreign relations, and debt problem of a China that has its eye on the 21st century.

The China-North Asia Team

Part I. Roundtable Discussion: The Course of China's Economy in the 1990's

Roundtable participants:

- Akira Fujimoto, Kobe University Economics Department professor
- (Yoshiyasu) Kojima, Daito Bunka University International Relations Department professor
- Masayuki Imai, JETORO Economic Information Center chief researcher
- (moderator) Yuzo Kano, JETORO Overseas Research Department, China-North Asia Team leader

In China, at the recent Fourth Session of the Seventh National People's Congress, the Eighth Five-Year Plan, which begins this year, and a 10-year plan up to the year 2000 were adopted.

Having passed through the economic adjustment policy of the latter half of the 1980's and the Tiananmen incident, China is now trying to take its first step toward the 21st century in order to accomplish new stable growth. But a mountain of problems is piling up, such as a budget deficit, the relationship between the central government and local governments, agriculture and the difference between regional economies. The question of how to continue to manage this without friction will probably be the key to understanding future Chinese economic development.

In order to divine the course of China, which has a population of 1.1 billion, we invited experts on the Chinese economy and tried to approach the reality of it.

The Center or the Provinces: Leadership in Reform and Opening

Kano: The theme this time is China's economy in the 1990's, so I would like you to talk about the present state and future of the Chinese economy based on the Seventh Plenary Session of the [13th CPC] Central Committee (hereinafter Seventh Central Committee Session), the Eighth Five-Year Plan (1991-95) and also the recently held National People's Congress.

Politics and economics are two sides of the same thing, but there is the view that a distorted phenomenon has been produced in which politics are conservative and the economy is reformist. Furthermore, at the current meeting of the People's Congress, two deputy prime ministers were newly appointed. Is even the political side becoming reformist because of this? Please begin with this point.

Fujimoto: At the same time that I understand China's present situation in terms of a diagram of rivalry between a conservative faction and a reform faction in the central government, there is also a diagram of rivalry between the central government and local governments in a form that is entangled with that. However, concerning the aspect of the control of local ego and the strengthening of the center's overall controlling power, I take it that the conservative faction and the reform faction have united in confronting the provinces. Even advocates of the reform faction are, by a strengthening of macro control, harshly criticizing a change to a "feudal lord economy" led by the local governments.

As to what outcome this saw at the Seventh Central Committee Session, in order to control the ego of the provinces, the center tried to change the government-finance contract system and to introduce a divided tax system, but in terms of the result, it was put off for the duration of the Eighth Five-Year Plan. Furthermore, in January a reform of the foreign trade system was carried out. Its content was that, by reform of export contracts, put another way, contracts to obtain foreign currency, the foreign-currency holdings of local governments have somewhat increased. That is, although there was criticism to the effect that government-finance contracts and other "local-government contracts" are the foundation of the change to "feudal lord economy," almost nothing could be done on that side, so it ended with a compromise by the central government.

Even among the provinces, when the reform faction is said to have become strong if a coastal area like Guangdong Province is strong, can one not call that a reform and opening led by the provinces? The recent promotion of Zhu Rongji (former mayor of Shanghai) to vice premier and of Ye Xuanping (former governor of Guangdong) to deputy chairman of the (Political Consultation Council) [zhengzhi xieshang huiyi] were both

probably things in which the center tried to bring it to center-led reform and opening in the form of gaining the favor of the point men of local reform, but whether it will really move like that is an open question. I suspect that, as might be expected, local-led reform and opening will probably continue for the time being.

Kojima: The Soviet Union is white from the neck up, and the lower part is red, but China is the reverse of that; the upper part is red, but in the lower part one cannot stop the advance of economic reform. China has been tightening up the economy since the autumn of 1988, but the trend of reform cannot be changed. Reform has progressed among the provincial governments and foreign-capitalized enterprises of the coast, and in farm villages. But in farm villages, since about 1987 there has been a movement to try to restore some of the lost functions of the people's communes, and it partially succeeded in that in 1989 and 1990. However, the move toward merchandise economy as a trend has not changed. Consequently, I think the tightening policy of 1989, 1990 will move in the direction of reform.

Imai: I was interested in the observations of a Hong Kong data sheet. One, concerning the communique of the Seventh Central Committee Session, was that, despite the fact that its content placed overwhelming weight on reform and opening, on the other hand it is advocating construction of mind and civilization. The data sheet assesses this as that China may be trying to find a way out in a Singapore-style national construction of tightening politics and liberalizing the economy. One can say that it is a view which is very suggestive.

Following the Tiananmen incident of 4 June [1989] till about the time of the Fifth Plenary Session of the [13th CPC] Central Committee in November 1989, China strengthened a conservative tendency, and in the economy, too, appeared to be trying to strengthen planned economy, but, passing through a debate which lasted all of last year, the Seventh Central Committee Session ultimately ended in a form in which conservative opinion had not been accepted very much. Rather it became a matter of reaffirming that economically they would continue to advance reform and opening, but politically, that was not necessarily so. On this point, the direction of a development dictatorship which occurs in developing nations, I do not know whether consciously, but I feel that it will probably go in that direction in terms of the result.

One more point, the so-called two-system problem—the treasury allotment tax system and the enterprise tax interest offshoot system—the result of debate over several months concerning the problem of changing this system, was that it ended without being adopted, because of the opposition of a provincial leader—I think it was Ye Xuanping of Guangdong Province. Hong Kong newspapers report that this kind of thing has been extremely rare in the process of deciding on important policy up to now, so it is a matter with a very profound meaning, and I thought it very interesting.

Kano: At the meeting of the National People's Congress this time two vice premiers were newly decided on. What do you think about these appointments?

Fujimoto: Both Zou Jiahua and Zhu Rongji are what might be called technocrats, they are people who know a great deal about the practical workings of the economy; Mr. Zhu in particular is a person who in Shanghai was at the forefront of locally led reform and opening. Consequently, rather than being taken in by the center, as I see it I suspect that they are getting on board the center as, so to speak, the point men of the provinces, in order to make the center approve of locally led reform and opening.

Imai: In an October 1990 issue of RENMIN RIBAO there appeared a statement by Deng Xiaoping to the effect that they will make "reform something better, sooner, and more effective." Furthermore, the story has also been reported that around that time Deng called Jiang Zemin and two subordinates and requested them to promote reform and opening. Whether or not that is the reason, since November the statements of Premier Li Peng have begun to change to incline toward reform and opening. In the appointments this time Zou Jiahua succeeds Yao Yilin, but Zhu Rongji clearly belongs to the reform faction. There is the question of who will be promoted to membership in the Politburo after this, but I suspect that, as might be expected, it will probably be a matter of the power of the reform faction going on growing stonger.

Kano: There was an observation that Deng Xiaoping's power declined for a time, but if we look at this time's meeting of the National People's Congress and so on, it can also be said that Deng's latent power still exists.

Inconsistency Left Behind by Economic Policy

Kano: Next, on the economy, the Chinese Government is engaging in a propaganda barrage to the effect that the economy has recovered, but if one examines actual conditions, one sees all sorts of problems. The market is still a bit stagnant, and management of state-run enterprises is also poor. Please give your view on last year's assessment and the outlook for the economy.

Fujimoto: Last year's growth rate for GNP was 5 percent, so it conformed by and large to the planning target. I think that agriculture was particularly satisfactory. As might be expected, the problem was that recovery of industrial production is not uniform. In particular, the discrepancy between the recovery of the state-run sector and the non-state run sector is striking. In the early part of January the annual growth rates by sector were published, and in contrast to the fact that state-run enterprises were 2.9 percent, group enterprises were 9.1 percent, and in particular, locally run enterprises were 12.5 percent. Moreover, the growth rate of individual-run enterprises was 21 percent and that of foreign-capital affiliated enterprises was 56 percent, still higher rates of growth. In the assessment of last year's 5-percent growth in GNP, I suspect that the biggest problem is probably

the fact that, in the midst of the trend toward economic recovery as a whole, the pace of recovery of the sluggish state-run sector is not keeping step. This year's target growth rate is 4.5 percent, 0.5 percent lower than last year's; rather than the "firm maintenance of tightness" mentioned by Premier Li Peng, it is probably a matter of not being able to display too high a target in the present situation of no leeway in government finances.

A recent report said that from April through June China will hold a bargain sale of 20 billion yuan worth of consumer goods, but inventory adjustment, and more widely, adjustment of industrial structure, has not advanced at all. Because where by rights, in a recession, one should liquidate money-losing enterprises, state-run enterprises have not gone bankrupt at all. A considerable number of town and village enterprises and so on went bankrupt, but in terms of the result, recovery of production was also rapid. Therefore, the point that structural adjustment has not progressed is also probably a reason for not being able to establish a high growth target.

Kojima: To a certain degree I evaluate favorably the policy of the Li Peng regime since the summer of 1988. A number of big problems were produced in the economic policies of the preceding 10 years. The first was inflation, the second was a trade deficit, the third was a budget deficit, the fourth was stagnation of agricultural production after 1988, and the fifth, one may not be able to call this a contradiction, but it is the rapid progress of urbanization.

If we look at it which of these five problems was solved and to what extent, inflation and the trade deficit have by and large escaped from the worst conditions even though problems remain, so I think it is permissible to give them a positive evaluation as an accomplishment of these two years.

However, people say that agriculture was good, but that is only saying that it was bad in the previous three years, so it is good compared with that; agriculture in the Seventh Five-Year Plan is certainly not good. The plan was published with double targets—for the single year 1990 and the total target of the Seventh Five-Year Plan—and the target for 1990 has been more or less achieved. But if we compare the total target for the five-year plan with actual results, the result is extremely poor. For example, foodstuffs are less than 98 percent, cotton is 95 percent, oil crops are 84.5 percent, and sugar crops are less than 96 percent; meat and fish animal foodstuffs achieved their target, but the five-year targets for agronomy and crops have not been reached. Consequently, it is being publicized that agriculture is sound, but one cannot necessarily render the verdict that it has achieved enough in light of demand.

Therefore, three of the five contradictions which I mentioned a while ago have been left untouched, so one can probably not be optimistic. Furthermore, even if we take inflation, the government is creating elements which give birth to new inflation in the process of solving inflation.

It gathers deposits by means of government grants for paying a fixed rate of interest, about 80 percent are fixed-term deposits; it is fully conceivable that considerable surplus liquidity will be generated when those fixed term deposits are withdrawn.

The trade surplus, too, comes after considerable restriction of necessary imports of raw materials and machine equipment, so one cannot necessarily say that it is a sufficient satisfactory result.

And one more thing, if we view the aspect of growth rate, in the case of China, the significance is different from that of the growth rate of an advanced country; there is the side that if growth is 6 percent or less, the unemployment problem will grow more and more serious.

Increasing Gap Between Regions

Kano: Looking at economic growth for last year, it appears to me that the fact that there is a difference in the degree of growth depending on the area is also a special characteristic. Like coastal and inland, or north and south...

Fujimoto: Even among the coastal provinces, there are five places where growth is extremely high. Guangdong Province, Fujian Province, Zhejiang Province, Jiangsu Province, and Shandong Province are classified as regions that displayed good performance, abbreviated as the GP group. In contrast with that, such places as Shanghai City are by nature very high in terms of per capita income, but are low when viewed in terms of the growth rate for the last 10 years. Similarly, the growth rate is low for such places as Beijing City, Tianjin City, and Liaoning Province. That kind of difference emerges even in places which are all coastal areas.

Kojima: In the final analysis it corresponds to the structural change that state-run enterprises are no good, and that such non-state-run sectors as town and village enterprises are growing.

The declining efficiency of state-run enterprises has also appeared in figures; if we look at the indicators for profit and tax per 100 yuan of capital, in 1982 it was 23.5 yuan. This figure fell greatly in 1985, to about 21. In 1987 it fell below 20 yuan, and in 1989 was 19.4 yuan. And last year, 1990, efficiency had worsened still more at 13.8 yuan. This is a fairly serious problem, so I suspect that the point of whether it will continue to sink or will recover, will determine the trend of the Eighth Five-Year Plan.

Therefore, in places that are introducing foreign capital or places where town and village enterprises have developed, results are good compared to places centered on state-run enterprises. Such places as Guangdong Province, Fujian Province, Jiangsu Province, and Zhejiang Province have grown greatly. In other words, it is probably a matter of them having to push ahead with economic reform even though they tried an experimental tightening up.

Fujimoto: Even in Liaoning Province, many Japanese enterprises are operating in Dalian and so on, but looking at the province as a whole, it is, as one might expect, a heavy-industry zone. The per capita income was originally high, but in the space of about 10 years the growth rate will become extremely low.

Imai: The three northeast provinces are places where there is a lot of state management and heavy industry, but the question of why they are in a slump over the long term is such that there is even a term, "the northeast phenomenon."

Kojima: The fact that heavy industry is no good at today's state-run enterprises is common to all socialist countries. Even if one takes the Soviet Union and Eastern Europe, the heavy-industry sector of state-managed enterprises has become a heavy burden. Therefore, is it probably not true that China did not become as bad as the Soviet Union and Eastern Europe as a national economy because, in the course of economic reform, such people as former secretary general Zhao Ziyang extended light industry in the coastal region, put effort into exports, and promoted introduction of foreign capital?

Fujimoto: Along with the problem of the management predisposition of state-run enterprises, there is also the problem that the heavy industry sector is a disadvantageous industry in terms of price, so that, however much one strives, one does not make a profit. A certain disputant from Heilongjiang Province makes the statement that "our hands and feet are bound by the government, so we cannot do things freely." In the question of what brought about high growth for the GP group which was mentioned a while ago, first of all, a relationship with the outside, then the management system, and the question of whether or not a state-run enterprise can act in the manner of a private-sector enterprise has also become an important point.

Imai: Speaking in terms of relationships with the outside, where China differs greatly from the Soviet Union and Eastern Europe is that there exist links between Guangdong Province and Hong Kong enterprises and between Fujian Province and Taiwan enterprises, and links with Overseas Chinese and Chinese-owned enterprises in foreign countries. I am not saying that China has a market economy, but it is trying to carry on a merchandise economy, and it can probably be said that there is a very great benefit from learning merchandise economy.

Fujimoto: What impressed me very much when I visited Guangdong Province and so on was that they are building such things as power plants, railways, and roads at the provincial level. Of course the central government is not in a position at present to pay out money lavishly. Therefore, in the locality itself, the opinion is also heard of asking the central government to let them do things freely because they do not need money.

Imai: In a certain economic research paper there appeared a proposal that the provinces be allowed to prepare the infrastructure and so on. In the problem of system change mentioned previously, the central government is telling the provinces to put up money because such important projects as preparation of infrastructure will be done by the central government. It claimed that some members of the reform faction wish to allow it to be done by the localities.

Fujimoto: China is a big country, so even if the central government does it, there is a limit to funds, so it is very difficult for it to spread throughout the whole country. There is also the concern that if it becomes a "feudal lord economy" local governments might intervene in enterprise management in place of the central government, but in the case of Guangdong Province according to my impression there is the sense that it is allowing things to be done freely at the enterprise level, and that the local government is putting effort into preparation of infrastructure and that it has gone well. Although in its public posture local government is accepting the central government's assertion of "a joining of plans and markets," in reality it has not turned out that way at all.

Imai: It is probably a criticism from the central government side, but there is also the view that it is provincial ego.

Fujimoto: That aspect, too, certainly exists; it is a difficult problem. And yet, if the central government controls things and clamps down on everything, it will probably end up hindering the activation of local areas and the activation of enterprises as it did previously.

The Eighth Five-Year Plan: Assessment and Problem Areas

Moderator: Did you have any special impression about the Eighth Five-Year Plan?

Fujimoto: The priority items listed at the very beginning of the 10-year plan of the Seventh Central Committee Session are the following three:

The first is "adjustment of industrial structure." The second is "reconstruction by means of traditional industry and the advanced technology and equipment of existing enterprises," that is, they will attempt intensive, not extensive, development. The third is "rational specialization and harmonious development of regional economies," but this probably also has the meaning of a feint to keep feudal lord economy-type moves in check.

But Li Peng's report to the National People's Congress lists as the very first of the important problems of economic construction for the next 10 years "maintaining the balance in the whole of the economy," that is, balance in the whole of government finance and commodities. The second is "adjustment of industrial structure," and the third is "rational specialization and harmonious development of regional economies."

Therefore, it means that the "reconstruction by means of traditional industry and the advanced technology and equipment of existing enterprises" of the plan of the Seventh Central Committee Session and the "maintaining the balance in the whole of the economy" of Li Peng's report replace each other. I got the impression from Li Peng's report that the trend of tightening up the economy is still being stressed.

The average growth rate for GNP over the 10-year period is adjusted to 6 percent. The actual result for 1981 through 1989 was 9.3 percent, but for 1990 it fell to 5 percent. When one says that the growth rate for the next 10 years will average 6 percent per year, it means it will be very low compared to the actual results of the 1980's. China can probably call it an orientation toward stable growth. The problem is that it is unclear whether it will be possible to solve the main problems and important tasks of economic development mentioned earlier, which become the content of stable growth, whether it will be possible to reform the structure of the economy, and where the emphasis of structural reform will be placed.

Kojima: Concerning agriculture, according to the target, food is planned to be 450 million tons in 1995 and 500 million tons in the year 2000; but, looking at demand, it will fall short by 10 or 20 million tons. For example, in contrast to the fact that the annual rate of growth for food production from 1953 through 1990 was 2.54 percent, the annual rate from 1982 through 1990 was 2.31 percent, so it fell considerably. Over a long period, 0.23 percent is a considerable drop. But in the current Eighth Five-Year Plan it is less than 1 percent, so it will never be enough. The population continues to grow by about 17 million people each year.

On the food problem, about as much meat is eaten in the cities as is eaten in Japan, but in farm villages only half as much meat is eaten as in the cities. If the farming population of 700-800 million is ignited by discontent, it will be very bad. I think it depends on whether the government can control them. Therefore, when I look at the Eighth Five-Year Plan or 10-year plan, an imbalance in the self-sufficiency of farm villages has been produced, so they will probably have to go on in the direction of importing food and animal feed.

But I think there are two points in the Eighth Five-Year Plan to which I can give a positive assessment. The first is the part about rebuilding government finance. In order to reduce the large budget deficit, they have decided in the end to continue to reduce little by little the subsidies for losing enterprises and various price allowances. This has immediate repercussions in political problems, so the Soviet Union and Eastern Europe were not able to do this. In the case of socialism, the biggest question is how far these can be lowered. China noticed this. It seems to me it was probably done by the mayor of Beijing, but there is written "there is no way other than to gradually reduce the money for subsidizing losing enterprises and

price allowances." I am not sure that it can be done politically, I think it will be difficult...

As to social security, an item to the effect that "social welfare will be carried out by districts, regions, and by single cities" already appeared in the Seventh Five-Year Plan of 1986. It is especially pensions. In the case of Japan's National Railway, many people received pensions higher than the people who were working at that time, and it was one of the causes of the deficit. In China, they said let us carry it out by district and region, that is, for each enterprise. There are many retirees, and the mandatory retirement age for women is 55, five years earlier than for men, so the budget burden of pensions is considerable. However, reducing pensions would be a very difficult job. Can one attempt the reduction of vested interests in a socialist state? I think it is impossible, but it is a fact that they are aware of it. And I can give this a positive assessment. It is probably possible that, if they go on doing this, the kind of things which are seen in the Soviet Union and Eastern Europe, in which the system, itself, crumbles because of budget deficits, will decrease considerably.

Fujimoto: According to this year's budget report, they are gasping under the double affliction, caused by recession, of a reduction in collection of taxes and payment of profits from state-run enterprises and an increase in subsidies to state-run enterprises. The subsidies to state-run enterprises consist of compensation for enterprise deficits and compensation for price differentials. Compensation for enterprise losses is 57.8 billion yuan and price subsidies are 37.8 billion yuan, so together they amount to 95.7 billion yuan. This amount has not grown too much compared with 1989, but it has grown a great deal compared with amounts before 1989.

Incidentally, 95.7 billion yuan corresponds to 31 percent of last year's domestic treasury income, that is, income which excludes foreign-loan income. It works out that 30 percent of domestic budget income is allotted to compensation for deficits and prices of state-run enterprises. Moreover, last year's real budget deficit, in other words, if you calculate by adding domestic and foreign debt income to revenue, is 50.9 billion yuan, which comes to approximately 15 percent of total annual expenditure.

According to this year's budget report, it is arranged that a number of measures will be taken in regard to this situation.

First is reduction of price subsidies, that is, price increases carried out in the name of price adjustment. The schedule calls for a reduction of approximately 5.0 billion yuan by this. But this is also being reported in newspapers, and it is feared that it will lead to rekindling of inflation.

Second is raising taxes. This is a revival of the retail business tax which they already tried to impose once last year and discontinued; an increase in income of approximately 7.0 billion yuan is expected by this. It is possible

that this, too, will become a cause of price increases if it is passed along to retail prices.

Third is a lowering of the exchange rate. It was lowered twice, in December 1989 and November 1990, but, last year, it was not so much for the purpose of mounting an export drive as it was a lowering for the purpose of reducing export subsidies. Although the balance of trade improved in the course of adjustment in these two years because China strove to expand exports, it boomeranged on the budget because of the increase in export subsidies. It will be reduced by about 5.0 yuan by last year's 10 percent lowering of the exchange rate and the abolition of export subsidies. But there is fear that enterprises that produce export goods might lose the desire to export because of the abolition of export subsidies. Furthermore, because the exchange rate was lowered, the domestic price of imported goods rises, so this time the need may arise for subsidies for imported merchandise.

Nothing has been done as yet concerning reduction of compensation for deficits of state-run enterprises, which is oppressing the budget along with price subsidies.

With Pressure From the Left, Housing Reform Is Necessary

Kojima: As points to be praised in the Eighth Five-Year Plan, first of all I gave the reconstruction of government finance; as the second, I will give the housing problem.

Expenditure for housing in cities is on the level of the oft-mentioned price of cigarettes. Since 1982 the government has permitted individually owned houses, but it has had a hard time spreading. Should one ask why, it is because even if one puts up for sale a residence that one has acquired, it will not be recognized as asset value. When one puts it up for sale, one sells it to the locality, that is, if it is in Shanghai City, to the Real Estate Public Corporation of Shanghai. When selling it, one calculates in a small amount of profit. Moreover, even if a parent who is employed by a state-run enterprise dies, the child will never be driven out of the housing of the state-run enterprise. But enterprises have also planned in various ways. For example, in the case of Shanghai City, taking a 10-to-15-year-old existing 2LDK [two-room apartment with dining area and kitchen] as being from 15,000 yuan to 17,000 yuan, they have begun to spread home ownership in a form in which the individual bears one-third only, one-third is subsidized by the enterprise, and the remaining one-third is covered by a state subsidy. However, it does not recognize the change of houses to assets. Therefore, one cannot sell it by speculation. If that is what happens, it means it is more advantageous to live by paying rent on a level with expenditure for cigarettes than to pay a lot of money to buy a house.

If one compares the ratio of housing costs to household-budget expenditure, it is about 25 percent in Tokyo, but in Chinese cities it is actually about 0.7 percent. If one bestows things virtually free through social welfare, there will ultimately be no way to reconstruct the budget. But, in the Eighth Five-Year Plan, it is held that homes must

more and more be made into merchandise. As a concrete policy, it is the point of whether they recognize speculation in housing for every individual, and it has come to that crucial point. Within the scope of looking at the situation of the budget deficit, they will probably have to recognize this.

Fujimoto: Li Peng's report to the National People's Congress also cites the housing problem as one of the priorities of reform.

First is "groping for a union of plan and market." The next is "activation of state-run enterprises." The third is "reform of the housing system and the social security system." The fourth, typical of Premier Li Peng, is "strengthening of the state's macro control." This is, in other words, something that seeks to concentrate necessary money and goods at the center. I received the impression that Premier Li Peng is placing the emphasis of reform on the two points of "union of plan and market" and "strengthening of macro control."

However, I think that the significance of the housing problem appearing in the third important point is the kind of thing that Professor Kojima mentioned a while ago. It was recently reported that Shanghai City will reform housing before anything else. The necessity is probably strong in Shanghai City.

Kojima: In a word, it is a question of whether it is possible to lower existing ownership rights. It is the most difficult problem.

Fujimoto: Reform is something which is accompanied by pain, because one cannot very well avoid the pain and receive just the good part.

Kojima: For that reason, leaders must take the initiative in doing it.

Changing Policy on Introduction of Foreign Capital

Fujimoto: When we look at China's economic relationship with foreign countries, with Japan's yen loan at the beginning of November 1990 as the beginning of the relaxation of the freeze, World Bank loans to China were resumed, and loans from private-sector banks in Japan, Europe, and the United States headed toward resumption. The Chinese Government, too, probably felt relieved. But the bringing in of private-sector funds has also become fairly limited because of BIS [Bank for International Settlements] regulations and so on. Therefore, the policy on introduction of foreign capital is being pressed by the necessity of changing strategy from that up to now, which was centered on loans, to one centered on direct investment.

Imai: It has already clearly changed.

Fujimoto: Because of that, preparation of the investment environment is still more important. For a time an argument was seen in China to the effect that it would also be possible to make use in China of the debt-reduction measures of the countries in Central and South

America with accumulated debt. It is an argument which lacks real perception concerning what kind of harsh burdens and duties such a prescription would bring about for the debtor nation, China. It is necessary to quickly change strategy to a formula for using foreign capital which is mainly direct investment.

Imai: Last year articles like that were also being published in such journals as ZHONGGUO JINYU.

Fujimoto: A fair number of ones which discussed the appropriate scale of foreign debt are also seen.

Imai: It appears that there is also the view that China should negotiate to reduce the debt. Four or five years ago China was borrowing steadily at low interest. Private-sector interest rates were almost lower than official ones. The situation in which it was possible to borrow with such ease changed suddenly in the last two years. There is also the influence of the Tiananmen incident of 4 June 1989; there are the BIS controls; demand for funds in the Soviet Union and Eastern Europe increased; and, in addition, reading the very stringent conditions of the Gulf war, they changed from borrowing to the direction of direct investment. But this viewing of direct investment as important also existed once about 1982 or 1983, and at that time it became a matter of suffering by economic adjustment, and hence wishing to put effort into direct investment; but beginning from about 1985 or 1986, it moved once again toward borrowing. And now China has again begun to put effort into direct investment.

Views of the Pudong Development Plan

Fujimoto: Direct investment of foreign capital can also be seen in Shanghai's Pudong development plan. The special characteristics of the Pudong development plan are the following two points. One is that it permits entrance of foreign capital into such fields as, for example, finance, foreign trade, and commerce, into which, heretofore, penetration by foreign capital was not permitted. The other is authorization of large-scale land development by foreign capital.

In short, its aim is to seek the main source of funds for Pudong development in foreign countries. Therefore, what next becomes a question is whether the same kind of preferential conditions as apply to foreign capital will be provided when, for example, interior enterprises operate in Pudong. If it turns out that such things as, for example, a preferential tax system, are bestowed upon interior enterprises too, interior enterprises will also come to invest steadily in Pudong. If that happens, funds will not only enter from foreign countries, domestic funds will also concentrate in Pudong; moreover, it will also mean tolerating further expansion of the economic differences among regions which have now become a problem. In terms of result, there is also the possibility that it would mean hindering balanced domestic development. Or will they approve preferential treatment for

domestic capital, and go on promoting development following a strategy of coastal development? That part is still less clear.

Imai: In regard to funds, they are saying that 30 percent will be from the central government, and the local area, Shanghai, 30 to 40 percent from foreign capital. [omissions]

They appear to have been considering development of Pudong since about 1985. I think that one reason why it happened to be formally decided on in April 1990 was to make it proof that reform and opening would not change. Even if one just talks about it, the foreign-nation side cannot understand if one does not put it out in a concrete manner, so they put out the Pudong plan.

Another reason is that Shanghai's foundation ended up sinking during the 10 years of reform and opening. The place which in the past had stood in the forefront, had, in 10 years, descended to 10th place, so I suspect there was dissatisfaction in Shanghai and its environs. I think the Pudong development was also to solve this dissatisfaction. I think it also had the kind of domestic-oriented meaning that by linkage with the inland area in the upper reaches of the Chang Jiang valley, the inland area would also develop together with it.

Fujimoto: In abstract theory, there is something called the ladder theory, right? First one introduces advanced technology to the coastal region from foreign countries, and after a while it spreads to the kind of region in which the intermediate technology of an intermediate zone can enter; after that, one causes it to go on to influence the most remote regions, where traditional technology is the mainstream. In the final analysis, the coastal development strategy applied this theory, and I think that probably in the case of the current Pudong development, too, they are thinking in a form that follows that line.

If that is so, it means that it is permissible to a certain extent for domestic capital to gather in Shanghai; that is, it is permissible even if one lures to Pudong in large numbers what are called in China domestically affiliated enterprises which attract foreign capital. But interior areas will probably be dissatisfied with this, so how in the world will they adjust it?

Imai: If that is the point, voicing at the Seventh Central Committee Session of the early affluence thesis, which holds that some areas will become affluent before others, does not appear in the outline of the Eighth Five-Year Plan. Nothing appears but the common affluence thesis.

Fujimoto: That is true. To be sure, the practice of the early affluence thesis has come to life again, but, I wonder if it is not a matter of people not saying it clearly because there is fear that an unfavorable reaction will emerge if they encourage the early affluence thesis.

Imai: In regard to that area, strictly speaking, it appears that there is a difference between the one that emerged at

December's Seventh Central Committee Session and the outline of the Eighth Five-Year Plan.

For example, it is also true of the early affluence thesis which we mentioned now, but in addition, the treatment of town and village enterprises has also changed. In the Seventh Central Committee Session, town and township enterprises were taken up in a very big way. In industries it is the second most important, after agriculture. But it does not appear much in the Li Peng report, and it is hardly shows up in the outline either. Therefore, it is just possible they are making it inconspicuous in terms of location by debating it at the National People's Congress. Or it may be that the dissatisfaction and so on of conservative people and inland people emerged, so they had to revise it.

The Thesis of Long-Term Stagnation of Agriculture

Fujimoto: Professor Kojima, I would like to ask you about the agriculture of today's China. In the first half of the 1980's, primarily because of the influence of such things as system reform and raising the prices of agricultural products, statistically the labor productivity of agriculture was extremely high. It was different from the trend of other developing nations. That has stagnated in the second half of the 1980's. It is probably the general situation that there is a limit to the growth of agricultural productivity when economic development progresses to a certain stage. I suspect that Chinese agriculture, too, has come to that stage.

I wonder if the movement of the labor force will not become a problem for future development of agriculture. I wonder if the task is not to reduce the number of people, and increase productivity as a result. If that happens, as might be expected, the development of town and township enterprises will gradually become very important as places for absorbing agriculture's surplus labor force.

Kojima: Concerning agriculture, in the last three to four years there have been a fair number of theses to the effect that agriculture had leveled off and would be stagnant for the long term. If one were to ask what kind of thing they are, land resources and cultivated land have grown smaller overall. It was highest in 1957, and since then 8 to 9 percent has been ruined. There is no other nation like this in the world's economic history. In the case of the United States, if we begin with the time around 1870, the area of cultivated land has increased by about 3.5-fold. In the Soviet Union, if we make 1913 of imperial Russia to be 100, it has increased by about 2.7-fold. In the case of Japan, there was Hokkaido, so comparing it to the mid-1960's, immediately before carrying out acreage reduction, it has become 1.25-fold. But in the case of China, because it is one of the world's oldest agricultural civilizations, it has been brought completely under cultivation. Therefore, the area brought under cultivation has decreased by about 8 to 9 percent since 1957, and I think that this trend will not change whatever one does.

Another is the problem of the policy of former General Secretary Zhao Ziyang, the fact that it neglected agricultural investment. It is probable that agriculture will stagnate over the long term because of that.

The current Eighth Five-Year Plan and 10-year plan, have basically also been drawn up based on the thesis of long-term stagnation of agriculture. There is a limit on productivity, so I think one cannot guarantee the growth rate that has existed up to now unless a greater investment is made.

Fujimoto: Therefore, even in the section on agriculture, it views agriculture as important, and says that investment will be increased, but it does not have the reserve power, does it?

Kojima: Since it does not have that reserve power, the policy that it is adopting is revival of the people's communes. As I see it, one-third of the functions of people's communes are being revived. It was also stated in Li Peng's speech that "we will make sound a two-layer management system which links unity and divergence, and gradually strengthen the real power of a collective economy." One meaning of the two layers is individual agriculture and family agriculture, another is joint management.

The special characteristic of the people's commune lay in the fact that it made the labor force common without making each individual work. But I think it is no longer possible to reorganize things concerning that part. This means that, in people's communes, one cannot use working time as one pleases. One does things by orders from above. That is, about 50 percent of the significance of the people's commune lay in the fact that the government completely controlled the labor force. A remaining 25 percent is built-in compulsion, and 25 percent is sale of agricultural products under government leadership. Such being the case, what is currently carried on by joint management is irrigation.

At present in farm villages people's communes are making people do irrigation construction in a compulsory manner, in the style of the people's communes of former times. I am positive that there were fruits of this last year and the year before last. Now, it has become a system for 15 to 20 of the approximately 300 days of working time in a year to be allocated to the town government for irrigation construction. But actually, it appears that the farmers do not move. Town and township enterprises make more money, and if one is to pay irrigation-construction farmers the same wages as town and township enterprises, expenditures for irrigation will begin to mount up.

During the last two years a policy of retrenchment was carried out in the cities, so town and township enterprises also went bankrupt and about 15 million people returned to farm villages. These people were allocated to

irrigation construction, but this was an emergency evacuation, so to speak, so it is probably impossible for those returning to farming to constantly increase in the future as well.

Speaking in terms of what is called "tong" and "fen" in Chinese, that is, unity and division, in regard to agriculture they almost completely did away with the unity. This is clear from the fact that irrigation construction was impossible in the 1980's, and that has led to stagnation of agricultural production.

That, and the chemical fertilizer plant of the time of former chairman Hua Guofeng, which came to as much as approximately 1 billion yuan. Thanks to that boon, the output of petrochemical fertilizer increased greatly. Therefore, the only thing in line with scientific technology which can be done in the future is development of agriculture. This has become the mainstream, so the present policy is probably to tell people to create a type of agriculture that economizes on resources. What is meant by the resources in that case is to economize on everything: arable-land area, water, and anything at all. There is no other way than this to increase agricultural productivity. Therefore, what is called the thesis of agriculture's long-term stagnation probably underlies it after all.

Next, concerning town and village enterprises, competition with state-run enterprises on pollution, energy, and raw materials will probably begin to be a problem. Even in the current Eighth Five-Year Plan and 10-year plan, the problem of pollution treatment has become one of the foremost tasks. This is a very serious problem. According to my calculations, we made a large investment in pollution treatment in Japan in the 1970's. Both government and the private sector are using about 1.4 percent of GNP, more than is spent on armaments, on pollution prevention in the broad sense. If we compare the world at that time, the United States, which was the greatest, spent about 1.8 percent. If one were to ask about China, in state-run enterprises it is approximately 0.4 percent of GNP. The geographical features of Japan and China are basically different. Japan has abundant rainfall and is surrounded by the sea, so water runs cleanly everywhere. It also has a prevailing westerly wind, and there is also steep topography. In China there is none of that at all. On the other hand, all of 15 to 20 times the smoke and soot of Japan falls in China. If you think about that, in the case of China unless one uses at least about 3 percent of GNP, it will be impossible to make the worsening of pollution level off.

The most important entities in pollution prevention are small and mid-sized enterprises and households. Large factories have an exit in one place, so pollution control is comparatively easy, but town and township enterprises do not go like that. And in the case of Japan, as might be expected, the demands from the people were great. A typical instance is the Minamata struggle, but that is

impossible in China. One can say that the interrelationship between promoting the democratization movement and the pollution problem is very deep.

And yet, coal production is now 1.1 billion tons, so... A great deal of Chinese acid rain has already fallen on Japan. Therefore, people are saying that if China develops, Japanese demand will grow, and it will reach the point of things selling well, but I wonder if this time the retaliation will not come from the sky. Therefore, I would like to ask the Ministry of Finance if it would not be good, if they are going to use ODA [official development assistance], to use about 10 percent for afforestation, and another 10 percent for use in pollution treatment with strings attached. Moreover, in China the coast will develop, right? In regard to pollution generated on the coast, almost no acid rain will fall on China, it will all come flying over here. It is probable that 10 years from now production of coal will probably reach about 1.4 billion tons, so it will probably produce vast damage.

The 1990's Will Continue To Be the Era of the Western Pacific

Imai: In regard to the 1990's, the economy of the coastal region will be comparatively good in the aspect of opening to the outside, so, as might be expected, this will probably also have the aspect of the fruits of opening to the outside. Concerning that, at the Seventh Central Committee Session, too, they reaffirmed the strategy of development of the coastal economy, and if such things as preparation of the investment environment also accompany it, just as the 1980's were called the era of the Western Pacific, I think that the 1990's will also be in that direction. In other words, that the Asian NIE's [newly industrializing economies] will develop, next ASEAN will develop, and China will also go on developing with them is, I think, something which is going on even now.

The wages of Asian NIE's have also begun to rise, and the domestic investment environment has also worsened somewhat, so enterprises of the Republic of Korea, Taiwan, and Hong Kong have begun operating in ASEAN countries and chiefly in South China. If at least the open policy does not change, I suspect that in the 1990's, too, just as in the 1980's, it will be a bright factor which invites growth, particularly centered on the coast.

The one that stands out now is Taiwan. Beginning in 1988 Taiwan enterprises entered Fujian Province and Guangdong Province in an avalanche, and there are said to have been 2,500 companies at the end of last year, worth \$1.8 billion or \$2.0 billion. During the Eighth Five-Year Plan they will get into production, and will be directed toward exports, and will also lead to acquisition of foreign currency.

It is often a topic of conversation, but viewed from U.S. statistics, the country with which the United States has the largest trade deficit is Japan, right? Last year it was \$41.1 billion. In second place is Taiwan, with \$11.2 billion, and China, with \$10.4 billion, has risen to third

place. If it continues at this pace, it may overtake Taiwan this year. If one thinks about that kind of thing, on the side of opening up to foreign countries, I suspect that one can depict a fairly bright outlook centered on direct investment.

Fujimoto: I also think so. The five coastal provinces that had good performance have approximately 7.4 percent of the territory of all China, but as of 1986, the population was 272 million. It accounts for 25 percent, one-fourth of the entire population. The size of the population is about twice that of Japan. When that begins to develop, the influence exerted on the whole will be great. Of course China as a whole has an extremely high number of difficult problems...

Kojima: Having that large a population, I think China is doing fine. Anyhow, if you actually go to China and see, one feels that it is a nation with a per capita GNP of \$300.

Kano: Thank you very much for your kindness today.

Part II. The Course of China's Foreign Economic Relations in the 1990's

In 1988 China's foreign trade for the first time reached the major level of \$100 billion in two-way trade. After that, although imports were restrained under economic adjustment, as a result of exports having expanded, China's foreign trade saw still greater development. Thus, setting new records for the highest in history, 1990 was filled with records: the surplus was the highest ever and foreign currency reserves also were the highest in history.

Furthermore, in 1991 foreign investment in China is on an activating trend, and trade via joint venture enterprises has also expanded. In the following we will describe the latest conditions centered on trade and investment.

A. From the Tiananmen Incident to the 1990's: China's Opening to Foreign Countries Sees New Developments

China, which at the December 1978 Third Plenary Session of the 11th CPC Central Committee attempted a great change of policy, from giving priority to politics to emphasizing the economy, has expanded external economic relations based on a policy line of reform and opening. However, because of such things as meeting Western advanced nations' economic sanctions against China because of the Tiananmen incident of June 1989, China's external economic relations encountered their greatest test since adoption of the line of reform and opening. We tried probing the current situation of the external economic relations of China, which, entering the 1990's, and retaining the aftereffects of the Tiananmen incident, is trying to achieve new development.

More than 10 years after the line of reform and opening was adopted at the Third Plenary Session of the 11th CPC Central Committee in December 1978, China's external economic relations suffered economic sanctions

from the Western advanced nations because of the Tiananmen incident of 1989, so it was forced to retreat for a time, but one may say that it achieved development which surpassed initial expectations. If we look at actual results for 1989 first in regard to foreign trade, on a two-way base it was \$111.7 billion, so it had about a fourfold increase (ninefold on a yuan base) in a 10-year period from the \$29.3 billion of 1979. Moreover, in the introduction of foreign capital as well, although, suffering from the influence of control measures, 1989 fell below the results for the previous year for the first time since 1983 (Note: Amounts for actual results have been published by single fiscal years since 1983.) Even so, the amount of foreign capital used was \$10.1 billion (execution base), having expanded fivefold compared with 1983 (\$2.0 billion).

Though this kind of development of external economic relations was in stages, one can probably say that it is a result in which such reform and opening policies succeeded as delegation of the authority to manage trade, which had been controlled in a unitary manner by the central government, and active introduction of foreign capital by such things as establishment of the Joint Venture Law (1979) and establishment of special economic zones (1980). Even in 1990, foreign trade showed real results which surpassed those of the previous year. In a situation in which the economic sanction measures of Western advanced nations other than the United States and of such international agencies as the World Bank have been eased or removed, attention is being given to the question of how closely China can approach the level of introduction of foreign capital before the Tiananmen incident.

1990's Foreign Trade Had a Favorable Balance After a Break of Seven Years

According to China's customs clearance statistics, foreign trade for 1990 reached \$115.41 billion, a 3.3-percent increase over the previous year. In contrast to the fact that exports greatly exceeded the actual results of the previous year, imports fell below the actual results of the previous year for the first time since 1982, a hiatus of eight years. China, which confronted high 18.5-percent inflation in 1988, hammered out a policy of economic adjustment, and in external trade, imports were restrained. After that, the adjustment policy succeeded and the overheating of the economy subsided, but the fact that the chaos of the Tiananmen incident was added to that, so business conditions cooled off rapidly, and it reduced import demand, forms the background for the import stagnation of the 1990's. An expansion trend in regard to exports was maintained because of such things as the fact that local autonomous bodies and trading companies, which contracted in 1988 for such objectives as acquiring foreign currency and foreign-currency payments to the government, made exports more active and strove to acquire foreign currency, and that, furthermore, an export drive was held by a devaluation of the yuan (of

approximately 21.2 percent in December 1989) which was aimed at promoting exports.

The result of this was that the balance of trade in 1990 completely escaped the deficit trend which had lasted until 1989 and became a surplus amounting to all of \$8.71 billion. It was seven years since 1983, when external trade had last had a surplus. Thus, foreign currency reserves, which had hit bottom at the end of August 1989 increased even after entering 1990, and at the end of that year reached \$28.594 billion. China says that it will attempt a moderate expansion of imports in 1991 (chiefly advanced technology and equipment, and materials for use in priority production and construction and in agriculture). However, for reasons such as 1992 corresponding to the peak year for repayment of foreign debt, and requiring a large amount of foreign capital for development projects, a policy which emphasizes promotion of exports will probably be adopted for the time being.

Foreign-Capital Affiliated Enterprises Which Support Exports

As a point that deserves special mention in 1990's external trade, which surpassed the actual results for the previous year against the background of a sudden increase in exports, it is pointed out that the amount of exports based on improvement trade saw a great increase (\$25.4 billion, 40 percent of all exports). Improvement trade has begun to expand from such places in south China as Guangdong and Fujian to north China, and its development has followed the locus of China's policy line of opening to the outside, which is displayed by establishment of special economic zones, designation of 14 coastal open cities (1984), the coastal zone economic development strategy (1988), and 1990's Shanghai Pudong development zone, and it can be said that the result is that it is due in large part to cooperative relationships with foreign capital having deepened. This is substantiated by the fact that exports by enterprises in special economic zones and foreign-capital affiliated enterprises (concentrated in special zones and the cities of coastal provinces) were sound. Total imports and exports for five economic zones (Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan Island), which saw their 10th year in 1990, were \$15.66 billion, a 13.6-percent increase over the previous year; in particular, exports exceeded imports for the first time, growing greatly at \$8.05 billion, a 23.4-percent increase. Furthermore, it is also distinctive that the proportion accounted for by special zone improvement trade had expanded rapidly with a 50.8-percent increase in exports and a 41.4-percent increase in imports compared with 1989. The exports of foreign-capital affiliated enterprises were \$7.81 billion, a 58.9-percent increase, surpassing by a wide margin the 18.1-percent growth rate of exports nationwide. As a result of this, the foreign-capital affiliated enterprises' share of total exports nationwide rose by more than four points, from the 8.3 percent of 1989 to 12.6 percent. It can be called a great positive result of the policy since 1978 of opening to the outside.

In addition to this, one can also not ignore the role played by town and township enterprises as a factor in the recent growth of exports. Town and township enterprises, which were born in the course of reform in agriculture, acquired foreign currency in the last five years which accounts for 28 percent of all foreign currency (\$13.0 billion in 1990) and so on, have contributed greatly to development of external trade. It is the policy of the Chinese Government to actively convert in the future to an export-type, foreign-currency-acquiring-type economy, so in this aspect the role of town and township enterprises will probably be viewed as more and more important. Furthermore, since the scale of town and township is small, they are expected to be the partners of overseas small and mid-sized enterprises that aim at operating in China by such things as commission production, knock-down, and compensation trade, so it is fully conceivable that in the future this will lead to promotion of improvement trade and expansion of exports.

If we look next at trading partners, Hong Kong, Japan, and the United States are very important in Chinese external trade; in 1990 these two countries and one territory accounted for 60 percent of total trade. It will probably be given special note that of these, 1) China's surplus in trade with Hong Kong exceeded \$10.0 billion for the first time; 2) China had a surplus in trade with Japan for the first time since 1983, after a seven-year hiatus; and 3) the trade imbalance with the United States expanded. In recent years numerous manufacturing industries of Hong Kong, Taiwan, and so on, have entered production activity centered on special economic zones and on such south China areas as Guangdong and Fujian. Judging from the fact that the outlook is for opportunities to increase for these enterprises to reexport via Hong Kong, it is seen that for the present there will be no great change in Hong Kong's position as an export base for China. According to Chinese statistics, trade with the United States has become an unfavorable balance of trade for China, and, according to U.S. statistics, the United States had a big deficit of \$10.4 billion. This difference results from the fact that the United States counts Chinese products exported to the United States via Hong Kong as Chinese imports, but China handles them as exports to Hong Kong. In 1991, with the surfacing of exports to the United States by improper labeling as the turning point, it reduced the quota for textile products, a fundamental export commodity for China; furthermore, the U.S. Congress expressed reluctance to continue awarding most-favored-nation status to China. Therefore, the Sino-U.S. trade relationship is in a situation which is difficult to call favorable. While pointing out the negative aspect of such U.S. moves, China has begun to make a number of moves toward improving the relationship, such as strengthening export control of textile products and sending missions to purchase large U.S. products.

In the trade relationship with Taiwan and the Republic of Korea, Taiwan in recent years has been actively

developing investment in the mainland centered on such south China areas as Fujian Province, but 1990 Sino-Taiwan trade was a \$1.9 billion excess of imports over exports for China, so Taiwan became the trading partner with which China had its largest trade deficit. In addition to agreeing with the Republic of Korea in October 1990 on mutual establishment of trade offices, because of the height of the ROK enterprises' interest in investment in China, it seems likely that it will lead to future development of Sino-Korean trade. China's presence in Asia was conspicuous in 1990, with the hosting of the Asian Games and the normalization of diplomatic relations with Indonesia and Singapore. Attention is being paid to the manner in which this will come to affect the development of economic relations between China and Asia in the future.

In addition, special mention is given to the point that against the background of recent improvement in relations, Sino-Soviet trade is on an upward trend. Judging from the fact that the Soviet Union is China's fifth-largest trading partner and that border trade between China and the Soviet Union is also expanding and developing satisfactorily, the economic relationship between the two countries will probably become deeper in the future. But it has been arranged that from 1991 onward the method of settling accounts has changed from the barter system used up to now to a hard-currency settlement of accounts, and looking at it from the foreign currency situation of both countries, interest is being held in the question of whether this change will not become a limiting factor on the development of Sino-Soviet trade.

By category one can see the influence of the policy of economic readjustment since 1988 and the soundness of agricultural production in 1989 and 1990. In imports, by means of government measures to restrain imports and the soundness of food production, apart from a very few items (fertilizer, iron ore, vegetable oils, and so on) imports all declined from the previous year. Major foodstuffs declined by 21.3 percent (\$2.4 billion) from the previous year. Meanwhile, apart from such things as foodstuffs and crude oil, exports of virtually all items surpassed those of the previous year. It is pointed out that if one looks at the latest change of the makeup of traded commodities, imports of high-class durable consumer goods have declined greatly, and the relative weight of industrial products in exports has increased from less than 50 percent in 1985 to 75 percent in 1990. In regard to exports, it is probably worth special mention that, in particular, machines and electrical products increased rapidly, with exports for 1990 sixfold those of

1986, and the proportion of total exports which were occupied by them also rose by 2 points from 15.8 percent in 1989 to 17.9 percent in 1990. This is the result of having introduced overseas machinery and technology and promoted the advancement of industry by a policy of reform and opening, and the Chinese Government intends in the next five years to double the amount of these same products which it exports, so the relative share of China's total exports occupied by machinery and electrical products will probably also rise in the future.

It is China's policy to attempt development of external trade centered on expansion of exports, but in order to do that, such things as enhancement of the quality of export merchandise and adherence to export contracts have become immediate tasks. Now, 1991 has been designated as the year to enhance "quality, variety, and effect," so in the aspect of external trade as well, by such things as establishing in March 1991 the Chinese Export-Import Commodity Inspection Association, China has a posture of grappling actively with enhancement of quality of export merchandise. The question of to what extent China can achieve qualitative enhancement of export merchandise will probably be one major key to the future development of China's external trade.

A Recovering Trend in Utilization of Foreign Capital

China's utilization of foreign capital, which collapsed because of the Tiananmen incident, has begun to recover gradually since the latter half of 1990. As of May 1991, the economic sanctions against China by advanced Western countries and international agencies had not been completely removed, but Japanese yen loans and government loans by the EC nations had been just about reopened across the board; furthermore, centered on the World Bank, international agencies, too, moved to ease things by doing such things as expanding loans for such humanitarian items as agriculture (earthquake relief, agricultural development, and afforestation projects) to economic items (such as development of town and township enterprises). The United States alone has not relaxed its firm attitude toward China because China's human rights problems have not yet been solved. To the extent that we look at 1990, although China's foreign debts recovered to the level of 1989, it was still in a situation that was far from the level before the Tiananmen incident. In 1991, in order to apply low-interest government loans to such things as preparation of infrastructure, China is making its approach to Western nations more active, so it will be worthy of attention to see how far China's foreign loans will increase in the future, combined with the moves of each country to relax sanctions.

Table 1. Trade by China's Main Trading Partners

(Units: \$1 million, percent)										
Rank	Country or Area	Total Imports and Exports		Total Exports		Total Imports		Balance	Major Import and Export Items	
		Amount of Money	Component Ratio	Amount of Money	Percent Change From Previous Year	Amount of Money	Percent Change From Previous Year		Export Items	Import Items
1	Hong Kong	40,929.9	35.5	26,658.5	21.6	14,271.4	13.8	12,387.1	Textile products, electrical equipment, footwear, precision instruments, fruits and vegetables	Textile products, electrical equipment, industrial machinery, artificial plastics, precision instruments
2	Japan	16,586.8	14.4	8,998.8	7.2	7,588.0	-28.0	1,410.8	Petroleum products, textile products, fishery products, fruits and vegetables, iron and steel	Iron and steel, industrial machines, electrical machines, communications and audio equipment, vehicles
3	United States	11,767.9	10.2	5,179.6	17.5	6,588.3	-16.2	-1,408.7	Textile products, petroleum products, footwear, fishery products, inorganic chemical compounds	Transport equipment, grains, fertilizer, industrial machines, textile products
4	Germany	4,530.8	3.9	1,846.9	14.8	2,683.9	-20.6	-837.0	Textile products, fruits and vegetables, medicines, organic chemicals, animal and plant raw materials	Industrial machines, vehicles, iron and steel, metal processing machines, organic chemicals
5	Soviet Union	4,379.0	3.8	2,239.1	21.1	2,139.9	-0.3	99.2	Textile products, poultry and meat, textile products [as published], grain, footwear	Fertilizer, iron and steel, transport equipment, motors, cork, lumber

Table 1. Trade by China's Main Trading Partners (Continued)

Rank	Country or Area	(Units: \$1 million, percent)						Balance	Major Import and Export Items	
		Total Imports and Exports		Total Exports		Total Imports			Export Items	Import Items
		Amount of Money	Component Ratio	Amount of Money	Percent Change From Previous Year	Amount of Money	Percent Change From Previous Year			
6	Singapore	2,832.4	2.5	1,974.7	16.7	857.8	-42.8	1,116.9	Petroleum products, textile products, fruits and vegetables, metal products, cigarettes	Petroleum products, vegetable oil, artificial plastic, industrial machines
7	Taiwan	2,572.8	2.2	319.7	241.9	2,253.1	21.4	-1,933.4	Medicine, textile products, animal and fishery products, craft work	Machine products, electrical equipment, chemical fiber products, plastic raw materials
8	France	2,308.4	2.0	645.4	22.2	1,663.0	17.1	-1,017.6	Textile products, coal and coke, inorganic chemicals, footwear, metal products	Motors, industrial machines, grain, electric power machines, vehicles
9	England	2,026.6	1.8	642.7	1.2	1,383.9	-741.2		Textile products, metal products, organic chemicals, inorganic chemicals, handbags and briefcases	Motors, grain, industrial machines, transport equipment, metal processing machines
10	Republic of Korea	1,943.4	1.7	1,259.5	166.8	683.9	60.5	575.6	Cotton, agricultural products, coal, crude oil	Plastic, chemical fertilizer, textile products, steel materials, machine equipment

Source: China Customs Office "Table of Total Value of Imports and Exports of Merchandise for 67 Nations and Areas in 1990," 9 January 1990.

Meanwhile, direct foreign investment on both a contract and execution base surpassed actual results for 1988 and 1989 (money base). This is largely because of increased penetration of the three capital enterprises (joint capital management, joint management and independent capital management) which comprise direct investment, and

of independent capital enterprises (100 percent capitalized) within joint development. Although penetration of China by joint venture and joint management surpassed the actual results of 1989 (contract and money amount base), it has not recovered to the actual results of 1988. Independent capitalization has increased rapidly since

1988, and in 1990 it became double the number of instances of the previous year, and an increase of about 50 percent in the amount of money, so the share of total

direct investment which it accounts for is also rising rapidly, with 9.1 percent in 1988, 29.5 percent in 1989, and 37.1 percent in 1990.

Table 2. Chinese Trade by Major Commodity (1990)

Item	(Units: \$10,000, percent)				
	Classification Number	Exports	Rate of Change	Imports	Rate of Change
Foodstuffs	0	659,183	7.3	333,560	-20.4
(Fruits and vegetables)	(05)	(174,188)	7.3	(8,312)	-6.5
(Grains)	(04)	(61,363)	-14.7	(233,345)	-21.1
Beverages and cigarettes	1	34,187	9.0	15,686	-22.1
Nonfood raw materials (excluding fuel)	2	353,687	-16.0	410,685	-15.1
(Textile raw materials)	(26)	(109,543)	-29.1	(184,055)	-19.5
Mineral fuels	3	522,521	20.9	127,222	-22.9
(Petroleum and petroleum products)	(33)	(445,994)	22.8	(105,384)	-28.1
Plant and animal oils	4	16,079	86.8	98,192	12.2
Chemicals and chemical products	5	372,971	16.5	664,966	-12.0
Products by raw material	6	1,257,600	15.4	890,490	-27.8
(Textile products)	(65)	(699,931)	0.1	(274,833)	-3.4
(Iron and steel)	(67)	(128,254)	80.9	(285,203)	-50.8
Machinery and transport equipment	7	558,829	44.3	1,684,542	-7.5
(Audio equipment)	(76)	(173,788)	52.4	(187,794)	4.8
(Electrical machines)	(77)	(121,924)	48.8	(205,044)	-14.4
Sundries	8	1,268,718	18.0	210,348	1.5
(Apparel, accessories)	(84)	(684,799)	11.7	(4,805)	25.3
(Shoes)	(85)	(160,734)	46.6	(900)	167.6
Miscellaneous	9	1,162,518	33.1	899,297	24.6
Totals		6,206,293	18.1	5,334,988	-9.8

Source: Customs statistics, January 1991.

As to investment partners, the amount for Hong Kong is overwhelmingly great, following which, the order is Japan and the United States, but the recent rapid increases in Taiwan (indirect) investment in China centered on south China is striking. In addition, investment in China by such countries as Germany, Thailand, and Singapore is also on an upward trend, so the investment partners are becoming more diverse. As to the fields, from being centered on service industries and commission processing, it has recently switched to manufacturing industries; last year more than 90 percent of new investment was concentrated in manufacturing industries, particularly in such export-type, advanced-technology-type industries as spinning, electronics, machines, chemical industries, and apparel. Moreover, it is reported that the number of foreign-capital affiliated enterprises newly registered last year was 7,092, the highest number recorded since reform and opening, and that the number of enterprises whose scale (amount of money) is large and who want long-term investment has increased.

In April 1990 China partially revised its Joint-Venture Enterprise Law, promulgated it, and put it into action; because of this, it became unnecessary for general joint-venture enterprises to establish the term of the joint venture, and it became possible to select the chairman from the foreign side, too. In December, in response to the trend of rapid increase in independently capitalized enterprises, China promulgated and put into practice the detailed implementation of the Foreign Capital Enterprise Law. Furthermore, at the 1991 National People's Congress they adopted the Foreign-Capitalized Enterprise, Foreign Enterprise Income Tax Law, which combined two former tax laws, and it was put into practice on 1 July. By this means the income tax of the three types of capital enterprise were unified in a simple manner to a proportional tax rate. This series of legal measures has been taken to indicate China's will to improve the investment environment. China's inclination is to want to attempt to use foreign capital actively in infrastructure preparation and development of such priority

industries as agriculture, energy, transportation, communications, raw materials, and environmental preservation, and in such large regional development projects as the Pudong development zone, so its offensive to introduce foreign capital will probably become full-fledged in the future.

1991: Toward Stable Growth

It is also stated in the Eighth Five-Year Plan (1991-1995) and the 10-year plan (1991-2000), that China will deepen the reform that was the pillar of the national construction of the 1980's, and will expand opening to the outside. But here, making enhancement of economic efficiency the heart of economic activity is being emphasized more than heretofore. While in the 1980's it was a growth policy line that aimed at quantitative expansion of the economy, in the 1990's, China will pursue qualitative enhancement of an economy whose emphasis is on stable growth.

In external trade, in 1991 the center of reform shifted to overall employment of a system of oneself bearing the burden of profit or loss. To be precise, it abolished the existing system of export subsidies, and changed the

foreign currency reserve system, which had been different for each area, to a foreign currency reserve system for each product. This also has the aspect of reducing the nation's government-finance burden, but more than that, for trade enterprises (including also local autonomous bodies) it cast off the state's over-protective constitutional predisposition and sought to change to management which stressed independent profitability based on shouldering the burden of profit or loss as an independently managed enterprise; to put it another way, it changed to management which emphasized economic effect. As for utilization of foreign capital, the policy is to use foreign loans on infrastructure and priority industries, and to give priority in direct investment to things related to export or foreign-currency acquiring type projects, advanced-technology type projects and technology-improvement projects of existing enterprises. One may call it a posture that seeks to use foreign capital with the utmost efficiency for national construction aimed at the 21st century.

How will China's external economic relations, which retreated because of the Tiananmen incident, develop in the 1990's policy of reform and opening? We can probably say that 1991 will be the critical test for that.

Table 3. General Situation of China's Use of Foreign Capital

Fiscal year	(Unit: \$100 million)										
	Totals			Foreign Loans			Direct Investment			Other Investment	
	Number of Items	Amount of Money		Number of Items	Amount of money		Number of Items	Amount of Money		Contract Base	Execution Base
	Contract Base	Execution Base		Contract Base	Execution Base		Contract base	Execution base			
1979-90	-	1,023.22	678.75	-	570.94	457.31	29,052 (3,386)	403.35 (55.83)	189.04	-	-
1979-82	949	205.48	124.57	27	135.49	106.90	922 (-)	60.10 (-)	11.66	9.89	6.01
1983	522	34.30	19.81	52	15.13	10.65	470 (-)	17.32 (-)	6.36	1.85	2.80
1984	1,894	47.91	27.05	38	19.16	12.86	1,856 (26)	26.51 (1.00)	12.58	2.24	1.61
1985	3,145	98.67	46.47	72	35.34	26.88	3,073 (46)	59.32 (0.46)	16.61	4.01	2.98
1986	1,551	117.37	72.58	53	84.07	50.14	1,498 (18)	28.34 (0.20)	18.74	4.96	3.70
1987	2,289	121.36	84.52	56	78.17	58.05	2,233 (46)	37.09 (4.71)	23.14	6.10	3.33
1988	6,063	160.04	102.26	118	98.13	64.87	5,945 (410)	52.97 (4.81)	31.93	8.94	5.46
1989	5,909	114.79	100.59	130	51.85	62.86	5,779 (931)	56.00 (16.54)	33.92	6.94	3.81
1990	NA	123.3	100.9	NA	53.6	61.4	7,276 (1,861)	65.7 (24.4)	34.1	NA	NA

Note: Figures in parentheses are independent capital enterprises.

Source: *China Statistics Yearbook for 1990*; Publication of Economic and Trade Section reporters, 23 January 1991.

B. Current State and Course of Japanese Business With China

Japanese business with China, which collapsed because of the 4 June Tiananmen incident and China's policy of economic adjustment, is showing signs of becoming active again. In 1991, two-way Sino-Japanese trade recorded \$5.0 billion in January-March, a broad increase of 27.9 percent compared with the same period of the previous year. Furthermore, investment, too, is becoming full-fledged, in response to the Japanese Government's removal of economic sanctions against China.

We will give an outline of Japan's trade and investment in China centered on recent trends.

From Trade Restoration to Expansion—Will It Reach \$20 Billion for the First Time?

It appears as though in 1991, Japan's trade with China, too, which had turned toward recovery in the latter half of 1990, may have returned more or less completely to its level before the Tiananmen incident of 4 June. Japan's trade with China from January through March recorded a great increase, with exports of \$1.65703 billion (a 26.7-percent increase over the same period of the previous year), imports of \$3.3353 billion (a 28.5-percent increase over the same period of the previous year), a total amount of \$4.99234 billion (a 27.9-percent increase over the same period of the previous year). In regard to exports, one must consider the fact that the collapse of the same period of the previous year was severe, but imports, which were healthy last year, have continued to grow, so the mood which surrounds Japan's trade with China is bright. If this soundness continues for both exports and imports, further growth is expected into the latter half of this year. It seems likely that Japan's trade with China for 1991 will advance greatly toward the important level of a total amount of \$20 billion. Below we have tried to analyze Japan's trade with China in January-March 1991 by item.

Exports

Exports to China increased by 26.7 percent over the same period of the previous year, recovering last year's collapse.

By item, machine equipment, which comprises 48.3 percent of exports, is \$800.44 million, a 32.5-percent increase over the same period of the previous year. General machinery is \$278.5 million, a 21.3-percent increase, within which, heating and cooling machines, metal processing machines and internal combustion engines, the collapse of which was severe last year, each have a big increase. Electrical machinery is \$380.53 million, an increase of 54.5 percent. Video equipment such as color television sets and VCR's, which alone were in good shape in the midst of last year's stagnation of home electrical equipment, even in 1991 have continued to increase, with 2.8-fold and 83.4-percent increases, respectively.

In transportation equipment, motor vehicles were \$76.2 million, an increase of about onefold. Of these, passenger cars increased sharply, 2.1-fold. Trucks increased greatly at \$28.76 million, a 117.5-percent increase. Accompanying implementation of the export-merchandise quality licensing system in May 1990, two-wheeled automobiles [as published] decreased 76.8 percent for all of 1990, and even in 1991, with a decline of 64.7 percent, no sign of a recovery can be seen. China has set forth a policy of banning, for a period of five years beginning this year, use of cars from before 1974, and say that this year and next year at least 300,000 cars will be scrapped. It is thought that the aim is to apply Chinese-made cars to replacement-buying demand, but they will still be unable to catch up with demand by means of the volume of domestic production alone. Expansion of imports is expected.

Iron and steel were 4.43 million tons on a quantitative base; in terms of money, it was \$284.31 million, an 8.6-percent increase, recovering to about the same as the previous year. With such things as the reopening of yen loans and the starting of the Eighth Five-Year Plan, demand is anticipated beginning in the second half of the year.

Imports

Imports from China were \$3.3353 billion, a 28.5-percent increase over the same period of the previous year.

Looking at it by item, fossil fuels, which accounted for 24.9-percent of all imports, grew satisfactorily with a 29.1-percent increase. Petroleum, which was the main item, was 3.625 million tons (a 2.7-percent increase), the amount of money was \$629.71 million, a 29.2-percent increase; coal was \$64.56 million, a 6.8-percent increase, a level equal to the same period of the previous year. The price of oil based on a long-term trade agreement was \$24.23 per barrel for January, \$20.79 per barrel for February, and \$17.59 per barrel for March, which comes to an average of \$20.79; it has risen by 7.5 percent from the \$19.21 of the same period of the previous year.

Responding to the fact that 1990 agricultural production was healthy, food climbed to \$525.05 million, an increase of 26.5 percent. Within this category, corn, a main item which recorded a big decline in 1990, increased markedly by 2.6-fold. Fruits and vegetables, too, which had similarly done poorly, have increased satisfactorily, with growth of 25.3 percent and 33.6 percent, respectively. As to meat, chicken, which recorded a 60-percent increase last year, declined drastically by 95 percent because of the problem of addition of antibiotics, so meat as a whole showed a collapse of a 70.8-percent decrease.

Raw materials increased satisfactorily at \$444.61 million, a 26.3-percent increase over the same period of the previous year. In raw materials for textiles, raw silk increased markedly, with a rise of 89.9 percent, and cotton was sound, with a 28.6-percent increase. Furthermore, raw materials for metal also increased greatly with

growth of 82.2 percent. Sesame, continuing its high price since October 1990, in January-March of this year also settled at \$910 per ton, its second-highest price in history, and has even registered a 22.3-percent increase in quantity.

Textile products recovered from last year's slump with a 24.4-percent increase; within this, silk thread has increased markedly at 4.3-fold, silk fabric increased by 24.1 percent [as published], silk fabric increased by 76.1 percent, and cotton fabric increased by 30.6 percent, every one is showing sound growth.

The proportion of all imports which is accounted for by imports of manufactured products was 50.7 percent, slightly surpassing the 48.9 percent of the same period of the previous year. This is because textile products, which had been sluggish last year, were sound, and reverse importation of machines by commissioned processing and joint-venture enterprises has grown satisfactorily.

Outlook

This year, the Eighth Five-Year Plan will begin, projects will reopen, and loans from foreign countries will also reopen in earnest. Continuing on from the November 1990 devaluation of the yuan, China has embarked on reform of the trade system based on a long-term outlook, doing such things as abolishing export subsidies for trade companies and revising the rates of holding of foreign currency acquired by exports. Moreover, by establishing 1991 as "the year of (enhancement of) quality, variety, and efficiency," it is even trying to grapple with improvement of the quality of Chinese-made goods, which has often been made an issue.

Furthermore, an extension of the Japan-China Long-Term Trade Agreement was decided on between Japan and China in December 1990. It is arranged that in the space of five years beginning in 1991, Japan will import from China each year 8.80 million to 9.30 million tons of petroleum and 3.90 to 5.30 tons of coal, and will export from Japan approximately \$8.0 billion of factories and so on. These conditions surrounding Japan-China trade are bright, so it is expected to advance from restoration toward expansion this year.

Possible Reoccurrence of an Investment Boom, Too...

According to Ministry of Finance statistics (licensing, reporting base), Japanese direct investment in China for FY51 to the end of FY90 totals 859 items and \$2.823 billion. Within this, FY89 (April 1989 to March 1990) was 126 items (a 26.3-percent decline from the same period in the previous year) and \$438 million (a 48.0-percent increase over the same period of the previous year). Because, in response to the boom in investment in China which began in 1988, the scale of investment for each item grew larger than it had been until then, in contrast to the fact that it increased satisfactorily on a money base, the number of items is showing a collapse because of the effect of the 4 June Tiananmen incident and the tight-economy policy. Because of this kind of

influence, the first half of FY90 had 75 items (a 1.3-percent decrease from the same period of the previous year) and \$180 million (a 29.1-percent decline, so both the number of items and the amount declined (Table 1).

Table 1. Progress of Japanese Investment in China According to Japan Ministry of Finance Statistics (License, Reporting Base)

	(Unit: \$1 million)	
	Number of Cases	Amount of Money
FY88	171 (69.3 percent)	296 (75.8 percent)
FY89	126 (26.3 percent)	438 (48.0 percent)
FY90	165 (31.0 percent)	349 (20.3 percent)

Note: Figures in parentheses are increase or decrease compared with the same period of the previous year.

Source: Ministry of Finance data.

On the other hand, according to an announcement by China's Ministry of Foreign Economic Relations and Trade, Japanese investment in China is as follows (Table 2).

Table 2. Progress of Japanese Direct Investment in China According to Chinese Statistics

	(Unit: \$1 million)		
	Number of Contracts	Contract Amount	Amount Executed
1988	237 (109.7 percent)	27,579 (-8.5 percent)	51,453 (134.2 percent)
1989	294 (24.1 percent)	43,861 (59.0 percent)	35,634 (-30.7 percent)
1990 January-June	139 (-10.4 percent)	11,168 (-51.8 percent)	10,993 (-25.0 percent)
1990 January-September	218 (-1.4 percent)	37,513 (34.7 percent)	26,578 (45.2 percent)

Note: Figures in parentheses are gain or loss compared to same period of previous year.

Source: *China External Trade Yearbook*, and INTERNATIONAL BUSINESS REPORT, No. 2, 1989; No. 8, 1990; and No. 10, 1991

What is noted is that for the first half of 1990 both the amount of contracts and the amount executed recorded large declines, with declines of 52 percent and 30.7 percent, respectively, compared with the same period of the previous year, but according to statistics from January through September 1990, the amount of contracts and the amount carried out rapidly turned to recovery, with a 34.7-percent increase for the contract amount at \$375.13 million and a 45.2 percent increase for the amount executed at \$265.78 million. One reason for this is that actual results for the previous year were at a low level, but it can be seen that at a time when China's foreign relations with Western nations were gradually becoming normal, and China was putting effort into improving the investment environment, the fact that one item after the other that had been suspended in 1989 was reopened led to growth in the latter half of the year.

Furthermore, following that, in November, after a hiatus of 1 year, the first payment (36.511 billion yen) of the third yen loan was reopened. In January 1991 Foreign Minister Hashimoto visited China, followed in March by Minister for International Trade and Industry Nakao, and new financing by the Export-Import Bank of Japan was also reopened. At a time when normalization of Japan-China relations is progressing in this manner, from the end of 1990 investment in China by Japanese enterprises has clearly begun in earnest.

If we point out recent special characteristics from examples since September 1990, in addition to the light industry which has existed up to now, investment has begun to increase in fields where Chinese demand is strong, such as, besides high tech, energy and raw materials, distribution, land development, housing construction, and finance. As to type of industry, in addition to such things as clothing, electrical machine parts, medical supplies, and articles for daily use, responding to Japan's shortage of technicians which is growing more serious, penetration by software companies is striking. The activity of small and midsized enterprises is lively, and there are many export-oriented manufacturing industries which can easily receive preferential treatment from China.

In connection with this kind of growth in penetration of China, we can also not overlook, as a recent trend, the fact that with the time in June 1990 when Japan's Immigration Control Law was revised as the turning point, acceptance of Chinese trainees by small and midsized enterprises predicated on cooperative projects has increased. In addition to trainees, examples are also seen of establishing joint-venture companies with the objective of training staff, because one anticipates future Japan-China joint venture projects.

In large projects, concerning 1) development of the Tarim oil fields, 2) construction of an industrial park for a large economic technology development zone, 3) development of Hainan Island, and 4) preparation of a grain export base for the northeast region, on the occasion of Minister for International Trade and Industry Nakao's visit to China in March, there was officially a request for cooperation from the Chinese side to the Japanese Government, and on one part, agreement has already been reached and investigation has been started. Furthermore, in April agreement was also seen on construction of China's largest ethylene center (Liaoning Province, joint venture) by Mitsubishi Corporation, C. Itoh & Co., Ltd., and so on, at a total cost reaching approximately \$3 billion. The start of this kind of large investment project will probably further support the trend for Japanese enterprises to operate in China.

According to a questionnaire survey of Japan-affiliated enterprises in China, conducted by the Organization for Promotion of Japanese Investment in China, which was established in March 1990, of 150 enterprises which had been in operation less than one year after moving to China and opening for business, it is said that two-thirds have already calculated a surplus.

In the Asian NIE's which have been made production bases so far, production costs have risen, so their advantages are disappearing. In the midst of this situation, there are certainly many Japanese enterprises that will try to build new manufacturing bases in China, which has a cheap and abundant labor force. Moreover, in response to the fact that the economic interchange between Taiwan and China has become lively in recent years, cases of carrying out penetration of China jointly with these countries and regions have also appeared. At a time when this kind of complementary relationship is deepening, there is a good possibility that a boom in investment by Japanese companies in China will come again.

Part III. The Problem of Foreign Debt Is Improving

The switch to utilization of foreign loans since the end of the 1970's supplemented China's shortage of funds for economic construction and has played an active role in promoting the technological reorganization and technological progress of enterprises by introducing advanced technology and equipment. But because of such things as the rapid increase in borrowing from foreign countries since 1985, the occurrence of the 4 June Tiananmen incident in 1989, and the advent of the peak repayment of foreign debt in 1992, over the last few years there has been a great deal of interest in China's foreign debt. Because of implementation of the policy of economic reform since the autumn of 1988 and the occurrence of the Tiananmen incident, and due to such things as the decline in demand for funds accompanying the tightening up inside China, economic sanctions from foreign countries, and the lowering of China's credit as a borrower, borrowing from foreign countries stagnated in 1989-90. On the other hand, because of the efforts during this time to restrain imports and expand exports, China recorded a trade surplus of \$8.7 billion in 1990. The result of this was that, although risk developed and became a problem in some items such as hotels, the problem of debt repayment for the nation as a whole has improved for the present.

Below I would like to investigate the present situation and tasks concerning such things as foreign debt and debt management in recent years.

Table 1. Progress of Introduction of Foreign Capital

	(Unit: \$100 million)							
	Loans		Direct Investment		Other Investment		Total	
	Contract Amount	Amount Executed	Contract Amount	Amount Executed	Contract Amount	Amount Executed	Contract Amount	Amount Executed
1984	19.16	12.86	26.51	12.58	2.24	1.61	47.91	27.05
1985	35.34	26.88	59.32	16.61	4.01	2.98	98.67	46.47
1986	84.07	50.14	28.34	18.74	4.96	3.70	117.37	72.58
1987	78.17	58.05	37.09	23.14	6.10	3.33	121.36	84.52
1988	98.13	64.87	52.97	31.93	8.94	5.46	160.04	102.26
1989	51.25	59.00	56.00	33.92	6.94	3.86	114.49	100.59
1990	53.6	-	65.7	-	4.0	-	123.3	-
1979-89	514.34	393.21	337.65	154.94	44.93	29.70	899.92	577.85
1979-90	570.94	-	403.35	-	48.93	-	1,023.22	-

Source: China Statistical Yearbook, and so on.

1. Loans Turning From Decline to Recovery

Because of the progress of the economic reform of 1984, limits on the right to use foreign capital by local governments and the various agencies of the central government were expanded. As a result of this, foreign loans began to increase rapidly from 1985; in 1985 and 1986 they almost doubled compared with the previous year, and it reached the point of greatly surpassing the amount of introduction of direct investment. In 1986, loans accounted for 69.1 percent of all foreign capital introduced.

Because of this, measures to restrain borrowing from foreign countries came to be adopted in about 1986. From 1987 onward the rate of growth of borrowing slowed down, but in 1988 it reached the scale of \$6.4 billion.

Accompanying the economic adjustment (tightening) policy of the end of September 1988, measures to strengthen control of foreign debt have been hammered out a few times since January 1989. Because of Western

nations' economic sanctions in the wake of the Tiananmen incident of June 1989, introduction of new loans became difficult for about one year.

Because of this, on an execution base, foreign loans for 1989 were \$5.9 billion, only 9 percent less than the previous year, but on a contract base they were 47.2 percent less, a decrease of almost one-half. In 1990 they were slightly higher than 1989 on a contract base, indicating that they had turned toward recovery. Loans from the World Bank and provision of such government loans as Japan's yen loans were also reopened in the latter half of 1990.

Among foreign loans, commercial loans increased rapidly after 1985. In 1985 the proportion of all foreign loans accounted for by commercial loans was 21.0 percent, but in 1987 it climbed to 44.4 percent. This is because from 1986 onward it became possible to borrow from Japan and so on at advantageous rates of interest, and because the desire of local government and so on to borrow was strong because of the delegation of authority on the Chinese side.

Table 2. The Situation of Receiving Foreign Loans by Region and Organization (Execution Base)

	(Unit: \$100 million)							
		Region			Organization			
		1988	1989	January-September 1990		1988	1989	January-September 1990
1	Guangdong Province	11.64	10.67	3.46	The Bank of China	8.33	10.56	-
2	Liaoning Province	1.62	2.62	3.42	Ministry of Energy Resources	4.58	5.78	-
3	Sichuan Province	1.51	2.42	0.29	Petroleum and Natural Gas Company	-	3.99	-
4	Beijing City	0.81	1.57	0.96	Ministry of Foreign Economic Relations and Trade	1.63	2.91	0.15
5	Tianjin City	1.82	1.36	0.79	Ministry of Transport	2.09	2.88	-

Table 2. The Situation of Receiving Foreign Loans by Region and Organization (Execution Base) (Continued)

(Unit: \$100 million)								
	Region	Region			Organization			
		1988	1989	January-September 1990	1988	1989	January-September 1990	
1	Guangdong Province	11.64	10.67	3.46	The Bank of China	8.33	10.56	-
2	Liaoning Province	1.62	2.62	3.42	Ministry of Energy Resources	4.58	5.78	-
6	Hunan Province	0.01	1.07	1.20	Ministry of Agriculture	3.13	2.33	-
7	Zhejiang Province	0.87	0.72	0.46	Investment Bank of China	1.91	2.04	-
8	Hebei Province	0.09	0.49	-	Ministry of Railways	2.76	1.93	-
9	Shandong Province	0.23	0.45	0.25	Huaneng Electric Power Company	3.74	1.13	-
10	Shanghai City	2.07	0.44	1.26	International Trust and Investment Company	7.47	0.87	-
11	Fujian Province	1.48	0.40	0.52	State Education Commission	0.40	0.74	-
12	Hubei Province	0.23	0.37	0.51	China Agriculture Bank	1.21	0.71	-
13	Jiangsu Province	0.31	0.34	0.77	Ministry of Posts and Telecommunications	0.77	0.66	-
14	Guangxi Autonomous Region	0.46	0.30	0.14	People's Bank of China	-	0.46	-
15	Heilongjiang Province	0.01	0.19	0.11	Ministry of Construction	-	0.43	-
	Region Totals	24.60	24.11	15.16	Department Totals	40.27	38.75	36.56

Note: The ranking is that of 1989.

Source: 1988 and 1989 are the edition of the *China Statistical Yearbook* for each of the years. For January-September 1990, issue Nos. 2 and 3 of *INTERNATIONAL BUSINESS REPORT* for 1991.

When we look at changes in loan conditions by World Bank data, the time when interest was lowest on average was the 6.4 percent of 1986; in 1989 it rose to 7.8 percent. Interest for official loans was 5.3 percent in 1986 and 5.9 percent in 1989; private-sector loans were 6.7 percent and 8.7 percent, respectively. The repayment term was, on average, 13.8 years in 1986 and 14.6 years in 1989—official loans were 27.1 years and 22.6 years, respectively, and private-sector loans were 9.8 years and 10.5 years, respectively. After implementation of the economic adjustment policy, China came to curb commercial loans for short terms at high interest, and to emphasize introduction of government loans and loans from such international agencies as the World Bank, which are long term and have low interest. In 1990 the interest on commercial loans rose, so China came to regard government loans and so on as still more important.

Table 2 shows what places are using foreign loans. They can be divided roughly into local governments and central agencies; the central agencies use about 60 percent of the whole, and local governments are using the remaining 40 percent.

Among local governments, Guangdong Province is using an overwhelmingly large amount of foreign loans; it

accounted for 47.3 percent of all local use in 1988, and for 44.3 percent in 1989, too. Other main provinces and cities were such as Liaoning Province, Sichuan Province, Beijing City, Tianjin City, Hunan Province, Shanghai City, and Fujian Province, but there is considerable yearly fluctuation in the scale of loan use.

Among central agencies, the foreign loans for the Bank of China are most numerous. Other major agencies are such infrastructure-related agencies as energy, transportation and communications, agriculture-related agencies, all types of banks and so on. The International Trust and Investment Company was, in 1988, the next borrower after the Bank of China, but in 1989 the amount declined greatly. It is seen to be because it was influenced by management problems having been pointed out.

The only statistics that show loan use by industry type are on a contract base, and the content is also sketchy. Every year about one-third is used by industry, and in addition a lot is used by such industries as transportation, posts, communications, real estate, official business, agriculture, forestry, animal husbandry and fisheries. But the problem is "miscellaneous," about one-half of all loans are designated as "miscellaneous" industry types.

The places which are providing China with loans are concentrated in a small number of countries and agencies. If we look at 1988 and 1989, Japan alone accounted for 41-42 percent of all loans, followed by the World Bank, which accounted for 16-17 percent. These two alone provided almost 60 percent of the whole.

When one adds France, Hong Kong-Macao, the UK, and the former West Germany to these two, the four nations, one territory, and one agency account for 87 percent, and if one further adds Italy and the United States, the six nations, one territory, and one agency account for 90 percent.

Table 3. Situation of Loans Received by Country

	(Unit: \$100 million)		
	1988	1989	January-September 1990
Japan	27.56	25.95	22.16
France	4.59	7.90	4.28
Hong Kong-Macao	6.81	5.71	2.05
UK	5.41	3.46	4.29
Former West Germany	1.54	1.53	2.10
Italy	1.10	1.21	1.26
United States	0.35	1.06	0.78
Sweden	0.14	0.92	0.43
Canada	0.61	0.45	1.65
Austria	0.09	0.44	1.44
Spain	0.00	0.42	0.73
Netherlands	0.21	0.35	0.27
Switzerland	0.50	0.35	0.25
World Bank	11.05	10.27	6.73
Asia Development Bank	0.03	0.46	0.04
International Fund for Agricultural Development	0.15	0.11	0.31
Total	64.87	62.86	51.71

Source: Same as for Table 2.

2. Foreign Debt Indicators Point Toward Improvement

In October 1989, China, which had not made public its debt balance, published for the first time the balance of its debt since 1985. The rate of growth of its debt balance

from 1985 to 1988 is high, with a yearly average of about 36.3 percent, and reached \$40.0 billion in 1988. In 1989, because of implementation of economic reorganization after October 1988, strengthening of foreign debt control and curbing of the scale of foreign debt, and the decline in introduction of capital from the West accompanying the Tiananmen incident of June 1989, the debt balance was \$41.3 billion, and did not go beyond an increase of 3.3 percent. In 1990 it once more began to increase, and at the end of June it became \$45.4 billion, an increase of 9.9 percent over the previous year.

China emphasizes the following items as internationally recognized indicators that indicate ability to repay debt.

The first is the ratio of the amount of principal and interest to be repaid to the exports of goods and services (debt-service ratio); it is taken to be all right if it is less than the international officially recognized warning line of 25 percent. The second is the ratio of the debt balance to exports of goods and services; in general it is considered that it must not exceed 100 percent. The third is the ratio of the debt balance to GNP; internationally the safety line is considered to be 25 percent. The fourth is the proportion of total debt which is accounted for by short-term debt; internationally it is generally taken that it must not exceed 25 percent. The fifth is the import covering rate of foreign currency reserves; internationally, foreign currency reserves amounting to more than three months of ordinary imports is taken to be necessary.

According to the IMF criteria for debtor nations, the debt-service ratio of a medium debtor nation is considered to be 18-30 percent, that of a heavily indebted nation to be over 30 percent, the ratio of the debt balance to exports of goods and services of a medium debtor nation is considered to be 165-275 percent, that of a heavily indebted nation to be over 275 percent, the ratio of the debt balance to GNP of a medium debtor nation is considered to be 30-50 percent and that of a heavily indebted nation to be over 50 percent. Apart from debt-service ratio, China's criteria for international warning lines and safety lines are criteria for less than a medium debtor nation.

In China's foreign debt indicators in recent years, both in figures published by the Chinese side and the World Bank's figures, China is in a range that is better than what is considered the warning line or safety line. The debt-service ratio for 1989 in data published by the Chinese side is "lower than 10 percent," and that of the World Bank is 9.8 percent, and 1990's debt-service ratio is about 10 percent by Chinese data.

Table 4. Foreign Debt Indicators

	(Unit: percent)												
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Ratio of total debt to exports of goods and services	22.1	23.0	32.0	36.2	39.1	52.9	67.4	80.0	79.2	77.3	-	-	-
Ratio of total debt to GNP	1.5	2.1	3.0	3.3	4.0	5.7	8.4	11.6	11.4	10.8	-	-	-
Debt service ratio	4.6	6.9	8.1	10.1	7.4	7.8	8.4	8.6	8.6	9.8	(9.3)	(9.0)	(8.6/10.0)
Ratio of foreign reserves to imports of goods and services (unit: amount sufficient for 1 month)	5.9	5.0	10.3	11.0	9.2	4.7	4.5	6.1	5.0	4.4	(6.0/5.0)	-	-

Note: 1. As to the debt-service ratio from 1990 onward, the amount of repayment of principal and interest (World Bank base) based on existing borrowing calculates the rate of increase for exports of goods and services for 1990 as a 10-percent increase (actual result of trade export is 18.1 percent), and 1991-92 as an 8-percent increase. The debt-service ratio of 10.0 percent for 1992 was calculated by calculating the repayment of principal and interest for 1992 as the \$8.0 billion announced by the Chinese side. Repayment of principal and interest until 1989 included payments of interest for short-term debt, it does not include principal.

2. The top row of 1990 import coverage (lowest row) calculates imports of goods and services as a 10-percent increase, and added money reserves of \$4.89 billion. The lower row are figures for foreign currency only. The figures for up to 1989 include such things as gold reserves.

Source: 1981 is based on the World Bank's *World Debt Tables* 1989-90 edition, others up to 1989 are in the 1990-1991 issue of the *World Debt Tables*.

Table 5 makes an international comparison of the circumstances of China's foreign debt. It can probably be said that by many indicators China is good compared to such countries as ASEAN's Thailand and Indonesia and Eastern Europe's Poland and Hungary, to say nothing of India and Brazil, which are often compared as large developing nations.

The peak repayment year which the Chinese side has made public is 1992, and the amount of principal and

interest to be repaid in that year is \$8.0 billion. This is an amount which exceeds the \$6.851 billion repayment of principal and interest of 1992 medium- and long-term debt based on the existing debt of the World Bank. Even if one calculates on a future fixed increase in new term borrowing, one can also calculate on a certain degree of increase in exports, too, so the debt-service ratio will not reach the 25 percent which is the international warning line; it appears that it will not exceed even 15 percent.

Table 5. Comparison of Foreign Debt Indicators (1989)

	(Unit: percent)				
	Ratio of Total Debt to Exports of Goods and Services	Ratio of Total Debt to GNP	Debt Service Ratio	Ratio of Foreign Currency Reserves to Total Debt	Ratio of Foreign Currency Reserves to Imports of Goods and Services (Unit: amount sufficient for 1 month)
China	77.3	10.8	9.8	51.4	4.4
India	258.4	23.9	26.3	18.6	4.3
Brazil	301.6	24.1	31.3	9.4	3.5
Thailand	84.9	34.1	15.5	44.8	4.3
Indonesia	210.6	59.8	35.2	12.6	3.0
Republic of Korea	44.7	15.8	11.4	46.3	2.7
Poland	262.9	68.3	9.4	5.8	1.5
Hungary	158.7	72.9	28.8	10.8	2.0

Note: Hungary figures are from 1988.

Source: World Bank's *World Debt Tables*, 1990-91 edition.

3. Special Characteristics of Foreign Debt Management

China's foreign debt management carries out borrowing, use, and redemption in a satisfactory manner, has a continuous inflow of new foreign loans as its objective, and is considered to have the following kind of special characteristics.

—Basic principles of foreign debt management:

The principle of "unified guidance and shared jurisdiction" is employed in foreign debt management. The State Council in a unified manner, each government department shoulders a share of the responsibility, and they carry out planned management and a licensing system. To be precise, the State Planning Commission devises a plan for using foreign capital, the People's Bank of China manages foreign borrowing by domestic financial institutions, and the Ministry of Finance manages foreign borrowing by central ministries and commissions and by local governments.

—Planned management of regulation of total volume:

The formation of foreign debt plans is carried out generally in the following manner. First, each area and department submits its total of foreign loans required for the purpose of making up for a shortage of domestic construction funds. Following that, a foreign loan framework within the confirmed total is divided up and passed down to each area and department, and put into effect. The state carries out management by medium-term objective in regard to the total index that was divided up and passed down. In other words, a certain increase or decrease is permitted in the annual total index, and it is arranged so that it is all right unless it exceeds the total target index of a given period (for example the term of a five-year plan).

4. The Dual Nature of the Loan Interface

Specific interface agencies are conducting China's foreign loans and management. The interface agencies are divided into two groups. The first group is five large interfaces that conduct the borrowing and management of foreign government loans and international financial institution loans and authorization of commercial loans. Foreign government loans are under the jurisdiction of the Ministry of Foreign Economic Relations and Trade; World Bank loans are under the jurisdiction of the Ministry of Finance; loans of the UN's International Fund for Agricultural Development are under the jurisdiction of the Ministry of Agriculture, Animal Husbandry, and Fishery; energy loans from the Export-Import Bank of Japan are under the jurisdiction of the Bank of China; and loans by such institutions as the IMF and the Asian Development Bank, and authorization of commercial loans, are under the jurisdiction of the People's Bank of China.

The second group are 10 interfaces for commercial loans and the issuing of bonds. In this there are four central financial institutions and six regional companies. The

four central financial institutions are the Bank of China, the Bank of Transportation, the Investment Bank of China and the China International Trust and Investment Company. The six regional public corporations are the Guangdong International Trust and Investment Company, the Fujian Investment Enterprise Company, the Hainan International Trust and Investment Company, the Shanghai City International Trust and Investment Company, the Tianjin City International Trust and Investment Company, and the Dalian International Trust and Investment Company. The interfaces for foreign borrowing have been restricted to 10 agencies in this manner since implementation of economic adjustment in the autumn of 1988; before that, there were more than 170 interfaces for foreign borrowing.

Furthermore, the foreign loans of the foreign commercial investment enterprises provided for by the Joint Venture Law do not require the authorization of any department.

5. Three Methods of Repaying Debt

In order to make clear the responsibility for use of foreign loans and for repayment of the debt, the debt-repayment principle of "the one who borrowed repays" is employed from the initial stage of introducing foreign loans. To be precise, it is divided into the three items of "state unified borrowing and unified repayment," "state unified borrowing, independent repayment," and "independent borrowing and independent repayment."

State unified borrowing and unified repayment means that the nation borrows in a unified manner, and the nation bears the responsibility of repayment. State unified borrowing and independent repayment means that the nation borrows the funds in a unified manner, but the use of the funds and the repayment are done by an area or department. Independent borrowing and independent repayment is something in which the area or department which uses the funds borrows them and repays them by itself. Independent borrowing independent repayment foreign loans are used chiefly in export foreign-currency acquisition projects or projects which have a foreign-currency effect.

In 1989 the regulation was established that in the event that the borrowing unit (agency) did not fulfill its responsibility to repay the loan even when the deadline had come, the related department would obtain the authorization of the State Foreign Exchange Control Bureau, notify the bank, and make payment directly from the foreign currency or people's yuan account of the repayment unit (agency) or supervising unit (agency) or guaranteeing department.

Furthermore, the scope of use for adjustment foreign currency (foreign currency used in transactions by the Foreign Currency Adjustment Center, such as foreign currency withheld in the case of having exported) was expanded, so it became possible for units (agencies) that were borrowing directly from abroad, to purchase adjustment foreign currency and apply it to redpayment of debts if they obtained authorization.

From 1990 onward, there sprang up in localities a movement to establish foreign debt repayment funds, and 10-odd province-level funds were established by the beginning of 1991. Even proposals regarding the 10-year plan and Eighth Five-Year Plan at the Seventh Central Committee Session at the end of December 1990, hold that "both the central government and the local governments should establish funds for foreign debt repayment."

From 1989 into 1990 a problem arose that some enterprises, "such as hotels," were not fulfilling the repayment of debts. As of the end of 1989, foreign debts throughout the country on which the deadline for repayment had run out amounted to \$150 million. Agreements were signed later regarding most of them, with the foreign creditor adjusting the debt.

6. Some Prospects

Because of such things as reflection on the sudden increase in foreign debt centered on commercial loans in the latter half of the 1980's, the increasing difficulty of foreign borrowing because of the Tiananmen incident, the shortage of international funds since 1990, and the advent of redemption periods for foreign loans with the peak in 1992, China has shifted the emphasis of introduction of foreign capital to direct investment. In the Government Activity Report of March 1990, Premier Li Peng set forth this policy clearly.

But, according to World Bank data, by the repayment of principal and interest of existing medium- and long-term debt alone, it will be the \$6.0 billion level by 1993, and the high level of \$5.0 billion will continue till 1996. In 1990, as a result of stringent curbing of imports, China calculated a large trade surplus, but it cannot very well continue import restrictions over the long term. Such being the case, on the one hand China will put effort into introduction of direct investment, and will strive to acquire foreign currency by means of exports and so on, and will continue to introduce a fixed level of foreign loans in the future as well.

It has come about that, among foreign loans, the introduction of long-term low-interest loans is emphasized more than has been the case up to now; even the proposal of the Central Committee of the Chinese Communist Party concerning the 10-year plan and the Eighth Five-Year Plan holds that "we should aim at use of loans of international financial institutions and between two countries, especially use of loans whose conditions are comparatively advantageous."

Invigorating State Enterprises Needs Varied Ways 92CE0074A Beijing JINGJI CANKAO BAO in Chinese 20 Sep 91 p 4

[Article by Wu Bai (0702 2672) of the Guangzhou City Committee for Restructuring the Economic System: "Invigoration of State Enterprises Requires Varied Ways of Thinking"]

[Text] Invigoration of state enterprises, particularly the large- and medium-sized ones, is the central link in restructuring the economic system, and is also a difficult, key point in current economic work. In the 12 years of practice in reform and opening up to the outside world, some enterprises really grasped opportunities, taking bold and resolute measures for reform and finding ways to strengthen their vitality and vigor.

A review of their experiences in both the positive and negative aspects enlightens people thus: To invigorate state enterprises, they must now truly break away from the old way of always stretching forth their hands for money, materials, plans, and preferential policies; further emancipate their minds; use their brains; and take many new approaches. Guangzhou's experiences in invigorating state enterprises provides some approaches worth learning from and using for reference.

Switching Making fundamental changes in the existing system of nationalized enterprises will switch them to a track suited to the planned commodity economy, and will reconstitute the management and operational mechanisms of state enterprises under conditions in which the planned economy is integrated with market regulation. Thus the enterprises will switch from the track of "depending upon the mayor and living on plans" to the track of "depending on markets and living on markets." The way to achieve this is to do things according to the letter of the "Enterprise Law." Whatever is stipulated in the "Enterprise Law" is legal and protected by law. We must not depart from the existing law and play any "new tricks" or formulate any "local policies." Even less should we engage in abstract affirmation but concrete negation. The core issue is to bestow upon the enterprise all kinds of rights, with the right to operate on its own initiative as the central right.

Leaping The restructuring of the entire economic system includes the restructuring of the enterprise system, which is a very long process. Under the present circumstances in which the macroeconomic environment is not yet ready, we can consider, under the premise of not doing any harm to the total amount of state assets, first letting part of the state enterprises, by certain ways and means, leap out of their present system and the accompanying administrative and management system, and restructure them into organizations that operate with vitality and vigor. How are they to leap out? Where are they to leap? These questions, of course, are not easy to answer, but in Guangzhou there is no lack of examples: leap to the stock system; leap to Sino-foreign joint venture enterprises and Sino-foreign contractual joint venture enterprises; and leap to city-township jointly run enterprises.

Grafting Make compensatory transfers of the property rights of the old state enterprises and graft them onto foreign capital, thereby forming many types of Sino-foreign joint venture enterprises and Sino-foreign contractual joint venture enterprises, e.g., the all-factory joint venture type, the one factory and two systems type, the multibranch grafting type, the factory lease type, the changing site transformation type, the completely new

type, the two steps to position type, and the compensation trade type. This Sino-foreign grafting is not only a grafting of assets; what is more important is that it is a transplanting and a blazing of trails for new systems and new mechanisms. The great majority of Guangzhou's 802 Sino-foreign joint venture enterprises and Sino-foreign contractual joint venture enterprises have been successful and have demonstrated tremendous vitality.

Marrying Marrying state enterprises to township and town enterprises will both support the development of township and town enterprises and solve the problem of insufficient manpower, production space, and funds in the state enterprises of cities. It can even allow jointly run enterprises to enjoy the same treatment as township and town enterprises. The phenomenon of township and town enterprises going into cities and being contracted to state enterprises may be said to a marrying of this form. The results of practice show the clear superiority among state enterprises of township and town enterprise mechanisms.

Importing This means importing international experiences in advanced scientific management, in line with the customary international practice of enterprise administration and management. For example, the Guangzhou Broadcasting Equipment Factory, which produces the Lehua color television set, while importing Japan's Matsushita color television set production line also imported a complete set of Japan's experiences in enterprise management. In making foreign things serve China, importing, absorbing, assimilating, blazing new trails, and integrating national conditions with factory conditions, this factory has come up with a set of management systems that have the factory's own special features. These experiences in scientific management not only have raised the level and grade of enterprise administration and management, but also have a direct reference value for all state enterprises.

Charging This means charging out of China's gate to run enterprises and start companies overseas or outside China's borders, and engaging in business in line with the practices of the country or region where the enterprise or company is located. Guangzhou has now set up nearly a hundred enterprises outside China's borders. Some of them are joint ventures, some are contractual joint ventures, and some are wholly foreign-owned. Guangzhou's Zhujiang Industrial General Corporation has set up in Switzerland the Zhongxing group of companies, which are run both as joint ventures and contractual joint ventures. These companies have developed vigorously, going back from Europe into Southeast Asia and China to do business. The Guangzhou Battery Industrial Corporation has set up a high-powered battery factory in Hong Kong, and the batteries it produces are sold directly on the international market, thereby reducing the number of links that the export of many products of domestic enterprises must pass through.

Diversifying State enterprises have put into effect the practices of "one factory, two systems" and "one factory, many systems," changing the single economy into a

"diversified economy with one industry being primary." Practice has proved that enterprises with "many systems" and enterprises with a diversified economy are better able to withstand economic storms, and that they have a fairly strong capability for adapting to markets and meeting emergencies. During the 12 years of reform and opening up to the outside world, Guangzhou's Baiyun Shan Pharmaceutical General Plant in facing markets has depended on its own strength to develop, in a "rolling snowball fashion," into an enterprise group on an initial scale. An industrial enterprise under ownership by the whole people that is in the agricultural sector, through direct investment in new construction, stock participation and control, and annexes and purchases, sprouted 42 branch factories and branch companies. Some of them are under ownership by the whole people, some are under collective ownership, and some are Sino-foreign joint ventures and Sino-foreign contractual joint ventures (including enterprises operating outside China's borders). In these branches, with the medicinal industry being primary, there are also the foodstuff, clothing, electronic, real estate, and service industries.

Severing If state enterprises truly want to become relatively independent commodity producers and businesses, they must cut the umbilical cord with the mother's body (the government department), thereby severing the relationship of "department ownership." By only retaining the relationships of asset ownership and industrial management, they can thoroughly break free from administrative intervention and can truly bring about a situation in which the government exercises indirect management of the enterprise. From the government's angle, in its legitimate management of the enterprise, it stresses macro regulation and control, planning, supervision, and service; and it does not manage the things that it should not manage. The specific administrative and management work is done by and decided upon by the enterprise. Changing the "father relationship" to a relationship between equal legal persons will make state enterprises "grope, climb, roll, and strike" on the market, and they will no longer want to engage in the "kindly father" style of management in which "the rich are robbed to relieve the poor."

PROVINCIAL

Qinghai's Eighth Five-Year Plan, 10-Year Program

92CE0009A Xining QINGHAI JINGJI BAO in Chinese
12 Aug 91 pp 1-2

[Article: "Proposal of a 10-Year Social Development Program and Eighth Five-Year Plan—Ratified by the Seventh Plenary Session of the Seventh Qinghai Provincial Committee on 19 July 1991"]

[Text] The Seventh Plenary Session of the Seventh Qinghai Provincial Party Committee discussed the basic tasks and the general and specific policies of the province's economic and social development for the next 10

years and during the Eighth Five-Year Plan period, patterning after the 10-Year Program and Eighth Five-Year Plan proposed by the Seventh Plenary Session of the 13th Party Central Committee and the gist of the 10-Year Program and Eighth Five-Year Plan ratified by the Fourth Session of the Seventh National People's Congress. The following proposals were ratified:

I. The Goals and the Guiding Principles of the Struggle

1. The 1990's will be critical to Qinghai's economic development. Not only will it be the key to whether it can follow the nation's unified plan and successfully achieve the second step of the strategic goal and change the province's poverty-stricken outlook, but it will also be crucial to the stability and prosperity of the nationality areas and the unity and progress of their people. We must get to know the province's situation in depth, analyze properly and ascertain the condition, potential, advantages, and prospects of Qinghai's economic and social development. We should recognize the adverse factors hampering Qinghai's economic development and adopt various measures to turn adversity into advantages, and we should also recognize the vast prospects and the favorable conditions for vitalizing Qinghai, seize every opportunity, and forge ahead with vigor. Qinghai's people of all nationalities must have a strong sense of historical responsibility and urgency of the times, reinforce and amplify the political situation of stability and unity, concentrate their energy on the economy, and put their effort confidently on the glorious task of achieving the second step of the strategic goal.

2. The huge success of reform and opening up and the economic and social development in the 1980's have laid a solid foundation for Qinghai's further development in the next decade:

Step by step, reform and opening up have become more thorough. The restructuring of the economic system which began in the rural and pastoral areas and later spread to the urban areas has played a very important role in giving impetus to the province's economic development and has facilitated the development of the commodity economy. In accordance with the needs of the economic mechanisms that integrate the planned economy and market regulation, we have developed a fledgling fund market, technology market, and labor market, and have promoted the development of the market system. We have made great strides in opening up to the outside world. The total value of our import and export has soared. Our economic and technological cooperations with the advanced regions and the scope of lateral economic ties have continued to expand.

We have made great progress with respect to production. The total output of the main industrial, agricultural, and livestock products has increased significantly, and so has our productive capacity. We have had four consecutive years of bumper grain harvest, with total output topping 1,145,600 tons in 1990. Livestock production has undergone fairly rapid development. Total meat production

grew from 84,900 tons in 1980 to 153,400 tons in 1990, increasing at an average rate of 6.1 percent a year. Our industrial output has grown steadily amid the structural readjustments. In particular, the production of energy resources and raw materials has increased many folds. Comparing 1990 to 1980, the production of crude oil has increased 4.4 fold; power supply, 7.6 fold; crude salt, 2.44 fold; steel, 79.2 percent; steel materials, 85.6 percent. The production of aluminum ingots topped 45,700 tons and electrolytic magnesium reached 1,044 tons in 1990. In 10 years' time, many key projects have been completed and have gone into production in succession. Our national economic development has clearly gained vitality and momentum.

Our scientific, technological, and educational undertakings have undergone fairly rapid development, and intelligence development has continued to make great strides. In 10 years' time, we have completed 1,228 scientific and technological projects at the above-province level; nine of them have received national awards, and 553 have received provincial and departmental awards. Some projects have attained or have almost attained advanced international standards. Basic education has been strengthened: 81.5 percent of the school-age children are enrolled in schools; regular secondary school education, vocational-technical education, and higher education have all made progress amid the restructuring of the educational system, and adult education and nationality education have also undergone rapid development.

We have further raised the consumption level and improved living conditions. In 10 years' time, the average annual living expenditure has increased 1.9 fold, rising at an average rate of 11.2 percent a year. The per capita annual net income of the peasants and the herdsmen has increased 2.4 fold, averaging 11.2 percent a year. The workers' annual income has increased 1.4 fold, averaging 9.1 percent a year. The consumption-mix now consists of increasingly greater variety and better quality goods. Most people living in the poverty-stricken areas have basically have enough to eat and are warmly clothed.

Practice proves that the 10-year old reform has brought all positive factors into play and has opened up a whole new situation for Qinghai's socialist modernization. Never before, since the founding of the PRC, have Qinghai's economy and its various social undertakings undergone more rapid development and its people's lives been improved more than in the last 10 years. Qinghai has also clearly gained economic strength and has continued to strengthen and advance its stable and unified political situation in the last 10 years.

Qinghai basically has achieved the goal of doubling its GNP in the 1980's, but its economic and social development still faces many problems and difficulties. In particular: The bases of its agriculture and animal husbandry are weak, and unstable production is still a problem. Progress has been slow in restructuring the industrial-mix, and the products are of poor quality, low

grade, high cost, and cannot compete. We have financial problems, construction funds are tight, the number of administrative organs and personnel is increasing too rapidly, and nonproductive expenses continue to increase year after year. Science, technology, and education lag behind; few results of science and technology are used, and there is a shortage of urgently needed skilled workers. The transportation system and other infrastructures are inadequate. Population is increasing too rapidly. Our economic development lags far behind the national level. Some unstable factors remain in the social, racial, and religious domains. These and other problems still need to be resolved during the next 10 years.

But there are many favorable factors that will facilitate Qinghai's economic and social development in the 1990's: First, the Seventh Plenary Session of the 13th Party Central Committee and the Fourth Session of the Seventh National People's Congress have come up with the correct general and specific policies for the country's economic construction and reform and opening up. They have given us a clear direction and have boosted our confidence. Second, in the next 10 years, the state will abide by the principle of unified arrangement and reasonable division of labor and will carry out a policy that is simultaneously biased toward certain industries and certain regions, and this policy will give play to Qinghai's comparative advantage as a resource-rich region. Third, the Central Party Committee is most concerned about and is paying special attention to the development of the minority nationality areas. It is possible that we will be getting special help and support from the state and from the economically developed provinces and municipalities. Fourth, since reform and opening up, Qinghai has undergone fairly rapid economic development. It has gained substantial economic strength and has laid a solid foundation for future developments. Fifth, we have come to understand the province's situation even better, reaching a common understanding and smoothing the way for economic development. Lastly, both the state and the province are politically stable; society is stable, and the people of all nationalities are united; this has provided us with a good political environment.

3. From 1991 to the year 2000, we must strive to realize the second step of the strategic goal of modernization. Basically, we must accomplish the following:

By vigorously increasing economic efficiency and optimizing the economic structure, we hope to quadruple 1980's GNP, based on comparable prices, by the end of this century. To achieve this goal, we must increase the GNP by an average of 7.3 percent a year for the next 10 years—6.5 percent during the Eighth Five-Year Plan period.

By first solving the problem of feeding and clothing the people, we can then move ahead and try to make every family relatively well-off. We hope to improve the consumption-mix and see to it that there are clear improvements in the urban and rural population's health care,

sanitation, and living conditions. We should further enrich their cultural life and constantly improve social services and facilities.

We must develop educational undertakings, promote scientific and technological progress, improve economic management, strengthen the key construction projects, and lay a sound foundation for increasing our economic strength.

We must continue to make the public-ownership system the primary system, but develop other economic components. We should take active steps to develop the market and set up a preliminary economic system that has its own appropriate operating mechanisms, that integrates the planned economy and market regulation, and that is based on the public-ownership system but facilitates the development of the socialist planned commodity economy.

We must build a stronger socialist spiritual civilization and further improve the system of socialist democracy and the legal system.

4. We must stay on the path of developing socialism with Chinese characteristics. This is the fundamental guarantee of our realization of the second step of the strategic goal. We must steadfastly implement the party's basic line and strive to integrate the Central Party Committee's general and specific policies into Qinghai's reality. We should make the economy our focal point, concentrate on developing society's productive forces, and actively implement the economic development strategy of "reform and opening up, turning poverty into prosperity, and making use of our resources to invigorate Qinghai." We should solidify and further the political situation of stability and unity and promote economic, social, and regional cooperation and development.

5. We should hold steadfast to the guiding principle of achieving sustained, steady, and smooth economic development and always put improving economic quality and economic efficiency at the heart of our endeavors. In making economic plans and arrangements that concern the people's livelihood, we must adhere diligently to the principle of never overreaching ourselves, insist on maintaining a balance between total supply and total demand, and make sure that the important elements in economic development are kept at proper proportions and relations. We should emphasize the readjustment of the industrial structure, accelerate technological progress, strengthen economic management, strive to integrate speed, efficiency, and staying power, and continuously improve the quality of economic growth.

6. We must uphold the policy of thorough reform and open up even more to the outside world. This is the key to realizing the goals of Qinghai's 10-year program and Eighth Five-Year Plan. We must continue to rid ourselves of the conservative viewpoint of isolating ourselves, be more open-minded, and proceed steadfastly with our reform and opening up. We must make the

reform more thorough, actively develop the market system, and gradually set up a macro control and regulation system which suits the economic mechanisms that integrate the planned economy with market regulation. We must strive to increase exports, expand foreign trade, continuously improve the investment environment, take advantage of our resources, absorb domestic and foreign capital through different channels, bring in even more foreign technologies, and expand the scope of foreign economic and technological cooperation.

7. We must insist on being self-reliant, struggle arduously, and build enterprise through diligence and thrift. We should plant the foothold of economic construction on our own strength. We must instill the idea of long-term arduous struggle, continue to display the spirit of self-reliance and arduous struggle, vigorously advocate the spirit of contribution and sacrifice for the sake of Qinghai's vitalization. Meanwhile, we should take the initiative to win the help and support of the state and of the economically better-developed regions. In undertaking various projects, we must be meticulous with our figures and strict with our budgeting, economizing as much as possible. We must be resolute in overcoming the phenomenon of serious wastefulness in all sectors, advocate diligence and thrift in society, and encourage everyone to work hard and economize.

8. We should steadfastly promote the development of all nationality autonomous regions, give full play to the comparative advantages of those regions, and integrate properly the development of resources and the development of society and the economy. We should gradually change the relatively backward economic outlook of the nationality autonomous regions and link their economic development to that of the whole province. We must continue to put into effect the many policies intended to help the nationality autonomous regions develop. In particular, we must formulate even more favorable policies toward Qingnan prefecture, giving it support in terms of financial, material, and technological resources, accelerate economic development, and enhance its internal vitality to achieve economic growth and ability to develop on their own.

9. We must develop our material civilization and spiritual civilization at the same time. Building a highly socialistic spiritual civilization is the fundamental task of the development of socialism with Chinese characteristics. We must uphold the four basic principles, vigorously strengthen our ideological and political works, and steadfastly fight against bourgeois liberalization. We must go deep and far to educate the people on patriotism, collectivism, and socialism. We must be more spirited, improve society's general mood, overcome the tendency to "either go too far or not do enough" in the building of the two civilizations. We should develop science and technology, education, culture, public health, physical education and other undertakings; we should strive to improve the ideological and moral quality, as well as the scientific and cultural quality of

the people of all nationalities. Our economic undertakings must continue in the socialist direction, and we must provide the necessary material conditions for building a stronger spiritual civilization.

II. Development and the Regional Distribution of the Major Industrial Sectors

10. The emphasis of our economic construction for the next 10 years should be on strengthening the agricultural and stock-raising sectors, on developing energy resources and the raw materials industry, on upgrading the engineering, electronics, and light and textile industries, and on strengthening the infrastructure. At the same time, we should focus on the development of the construction and the tertiary industries and integrate the realization of the overall national strategic goals with the promotion of regional economic development and gradually build a regional economic structure with local characteristics.

11. We should vigorously strengthen and develop agriculture and animal husbandry. With respect to agriculture, we should implement a guiding principle of thorough and widespread development, go the way of "stabilizing the cultivated area, concentrating on the per unit output, building agricultural bases, and increasing our staying power," and gradually increase our self-sufficiency in grain. With respect to animal husbandry, we should uphold the guiding principle of "growing grass as an industry, making structural readjustments, increasing total output, and raising the commercialization rate." We should adhere to the developmental strategy and the classified guiding ideology of "improving lake environment, steadying the pace of Qingnan's development, and developing stock-raising in the agricultural regions," and gradually develop constructive and scientific animal husbandry. Meanwhile, we should vigorously strengthen the forestry industry, develop the aquatics industry, pay attention to the readjustment of the rural area's industrial structure, actively support township enterprises, and promote the all-out economic development of the rural and pastoral areas. By the end of the century, we hope to produce 1.45 million tons of grain, 150,000 tons of oil, 220,000 tons of meat, and 1.275 million tons of lamb wool. Specifically, during the Eighth Five-Year Plan period, grain production should reach 1.275 million tons; oil, 130,000 tons; meat, 17,500 tons; lambs' wool, 17,800 tons.

12. To develop agriculture and animal husbandry, we should rely mainly on the following measures:

We should continue to stabilize and perfect the economic policy designed for the rural and pastoral areas. With respect to the rural areas, we should first stabilize the family-based, output-related system of contracted responsibility, and thereupon we should establish and perfect a two-level management system that integrates centralization and decentralization and then set up and perfect a stratified and diverse socialized service system with respect to production, science and technology, and circulation. We should suit measures to local conditions

and do a good job with development-oriented productions, create a variety of economic entities, establish and perfect an accumulation system for the collective economy, and continuously strengthen the collective economy. With respect to the pastoral areas, we should diligently implement the contracted grassland management responsibility system, further enhance the functions of the grassroots organizations as managers and service-providers, give full play to the role of the herdsmen's council and stock-raising cooperatives, develop different forms of lateral ties between the stock-raising households, and integrate the enthusiasm of households that operate independently with the superiority of those who operate voluntarily as an organized group.

We should rely on science and education, develop agricultural and livestock productions, and improve the scientific and cultural qualities of the peasants and the herdsmen. We should vigorously promote and popularize all sciences and technologies useful to agriculture and animal husbandry, practice scientific cultivation and animal-rearing, develop and popularize improved varieties, and strive to increase the per unit area output and the per head livestock productive capacity. We should adopt a policy of encouragement, mobilize the scientists' and technicians' enthusiasm, and encourage the R&D units and the scientists and technical staff in the colleges and universities to go to the rural and pastoral areas to contract scientific and technological projects and work on developmental projects. We should set up and perfect a system to disseminate the results of science and technology applicable to agriculture and animal husbandry, as well as build a stronger team of scientists and technicians in the rural and pastoral areas. The county-level R&D institutions and township-level dissemination and service organizations should go to the grassroots, serve the villages and the households, and provide guidance on livestock to farms. We should actively develop different civilian scientific and technical service organizations, allow the masses to set up and run their own specialized technical associations, and by popularizing and promoting science and technology, we want to let science and education invigorate agriculture and let science and education invigorate animal husbandry.

We should increase input in agriculture and animal husbandry and strengthen their infrastructure. We should strive to improve the production conditions and constantly enhance the ability to combat natural disasters. Agricultural infrastructure refers mainly to the water conservancy projects and the repair, restoration, and completion of aged and dilapidated irrigation projects. We should strengthen agricultural capital construction, develop drought-resistant agriculture, improve the farmlands in the mountain areas and upgrade the moderate- to low-yield farms, continuously expand the irrigated area, systematically bring more land under cultivation, and reclaim wasteland. During the Eighth Five-Year Plan period, we plan to turn 240,000 mu of arid land into irrigated land and add 200,000 mu of

cultivated land. Infrastructure for animal husbandry refers mainly to fencing in the grasslands, growing grass under artificial conditions, and building livestock sheds and the "four accessories" in the herdsmen's permanent residential points. While increasing the state's input, we should also encourage and guide the collective economic organizations and the peasants and herdsmen to add more financial input, especially labor input. During the next 10 years, the potential for comprehensive agricultural development will be found mainly in the Huangshui River basin, along the Huanghe River banks, and in Qaidam Prefecture. In the Huangshui River basin, we should focus on Qianshan, the upgrading of moderate- to low-yield farms, and the restructuring of the cultivation industry in Naoshan. We should do a good job with the preliminary phase of the "Ji Huang Irrigation Project" and strive to begin construction and complete the project in several phases as soon as possible to give impetus to our agricultural development. Along the shores of the Huanghe River, as the staircase power plants are being built, we should develop the Huanghe basin and plateau. In the Qaidam prefecture, we should primarily focus on establishing agriculture in the oasis.

We should give full play to the role of state-run farms and ranches. Province-wide, the state-run farms and ranches have a total of more than 1.3 million mu of land. The commercialization rate of grain and oil production is high, and there is still much potential for increasing output. In the future, we should strengthen irrigation and water conservancy projects, upgrade agricultural machinery, improve the saline-alkali soil, perfect the contracted management responsibility mechanisms, improve management and administration, and develop comprehensive operations, etc., in order to turn the state-run farms and ranches into production bases for commercial grain and commercial livestock and give them even more play in the development of agriculture and animal husbandry.

We should further develop agriculture-related industry and strive to increase the output of chemical fertilizers, pesticides, plastic sheeting, and agricultural machinery. We should constantly improve the quality and the use-efficiency of those products to meet the needs of agricultural development.

We should accelerate the development of the stock-raising industry. The emphasis should be on developing more pastures, making better use of and protecting the natural grasslands, actively promoting the production of seasonal livestock, and reducing the pressure on the grasslands in the winter and spring. We must do a better job preventing and combating livestock diseases and rodants, insects, and diseases in the grasslands. We should increase the commercialization rate by raising the total livestock production rate. We should build a better bases to combat natural disasters and protect the livestock and develop a comprehensive stock-raising technical service system and other projects. We should continue to establish the stock-raising industry in the agricultural areas, vigorously develop the breeding and

cultivation industry with the emphasis on raising hogs, cattle, sheep, poultry, and aquatic products, and we should build bases to produce commodity meat, poultry, milk, and eggs to increase the province's self-sufficiency in meat, milk, and eggs.

We must make an earnest effort to improve land management, take care and make good use of the land, control the shrinking cultivated area, and increase the land-utilization rate.

We must attach importance to forestry and accelerate the construction of fast-growing, high-yield timber forests, shelter forests, economic forests, fuel forests, the second phase of the Sanbei Shelter Forest as well as the shelter forests in the middle and upper reaches of the Changjiang River. We need to conserve and make proper use of our forest resources and improve the ecology.

13. We should vigorously develop township enterprises, uphold the guiding principle of providing "active support, rational planning, correct guidance, and stronger management," and continue to implement the policy of support and encouragement to facilitate their fairly rapid development. We should strengthen enterprise management and technological transformation, improve product quality, and reduce consumption. We must plant our foothold on local resources, throw open the doors to production, actively develop the cultivation industry, breeding industry, transportation industry, mining and excavating industry, and small agricultural and sideline product processing industry, and we should promote the comprehensive development of "agriculture, forestry, animal husbandry, sideline production, fishery, industry, commerce, and the construction, transportation, and garment industries." Township enterprises must also actively develop products that meet and compliment large enterprises' needs, the foreign trade and exporting enterprises' needs, and agricultural and livestock production's and the people's needs.

14. We should be diligent about our poverty-relief work. During this phase of poverty-relief and development, the main goal is to help the majority of the people in the poverty-stricken areas solve their food and clothing problems and turn poverty into prosperity, and therefore we must vigorously develop agricultural and livestock productions, strive to increase the per capita grain and livestock consumption rate, and actively develop the transportation system, post and telecommunication systems, projects that provide human and livestock drinking water and other infrastructure projects in the poverty-stricken areas. We should "provide work instead of handouts," make good use of other poverty-relief funds, continue to rely on such poverty-relief method as contracting with the counties and townships at fixed points and linking several points to provide assistance, and actively design development-oriented projects in the poverty-stricken areas to help develop the economy. We should encourage the masses in these areas to be self-reliant and struggle arduously and turn poverty into prosperity at a faster pace. By the end of the century, we

hope to stabilize the food and clothing problems and see that most households live a relatively comfortable life.

15. Industries must steadfastly give play to Qinghai's comparative advantages and make the development of resources the breakthrough point in invigorating Qinghai's economy. To speed up resource development, first, we must step up geological explorations; second, do a good R&D job with the resources; third, improve the investment environment to facilitate resource development; fourth, do a good job in the preliminary phases of each project. We should choose projects that require short construction period and little investment but produce good benefits and projects we can handle at this time. We should get the projects off the ground and solve the primitive accumulation problems. We must seize the opportunity of today's restructuring of the economic system and accelerate the pace of resource development and build some superior industries. While pursuing extensive development, we should also take the path of intensive growth by tapping potential. We should hold steadfast to the guiding principle of emphasizing both development and conservation, integrate resource development with resource conservation, and integrate conservation with enterprise technological progress and better management.

16. We should let the electric power industry take the lead and vigorously develop the energy resource industry.

With respect to the electric power industry, we should vigorously develop hydro power, build thermal power plants, actively expand the wire netting, and suit measures to local conditions in developing small hydro power and wind power stations. First, we should work on the staircase hydroelectric power station in the upper reaches of the Huanghe River inside Qinghai's territory. During the Eighth Five-Year Plan period, we should wrap up the last phase of the Longyang Gorge Hydro Power Station, accelerate the construction of the Lijia Gorge Hydro Power Station, and strive to acquire a generating unit and start building a hydro power plant either in Gongbo Gorge or in Laxiwa. Second, we should actively build medium-sized and small local hydro power stations and speed up the construction of power plants in the Haixi, Haibei, and Qingnan autonomous prefectures. We should build some medium-sized hydro power plants along the Huanghe River, the Golmud River, and the Datong River. In connection with the effort to meet the needs of some counties that have no electricity or have a shortage of electric power and the electrification needs of other counties, we should build a group of small hydro power stations. Third, we should work on thermal power plants. The first phase of the 4 x 125,000 kilowatt Qiaotou Power Plant should be completed during the Eighth Five-Year Plan period, and the second phase should be completed during the Ninth Five-Year Plan period. To meet the demand for heat and electricity in the cities and by industries, mining companies, and enterprises, we have to build some thermal

power plants. Fourth, we should accelerate the construction of wire netting, and together with the Lijia Gorge Station power transmission project, we should build a 330-kilovolt transmission line from Longyang Gorge to Golmud and expand or upgrade the Xining wire netting to form a centralized power network that includes parts of the Haibei, Hainan, Haixi and Qingnan prefectures. By the end of the century, the province's total installed power capacity should reach 4.5 million kilowatts, with annual power generating capacity of 15 billion kwh. Specifically, at the end of the Eighth Five-Year Plan period, the installed power capacity should reach 2.4 million kilowatt, with power generating capacity of 8.5 billion kwh.

With respect to the coal industry, we should adopt the policy of putting the emphasis on developing the key mining areas, stabilizing the coal production in Datong, and supporting the development of small prefectural and county coal mines. We should increase input in coal production and pay attention to the exploration and development of smokeless coal, coking coal, and coal in the coal-short areas. By the end of the Eighth Five-Year Plan period, the province's annual coal production should top 4 million tons, and 5 million tons by the end of the Ninth Five-Year Plan period.

With regard to the petroleum industry, we should continue to explore and develop petroleum and natural gas and increase the reserve and expand the oil recovery capacity. At the end of the Eighth Five-Year Plan period, crude oil production should top 1.2 million tons; we should complete the Golmud Oil Refinery and the three projects for developing and utilizing natural gas, and we should put 1 billion cc of natural gas to use each year. At the end of the Ninth Five-Year Plan period, crude oil production should reach 2 million tons a year.

17. We should actively develop the raw materials industry. This should be integrated into the development of hydroelectric power, lake salt, nonferrous metals, nonmetallic ores and other fine resources, and by upgrading and expanding the existing enterprises and developing key projects, we can raise the technological standard, expand the productive capacity, reduce consumption, and gradually develop some superior industries and hot-selling products.

With regard to the metallurgical industry, we hope to complete the transformation of the Xining Steel Mill, which will have capacity to produce 400,000 tons of steel and 320,000 tons of steel materials each year. We will complete the Qinghai Nonferrous Metal Smeltery, the second phase of the Minhe Magnesium Plant, and the second phase of the Qinghai Aluminum Plant and so on and increase the output and the quality of steel, steel materials, aluminum, and magnesium. We should strive to improve the quality of ferroalloy, cut waste, diversify the product categories, work hard to increase export and earn more foreign exchange, and strive to reach the goal of exporting 100,000 tons of ferrosilicon a year by the end of the Ninth Five-Year Plan period, so that Qinghai

will become one of the state's ferrosilicon-exporting bases. We should actively work on the preliminary phase of the Saishentang Copper Mine, strive to begin construction during the Eighth Five-Year Plan period and complete the project and go into production during the Ninth Five-Year Plan period. We should quicken the pace of prospecting for gold and the construction of gold mines and actively develop gold production in various prefectures and regions, striving to reach annual production capacity of 1,000 kilos, producing 650 kilo of gold a year by the end of the Eighth Five-Year Plan period. We should encourage the township enterprises to come up with a plan to extract minerals and resources in the small local mines and mining points.

With respect to the chemical industry, we must take full advantage of our lake salt, petroleum, and natural gas resources and develop the saline-chemical industry, petrochemical industry, natural gas-chemical industry, and chemical fertilizer industry and complete the conversion and transformation of the war industry, chemical industry, and industrial enterprises. Focusing on the development of salt and sylvite, we should work on the development and comprehensive use of potassium, sodium, magnesium, boron, and lithium and develop products and series of products of which there are shortages. During the Eighth Five-Year Plan period, we should begin the second phase of the Qinghai potash fertilizer plant, striving to increase productive capacity to 1 million tons a year during the Ninth Five-Year Plan period. We should make use of natural gas and undertake methanol, synthetic ammonia, urea, and other projects.

With regard to the construction materials industry, we should focus on the technological transformation of the existing enterprises and strive to readjust the product-mix, actively develop new products and nonmetallic mineral resources, and study and develop new construction materials. During the Eighth Five-Year Plan period, through technological transformation, we hope to attain a 150,000 - 200,000 ton cement production capacity in Dabei and add a 300,000 cement production line in order to meet the province's needs when developing and building hydropower plants. We should complete the construction of the 30,000-ton-capacity Qinghai Mangya Asbestos Mine and further increase Qilian's asbestos production capacity.

18. We should step up geological explorations, accelerate the progress of mineral prospecting, continuously increase our mineral reserve, and strive to increase the number of successful finds and increase the economic and social benefits of geological works, so as to provide even more mineral resources and essential geological materials to facilitate the province's economic development. We should especially look for oil, natural gas, and lake salt as well as nonferrous metals, coal, gold and other minerals.

19. We should readjust the product-mixes of the light and textile industries and vigorously promote technological progress and transformation. We should produce better and higher grade products, add new varieties and styles, and develop new products. We should work on the technological upgrading of key industries that produce textile goods, crude salt, area rugs, leather, and aluminum products. We should work hard to complete the Qinghai Synthetic Fiber Mill as well as the Caka and Keke saltworks renovation projects, which will boost our crude salt production capacity by another 1 million tons. The food and beverage and pharmaceutical businesses should also take advantage of our own resources to develop prestigious, superior, and new products.

20. We should accelerate the technological upgrading and transformation of the engineering and electronics industries. During the Eighth Five-Year Plan period, the engineering and electronics industries should plant the foothold of their development on the existing foundation and existing enterprises and accelerate their technological upgrading and transformation. We should focus on the development of products needed by the energy resource, transportation, machine-making, raw materials, and agriculture-based industries. We should actively develop export goods that earn foreign exchange and concentrate on the development of integrated mechanical and electronic instrumentation machinery and their basic accessories as well as applied electronic hardware and software. We should vigorously develop the electronics industry and utilize electronic technology to transform the traditional industries. We should set up a stratified technology development system which focuses mainly on the newly developed technologies but also combines traditional technologies, newly developed technologies, and advanced technologies to enhance our ability to seize the development initiative. Through reorganization, transformation, and combination, we can gradually set up a machine tool industry which is spearheaded by integrated mechanical and electronic numerical control products, an engineering machinery industry which imports high-power bulldozers, and an automobile industry which specializes in heavy-duty trucks and let them spur on the province's engineering and electrical industries.

21. We should actively develop the construction industry and do a good job with urban and rural construction. We should manage the construction market better and sort out and improve the existing construction enterprises to make sure that the construction and installation works are up to standard. We should do a better design job by raising design standards, train better construction teams, improve worker quality, building design and construction teams that meet high standards and tough design requirements.

We should strengthen the central planning of urban and rural construction. Home-building should be coordinated with the installation of the service networks. We should suit measures to local conditions and economize on land-use when building homes in the rural areas. We

should make building large- and medium-sized enterprises and township enterprises our mainstay and build modern towns and townships which are well-planned, easily accessible, and which have their own unique characteristics.

22. We should develop communications, transportations, post and telecommunications to meet the needs of economic development.

The rail system is among the weakest link in Qinghai's economic development. In the next 10 years, the most important among our railroad construction tasks will be to speed up the expansion and upgrading of the Qinghai-Xizang Railway, striving to complete the first phase renovation project during the Eighth Five-Year Plan period, so that we can increase the cargo transport capacity between Xining and Hargai to 6 million tons per year and between Hargai and Golmud to 4.2 million tons a year. We want to complete the second phase during the Ninth Five-Year Plan period and boost the cargo handling capacity for the Xining-Hargai segment and the Hargai-Golmud segment to 9 million tons and 7 million tons per year, respectively.

With respect to highway construction, we should focus on building more major highways, speed up the construction of the highway system in the counties, townships, and mining areas, and strive to improve the existing highway situation and increase our transport capacity.

With respect to civil aviation, we should get the Caojiabao Airport ready to handle air traffic and other services, add new domestic routes, and expand the aviation business. At the same time, we should implement a provincial air traffic plan and conduct feasibility studies.

With respect to post and telecommunications, we should increase comprehensive communications capacity, improve the quality of communications, raise the standard of the technology and the facilities, and speed up the construction of inter-provincial and intra-provincial trunklines. We should complete the Xining to Lanzhou fiber optic cable project, the Xining to Golmud numerical microwave project, and the Golog open-wire carrier project, so that Xining can communicate better with the other provinces and with Qinghai's many prefectures and counties and the economic development zones. We should vigorously install telephone lines in the cities, make telephones widely available, and see to it that every village in the agricultural and pastoral areas has telephone service.

23. We should promote the development of the collective economy. The collective economy is an important part of the public-ownership system. Its development is vital to the efforts to boost the local economies, to increasing local financial revenues, to solving the employment problems in the cities and towns, and to making the people's lives easier. We must make every

effort to help the collective enterprises solve their problems and increase planning and guidance. We should make full use of our own resources in developing collective enterprises in the cities and towns, continuously improve the product quality and technological standards and add new styles and varieties, and give play to their characteristic of being small but versatile, so as to meet the needs of the market.

24. We should pay attention to the tertiary industry's development. We should bring into play the initiative of various economic components and elements and accelerate the development of the various trades and businesses in the tertiary industry which urgently need to be developed. In the urban areas, we should focus on the development of the retail, restaurant, and service industries as well as finance, insurance, and the real estate business. In the rural and pastoral areas, we should gradually set up and develop production and everyday service systems centered in the small cities and towns. We should give play to Qinghai's unique tourist resources and let tourism bring along the development of the related service industries.

25. We should promote reasonable division of labor among the local economies and help the nationality autonomous regions develop their economies. In order to give play to the superior factors in the local economies and develop the commodity economy, and in accordance with the strategic plan to "develop the first line, bring along the two flanks, and stabilize the development of Qingnan," we should bring into play the initiative of the province and the prefectures and counties and allocate the productive forces properly. In connection with the province-wide readjustment of the industrial structure and in consideration of the availability of local resources and the local transportation situation, we should clarify which industries should be developed first and in which locality, and we should promote the proper circulation of technologies and funds and the optimized allocation of resources to gradually develop a proper regional economic pattern. We should formulate special policies and take special care of the nationality autonomous regions' economic and social development and increase their internal vitality, so that they can develop on their own. We should continue to do a good job in the nationality economic reform experimental zone in Minhe County and the resource development experimental zone in Golmud and push forward with the construction of the "Upper Huanghe River Multinational Economic Development Zone."

III. Accelerate the Development of Scientific, Technological, Educational, and Cultural Undertakings

26. We should always give science and education a strategic place and firmly establish the guiding ideology of "invigorating the province with science and education." We must continue to heighten the people's awareness about scientific and technological progress, take practical and effective policies and measures, so that our

economy is truly built based on scientific and technological progress, and so that science and technology truly serve the economy. To invigorate the province with science and technology and make education fundamental, we must pay special attention to intelligence development, start with basic education, improve the cultural quality of people of all nationalities, and nurture the technical talents of people of all classes and all races.

27. We should continue to make the restructuring of the system of science and technology more thorough, build a stronger contingent of scientists and technical personnel, and increase input in science and technology. The basic tasks of scientific and technological development include tackling industrial, agricultural, and livestock production problems, technological transformation, resource development, social undertakings and other major problems. We should organize a technology task force, launch scientific research projects, and popularize science and technology that require little investment, product quick results, and generate high return. Key scientific and technological undertakings include the following:

With respect to agriculture and animal husbandry, we should mainly apply more of the results of science and technology to agriculture and stock-raising and do research to upgrade the moderate- and low-yield farms, produce high-yield breeds, breed improved varieties of livestock and poultry, protect the grasslands, and combat disasters to save the livestock. We should set up and perfect a comprehensive technical service system in the rural and pastoral areas and continue to implement the "Spark Plan," the "Bumper Harvest Plan," and the "Blazing Prairie Plan" and support the development of township enterprises and increase agricultural and livestock output.

With respect to the technological transformation of traditional industries, we should mainly utilize electronic technologies and so on to bring about their technological transformation, encourage enterprises to develop new products, and do a good job digesting and absorbing the advanced technologies and equipment brought in from abroad. We should actively set up technically advanced enterprises and promote advanced technologies, advanced equipment, new arts and crafts, new materials, and scientific management and so on. We should target certain areas and form technological task forces, actively develop new and high tech, promote technological advancement in enterprises, and continuously improve enterprises' quality and economic efficiency.

With respect to resource development, we should continue to do a good job with the development and comprehensive use and study of lake salt and other mineral resources, promote resource development, and bring along the development of related industries. In particular, we should concentrate on studying the industrial use of potassium, boron, strontium, lithium, and magnesium.

28. It is fundamental to the development of socialism to develop educational undertakings and improve the quality of people of all nationalities. We must implement in full the party's educational guiding principle that "education must serve socialist modernization; education must be linked to production and labor; education must nurture a generation of builders and successors who are well-developed morally, intellectually, and physically." Starting out from Qinghai's economic and social development needs, we should actively train even more qualified personnel of all classes and all types who meet the province's needs, and we should concentrate on basic education and nationality education, vigorously develop vocational-technical education, optimize the professional composition of higher education, and work diligently on adult education.

To strengthen basic education, we should mainly install a nine-year compulsory education system in stages, by regions, at different levels, and in a planned and systematic way. On the premise that we continuously raise the educational standards, by the end of the century, we should make the nine-year compulsory education system universal in the cities and compulsory elementary school education universal in the cities and towns where the prefectural and county governments are seated as well as in all counties in Haidong Prefecture. We should hold steadfast to the diverse schooling system which is made up primarily of elementary boarding schools in the counties in the pastoral areas and increase the enrollment rate of school-age children, the certification rate, and the consolidation rate [as published] and create the conditions that will enable us to implement universal compulsory education. By the end of the Eighth Five-Year Plan period, the province's enrollment of school-age children should reach 85 percent.

We should actively develop nationality education, continue to set up prefectural and county nationality secondary schools, township nationality elementary completion schools, and village and commune simplified elementary schools, and strive to improve the quality of education. We should do a good job with the polytechnic schools' and colleges' nationality classes and matriculation classes and with the ordinary key-point secondary school's nationality classes and train all types and all levels of scientific and technical personnel most needed in the minority nationality regions, so as to facilitate their economic development. By the end of the Eighth Five-Year Plan period, we hope to raise the minority nationality undergraduate enrollment by more than 3 percentage points relative to the total enrollment.

We should vigorously develop vocational and technical education, and in accordance with the principle of "consolidation and elevation, coordination and development, nurture according to need, and emphasize practical results," we should put the polytechnical schools, the agricultural-vocational secondary schools, the technical schools, and various types of secondary vocational schools under centralized planning and administration. The Xining Prefecture and the western mining areas

should concentrate on the development of various vocational-technical schools that serve the secondary and tertiary industries in particular, train qualified management and technical personnel for the factories, mines, and enterprises, and train all types of service personnel to serve society. The Haidong and other prefectures and counties should take the initiative to promote practical productive technologies that are useful to agriculture and stock-raising and meet the needs of the developing township enterprises and the diversified businesses and actively develop agricultural-vocational secondary schools. They should introduce the element of vocational-technical education at the proper time as part of basic education and launch a variety of versatile and diverse short-term technical training courses at the same time.

We should work hard on higher education, hold steadfast to the socialist educational direction, limit the scope, optimize the structure, and develop at a steady pace. We should improve the conditions for running schools, improve the quality of the contingent of teachers and the quality of education, run the schools more efficiently, and trained more qualified and talented people.

We should actively develop adult education, vigorously develop different types of informal education, and put the emphasis on on-the-job training. We should run schools under different formats and with different approaches. We should continuously upgrade the political, cultural, and professional standards of the cadres and the staff. We must make every effort to eliminate illiteracy in the rural and pastoral areas, launch technical education that is relevant to agriculture and stock-raising, improve the political, ideological, scientific, and cultural standards of the masses of peasants and herdsmen, and enhance their ability to make use of agricultural and animal husbandry technologies.

29. We should increase the study of social sciences. We must insist on being guided by Marxism, continue the academic style of integrating theory with practice, uphold the guiding principle of "letting a hundred flowers bloom and a hundred schools of thought contend," and encourage debates between different scientific viewpoints. We should formulate a social science study program, pay attention to the training of a social science research team, and continuously raise the ideological and professional standards of the social scientists. We should emphasize specific points when we study the important theoretical issues and practical problems pertaining to the development of a socialism with Chinese characteristics. In particular, we must really study the important issues of Qinghai's economic and social development and its reform and opening up in the next 10 years, work hard on the questions of how to strengthen the ruling party, how to struggle even harder against corruption, infiltration, and "peaceful evolution," and how to preserve the proletariat's vanguard quality under the conditions of reform and opening up. We should also study the issues of socialist spiritual civilization, democracy, and the legal system, the issues of nationality

theories and nationality relationships, the history of Qinghai's development and the history of the nationalities, and the issues of Qinghai's education, population, and its reform and opening up.

30. We should make the flourishing socialist culture even richer. We should hold steadfast to the direction of serving the people and socialism, vigorously develop news reporting, publication, broadcast, motion picture, television, literature, art, and physical education and other undertakings. The news units must actively disseminate the party's line and general and specific policies and guide the direction of public opinion properly. The cultural and publication departments must firmly put society's benefits first and guide and administer the cultural market—the publication of books and magazines and the making of audio and video tapes—more stringently. We should continue our fight to eliminate "pornography." We should build more cultural facilities, better libraries, cultural centers, and other cultural facilities to gradually satisfy the masses' cultural needs. We should actively launch foreign academic and cultural exchanges, but at the same time, we should guard against the infiltration of corrupt ideas and cultures. We should strive to widen the TV reception area and create even more fine programs which the masses of all nationalities will enjoy and which reflect the socialist spirit of the times and satisfy the diverse, rich, and healthy spiritual needs of the people of different nationalities at all levels. We should vigorously organize mass sports activities to improve the workers' physical health. We should work even harder to preserve our cultural relics, especially the important ones.

31. We should further give play to the enthusiasm of the masses of intellectuals and amplify the good social practice of respecting knowledge and respecting talent. We should gradually perfect the policy and system which facilitate the training of all types of talents, strive to encourage all people to do their best and make the most of their talents, and give play to the important role of the intellectuals in the socialist modernization process. As the economy develops, we should work harder to improve the intellectuals' working and living conditions and make sure that they are taken care in their old age. At the same time, we should strengthen our ideological and political work and encourage the intellectuals to display the spirit of arduous struggle and magnanimous sacrifice, advocate and encourage the intellectuals, especially the young intellectuals to go deep into the real world and get to know the workers and the peasants and contribute even more to Qinghai's vitalization.

IV. Improve the Living Standard and Amplify the Social Security System

32. We must strive to improve the standard of living. Depending on the condition of the province's economic and social development, improving the living conditions will mean different things in different localities. In areas where the people are basically well fed and clothed, we want to see that they become relatively well-off. In the

handful of localities which have not yet escaped poverty, we should first solve their food and clothing problem and then work toward a more comfortable level. By the year 2000, the living conditions in the towns and townships will greatly improve. The peasants' and herdsmen's per capita net income will increase significantly. At the same time, we should strive to improve social welfare and the working conditions and continuously enrich the people's spiritual lives.

33. We should strive to improve the consumption-mix. In accordance with the level of development of the productive forces and the people's consumption needs, we should gradually improve the quality and the mix of foodstuff and increase the consumption of meat, eggs, milk, aquatic products, and fruit. We should further develop the retail, restaurant, and service industries, expand the scope of everyday services, and increase the share of noncommodity-related expenses relative to the population's total living expenses in the urban and rural areas. We should build more public facilities to make life easier, accelerate housing construction, and improve the living conditions in the urban and rural areas.

34. We should work harder to protect the environment and improve the quality of life. We should work harder to monitor, prevent, and treat air, water, and land pollution and solid waste and noise pollution and integrate economic development with the effort to deal with pollution and protect the environment. We should actively plant trees and forests, increase afforestation, and create a clean and beautiful environment. We should continue to implement the guiding principle of putting prevention first and doing a better management job and apply the principle that whoever is responsible for the pollution is responsible for the cleanup. We must curb the trend of ecological deterioration and clean up the environment.

35. We must implement family planning diligently and tightly control the population increase. We must hold steadfast to the basic national policy of family planning and provide stronger leadership, administer according to the law, and speed up the development of a family planning network in the counties, townships, and villages. We should encourage the people to get married and have children at a later age, and have fewer and better children, implement a population management-by-objective system, and put the existing family planning policy and measures to work at the grassroots level. During the Eighth Five-Year Plan period, we want to keep the natural population increase rate to an average of 1.686 percent a year.

36. We should take active steps to solve the employment problems in the cities and towns. We should work hard to create employment opportunities in the urban and rural areas and create new jobs. We should give full play to the collective economy and to the other economic components in the cities and towns to come up with more jobs, widen the employment channels, and make arrangements for the unemployed. During the Eighth

Five-Year Plan period, we should strive to keep the unemployment rate to below 4 percent in the cities and towns.

37. We should develop public health and healthcare undertakings and improve the population's health standard. Public health undertakings should focus on disease prevention. We should rely on the guiding principle that scientific and technological progress should serve the people's health needs. We should strengthen the three-level sanitation and medical care network [as published] in the rural and pastoral areas while actively promoting primary-level public health and health care and solve the problems of shortage of medicine and the lack of medical facilities. We must provide better health care for the women and children. We must struggle to reach the goal of providing public health and healthcare for all by the year 2000 and pay special attention to the prevention of endemic diseases, occupational diseases, and contagious diseases.

38. We should set up and amplify an unemployment insurance system and a retirement insurance system and perfect the social security system. In accordance with the principle that the state, collectives, and individuals should bear a reasonable share of the burden, we should gradually set up a social retirement insurance system for workers of all types in the cities and towns and implement a multi-level social security system. In the rural and pastoral areas, we should provide active guidance and gradually set up different forms of social security systems for the retirees. We should reform the healthcare insurance system and industrial injury insurance system and further perfect the social welfare system. We should work diligently to give better care to the disabled servicemen and to family members of revolutionary martyrs and servicemen and provide social relief and aid to the sick and disabled.

V. Continue To Make the Restructuring of the Economic System More Thorough

39. We must implement enterprise reform. The large- and medium-sized enterprises are the mainstay of the national economic development, and to invigorate them is the central link in the thorough restructuring of the economic system. During the Eighth Five-Year Plan period, we should mainly accomplish the following tasks: One, we must continue to stabilize and improve the existing contract system and do a good job with the next round of contracting. Two, we should further the reform of the enterprise hiring system and allocation system. Three, we should gradually perfect the enterprise depreciation system, the profit retention system, and reassess the value of enterprises' fixed assets in a systematic way, raise the depreciation rate, and accelerate enterprises' technological transformation and new product development. Four, we should actively develop enterprise groups, promote enterprise reorganization and combination, and improve enterprises' organizational structure. Five, we should install experimental points to test the leasing system and the shareholding system. Six, we

should strengthen the management of state-owned assets and gradually set up a management method which suits the socialist planned commodity economy.

40. We should develop a socialist market system. During the Eighth Five-Year Plan period, one, we should continue to reform the commercial wholesale and commodity circulation systems. We should strengthen the relationship and the cooperation between industry and commerce, between businesses themselves, and between commerce and trade. Two, we should continue to restructure the management mechanisms in commerce, commodities, and the supply and marketing cooperatives and gradually improve the circulation facilities, amplify the regulation fund system and the system of maintaining a reserve of important commodities. We should do a better job in giving play to the role of state-run commodity enterprises, commercial enterprises, and supply and marketing cooperatives as the main channels and reservoirs. At the same time, we should give play to the collective businesses and individual-owned businesses. Three, we should actively develop different forms of market organizations and formulate rules to regulate market competition, so that eventually we can manage the market according to the law.

41. During the Eighth Five-Year Plan period, we must take active steps to restructure the housing system, gradually change the low-rent policy and the method of allocating housing free-of-charge, and facilitate the housing commercialization process. We must arouse enthusiasm in housing construction and create a mechanism that brings the state, collectives, and individuals together to raise funds to building homes. We should encourage individuals to take part in different fund-gathering activities to build houses. We should accelerate the pace of building marketable housing in the cities, find different ways to launch the real estate development business, establish a housing fund at different levels, and develop a home-financing business.

42. We should further restructure and perfect the foreign trade system and implement a system which gives enterprises the right to make management decisions, lets them take care of their own profits and losses, links industry and trade together, and encourage enterprises to join forces to face the outside world. We should improve the export-mix and the quality of our export goods. We should improve the management of the export plan and diligently implement the policy of "five priorities" in exporting. We should continue to perfect the export contract management responsibility system, the export tax refund system, and the foreign exchange retained percentage system, set up an export production development fund, an export risk fund, and an export award fund, increase enterprises' ability to increase export and take risks, continue to enhance their ability to export and earn foreign exchange, and strive to increase export and increase our foreign exchange earning.

43. We should restructure the pricing system. During the Eighth Five-Year Plan period, we should reduce the

scope of state-set prices and increase the share of market regulation. On the premise that the overall price level is kept under control, we should take steady steps to promote the restructuring of the pricing system, implement the pricing policies and measures introduced by the central authorities, and readjust the improper pricing structure in a planned and systematic way. We should strengthen price management and give play to the role of price regulations and gradually smooth out the price relationships.

44. We should restructure the taxation system. During the Eighth Five-Year Plan period, we should continue to stabilize and perfect the financial contracting system. After stabilizing the system, we can then strive to readjust the allocation structure and reduce nonproductive expenses and establish a well-coordinated, graded financial regulation system and gradually raise the level of self-sufficiency.

We should improve the tax management system and make sure that taxes are collected according to the law. We should change the way taxes are being levied and separate tax from profit. We should actively create the conditions to facilitate the transition from pre-tax to after-tax debt payment. We should continuously perfect the tax management system and give play to the role of macro regulation and control.

45. We should restructure the financial system. The provincial People's Bank should provide stronger guidance and do a better job managing the specialized banks. The latter not only should implement the industrial policy and exercise their regulation and control functions but should also operate as enterprises and be responsible for their own profits and losses.

We should actively develop the financial market. Using the Xining financial market as base, we should set up local financial markets in Haidong and Haixi. We should continue to encourage the people to save, actively develop stocks, bonds, mortgage loans, retirement insurance, investment and other financial businesses, gradually expand the issuance and transfer of all types of negotiable securities, and set up a standardized exchange market. We should gradually create a circulation and transfer system, strengthen and perfect the management of the urban and rural credit cooperatives, gather and distribute funds, and develop production.

46. We should restructure the system of planning and the investment system. In accordance with the objective conditions during different stages of economic development, we should make proper adjustments of the scope of mandatory planning, guidance-type planning, and market regulation. We should consciously apply the law of value and the law of supply and demand to improve the format and the method of planned management, uphold and improve the system that maintains comprehensive economic equilibrium, and gradually smooth out the relationship between planning, finance, and banking. Our goal is to succeed in utilizing economic

policies and economic levers to manage and regulate the economy at the macro level.

With respect to the investment system, we should change the method of allocating the right to examine and approve projects based on productive capacity and investment quota. Instead the right to examine and approve investments, and its corresponding management system, should be based on the industrial policy and on specific trades and industries. Industries which should be tightly controlled should be put under a relatively centralized management system, and prefectures, cities, counties, and enterprises should be given more power over industries which need support and which should be encouraged to grow.

47. We should strengthen the macroeconomic regulation and control system and gradually set up a system which relies mainly on economic planning but which is accompanied by the necessary economic, administrative, and legal measures. In particular, we should amplify the indirect regulation and control mechanisms and make even better use of prices, tax rates, interest rates, exchange rates and other measures to regulate the economy.

We must strengthen and improve the auditing, statistics, commodity prices, information, measurement, industrial and business administration departments, improve the national economic accounting system, and establish a scientific statistical and monitoring program and system to serve the regulation and control of the economy even better.

48. We should forge more lateral economic ties. We should "cooperate with units on the inside and bring in goods, capital, and technology from the outside," "borrow a ladder so that we can reach higher," "borrow a boat so that we can sail across the seas"—try every way to enliven production and circulation and expand our domestic market and export trade. We should vigorously develop peripheral trade and inter-regional economic cooperation and combination inside the province. We should actively solicit economic, technological, and human assistance from the advanced provinces and regions and work hard to forge inter-provincial lateral ties. We should give full play to the advantages of the "Upper Huanghe River Multinational Economic Development Zone," the "Huanghe Economic Belt," and the "Gansu-Qinghai Economic Cooperation Zone" to accelerate the development of Qinghai's resources and promote its economic growth.

49. We should actively but steadily carry out political reform. Political reform is what guarantees the success of the restructuring of the economic system and is also one component of the entire process of reform and opening up. We must uphold and perfect the system of the People's Congress and the system of multiparty cooperation and political consultation under the CPC's leadership. We must give full play to the role of the People's Congress, the CPPCC, the democratic parties, and the

mass organizations. We should establish and perfect the order and the system of democratic decision-making and democratic supervision, set up a leadership system which helps us improve work efficiency and bring every positive factor to play. We should strive to develop the socialist democracy and further institutionalize the systems of political consultation and democratic supervision. We should strengthen economic legislation, enforce the economic laws, and manage the economy according to the law. We should smooth out the relationship among the functional government departments at all levels, continue to reform the cadre personnel system, streamline bureaucracy, strengthen the grass-roots, change our workstyle, and improve our work efficiency.

VI. Build a Stronger Socialist Spiritual Civilization

50. It is an important duty and the goal of socialist modernization to develop a highly socialistic spiritual civilization. We must diligently make economic construction the focus, uphold the four basic principles, uphold the basic line of reform and opening up, put the development of the spiritual construction into the developmental plan, increase necessary input, and let the development of the spiritual civilization guarantee the smooth development of the material civilization.

51. We must hold steadfast to the idea that all nations are equal, enhance national unity, and firmly establish the idea that we are dependent on one another. We must fully respect the nationality autonomous regions' right of self-determination and continuously reinforce and develop the socialist national relationship of equality and unity, mutual assistance and cooperation, and prosperity for all, and we should promote the stability and development of the nationality regions. We must take a clear stand on the policy that the people have the freedom of having or not having a religion, and we must guide the religious institutions and administer them according to the law.

52. We should strengthen the socialist democratic system and legal system. We must uphold the people's democratic dictatorship which is led by the working class and is founded on the alliance of peasants and workers. We should increase the citizens' political consciousness and ability to participate in and discuss politics. We should further enhance the authoritativeness and the role of the constitution and the law in the political, economic, cultural, and social domains, do a good job with the local legislative process, and guarantee that the existing state laws and rules and regulations are diligently followed and carried out. We should launch the second Five-Year universal education plan among the citizens, heighten their awareness about our socialist laws, and mobilize and rely on society's strength to manage all undertakings according to the law.

We should continue to take comprehensive steps to deal with the matter of public security and crack down hard on serious criminal offenses and economic crimes. We must engage in thorough and sustained

struggle against pornography, eliminate the "six evils," firmly curtail and banish all evil phenomena that corrupt social moral, and guarantee the smooth progress of our socialist modernization.

53. We should make a thorough and sustained effort to disseminate socialist ideological education, intensify the education on ideology and moral concept, improve the quality of people of all nationalities, and create a good social atmosphere. We should work on basic education that improves human quality. All grades and all types of schools should become strongholds for providing comprehensive moral, intellectual, and physical education. From kindergarten to university, all schools must proceed to educate their students according to established programs and work on improving the people's socialist ideological and moral quality and their scientific and cultural quality and produce a generation of socialist citizens who have ideal and moral and who are educated and disciplined. We must believe in, love, seek, and utilize science and make science our guide in life and in production. We must overcome the foolish and backward, closed-minded and conservative ideas and concepts and promote the development of various undertakings.

We should vigorously build mass civilization units, behave like civilized citizens, start a competition among businesses to provide the best service, and set up self-ruled, self-disciplined mass organizations. We should continue to advocate and encourage the civilians and the military to work together to develop the spiritual civilization. We should strengthen national defense education, improve various civil defense facilities. We should plant trees and grow grass where suitable and clean up, afforest, and beautify the environment.

54. We should vigorously advocate the spirit of building an enterprise through hard work and self-sacrifice and firmly establish the ideology of long-term arduous struggles. While we strive to win over the state's support and the developed province's help, we should become more self-reliant, overcome difficulties, and seize the victory. We should vigorously advocate the spirit of serving the people wholeheartedly by striking root in the high plains, building an enterprise through hard work, and sacrificing ourselves, and kindle a great enthusiasm among the people of all nationalities throughout the province to go all out to improve themselves and strengthen Qinghai.

55. We should work harder to build an honest government and strengthen the leading groups at all levels. One, we must launch thorough and sustained education about the party's aims, about professional ethics, and about the meritorious deeds of the advanced figures and rectify the people's ideologies through education. Two, we should look at the problems that have emerged in past efforts to instill honesty in the government and continuously refine the system that guarantees an honest government and put the development of honesty in government onto a legal track. Three, we should strengthen the party's

self-supervision, administrative supervision, mass supervision, and media supervision and make the honest government even more visible.

With respect to the leading groups at all levels, we must cater to the needs of the new situation and new tasks, raise the overall standard of the leading groups, and use our outstanding work performance to guarantee that the party's lines and general and specific policies are carried out diligently. Leading cadres at all levels must study Marxism-Leninism and Mao Zedong thoughts diligently and serve the people with all their hearts and minds. We must continue and amplify the fine tradition of linking theory to practice, forging an intimate relationship with the masses, and carrying out criticism and self-criticism. We must uphold the principle of democratic centralization, uphold the work method of "coming from the masses and going to the masses," preserve our flesh-and-blood ties with the people, and enhance the party's rallying force and fighting power. We should vigorously strengthen the party's contingent of cadres by making it more revolutionary, younger, more educated, and more professional. Leading cadres at all levels must stand on the forefront of reform and opening up and lead the people of all nationalities in the province to forge ahead amid the glorious practices of socialist modernization.

Qinghai's members of the CPC and CYL [Communist Youth League], people of all nationalities, members of the democratic parties and factions, members of the mass organizations, and patriots who have no party affiliations must unite tightly, rouse their spirits, forge ahead, struggle arduously, spare no effort to fight on, and strive for the successful completion of Qinghai's 10-year program and Eighth Five-Year Plan.

INDUSTRY

Major Steel Maker Starts Upgrading Program

*OW0911173291 Beijing XINHUA in English
1132 GMT 9 Nov 91*

[Text] Hefei, November 9 (XINHUA)—Ma'anshan Iron and Steel Company, the country's ninth largest steel maker, has launched its ambitious Five-Year (1991-1995) Program of expansion and upgrading at a cost of 2.7 billion yuan (about 500 million U.S. dollars).

This was recently disclosed by Wang Xiuzhi, general manager of the complex in an exclusive interview with XINHUA.

The company, which is located in Ma'anshan City, eastern Anhui Province, turned out 2.23 million tons of pig iron, two million tons of steel, and 1.57 million tons of steel products in 1990.

According to Wang, once the Five-Year (1991-1995) Program is finished, the company will almost double its pig iron output, raise its steel output by 50 percent, and increase its annual export earnings by a million dollars a year.

The program is part of the country's efforts to raise its steel output from 66 million tons in 1990 to 80 million tons by the year 2000, the general manager noted.

According to the plan, the company will build a new 2,500-cubic meter blast furnace with an annual output of 1.75 million tons of pig iron. All the equipment of the furnace, valued at 13.25 million U.S. dollars, will be imported, Wang said.

Other projects include an iron mine with an annual production capacity of two million tons of ore, a continuous casting mill with a yearly output capacity of 800,000 tons, a large H-shaped steel rolling mill, and a coking plant.

The company's railway wheels and tyres plant, largest in Asia, is also included in the program to be upgraded with an investment of 300 million yuan (about 56.6 million U.S. dollars), Wang said.

When the revamping is completed in 1993, the plant will be able to turn out 21,000 tons of railway wheels, tyres and rings a year, up 40,000 tons over 1990.

In addition to its existing shaped steel production line, the company plans to build another universal section mill with an annual output of 600,000 tons in the latter half of the 1991-1995 period, Wang said.

The company will also upgrade its steel plate rolling process so as to strengthen its production of boiler plates, pressure vessel plates, and ship plates and low alloy steel plates, according to the general manager.

The general manager said that a new wharf to load and unload raw materials for the company will also be constructed, with its equipment to be imported from the United States and Australia.

Up to now, the company has secured more than 70 percent of the total funds needed for the expansion and upgrading program, including one billion yuan (about 180 million U.S. dollars) in direct investments by the state, and a 100 million U.S. dollar loan from the International Union Leasing Co., Ltd, Wang added.

CONSTRUCTION

City Planning To Focus on Conserving Arable Land

*HK2410055091 Beijing CHINA DAILY in English
24 Oct 91 p 1*

[Article by staff reporter Hong Xia]

[Text] China's city planning in the next 10 years should focus on conserving the country's limited arable land while serving its reform and open policy, Construction Minister Hou Jie told a recent national conference.

Being plagued by a large population and shrinking urban land, China will give more attention to saving urban land through better planning.

Thanks to the appropriate selection of Shenzhen and Chongqing international airports, as well as the new passenger stations in Tianjin and Shanghai, much urban land has been saved, and the ministry called on other cities to learn from their example.

According to a survey, one-third to half of urban land can be saved if unified and rational city planning is used.

In order to make the selection and layout of construction projects more rational, a regulation was issued in April last year by the Ministry of Construction and the State Planning Commission stipulating that planning departments at all levels should solicit suggestions from city planning departments while arranging construction projects.

In keeping with the country's reform and opening drive, China is to give urban priority to open cities, special economic zones and high-tech development zones, Hou said.

Under the city planning guide, the construction of infrastructure and supplementary facilities and all-round development have created a favourable environment to attract more investors from home and abroad.

In the past five years, 174.5 billion yuan (\$32.9 billion) has been injected into capital construction and more than 92 million square metres of residential quarters built in the country's 14 coastal open cities and four special economic zones. In addition, more than 43.1 billion of foreign loans were used in urban developments.

In line with the ministry's long-term programme, Hou said, the design of all China's cities will include an ordered layout, convenient transportation, efficient telecommunications, a beautiful environment and styles of building that blend in with a city's features.

And he added the work will be done in keeping with the principle of strictly controlling the scale in large cities and properly developing small and medium-sized cities.

In the past decade, the overall urban planning of 39 provincial capitals, large cities with a population above 1 million and other designated cities has been compiled by localities, examined by the Ministry of Construction and approved by the State Council.

As China's first City Planning Act, which aims to ensure coordinated urban development, was adopted two years ago, the country's city planning has started to be under the legal system.

Some problems, such as unbalanced development in city planning, an imperfect legal system, weak management, shortages and low quality of city planners still hamper sound city planning, Hou pointed out.

PLA To Correct Irrational Housing Occupation

OW1610083791 Beijing XINHUA Domestic Service
in Chinese 0923 GMT 15 Oct 91

[Article by reporter Guo Diancheng (6753 3013 2052) and correspondent Wang Yihua (3769 5030 5478)]

[Text] Beijing, 15 Oct (XINHUA)—The People's Liberation Army [PLA] will use both economic means and administrative means simultaneously in dealing seriously with the problem of over-occupation of army housing, so as to lay a good foundation for comprehensively carrying out housing reform. With the approval of the Central Military Commission, the three general departments of the PLA today jointly issued "Provisions for Handling Relevant Questions Concerning Army Housing."

The provisions point out that the many years' implementation of the system of providing low-rent housing has created an unreasonable situation in which a few people are occupying more houses than they are entitled to, and such a situation is worsening the army's housing shortage. The provisions demand:

—If an active-duty cadre is occupying more than one house, and one of the houses alone has already met the standards, he must immediately vacate the rest of the housing. Whoever refuses to vacate excessive housing will be subject to disciplinary actions. If necessary, he will be evicted from the excessive housing.

—After receiving the notice of the cadre sanatorium or the local housing department, a retired cadre should immediately vacate his present house and move to a newly assigned house. If a retired cadre is authorized to stay in his present house and the house exceeds standards, the over-occupation problem will be handled the same way as that of an active-duty cadre is handled.

—An army cadre transferred to civilian job, a discharged army cadre, or local personnel [di fang ren yuan 0966 2455 0086 0765] should immediately vacate his present housing if he has already been assigned new housing. Whoever refuses to vacate his present housing will be evicted from it. If an army cadre transferred to civilian job needs to borrow an army house because he is unable to get a house from the local government, he should show a housing-shortage certificate issued by his employer and sign a contract with the army housing department. The contract should contain terms regarding the floor space, duration, and rent of the borrowed house, as well as the breach-of-contract penalties. If the borrowed house exceeds the standards for his rank and position at the time of transfer, the over-occupation problem will be handled the same way that of an active-duty cadre is handled.

FOREIGN TRADE, INVESTMENT

Recommendations for Foreign Debt Repayment

92CE0116A Chongqing GAIGE [REFORM] in Chinese
No 5, 20 Sep 91 pp 89-95

[Article by Qin Hai (4440 3189): "Size and Make-up of China's Foreign Debt and Pertinent Policy Recommendations"]

[Excerpt] [passage omitted]

4. Policy Recommendations for a Safe Passage Through the Peak Phase of Foreign Debt Repayment

Trouble-free repayment of its foreign debt is a matter that a debtor nation must consider at the time it incurs the debt, and one that requires close attention after the debt has been incurred as well. In order to assure that debt will play a positive role in supporting economic development, it is necessary both to avoid debt repayment pressure and also to ensure that debt repayment will not be tantamount to creating disastrous damage to the environment. In view of China's foreign debt situation and foreign debt pressure, we propose the following policy recommendations for a safe passage through the peak phase of foreign debt repayment.

4.1. Growth of China's Foreign Trade and Its Debt Situation During the 1990's

The period 1980-89 was a decade of sustained expansion of China's foreign trade volume, exports increasing by 16 percent each year. In 1989 exports totaled \$52.5 billion, China rising from thirty-second place in 1979 to fourteenth place in world trade. During the 1990's, China's total trade will see sustained expansion though admittedly the speed of growth will be lower than during the 1980's for the following reasons: The world market for primary products will gradually shrink during the 1990's, while the impetus and effect of trade protection will markedly limit exports of textiles, clothing, and other light industrial manufactures at the same time; (2) China's economic growth during the 1990's will depend on a readjustment of both the industrial and the economic structure. Economic development will not be like that of developing countries in which there is "growth without development." Preliminary estimates call for an average approximately 6 percent growth in China's GNP during the 1990's, an amount markedly lower than the 10.1 percent of the 1980's. This will consequently hurt the growth of foreign trade; (3) In addition, the competitiveness of China's products is not very good; high speed export growth has been attained at the price of tremendous export subsidies. During the 1990's, China's treasury will be hard put to continue to bear huge foreign trade subsidies. In view of the various aforementioned circumstances, the rate of increase in China's exports during the 1990's will be around 8 percent annually. Estimate's call for exports totaling \$67.65 billion in 1992, and \$85.2 billion in 1995.

At the same time, the peak phase of China's foreign debt repayment has approached, 1992 being the peak year for debt repayment. According to the estimates of departments concerned, during the 1990's, China's debt repayment will average approximately \$9 billion annually. This will have a major adverse effect on the country's foreign trade pattern. During a period of decreased export capabilities, it will be necessary both to repay debt and strive to attain an international balance of payments. Therefore, curtailment of exports to increase sources of foreign exchange receipts will be necessary. It is estimated that China's favorable nontrade foreign exchange receipts during the 1990's will be approximately \$3.5 billion, and favorable trade foreign exchange receipts will be approximately \$2 billion. At this rate, during the 1990's, both China's foreign trade and foreign debt will be on a weak foundation requiring both elimination of the cumulative adverse foreign trade balance and the use of appropriate debt repayment methods that "make debt pay for debt" as means of remedying inadequate foreign exchange reserves resulting from debt repayment. It is estimated that during the 1990's, China will borrow approximately \$7.5 billion annually.

Therefore, China's debt repayment capabilities must still be based on actual import-export activity, a series of comprehensive measures including better debt management, the redirection of imports and exports, and acceleration of the foreign trade mechanism being used to improve further the country's debt repayment capability.

4.2. Policy Recommendations on Safe Debt Repayment.

Policy recommendations about China's safe passage through the peak phase of foreign debt repayment must be positive, rational, and workable. Positive means that they must be able to reduce the size of the country's foreign debt, and this is not to say sweepingly that recommendations that do not increase the country's foreign debt surplus are positive. By so-called rational is meant that these recommendations must make for more rational use of the country's debt so that the debt structure is more rational. Workableness requires that these recommendations not clash with the country's foreign debt system and debt management system so as to avoid unnecessary frictions between organizational forms. Thus, we make the following recommendations for a safe passage through the peak phase of debt repayment:

First is active restructuring of the country's imports and exports. During the 1990's, export growth will have to be cut below 8 percent, only the importation of needed key production elements being guaranteed so as to maintain basic balance with the increase in exports. Restructuring of exports must increase the export of finished products and industrial wares, while at the same time, the potential international market for certain light industrial manufactures must be actively developed, increasing the international competitiveness of the country's products in order to assure the foreign exchange required for debt repayment.

Second is appropriate increase in the amount of debt to be used for the purpose of "making debt pay for debt," including this as a part of debt plan. This requires a clear understanding of interest rates and debt repayment conditions in international capital markets. In addition is the choice of appropriate places to increase the insurance abroad of negotiable securities, thereby funding the debt through negotiable securities and capital.

Third is improvement of the country's debt structure in the following five specific regards:

(1) Insofar as possible, a tilt should be made toward preferential credits as a source of capital. This hinges on the following two things: First, China must devote active efforts to widespread regional economic integration, maintaining friendly association with all international financial groups. Second is to work toward international development and international cooperation on matters of common interest among individual countries.

(2) Efforts to make debt phasing more rational. A rational debt phasing does not mean the longer the debt period the better, nor does it mean the shorter the debt period the better. It requires that debt phasing conform to anticipated domestic needs for capital. For projects from which a stable period of capital returns can be anticipated, foreign capital from undertakings such as joint ventures may be used.

(3) Interest rate structure is the main yardstick for measuring debt risk. In view of the state of economic and political relations between China and western countries, China must maintain a calm and objective attitude when accepting foreign credit. It must pay close attention to movements in international capital markets, doing all possible to get low interest rate and medium interest rate credit so as to reduce payments for interest.

(4) When improving the currency mix of the country's debt, China must pay attention to interest rate trends in international foreign exchange markets. In view of current circumstances, China's reliance on the United States and Japan (particularly Japan) for foreign loans must be restrained in order to spread external debt among a number of different currencies. This will both avoid losses resulting from changes in exchange rates, and will also avoid various harsh debt repayment conditions.

(5) Readjustment of the human component in the debt structure [renleixing jigou [0086 7352 0992 4814 2845] of debt must be linked to reform of China's system for the sojourn abroad of its citizens, as well as to reform of the debt management system in order to reduce the foreign debt surplus of central government organs.

Fourth is continued promotion of China's debt management system reform, making this one aspect of China's foreign trade system reform. In addition, this reform should be joined with China's system for managing the use of foreign capital, giving substance to debt management.

(1) Perfection of China's foreign debt registration system. Foreign debt registration must be disassociated from government guarantees at all levels, and linked instead to import-export authority and import-export permits, meaning that those enterprises possessing import-export authority must hold foreign debt borrowing authority so that thought will be given to demand as well as to potential supply in the amount of debt incurred.

(2) Further promotion of foreign trade system reform, import-export authority being delegated directly to enterprises.

(3) Foreign debt management authority must be centralized in the State Foreign Exchange Administration and in the State Planning Committee, with responsibility to various State Council commissions, these authorities being delegated to the individual enterprises that are capable of repaying foreign debt. Expenditure of capital on basic social facilities must be through centralized state investment, through the raising of funds by all the people, and through social assessments, cutting back the percentage of debt that is centrally borrowed and centrally repaid.

These various recommendations have been made with the country's debt situation in mind. Their efficacy cannot be felt within a very short period of time (such as one year). In the case of foreign debt accumulated over a long period of time, one remedy to be emphasized is the need to maintain the continuity and stability of debt management policy. [passage omitted]

AGRICULTURE

Article Urges Circulation System Reform

92CE0108A Beijing NONGMIN RIBAO in Chinese
2 Oct 91 p 1

[Article by Wu Yixia: "Reform Circulation System in the Way We Storm Highly Fortified Positions"]

[Text] Since implementation of the reform and open policy, gratifying changes have taken place in the realm of rural commodity circulation. But the issue of commodity circulation lagging behind production is far from solved. To a certain extent, this issue is still quite conspicuous. The major problem at present is the difficulty to sell and buy, particularly the serious difficulty selling farm products.

Although we are unable to storm highly fortified positions to reform the circulation system at present, we still should unswervingly continue reform. We should do a good job in solving the following problems.

First, we must continue to reform the circulation system, and arouse the enthusiasm of producers and managers in vitalizing circulation.

1. We must persistently advocate and perfect the contract system of enterprise responsibility. Through the contract system, we must further explore ways to fundamentally solve the problem of "everybody eating from the same big pot," gradually build up a mechanism to help enterprises make their own management decisions, take responsibility for their own profits and losses, regulate and develop themselves, and turn them into genuine independent commercial establishments.

Based on the principle of separating government and enterprises, large- and medium-sized enterprises must make a clear distinction between the privilege and responsibility of owners and managers, and ensure that enterprises take full responsibility for their profits and losses within the limits of managerial authority given them by the state. Efforts must be made to adopt measures to implement the overall contract responsibility system and collective contract responsibility system, promote the rolling contract system, determine the percentage of earnings to be retained by enterprises on the basis of the particular grade of the product, ensure increasing profits, and refrain from short-term economic activities. Following the principle of paying taxes according to regulations and taking responsibility for their profits and losses, supply and marketing cooperatives, in particular, must choose a contract system suited to their own characteristics and special features, and avoid "rigid uniformity in everything." In some small basic-level cooperatives and retail stores in border areas that "make negligible profits or operate in the red," we may continue to implement the counter contract system, but we must perfect and improve the managerial system. We should reform supply and marketing cooperatives in a clear-cut manner. Marketing cooperatives are peasants' collective, cooperative economic organizations. We must protect their legitimate rights and interests, and stop erroneous practices such as indiscriminately transferring their personnel, properties and resources, changing their affiliations with other organizations, and using force to limit their scope of businesses.

State-run commercial establishments and supply and marketing cooperatives should give full play to their own dominant positions; energetically join peasants and other nongovernment purchasing and sales organizations to cooperate with each other and form all kinds of associations; and do a still better job in serving the rural commodity economy.

2. We must enthusiastically organize peasants to circulate their products in various forms. Peasant participation in the realm of circulation is an inevitable result in developing commodity economy. At present, a group of peasants' purchasing and sales associations have emerged. There are rural cooperative economic organizations, agricultural-industrial-commercial companies or diversified service companies, and professional cooperatives or associations of the same trade. There are also associations formed by private vendors and organized by professional forwarding agents on a voluntary basis. Relevant departments should warmly support and help

them, and protect their legitimate businesses. They should be allowed to engage in wholesale business in buying and selling farm products that are open to the market. Financial departments must vigorously support regular business activities, help them improve management, and promote their healthy development.

3. We must actively support integrated organizations that seek to establish direct links between producers and sellers. Organizations that integrate production and marketing play a significant role in stabilizing production and marketing relations, and raise the level of peasant organizations, and reduce the risk of ups and downs in the market. Based on actual situations, governments at various levels must pay attention to organizations that integrate production with marketing in the course of vitalizing the circulation of farm products; and help them solve problems in a timely manner.

4. We must energetically develop vertical as well as horizontal economic associations among enterprises. This type of association may be formed among regions, departments, and trades, or between different ownership systems. Association members may make joint purchases, while marketing their products separately; or they may make separate purchases while marketing their products jointly. They may also act on behalf of a factory while buying and selling products on a commission basis.

Second, we must take active measures to set up and improve the farm products market. A market is the place to exchange commodities. In a way, there will be no commodity economy, if there is no market. Therefore, we must develop wholesale markets, integrated markets, specialized markets, and village fairs in a planned manner based on the objective needs to develop the commodity economy, and according to economic laws and regulations. Wholesale markets have many special features, such as centralized business transactions, cover a wide range of products, and products sell fast. Jilin Province has abundant natural resources, and many commodities produced here play a dominant role in China. Now we have a wholesale grain market. In the future, we should develop a wholesale market for Chinese medicinal herbs, down, and lumber produced above the state quota. It is hoped that the state will support such markets.

To further invigorate the rural commodity economy, we must try energetically and in a planned manner to develop markets for funds, labor, technology, information and other essential elements of production so as to rationalize the circulation of such elements and press for optimum organization.

Third, we must vigorously develop the processing industry for farm products in major grain-producing areas, and accelerate developing basic facilities for circulation. At present, one important reason for difficulties in selling farm products is circulation lagging behind production. Particularly, in major grain-producing areas, the rate of resource utilization is low, the capability to

process farm products is weak, products are less commercialized, and market competition is weak. In view of the fact that there is more grain and sideline agricultural products in commodity grain producing areas, the state must pursue an economic policy tilted toward funds and supplies, do a good job in developing agro-industry, quicken the pace in exploiting and using natural resources, and turn its resource superiority into economic superiority. Efforts must be made to invest more funds in major commodity grain areas, and develop basic facilities for storing, transporting and processing farm products. Investments in this regard should be included in the state plan for capital construction as a special fund for a special purpose.

Fourth, we must strengthen macroeconomic control over farm products, and improve the circulation order. The existing circulation system under multiple leadership has weakened the macroeconomic control of the state to a certain extent, and it is harmful to developing the circulation system in a coordinated and orderly manner. Therefore, we must further strengthen macroeconomic readjustment and control. We must set up and improve a system for readjusting storage of grain and sugar crops, hogs and other important means of production, and build up a certain amount of funds for this purpose to increase the ability to guard against risks on the market. Funds may be raised at different levels and through varied channels and in various forms according to different situations in different localities and different products in storage and on the basis of how close such products are related to the national economy.

Based on domestic production, we must achieve a balance between domestic trade and foreign trade, and the amount of farm products on the market and the relation between supply and demand. We must attain the goal of determining imports based on output, and determine output based on exports. We must restrict imports of farm products that are stockpiled, and do a good job in coordinating domestic trade with foreign trade. We must continue to persistently improve our work in exercising special control over means of production for farming such as chemical fertilizer. The correct way is to gradually abolish the "double-track" system, quote the same price for the same product, reduce the number of middlemen step by step, and decrease expenditures for commodity circulation. In particular, we should reduce the percentage of profits that chemical fertilizer producing enterprises are allowed to retain, and genuinely achieve the goal of controlling the sources and prices of chemical fertilizer to help producers reduce their economic burden.

Trends in Agricultural Investment Returns

92CE0049A Beijing NONGYE JINGJI WENTI
[PROBLEMS OF AGRICULTURAL ECONOMY]
in Chinese No 7, 23 Jul 91 pp 29-33

[Article by Li Tiegang (2621 6993 1511) and Zheng Qingfen (6774 3237 5358): "Analysis of Trends in Agricultural Investment Returns"]

[Text] According to the production function theory, the greater the agricultural investment, the higher the agricultural output, assuming no changes in agricultural technology. In times of agricultural technological progress, however, such progress leads to rising agricultural investment returns so that agricultural output increases even as agricultural investment remains unchanged. Thus we can see that the level of agricultural output is a function of agricultural investment returns as well as a function of agricultural investment. Agricultural growth can be achieved by raising agricultural investment returns as well as by increasing agricultural investment. Relatively speaking, achieving agricultural growth by increasing the magnitude of agricultural investment returns is more meaningful for regions poor in agricultural resources. This article analyzes the changing trends in agricultural investment returns in China to provide a theoretical basis for arriving at a sound investment in agricultural production.

Depending on their differing roles in agricultural production, agricultural investment can be divided into four major groups: land inputs, labor inputs, fund inputs, and technological inputs.

1. Trends in Overall Agricultural Investment Returns

So-called agricultural investment returns refer to the percentage change in agricultural output for every 1 percent change in agricultural investment. Specifically, it can be denoted by the elastic output coefficient of the various agricultural inputs. To analyze the changing trends in China's agricultural investment returns, this article uses the area of cultivated land to represent land input, agricultural manpower to represent labor input, the number of large animals to represent fixed assets investment, chemical fertilizers to represent agricultural working capital input, and the time variable to represent the level of agricultural technology. In addition to these six independent variables, the gross value of agricultural output is used to represent the dependent variable of agricultural output. We have come up with the following agricultural output function:

$$Y = e^{(a(0)+a(1)t)} \cdot A^{a(2)} \cdot N^{a(3)} \cdot M^{a(4)} \cdot F^{a(5)} \cdot L^{a(6)} \dots (1)$$

in which Y = gross value of agricultural output (in 10,000 yuan); A = area of cultivated land (in 10,000 mu); N = agricultural manpower (in 10,000 people); M = total agricultural machinery power (in 10,000 horsepower); F = net amount of chemical fertilizers used (in 10,000 kilograms); L = number of large animals (in 10,000 heads); t = time variable, with 1965 as Year 1; a (i = 1, 2...6) = the output elastic coefficient for the various kinds of inputs, that is, investment returns.

Agricultural output function (1) reflects the relations between total agricultural investment and total agricultural output. $\sum a_i$ (i = 1, 2, ...6) denotes the total return on the various agricultural investment. Based on the law of diminishing returns, in a continuous production process, resource returns may progressively increase, progressively decrease,

or stay constant. In other words, there are three possible scenarios: $\Sigma a_1 \geq 1$, $\Sigma a_1 \leq 1$, and $\Sigma a_1 = 1$.

In this article, we figure out China's total agricultural output function in different stages using combined cross-section time-sequence data on the nation's 29 provinces and regions for 14 years, namely 1965, 1970, 1975, and 1978 through 1988. The results are presented in Table 1.

It is obvious from the estimated values of the total agricultural output function that

1) The overall agricultural investment returns have been on an upward trend. Between 1965 and 1988, China's overall agricultural investment returns declined in the main. The estimated value is 0.908. However, the agricultural investment returns differed from stage to stage. While stages I, II, and III were all characterized by a progressive decline, their estimated results being 0.824, 0.996, and 0.986, respectively, Stage IV saw a progressive increase with an estimated result of 1.220. The trend is for the agricultural investment returns in China to increase gradually after a period of decline. This shows that rural economic reform has expedited agricultural growth, that total agricultural output has been increasing faster than agricultural investment, and that the economic efficiency of agricultural production has risen sharply.

2) The returns on the input of cultivated land have been on a downward trend. The estimated returns on the input of cultivated land were 0.024 and 0.029, respectively, in Stages I and II and -0.032 and -0.097, respectively, in Stages III and IV. The trend is downward. This suggests that the input of cultivated land has a negative effect on the overall agricultural investment returns. The reason is that in China cultivated land has been shrinking in area as an input in agriculture even as the quality of such land steadily declines due to ecological destruction and worsening natural disasters.

3) The returns on the input of agricultural manpower have been on a notably downward trend. Between 1965 and 1988, the estimated returns on the input of agricultural manpower was 0.582, 0.41 percent of the overall agricultural investment returns of 0.908. This shows that the input of manpower had a significant impact on the overall agricultural investment returns over the years. From our stage-by-stage analysis, we can see that the returns on the input of agricultural manpower have been declining. The estimated coefficients for the four stages were 0.638, 0.478, 0.357, and 0.243, respectively, with each accounting for 77.4 percent, 48.0 percent, 36.2 percent, and 19.9 percent of the overall agricultural investment returns for their respective stages. This shows that in the wake of agricultural development, the input of manpower has a declining effect on the magnitude of investment returns, an inevitable outcome of the surplus of agricultural manpower input.

Table 1—Estimated Values of China's Total Agricultural Production Function by Stage 1965-1988

Stage of Estimate	I (1965-70-75)	II (1978-80)	III (1981-85)	IV (1986-88)	1965-1988
Sample	87	87	145	87	409
Constant a_0	7.353 (16.24)	5.774 (11.73)	5.031 (16.76)	-0.423 (-0.58)	5.952 (32.61)
Land Input a_1	0.024 (0.26)	0.029 (0.33)	-0.032 (-0.49)	-0.097 (-1.09)	0.213 (5.07)
Agric. manpower input a_2	0.478 (7.04)	0.357 (6.27)	0.243 (3.00)	0.582(15.99)	0.638 (7.27)
Agric. machinery input a_3	0.196 (2.43)	0.325 (3.51)	0.348 (4.95)	0.275 (3.16)	0.082 (2.14)
Chemical fertilizer input a_4	0.032 (0.58)	0.115 (1.84)	0.255 (4.72)	0.399 (4.99)	0.094 (3.31)
Large animal input a_5	-0.057 (-0.95)	-0.009 (0.17)	-0.032 (-0.91)	0.086 (1.80)	0.126 (-4.97)
Time a_6	-0.009 (-0.52)	0.058 (1.71)	0.090 (6.19)	0.314 (9.89)	0.063 (9.65)
Σa_1	0.824	0.996	0.986	1.220	0.908
SSE	0.278	0.240	0.224	0.236	0.303
R^2	0.925	0.942	0.952	0.952	0.926

4) The returns on agricultural fund input show a rising trend. Agricultural fund inputs consist essentially of agricultural machinery and chemical fertilizers, and it is the increase in the returns on chemical fertilizer inputs that has been most striking. Returns on agricultural machinery input rose from 0.196 in Stage I to 0.348 in Stage III and dropped slightly in Stage IV. Its chemical fertilizer counterpart rose steadily from 0.032 in Stage I to 0.399 in Stage IV. Between them, the returns on these two kinds of input accounted for 55.2 percent of the overall returns on agricultural investment in Stage IV, up from 27.7 percent in Stage I, with the returns on the input of chemical fertilizers alone making up

32.7 percent of the overall returns in Stage IV, compared to just 3.9 percent in Stage I. This shows that the returns on agricultural fund investment, dominated by the inputs of agricultural machinery and chemical fertilizers, have a growing impact on the overall agricultural investment returns.

5) The returns on the input of large animals is on an upward trend. The returns on large animal input in Chinese agriculture was 0.086 in Stage IV but was less than 0 in each of the three other stages. It barely rose between 1965 and 1988, inching up from -0.057 in Stage I to 0.086 in Stage IV.

6) The technological progress index has been on a notably upward trend. Under the suoluo surplus value law, the index a_i in the production function formula denotes that portion of the gross agricultural output that can be attributed to something other than cultivated land input, manpower input, agricultural machinery input, agricultural chemical fertilizer input, and large animal input, namely the level of agricultural technological progress broadly defined. China's agricultural technological progress index has been estimated at -0.009, 0.058, and 0.090, and 0.314 from Stages I through IV, respectively. The trend is clearly upward. This testifies to the expanding role of technological progress in the overall agricultural investment returns.

2. Changes in Unit Returns on Agricultural Investment

The overall agricultural production function (1) reflects the relations between the various agricultural inputs, agricultural technological progress, and the gross value of agricultural output. If we keep the symbol in the production function (1), we may express the relations between agricultural investment per unit area and agricultural output per unit area with the following production function:

$Y/A = e^{a(0)} + a(1)t(N/A)^{a(2)} \cdot (M/A)^{a(3)} \cdot (F/A)^{a(4)} \cdot (L/A)^{a(5)}$(2) in which Y/A = agricultural output value per unit area (yuan per mu); N/A = manpower input per unit area (man per mu); M/A = agricultural machinery input per unit area (horsepower per mu); F/A = chemical fertilizer input per unit area (kilograms per mu); L/A = large animal input per unit area (heads per mu); and t = time, with 1965 as Year 1.

Using the common least square method and the combined cross section-time sequence data on the nation's 29 provinces and regions for 1965, 1970, 1975, and from 1978 through 1988, for a total of 14 years, we have worked out China's unit area input production function in different stages. The results are presented in Table 2.

Comparing the estimated results of agricultural input production function (2) per unit area with those of overall agricultural output function per unit area (1), we find that:

1) The overall returns on investment per unit area have been on an upward trend thanks to rising agricultural investment returns. The estimated overall agricultural production function was 1.220 in Stage IV but was otherwise less than 1 in all the other three stages, suggesting a progressively declining trend. In contrast, the estimated values of the unit area input production function for the four stages were all consistently higher than 1, specifically 1.063, 1.079, 1.188, and 1.432, respectively, forming a progressively upward trend. The returns on investment per unit area were significantly higher than the overall returns on agricultural investment and have been following a clearly upward trend. This shows that the increase in agricultural investment coupled with technological progress has boosted agricultural output per unit area of cultivated land. But since the amount of land under cultivation has been shrinking, the returns on total agricultural investment have not kept pace with the returns on investment per unit area.

Table 2: Estimated Results of China's Unit Area Input Production—Function by Stage 1966-1988

Years	I (1965-70-75)	II (1978-80)	III (1981-85)	IV (1986-88)	1965-88
Sample	87	87	145	87	409
Constant a_0	7.211 (14.86)	5.704 (11.54)	4.964 (15.93)	-0.435 (-0.58)	5.705 (29.71)
Agricultural Labor Input per mu a_1	0.559 (6.10)	0.456 (6.82)	0.354 (5.99)	0.261 (3.14)	0.555 (14.34)
Agricultural machinery input per mu a_2	0.397 (6.15)	0.422 (6.25)	0.518 (9.82)	0.410 (5.91)	0.255 (7.76)
Chemical fertilizer input per mu a_3	0.060 (1.02)	0.116 (1.84)	0.206 (3.79)	0.334 (4.30)	0.093 (3.07)
Large animal input per mu a_4	0.099 (2.13)	0.038 (0.93)	0.030 (0.96)	0.124 (2.66)	-0.023 (-1.01)
Time a_5	-0.052 (-3.86)	0.047 (1.40)	0.080 (5.38)	0.303 (9.36)	0.035 (6.07)
Σa_i	1.063	1.079	1.118	1.432	0.915
SSE	0.299	0.242	0.233	0.243	0.324
R^2	0.800	0.865	0.890	0.876	0.350

2) The trend in changes in the returns on the various kinds of input per unit area are similar to that in changes in the returns on overall agricultural investment. Like the overall returns on agricultural investment, the returns on the individual input per unit area has been declining, falling from an estimated 0.559 in Stage I to

0.261 in Stage IV. The returns on agricultural machinery input rose from 0.397 in Stage I to 0.518 in Stage III before dropping to 0.410 in Stage IV. The returns on chemical fertilizer input rose steadily from 0.060 in Stage I to 0.334 in Stage IV. Returns on large animal input slipped from 0.090 in Stage I to 0.030 in Stage III

before rising to 0.124 in Stage IV. The technological progress index climbed from -0.052 in Stage I to 0.303 in Stage IV.

In a broad sense, the estimated values of agricultural production function (1) and (2) reflect changes in the returns on total agricultural inputs and returns on agricultural inputs per unit area, respectively, in different historical stages. At a more detailed level, however, the returns on agricultural investment differ from one agricultural region to the next because regions vary in the amount of agricultural investment, level of technology, and the scale of agricultural operations. In this article, we have divided the nation's 29 provinces and regions into four agricultural regions, depending on their scale of agricultural operations, using the cultivated area index. Combined cross section time-sequence data on the regions for the 1981-1988 period were used. Applying the common least square method, we estimated the total agricultural production function for the four regions and did a region-by-region comparative analysis of the returns on agricultural investment, with the following findings:

1) The returns on overall agricultural investment in China in the 20 odd years between 1965 and 1988 have been on a steadily upward trend. The steady increase in returns on overall agricultural investment is the result of three things working together: the decline in the inputs of farmland and agricultural manpower, the increase in returns on the inputs of agricultural machinery, chemical fertilizers, and large animals, and the rise in the index of agricultural technological progress. In the course of interacting with one another, the increase in the returns on chemical fertilizer input offset the decrease in that on farmland input, while the increase in the returns on agricultural machinery and large animal inputs neutralized the drop in the returns on agricultural manpower input.

2) The study shows that the relationships between the scale of farmland operations and the returns on agricultural investment in the various regions are highly complex. Specifically, as the scale of farmland operations expands, the returns on total agricultural investment increases, as does that on agricultural machinery input, while the returns on the inputs of farmland and agricultural manpower decline. On the other hand, there is little direct relationship between the returns on the input of chemical fertilizers and large animals, as well as the index of agricultural technological progress, on the one hand, and the scale of farmland operations, on the other. In addition, the returns on large animal inputs are inversely related to the returns on the inputs of agricultural manpower and agricultural machinery.

(Worker's unit: Department of Agricultural Economics, Xibei Agricultural University)

Ministry Releases Cotton-Purchasing Figures

92P30042 Beijing JINGJI RIBAO in Chinese
28 Oct 91 p 1

[Text] October sees great activity in cotton-growing regions: busy scenes of the cotton trade. According to the Commerce Ministry, up to 28 October, 1.818 million tons of ginned cotton had been put into storage throughout the country—41.4 percent of the purchasing plan. From 16 to 20 October alone, 506,000 tons were purchased across the nation.

Shandong, the largest producer of cotton, had an excellent harvest this year; 650,000 tons of ginned cotton had been purchased from the province by 24 October—over 30 percent of the nation's total. Currently, the average daily purchase has reached 35,000 tons. Xinjiang, which has surpassed its purchasing quota for four consecutive years, has again attained a new level. By 20 October, cotton purchased from Xinjiang had reached 349,000 tons, exceeding this year's state plan by 32 percent, thereby putting Xinjiang among the ranks of the nation's major producers of cotton. By 20 October, cotton purchased from Gansu had reached 9,020 tons—a 25 percent increase over the same period last year and 23 percent over this year's planned amount.

Cotton-Purchasing Quota Expected To Be Met

HK2011023691 Beijing CHINA DAILY in English
20 Nov 91 p 3

[Article by staff reporter Ma Zhiping: "Harvests Meet Quota for Cotton Purchasing"]

[Text] Despite the damage of recent floods, China expects to meet its State cotton-purchasing quota for the first time in six years, fulfilling 86 percent of the annual purchasing plan, Ministry of Commerce statistics indicate.

"This year's cotton crop has been much better than our estimates made in early August, when most of China's cotton-producing regions were hit by the severe floods, which made it almost impossible to reach this year's target," an official from the ministry's cotton purchasing department said.

But farmers' efforts to replant after the floods and the recent favourable weather laid a solid foundation for this year's cotton harvest which was even better than last year's, the official said.

The ministry statistics showed that this year flood and other natural disasters devastated 666,700 hectares of farmland in Jiangsu, Anhui and southern Henan provinces, all major cotton producers.

The floods and cold weather earlier this year delayed cotton sowing, which in turn delayed the purchasing time by a few weeks. Still, the recent cotton market has proved very satisfactory in terms of the purchasing speed

and the farmers' enthusiasm for selling to the State, which could be the best in history, the cotton official said.

As of last week, a number of provinces and regions, including Xinjiang, Gansu, Hunan and Sichuan and Qingdao City, had over-fulfilled their annual purchasing targets.

To guarantee that State cotton purchasing goes smoothly, the Ministry of Commerce, Textile Industry and Agriculture, the State Planning Commission, the State Price Bureau and the State Technical Supervision Bureau recently dispatched teams to the major cotton-producing regions to monitor and inspect purchasing. The official also said quality control was tighter than in previous years.

The monitoring teams have found most State policies well-implemented around cotton purchasing regions, while some units have been checked and dealt with for disrupting cotton purchase orders.

Some cotton purchase stations in Beijing's suburbs have been forced by the municipal government to reorganize and stop illegal purchases, after they were found illegally manipulating cotton prices. These stations affected the cotton market in Beijing, Tianjin and the neighbouring Hebei Province, PEOPLE'S DAILY said yesterday.

The paper said the stations have also been ordered to return all the cotton illegally purchased from outside Beijing.

Two cotton textile factories in Henan were also found to have violated State cotton regulations by setting up unauthorized purchasing centres.

Training Flights Collide in Mid-Air*92CM0016A Taiyuan SHANXI RIBAO in Chinese
3 Sep 91 p 1*

[Article by Xu Guiyu (6079 6311 4416) and Li Shuguang (2621 2652 0342): "A Hymn in Praise of Patriotic Support for the Military—an Account of the Rescue Efforts by the People of Pinglu County, Changle Township, Sujiagou Village After an Air Crash"]

[Text] The date was 10 August. A flight academy stationed in Southern Shanxi was carrying out training. The temperature was 39°C.

At 3:40 PM, two aircraft suddenly collided at 3,000 meters and plummeted toward a mountaintop outside Pinglu County, Changle Township, Sujiagou Village. Two gigantic explosions reverberated from the 1700-meter mountaintop, and two fireballs shot into the sky. Two pilots parachuted toward a deep mountain gully.

The entire event was witnessed by Lü Suibao and a dozen or so other villagers. They split into three groups and went into action immediately.

1. Lü Suibao and Ke Qifa hurried to where the pilots were and carried them away on their backs along a rugged mountain path—100 meters, 500 meters, a thousand meters; gritting their teeth, they carried the pilots as fast as they could 1.5 kilometers back to their own homes. They brewed tea for them, fed them fried eggs, and even gave them newly bought leather shoes to replace the ones the pilots had lost in the accident...

2. Cai Dingcao and several others rushed to where the aircraft had fallen to earth. The burning aircraft fuel and bushes shot flames 20 and 30 meters into the air. The billowing smoke and scorching heat made it impossible to approach the aircraft.

Not a moment was to be lost. Cai Dingcao decisively commanded 60 or 70 villagers at the scene. They used spades, clubs, tree branches, and rocks to fight the flames. Some people even beat at the flames with their own clothing. The fire was gradually brought under control. Suddenly, there were two thunderous booms. The bombs on the aircraft exploded in the heat and screamed over the villagers' heads. They ignored their mortal danger and continued to charge toward the sea of flames. Over an hour later, more than 200 people finally extinguished the fire. Some of them had suffered cuts and puncture wounds to their feet, some of them had their arms burnt, and others even had their clothing catch fire...

3. Duan Heiwa, Dong Dingwei, and several others raced at top speed on bicycles 20 kilometers to report the situation to the township leaders who immediately organized a group of 30 people, including cadres, workers, staff, and medical personnel to go and rescue the pilots. At the same time, a 100-member rescue team organized by the county party committee also raced to Sujiagou in 14 trucks and cars.

That evening, at the instructions of the provincial and prefectural leadership, Pinglu County organized a group of 100 people to recover the fallen aircraft. The villagers of Sujiagou turned out in great numbers to participate in the work in spite of their exhaustion. They struggled for two days and one night to build a temporary one-kilometer road, broke the aircraft down into transportable pieces, and helped the troops load them onto the trucks to haul them away...

The officers and men of the academy were very moved and said that the leadership at every level in Shanxi Province as well as the people of Pinglu County had written a hymn of praise for patriotism and support of the military!

2d Artillery Team Reduces Missile Repair Time*92CM0016B Beijing JIEFANGJUN BAO in Chinese
5 Sep 91 p 1*

[Article by Li Guozheng (2621 0948 1767) and Sun Jilian (1327 4949 3550): "2d Artillery Corps Special Maintenance Team Produces Excellent Results Year After Year"]

[Text] A unit in the 2d Artillery Corps has, in the course of reform, come up with a new way of doing things. It has set up specially configured combined maintenance groups which have received a superior rating every year for the past five years. Service time for ground equipment has been reduced by two-thirds, thereby saving over 400,000 yuan for the state. During the Eighth Five-Year Plan, comprehensive tests carried out by these combined maintenance groups on nearly 1,000 pieces of equipment showed that all instruments are operating normally and performing well. Higher ranking organs have been working to apply their successful experience in other parts of the 2d Artillery.

Maintenance on large ground equipment has always been carried out by a small number of domestic manufacturers, but as arms and equipment have become coordinated and have stayed in service for a longer period of time, the task of maintenance has become much greater. Long periods of down time and high maintenance expenses have become more and more of a problem. The party committee in a unit in the 2d Artillery Corps boldly struck out in a new direction in 1988 by establishing specially configured combined maintenance groups. These groups, which are based at maintenance and assembly factories, are composed of key technical personnel from two levels of technical equipment departments as well as various special maintenance fendui. These maintenance groups are continually perfecting and bringing into play their technological advantages, and they are quickly changing the old situation in which the 2d Artillery Corps relied completely upon manufacturers to carry out maintenance. In September 1989, there was a breakdown at a missile launching platform. The original plan was to ask the manufacturer to fix it, but because the training of the

maintenance groups had been progressing very quickly, one group was able to clear up the problem and assure that the training exercise would be completed. One time when the troops were going through simulated training maneuvers, a large piece of equipment broke down. Chen Jiazhen, head of the technical equipment department, personally led a combined maintenance fendum composed of top technicians to the site, where they quickly repaired the breakdown, thereby assuring that the maneuvers would be completed on time.

The establishment of these specially configured combined maintenance groups has not only enabled this unit to increase its independent maintenance from 10 percent to about 70 percent, but it has also saved a lot of money and led to a clear improvement in the condition of the equipment as well as the combat capability of the troops.

2d Artillery Command Academy Interviewed

92CM0016C Beijing JIEFANGJUN BAO in Chinese
10 Sep 91 p 2

[Article by Chen Rongcai (7115 2837 1752) and Wang Xugang (3769 2485 0474): "Showing Concern for Training Officers—Interviews With Training Officers in the 2d Artillery Command Academy"]

[Text] Through many acts of kindness, the party committee of the 2d Artillery Command Academy has shown concern, understanding, and support for the well-being of intellectuals. When these writers went to the academy in early August, everywhere we went, the phrase we heard most from the instructors was this: "The party committee and the leadership at the academy always care about how we instructors are doing."

Liu Lihua [0491 7787 5478] (instructor, construction machinery teaching group): It rained hard every day in early July, and water seeped into the houses of 10 or 20 of us instructors. Early the next morning, President Zhang came with several administrators to help us get rid of the water, then they found new housing for us and arranged for people and cars to come and help us move. When I think back on it, it still moves me.

Li Baoyin [2621 1405 0603] (deputy head, tactics teaching group): It is difficult for some instructors to go see the doctor, so the academy has done everything possible to help them out in this regard, even arranging for specific doctors to look after the health of middle-aged and old instructors. A young instructor named Xu Sen came down with subacute hepatic necrosis while visiting relatives. The mortality rate for this disease is 95 percent. The academy promptly contacted a hospital for him and had people sent over several times with special medicines and plasma. After his condition had stabilized, the academy brought him back to their own hospital, thus saving him from the brink of death.

Chen Baotie [7115 1405 6993] (director, tactics teaching group): Although the academy's funding is limited, it is certainly willing to spend good money to train young

instructors. About 30 instructors every year from the academy go for advanced study and training with the military or at a local institution of higher learning. After participating in such study and training programs, many instructors with a vocational school education or less have reached an undergraduate level or better.

Wang Cheng [3769 6134] (professor, communications technology teaching group): Every single member of the party committee works really hard and cares about the instructors. President Zhang frequently takes the heads of the various departments on rounds to visit the instructors and ask for their opinions. Political commissar Li has had more than 130 conversations with instructors. He listens to what we say, understands our problems, and identifies with our thoughts and needs.

Li Jinghua [2621 2529 5478] (political commissar): Our party committee has a slogan: Everything for the sake of those on the front lines of instruction. We have not done nearly enough to resolve the difficulties that our instructors face because there are limits to what we can do under the current circumstances. However, as long as we respect the instructors and have their best interests at heart, we will do a better job of bringing their enthusiasm into play.

1st Nuclear Submarine Repair Team Profiled

92CM0016D Beijing JIEFANGJUN BAO in Chinese
11 Sep 91 p 1

[Article by Jiang Rubiao (3068 3067 2871), Zhang Weixing (1728 5898 2502), and Liu Shiguang (0491 0013 0342): "China's Finest Submarine Maintenance Team"]

[Text] In a harbor tucked in between several mountains, there is a little known unit of military technicians whose hard work has gone into China's long-range nuclear submarine voyages. This unit of technicians has made contributions to China's nuclear submarine blue water training exercises. The unit has put its all into test launches of sea-launched ballistic missiles by China's nuclear submarines... The technicians in this unit have used their own flesh and blood to carry a tremendous burden for our people and have taken care of the pride and joy of the republic—nuclear submarines. They are a nuclear submarine maintenance team in the Navy, and this team has been termed "China's finest ship-maintenance team."

A memorable day in the history of the republic is 15 September, 1988. On this day, a test launching of a sea-launched ballistic missile by one of China's nuclear submarines was successfully completed!

When that huge dragon of the orient soared above the ocean skies, the ship maintenance team made contributions of singular merit which will not soon be forgotten. Three months earlier, they had organized a 24-man team to go to the test launch site. On the day of the launch, a worker named Wang Zhaohua checked everything over

again and again and finally came to the hydraulic pressure lines, which were only a few steps away from the missile launch tube. He understood clearly that any national defense experiment is quite dangerous and that he was standing in the most dangerous spot of all. Furthermore, he understood even better that at the moment when the missile flew out from the launch tube, this hydraulic pressure line would be under tremendous stress. A command came from the submarine commander, "five seconds and counting!" Without time to think and in order to assure that the launch would go off flawlessly, Wang immediately crouched down low to the floor according to the prescribed procedure. "Five, four, three, two, one launch!" This was followed by a tremendous boom, and Wang, a strapping six-footer, was shaken so hard his whole body was trembling... The launch was successful! Wang leaped into the air with tears in his eyes.

With nuclear submarines, the key word is "nuclear." Working year after year around nuclear submarines, the maintenance personnel are bound to have some contact with the nuclear aspect of the submarines. One time when a nuclear submarine was leaving the shipyards for a trial run, testing revealed excessive levels of radiation. Analysis revealed the cause to be a blocked hose. Sun Qiliang, the deputy chief engineer, donned protective clothing and disappeared with several others into a dark and cramped water chamber for a full three hours... Here was the "guardian angel" of China's nuclear submarines! For the sake of our army's modernization, they disregarded their own safety.

The time was late autumn; the place was somewhere in the Yellow Sea; the scene was naval ships everywhere; and, far below the surface, a nuclear submarine was preparing a launch. Suddenly, because the wind and waves were so strong, the steel cable attached to the red marker raft was snapped, and the nuclear submarine was forced to surface. The commanders of the expedition on the surface were in a state of high anxiety, and they decided to replace the marker raft with a marker buoy. Their ability to execute this action would determine the success or failure of the mission. The wind and waves were growing higher and higher, and people moving about the decks were in constant danger. The commander of the expedition, Zhang Jun, and the deputy chief engineer, Sun Qiliang, who had gone out with the submarine, declared bravely, "We will go out there ourselves!" The submarine tossed like a teeter-totter in the furious waves as six men crawled out onto the aft deck in the storm with a safety line around their waists. Holding fast against the rasping waves, they hauled up the long broken cable one meter at a time onto the deck where they hooked the hasp at the end to a 40-kg buoy. A dramatic scene ensued: Two men picked up the buoy and edged over toward the side of the ship in a crouched position while the other four tugged on their safety lines. "One, two, throw!" The buoy fell into the raging sea and the magnificent exercise got underway once again...

In the nuclear submarine maintenance team, they always say that on a nuclear submarine, nothing is trivial; everything affects the prestige of the state and the army. With such a complex piece of equipment, even a single screw or a valve not in proper condition will affect combat performance and threaten safety. Repairing a submarine is just like sharpening your sword! Quality equals combat capability! The mysterious and special nature of their job imbues them with a strong awareness of quality.

One afternoon, a maintenance quality inspection team composed of representatives from the army, unit headquarters, and the maintenance team inspected several air compressors on the nuclear submarines and found that there was one air compressor which was 0.1 unit of pressure off of first-class standards. In the beginning, everyone suspected that the pressure gage was the problem, but that was not the case. Later, they thought it might be the external structure of the equipment, but that was not the case, either. At that point, some inspectors said, "When a newly inspected piece of equipment is only off by 0.1 unit, that is not too bad. Let us not torture ourselves on this." Commander Zhang answered resolutely, "When you are off 0.1, you are off. Open it up!" However, opening up the "guts" of this machinery is easier said than done! According to standards set by the state, it takes 560 man-hours with a high-powered air compressor just to take it apart and put it back together. Zhao Shikai, Li Runming, and five other technicians worked day and night to inspect more than 100 components, including valves, pistons, piston rods, and cylinders. After exhaustive testing, they finally discovered that the 0.1 pressure unit discrepancy was due to an excessively close clearance in one of the cylinders.

Last January, the maintenance team undertook to repair the diesel engines in one nuclear submarine. In accordance with instructions, they randomly inspected two cylinders in each engine. At the quality analysis meeting, however, the team leader still had nagging questions: That particular nuclear submarine was an unusual case because it had just come back from a long range training exercise; what if something went wrong with one of the cylinders that they had not inspected? Everyone agreed that they would rather work a little bit more to be extra sure than to leave a hidden danger in the nuclear submarine. Early the next morning, two workers named Ding Mingjiang and Liu Cunyao wriggled into the engine compartment and broke down the cylinders, pistons, and rods into more than 100 separate parts for individual inspection. They spent two full months testing every single cylinder assembly against 960 specifications. It was not in vain. Six cylinder assemblies with potential problems were replaced.

A series of astonishing statistics reveal that these "sword sharpeners" have another "sacred duty." In the past few years, in addition to completing their scheduled maintenance tasks, they have also voluntarily carried out 600 additional needed maintenance procedures which, in the course of their regular work, they discovered were also

needed. They proudly refer to these extra jobs for which they received no compensation as their "responsibility projects." The personnel in the team say that "it is our sacred duty to do everything we can to improve the combat capability of the nuclear submarines," and so it is. That is precisely the "sacred duty" which never leaves their minds. Every maintenance project which they have carried out in recent years on various nuclear submarines has been judged by the navy to be of superior quality.

Transfer of Military Technology to Civilian Use in Shaanxi

Ministry 39th Research Institute Report

92CM0018A Xian SHAANXI RIBAO in Chinese
21 Aug 91 p 1

[Article by Dongfeng Gaoshan (2639 1496 7559 1472): "Accelerating the Transfer of Military Industrial Technology to Civilian Use; A Study of Institute No. 39 of the Ministry of Machine Building and Electronics"]

[Text] How is advanced military technology to be used to benefit economic reconstruction? In recent years, many military industrial research organs have been actively exploring this question. Institute No. 39 (Xibei Electronic Equipment Institute), of the Ministry of Machine Building and Electronics, has achieved admirable success in this area, learning various valuable lessons during the course of practice.

On a searing hot day in July, we arrived at the new premises of Institute No. 39 in the Xian Electronics Park. There were new buildings all around, and they looked quite striking under the bright sun. The faces of the scientists, technicians, and workers that we saw exuded an air of satisfaction and pride. A mobile radar unit was parked in front of the magnificent scientific research building; it was about to go into service with the troops and big name specialists were evaluating it. Amidst the crowd, this reporter found the head of the Institute, Liu Xiyu [0491 6932 3768], a specialist who has earned national awards for his outstanding contributions. After learning of the purpose of our visit, he explained that in every year since 1985, the institute had satisfactorily completed all scientific research tasks for military products, and that the quality was getting better and better. In the five years since it first began to develop civilian products, cumulative sales revenues have topped 100 million yuan, which is more than two-thirds of total revenues. With a touch of excitement in his voice, this strapping fellow from Shandong said, "Reform of the system of science and technology has been a breath of fresh air for our institute. If we were still sticking to our old, closed way of doing things, the new situation you see here today would not exist!"

Turning Toward the Market

This institute, which is nestled in a gorge at the foot of the Qinling Mountain Range, was totally dependent upon the government prior to 1985. At that time, the main task assigned to the institute by superiors was to develop high precision tracking radar. A number of elite scientists and technicians were gathered together at this institute, and the level of its scientific research as well as technology and equipment were among the best in the nation. Not only research and design, but also production, was carried out here. Since the institute's establishment in 1978, the people here, under arduous conditions, had made outstanding contributions to China's national defense; it had provided a large quantity of high quality equipment to the military, done an outstanding job in a number of cutting edge experiments, and had won various national awards for scientific and technological breakthroughs. However, due to a number of factors (including the small quantity of military goods developed and produced), the large quantity of high tech equipment at the institute went idle for long periods of time after tasks for the military were completed, and some scientists and technicians had extra time on their hands. Would it be possible to turn toward the market and use high technology to develop production of civilian goods? The party's policy on this point had already been clarified five years earlier, but the institute worried about many things, feared taking risks, and hesitated to move forward.

On the eve of the 1 May Worker's Day holiday in 1985, director Liu Xiyu suddenly received a phone call from the Radar Bureau of what was then the Ministry of Electronics. The State Council was preparing to give 53 satellite television reception stations to old, sparsely populated, and border districts, and Liu was asked whether the institute would develop the six-meter reception antennae required for the stations. Although the caller's tone of voice was exploratory, it was necessary to respond quickly and decisively. With the receiver feeling like a hot potato in his hands, Liu Xiyu's mind raced. This was a chance to get into civilian production, but there wasn't enough time. It was only 60 days, and it would be risky. But if they did not do it, somebody else would.... He suddenly set his jaw in determination and roared into the phone, "Yes, we will do it!" The director, secretary, and chief engineer then went out to mobilize the workers and staff. They analyzed the prospects for development of satellite television, and concluded that a vast market lay in front of them. They analyzed the specialties and strengths of their own institute, and concluded that doing antennae for civilian use was in line with their strengths. Having identified this extremely advantageous situation, everyone's understanding throughout the institute from top to bottom was unified, confidence was instilled, and the wisdom and efforts of everyone were pooled together. Everyone did overtime day and night and the development task was completed on time. All four of the satellite reception stations which Institute No. 39 contracted to build in old, sparsely populated, and border districts were among

the top five in the nation. The institute used this success in its first battle as a springboard to expansion of markets and production. Over the next five years, it developed, produced, and sold more than 4,000 satellite television antenna, which was one-fourth of the entire national market.

The development of commodity production has spurred these people, who had always been used to wearing military uniforms or white laboratory smocks and burying their heads in research, to abandon the traditional attitude that scholars do not engage in commerce. The institute set up a civilian products marketing department which has established a marketing network in 14 major cities throughout the nation. At the same time, it has actively developed lateral linkages, taking part in the China Ruida Group and the Xian Kangna Group, thereby establishing high-tech conglomerates. It has established relationships with ten local factories for the trial development and processing of products. It has established the Electronics Equipment Company, Inc. in Shenzhen, in which foreign investors have purchased stock. It has established relationships with over 500 companies at home and abroad to exchange information on science and technology. This has broadened the institute's field of vision, increased its access to information, improved its understanding of markets, and accelerated its scientific research and production.

Participation in commodity production requires foresight. In 1987, when they saw that the market for satellite television antennae might become saturated, the institute switched the focus of its scientific research to satellite communications equipment, for which there was no market at the time but which held the most promise for the future. They successfully developed 20-meter, 12-meter, 7.3-meter, 6-meter, and 5-meter satellite communication systems antennae, thus getting out in front and moving in unison with market trends. Sales revenue from this product line alone reached 10 million yuan last year. Markets looked good for the more than 20 types of antenna the institute has developed for microwave relay communications and scatter communications, and the 25-meter radio telescope developed by the institute, the largest in China, is now in use at the Shanghai Observatory.

A scientific research institute which had been closed off from the world and used only for military purposes has been completely opened up!

"If foreign products can come into the Chinese market, why cannot Chinese products be sold abroad?" This was the new way of thinking which director Liu Xiyu returned with after a visit to Japan and the United States.

Due to historical reasons, even though each succeeding generation of products developed in China has been approached closer and closer to an advanced world level, overtaking it in some cases, Chinese products are not well known abroad and have a difficult time cracking the

world market. In order to publicize itself and expand its influence, the institute has invited foreign specialists to visit and teach courses, and it has taken part in trade shows abroad.

Then an opportunity presented itself. In 1988, the International Maritime Satellite Organization (INMARSAT) solicited bids on the international market for a satellite tracking and control station with 12 and 15-meter antennae which it planned to build in Beijing. The institute saw this as a rare opportunity to publicize itself and to improve China's image, so it actively cooperated with fellow work units and turned back formidable competitors such as the United States, Japan, and Australia in winning the bid. The two antenna systems which Institute No. 39 developed for the tracking and control station passed inspection last year in May, and in late October they took part in tracking and control during the launch of the INMARSAT R-1 satellite, receiving high praise from foreign specialists. Their product received global recognition.

Early last year, Institute No. 39 supplied Myanmar with a 12-meter radio and television antenna, and developed a 5-meter communications antenna for that same country's satellite communications/television network project. These activities earned more than \$1 million in foreign exchange. After more than four months of hard work, the entire complement of workers and staff at the institute developed the first set of equipment on time. The question, however, was how to transport these enormous objects abroad in a timely manner. For a time, that was the biggest headache of all. Just at that time, Myanmar was carrying out general elections, and this equipment was badly needed. What was to be done?

"We'll get it there by convoy!" This was the bold decision taken by the institute's leaders. A majestic convoy of more than 20 vehicles set out from the foot of the Qinling Mountain Range in northwestern China, and transported the antenna equipment 7,000 km over countless mountains and rivers all the way to the delivery site in Myanmar. The Rangoon Central Station and the far end communications/television stations were linked up in time for the May elections. The people Myanmar were quite satisfied with the way their Chinese partners scrupulously abided by their word and by the way they showed such concern for the needs of their client. Ethnic Chinese in Myanmar crowded around the Chinese specialists and cheered. The institute's efforts to establish an international presence are accelerating. Its equipment has already been sold to the Soviet Union, Hong Kong, Southeast Asia, and Asiasat, and negotiations are currently being carried out with clients in the United States, Canada, and Pakistan.

Using Military Production To Stimulate Civilian Production, and Using the Civilian Production To Spur Military Production

Some might ask whether using military industrial research organs to carry out market-oriented activities

might not affect their development of military products. At Institute No. 39, practice has proven that this will not happen.

The institute adopted a clear guiding philosophy from the start. It has always directed its energies primarily to the development of military products. The best people, materials, and funding have been directed toward military work. In recent years, at least two-thirds of all key scientific and technical cadres have been used for the development of military products, while the development of civilian products has primarily been a matter of expanding the application of military technologies. Although less than one-third of all key scientific and technical personnel have been used for civilian work, it has nevertheless accounted for more than two-thirds of revenues.

As civilian products bring in economic benefits, the quality of military products is enhanced. The revenues from civilian products have made it possible to increase scientific and technological inputs and to improve research methods. In recent years, in addition to raising more than 30 million yuan on its own to cover moving expenses and the building of infrastructure, the institute has also purchased a lot of advanced instruments and equipment. Expenditures on technological upgrading, plus depreciation funds, amount to three or four million yuan every year, which is more than twice what it used to be. At the same time, the continual expansion of product variety has served to train the ranks of workers and staff. A multi-tiered system of technological development has formed, a group of people capable of leading the way in various scientific fields has been cultivated, and technology reserves have been added to.

During the Seventh Five-Year Plan, the quality of scientific research in military technology at Institute No. 39 improved by leaps and bounds. It successfully completed every compulsory task assigned to it by the state, and 100 percent of the products leaving the institute met the required standards. In the past five years, it has received 15 awards for military industrial science and technology, including one first-class state prize, one second-class state prize, one special-class ministry prize, and four first-class prizes.

The objective of using military production to stimulate civilian production, and using civilian production to spur military production has been met. This is the path to vigorous development!

Commentary on Technology Transfer

92CM0018A Xian SHAANXI RIBAO in Chinese
21 Aug 91 p 1

[Commentary: "Fully Tap Our Province's Advantages in Military Industrial Technology; A Third Discussion Concerning Reliance Upon Scientific and Technological Progress To Develop the Economy of Shaanxi Province"]

[Text] Using military technology to spur national economic development, and using high technology with military applications to bring about the formation of new industries has been a universal pattern in the history of modern science and technology both in China and abroad. War is a standoff to determine the relative strength of different countries, and military necessity is one motive force behind the development of new technologies; it frequently reflects the newest and highest level of science and technology in a given time period. The Gulf War is a case in point. So is the fact that China has developed the A bomb, the H bomb, and satellites. However, all technologies are interconnected. They can be used for military as well as civilian purposes. How to make military technology serve the interests of economic development is an extremely important question.

The military industrial technology of Shaanxi Province is formidable. Equipment is modern, and the level of technology is among the highest in the nation. For many years, the various military industrial work units in Shaanxi have been making significant contributions to the province's economic development. Particularly since the policy of reform and opening up, the various military industrial work units have achieved gratifying progress in transferring military industrial technology to civilian products. In addition to fulfilling all scientific research and production tasks for military products, military industrial work units throughout the province in the 1980's developed nearly 1,000 types of new civilian products, 130 of which filled a gap in China. The output value of civilian products doubled four times in ten years, and over 1000 scientific and technological breakthroughs were transferred to civilian industries, which forcefully spurred scientific and technological development among local enterprises. However, in view of the strength of military industry in Shaanxi, and considering the requirements of the times, the pace of this transfer needs to be accelerated. A large number of scientific and technological breakthroughs in many military industrial research units have not yet been developed or spread to other areas. In some large academies and institutes, the enthusiasm of scientific and technical personnel for developing civilian products has not yet been brought into play. Many advanced instruments go unused for long periods of time, and there is much untapped potential. There are various systemic and policy-related factors behind this situation which must be gradually resolved through further reform. The most urgent task is to resolve problems related to ways of thinking and to clear up difficulties related to work. The best way to solve problems is through practice. If we would only set actively to the task of transferring military technology to civilian purposes, people's understanding would grow by leaps and bounds, and difficulties would be resolved.

The nation's peace is inextricably linked to national defense, the modernization of which depends upon science and technology. A military industrial work unit must place top priority at all times upon research into military technology and the development of military

products. This is absolutely unchallengeable. The purpose behind implementing the strategic program of "combining the military and civilian activities, combining wartime and peacetime activities, giving top priority to military products, and using civilian production to support military work" is to further increase the degree of compatibility between military and civilian work and to improve the ability to convert between wartime and peacetime activities. History has conferred a glorious mission upon military industrial work units: to take the talent and productive capacity which has been cultivated in the process of developing military industrial technology, and use it to more effectively support economic development. The road traveled in recent years by Institute No. 39 of the Ministry of Machine Building and Electronics fully shows that developing civilian products will not affect the development of military products; on the contrary, it can help us to achieve the goal of using civilian production to stimulate and support military production. Conversely, without a solid base in civilian industry, the development of military technology would be restricted.

Many military industrial work units in Shaanxi have explored useful ways of accelerating the transfer of military technology to civilian production, and we

should actively learn from and promote the spread of these methods. Military industrial work units must change their ways of thinking, change their internal mechanisms, and act in accordance with the state's industrial policy, market demand, and their own technological strengths to step up development of high technology and high value-added products. As they work to develop high-tech industries, they must take advantage of their strengths and play a leading role. They must actively undertake to develop key technologies and equipment. They must provide advanced technologies, coordinated equipment, and key equipment and testing instruments in order to upgrade traditional industries. Technology exchange, technology contracting, and technological service must be used in order to transfer technology to civilian enterprises. Government departments at all levels must strengthen unified coordination and create a healthy external environment for the development of civilian products by military industrial work units. People throughout the province should actively support the work of military industrial work units and help them resolve their problems so that military industry can use its scientific and technological strength to make greater contributions to the revitalization of Shaanxi.

Authorities Expand Foreign Aid Programs

92CE0101A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 40,
7 Oct 91 p 24

[Article by Fong Song: "Taiwan Is Expeditiously Systemizing and Legalizing Its Foreign Aid"]

[Text] Since mid-year, in addition to diversifying international markets and upgrading the industrial structure, Taiwan has been increasingly concerned about its foreign aid operations, and has expeditiously promoted the systematization and legalization of foreign aid.

Objectives and Principals

According to Taiwanese newspapers, Taiwan's foreign aid has been growing continuously in recent years, and expenditures on foreign aid have soared drastically. In 1988, the amount of foreign aid was only about 0.04 percent of GNP. By 1991, however, it increased to 0.2 percent, an increase of more than five fold, and the total amount reached \$35 million. Foreign aid funds have been used for international technological cooperation funds, international disaster and humanitarian relief funds, and expenses on international activities. According to Deputy Economic Minister Chang Binkuan, there are four major objectives associated with the rapid growth of foreign aid: 1) to raise Taiwan's international status; 2) to protect Taiwan's investment interests in overseas aid recipient regions; 3) to improve bilateral relations with relevant countries and regions; and 4) to maintain overseas markets for the economic growth of the island.

At the same time, in response to developments of international situations, adjustments were made recently to relevant foreign aid policies. Two basic principles have been formulated: 1) Foreign aid should not be directed to communist countries, but exceptions are made to the Soviet Union and Eastern European countries that have reformed their social systems. 2) Countries that are not concerned with the well-being of their own people should not be listed as eligible recipients.

Evaluation and Planning

In the first half of this year, to improve the effectiveness of foreign aid, Taiwan's Ministry of Economic Affairs requested the Asian Development Bank [ADB] to evaluate Taiwan's foreign aid operations. After evaluation, ADB proposed that: 1) the share of foreign aid in GNP should not be too small if Taiwan wishes to heighten its international status; and 2) to improve the effectiveness of foreign aid, it is necessary to enhance the operation capacity, set up legal entities, and cultivate relevant professionals. Therefore, Taiwan's Ministry of Economic Affairs plans to raise the proportion of foreign aid to 0.25 percent of GNP during 1995. Based on Taiwan's GNP last year, which was \$160 billion, the expenditures on foreign aid will break the threshold of 10 billion new Taiwan dollars and reach 10.8 billion new Taiwan dollars.

With regard to the amount of such expenditures, the spokesman for Taiwan's President Chou Ching-yi even suggested that the long-term objective for foreign aid should be 1 percent of GNP. As large amount of funds are required for Taiwan's Six-Year Economic Development Plan, however, Taiwan's Ministry of Foreign Affairs has been cautious on this issue. It believes that it would be appropriate to align with the foreign aid criteria adopted by the OECD countries, i.e. to increase foreign aid up to 0.17 percent of GNP, or an 8.5 fold increase.

According to statistics from ADB, at present the proportions of foreign aid in GNP in major western developed countries are as follows: Norway 1.04 percent, Holland 0.98 percent, Sweden 0.97 percent, Denmark 0.94 percent, France 0.54 percent, Germany 0.41 percent, Japan 0.32 percent, Great Britain 0.31 percent, Ireland 0.2 percent, and the United States 0.18 percent. If Taiwan's foreign aid reaches 0.25 percent of GNP, it would be ranked between England and the United States, and listed as one of the major donors in the world.

Measures and Operations

In the process of systemizing and legalizing foreign aid, Taiwan adopted several major measures recently: First, redetermine the responsible department. In the past, Taiwan's foreign aid operations were mainly the responsibility of the Ministry of Economic Affairs, which relied on its subsidiary agency "Overseas Economic Cooperation and Development Fund" for coordinating the economic development of recipient regions. Due to the lack of professionals and practical experience, the operations have been slow, and it has been difficult to identify appropriate projects to be financed by foreign aid. With the shift of operational objective towards foreign relations, Taiwan has decided to have the Ministry of Foreign Affairs manage foreign aid operations.

Second, draft a foreign aid act. On 5 August, Taiwan's Ministry of Foreign Affairs decided at its ministerial meeting to start drafting a foreign aid act. At present, the preliminary work has begun.

Third, integrate foreign aid organizations. At present, there are many foreign aid departments, in addition to the Overseas Technological Cooperation Commission, International Development Fund, International Health Cooperation Organization, and the subsidiary aid organizations of the Agricultural Commission and Labor Commission. To coordinate operations and centralize funds, Taiwan has decided to reorganize these departments. The establishment of a specialized agency is also under consideration.

Fourth, expand the scope of foreign aid. To increase economic aid and improve efficiency, relevant departments in Taiwan also plan to expand the forms of foreign

aid from pure economic support to technical assistance, concessionary credits, and to provide loans for servicing foreign debt.

Fifth, establish a foreign aid fund. Recently, Li Tenghui proposed establishing an international aid fund, and considered this a component of "mastering the new world order and actively pursuing practical diplomacy."

In terms of recent operations, Taiwan has decided to provide a \$20 million concessionary loan to the Philippines to resume friendly relations after the problem of the "Fishery Agreement." Also, Taiwan permits Costa Rica to use Taiwan's loans for servicing its foreign debt to maintain diplomatic relations. In addition, when the Soviet Union was facing collapse, Taiwan decided to list the Soviet Republics as the priority for voluntary economic aid so as to establish with them "more intimate and practical relations."

Public Opinion and Response

Political circles and news media in Taiwan are giving serious attention to the series of measures that have been adopted by Taiwan to systemize and legalize economic aid and to Li's idea on an aid fund. The major response has been:

First, it is highly necessary to formulate a foreign aid act, not only to fulfill international responsibility, but also systemize foreign aid operations. It is conducive to the supervision and improvement of the effective use of foreign aid.

Second, the formalization of foreign aid will enable Taiwan to set up more channels for foreign contact.

Third, after the operations of foreign aid become standardized, part of foreign aid will be used to purchase Taiwan products, and benefit industries on the island.

Fourth, it is necessary to have the concept of "extending a long rod to catch a big fish."

Fifth, Li's idea on a foreign aid fund, and plan to increase the amount of foreign aid are both forward looking. They represent an indispensable part of the process for Taiwan to walk into the rank of advanced countries and regions.

In addition, some relevant newspapers in Taiwan argued in their special editorial articles that it would be worthwhile to use foreign aid if it could increase export opportunities for the manufacturing industry, and thus generate greater economic benefits than the amount of foreign aid.

Taiwan's move to promote the legalization of foreign aid has attracted worldwide attention. The United States has tried to obtain information through various channels, and expressed its endorsement. Most other western industrial countries are taking a wait-and-see attitude.

Judging from the various measures that Taiwan has taken with regard to its foreign aid, and from the associated four major objectives, it is not difficult to predict that Taiwan will further quicken its pace to systemize and legalize its foreign aid, and that foreign aid will become an important instrument for Taiwan to expand international political and economic relations.

Comments on Taiwan's GATT Application

92CE0087A Hong Kong CHING-CHI TAO-PAO
in Chinese No 38-39, 1 Oct 91 p 38

[Text] On New Year's Day 1990, Taiwan submitted an application to the GATT under the name "Taiwan, Penghu, Jinmen, Mazu Customs Territory." Taiwan submitted it with the active support of the United States and in light of developments and changes in the international political and economic situation, and chose the opportune time presented by the temporary shelving of mainland China's application. At present, Taiwan's application has not yet been placed on the GATT Council agenda, so the ultimate time and manner in which it will join have not been settled. Taiwan authorities are now stepping up various activities in preparation for rejoining GATT.

Absolutely Clear Objectives

Taiwan's objectives in rejoining GATT are absolutely clear: to use its economic strength to expand its sphere of political activity internationally, to use "pragmatism in foreign affairs" to gain the greatest substantive benefit, and to use "separate resolution of issues" to achieve a true "one China, one Taiwan."

At present, Taiwan has established three objectives in the international sphere that it is "dedicated to expanding." First, to consolidate and strengthen cooperation with "countries with which it has or may establish diplomatic relations." Areas of cooperation include finance, economics, transportation, industry, fisheries, agriculture, medicine and others. Second, to strive to establish "substantive relations" with "countries with which it does not have diplomatic relations." Taiwan has established 79 "representative offices" in more than 50 such countries. Through the above-mentioned organizations, Taiwan is still trying to establish "semi-official" or "official" relations. Third, it is attempting to participate in or rejoin international organizations and activities that "relate to its national interest" and thereby strengthen its relations with the international community and make concrete contributions. "After Taiwan's role and status in the world gradually gain attention," Taiwan will try to join international organizations of a political nature. Taiwan is a member of 776 nonintergovernmental international organizations, and its next objective is to "actively apply" to join GATT.

Favorable Conditions and Concrete Methods

Under the present situation, Taiwan's application to GATT has favorable conditions: (1) Taiwan's economic

power is relatively strong, and its foreign exchange reserves are about \$74 billion, second highest in the world. Total trade exceeds \$120 billion, ranking 15th in the world, and has gained the attention of Western developed countries, which believe that Taiwan joining GATT will conform to their economic interests. (2) Taiwan is gradually moving toward a completely free-market economy, and its economic and foreign trade system basically conforms to GATT requirements. (3) The U.S. government, under pressure from Congress, may exert certain kinds of influence on the GATT Council, and coordinate the support of Western countries so that Taiwan's application will be placed on the agenda at the next session. The GATT secretariat has maintained a relatively positive attitude for Taiwan joining, and particularly after the recent drastic changes that developed in the Soviet Union. The United States and other Western countries may very likely increase their support for Taiwan to exert pressure on the mainland. (4) Taiwan, as a "developed country," is applying for admission from a position of "few conditions, high profile," and by promising to provide developing countries with "general preferential treatment," which will lead some countries that originally supported mainland China to switch their support to Taiwan to gain a certain degree of economic "benefits." (5) The "Six-Year National Construction Plan" that Taiwan is implementing is a very useful bargaining chip in its economic and political interactions with Western developed countries.

Taiwan's current major methods for joining GATT include the following several points: (1) "Painstaking formulation" of the manner and name under which it will join. Taiwan has decided to avoid the "entry as a sovereign state" formula under GATT Article 26, and to apply on the basis of the "independent customs territory" method in Article 33. (2) Strengthening relations with the international community. Taiwan has "continuously played an active and important role" in the Asian Development Bank, the Pacific Economic Cooperation Council and the Pacific Basin Economic Council. Taiwan has also applied for "observer" status to participate in the "European Development Bank," and is doing all it can to broaden its influence in various European countries. (3) Striving to obtain sympathy and support of an increasing number of countries, particularly developing countries. Taiwan currently has commercial ties with 140 countries, and is trying to use "foreign aid" to establish even broader economic and trade relations with Asian Pacific and Latin American countries. Taiwan is strengthening "development" of five major new markets—East Europe, Southeast Asia, Central and South America, Africa and the Middle East, and expanding its sphere of economic development. (4) Solving its own problems. To meet the preconditions of

joining GATT, Taiwan has "carefully" lowered its import tariffs year after year, and it is estimated that by the end of next year, Taiwan's tariffs will fall into the average range of the Economic Cooperation and Development Organization. At the same time, Taiwan is strengthening channels of communication on trade and is removing unnecessary trade barriers to free Taiwan's import and export trade.

The Necessity of Conforming to the Principle of "One China"

All the efforts that Taiwan is making to join GATT are, in a certain sense, natural manifestations of a certain level of economic development. In other words, from the standpoint of Taiwan's economic strength and its status in the world economy, joining GATT is an inevitable development. However, because Taiwan is a part of China and the great cause of "peaceful unification" of the two sides has not yet been accomplished, all of Taiwan's efforts in international affairs should conform to the principle of "One China." Otherwise, it will meet with mainland China's resolute opposition and resistance from the majority of countries. Mainland China's attitude is very clear: It is resolutely opposed to Taiwan joining GATT independently under the name "Taiwan, Penghu, Jinmen, Mazu Customs Territory." Taiwan is not willing to acknowledge such realities and has no way to avoid them, and it can only rely on the United States and a few other major Western countries to "bestow favors" on Taiwan to determine its destiny. This is in fact "extremely perplexing" to Taiwan.

Western countries, led by the United States, have inevitably turned their attention to China since the drastic changes in the political situation in the Soviet Union and Eastern Europe. Relations between the two sides will become the most notable focal point on the globe in the future. At no time and under no circumstances can any Western country overlook the status and role of mainland China, much less "offend China" in exchange for "real benefits" from Taiwan in the area of economics and trade.

I believe that Taiwan cannot solve the problem of joining GATT by itself, as an independent entity separate from the mainland. This point is very clear from the standpoint of history, reality and the future. Taiwan has already met opposition for "nominally representing" China, and it now wants to "make a substantive break" with China and act independently. These two extreme methods are both "rash acts" that "avoid" the fundamental problem of "unifying China," and not only fail to solve the key problem, but will ultimately lead to more serious consequences.

Dissident Kuo Pei-hung Profiled

92CM0004A Taipei TZULI WANPAO in Chinese
3 Sep 91 p 19

[Article by Ch'en Fang-ming (7115 5364 2494): "An Angry Roar From Abroad—My Unforgettable Memories of Kuo Pei-hung"]

[Text] Since the 1960's, many Taiwanese intellectuals with youthful dreams of faraway places have been leaving Taiwan to pursue their dreams in distant lands. All of those who have arrived at distant shores have had their dreams and ideals tossed and turned by the wheels of reality, and almost none of them have been immune from setbacks and dashed hopes.

While Kuo Pei-hung [6753 0223 1347] had experienced countless bruising incidents long before he took the overseas route of going to study abroad in faraway North America, his lofty aspirations and high ideals had left him full of self-confidence and able to overcome many misgivings. When he finally took the well-trodden path of leaving his native land in the early 1980's, while Taiwan had just experienced the storm over the Meili Island incident, the unrestrained political situation did not seem to have had much of an impact on him, and the aspirations that he had so painstakingly built up since his student days were still completely intact.

However, his fine-crystal dream-case was immediately shattered beyond repair when he first arrived in North America. Just as all previous generations of overseas students, all of his aspirations and ideals ultimately withered. But Kuo Pei-hung's disillusionment was slightly different from that of other overseas students, in that his longstanding values collapsed completely overnight instead of just gradually. When he discovered that the so-called "dignity of the KMT and the ROC" was actually a sham, his inner anger erupted like a roaring volcano.

The nationalism and common sense of national identity that Taiwan had imbued in him was a sort of glass maze, which seemed to be transparent and clear, but actually had no way out. Kuo Pei-hung's solution was to take concrete steps to smash this unreal glass structure, by spurning its sham nationalism, exposing the hollowness of its common sense of national identity, and personally joining the overseas Taiwanese political movement. After he left the campus, he became a leader of the Coalition for Taiwanese Independence, and completely parted with his longstanding and decadent values. Once he had broken free from these shackles, Kuo Pei-hung very quickly turned in the direction demanded by Taiwanese history. In comparison to other overseas students, his actions have been more full of hope and promise.

The sharp changes in his political convictions have actually been an almost inescapably common experience among postwar Taiwanese intellectuals. Those with only a little understanding of the nature of Taiwanese society

have eventually begun to doubt, then challenge, and finally inevitably spurn the plastic myths that had been created by its systematic indoctrination. While Kuo Pei-hung's ideological transformation was particularly clear and thorough, his ideological and operational declarations of war were even more straightforward and distinct than anyone else's. He not only dove boldly into the rapids of the Taiwanese independence movement, but also was publicly recognized very quickly as its leader.

This ideological conversion must have been an intensely painful struggle. When deciding to "change his political stand," while he must at least have carried out a bitter self-criticism of his past experiences, and felt some regret about his past loss of time, the patterns that he displayed overseas were decisive, bold, resolute, and duty-bound not to turn back.

When I met Kuo Pei-hung, his overseas political movement was already well underway. I met him at a summer camp in the west-central United States in 1984. My first impressions of him were that he was enthusiastic, straightforward, and fearless. I thought that his optimistic nature should be the best kind of political movement capital!

I have always respected people who get involved in political organizations. The major reason for this is that I am the kind of intellectual who is not suitable for participation in any political group, and my way of thinking is also very unsuited to organizational discipline and norms. This is precisely why I have always admired my friends who could live organized lives and share organizational responsibilities. Before he had even bid farewell to his youth, Kuo Pei-hung had already realized the need to get involved in Taiwan's destiny, and had even joined the most frontline political organization, to which the authorities were most hostile. Such a choice was bound to compel my admiration. Even this was not the whole extent of his undertaking. When I learned that he had become the chairman of the U.S. chapter of the Coalition for Taiwanese Independence, I became even more aware of his conscientiousness, and that he was even more resolute and firm than I had thought.

In the early spring of 1985, I had tucked myself away in a remote North American city, was studying selfishly like an ultra-recluse, and was discussing politics very infrequently, when Kuo Pei-hung suddenly flew from the southeast coast to visit me. When I met him in a friend's basement apartment, and saw how travel-worn and weary he was, I first began to be aware of what a really "caring" person he is. I saw in him almost the same enthusiasm of my own younger days, and remembered the scenes of my own intense debates with my fellow overseas students and KMT functionaries in my early years of study abroad. Kuo Pei-hung's eloquence at this meeting also reflected to a considerable extent the worries and misgivings of Taiwanese intellectuals.

When he first began to talk with my friend, I quietly observed his vigorous manner of speech. By that time, I was already aware of the leadership qualities that he was radiating, i.e., his air of being a great general, which was so hard to find in one so young. His investment in the overseas Taiwanese political movement was certainly extraordinary. The Taiwanese independence movement had undeniably been underway in Hong Kong, Japan, and North America for 20 to 30 years before he had come on the scene. When its early participants had left Taiwan, they were still deeply overshadowed by the days of reactionary terror. They had a primitive determination to resist the monopolistic, one-party KMT regime, detesting its words, indoctrination, dress, and even its nursery rhymes. While such a defiant mentality was understandable and acceptable, such a firmly resistant stand gradually lost them their relevance to Taiwanese society. The political views and strategic focus of the overseas movement in the 1960's and 1970's were all oriented mainly toward the overseas social structure, so that there was very little direct and close relations with the Taiwanese political scene. An undeniable trend was that the participants in the overseas political movement had become gradually more distanced from their native land on one hand, and steadily older on the other, so that they had become a bottleneck to the movement's future.

Kuo Pei-hung's timely entry into this slowly stagnating movement gave it new blood and injected it with new strategic and directional variables. He should be classified as an overseas student of the post-Meili Island age, because he naturally had a more thorough and practical personal experience and understanding of Taiwanese society than earlier overseas students. By the time he joined the ranks of the overseas movement, it was already predestined that he would change its system of organization and, as far as I know, many overseas students followed him into the Coalition for Taiwanese Independence. His application of student movement experience to the political movement, immediately brought unprecedented vigor to this ageing political organization. The new strengths, horizons, and directions that he brought to it had at last revived the overseas Taiwanese independence movement. This resurgent life has been particularly evident since 1985.

There was a philistine view that Kuo Pei-hung should have concentrated his attention on academic research, found a high-paying job, and waited for a chance to return and make a contribution to Taiwan, instead of letting himself be drawn into the overseas political whirlpool. Such a pedantic view typified precisely the weak-willed and evasive mentality of some overseas students. While they invariably overrated their academic attainments and identity, and overvalued their opportunities and standings, they could still stand by coldly and wait for external objective realities to evolve. They boldly asserted that their hearts were with Taiwan, and that they would get involved in politics one day, but it was just that the time was not yet right! This "procrastinating" mentality left them as wise and sober spectators.

But Kuo Pei-hung certainly did not suffer from such a mentality. He had a more pressing and deeper sense of crisis than other overseas scholars. He was well aware that objective circumstances would not wait, but must be met promptly. When he told me in Washington D.C. in 1987 that he was moving to Los Angeles, I suspected that he was up to something, in that he would not be willing to simply meet new circumstances, but intended to create some himself. If I am not mistaken, he was still less than 30 years old at the time, precisely in the peak years of his life.

While it is hard for me to even guess what brought him to such a thorough understanding of Taiwan's current political situation, he was naturally spurred on by external factors, such as the successful formation of other political parties in Taiwan, and his many friends who had been drawn into the democracy movement tide. But even more importantly, I believe that his major motivation was his quick and complete awakening to the fact that he had been duped by the KMT! I can well understand this mentality, as I also was victimized by that huge system of deception. That my way of thinking and approach to life have undergone such a radical change after the age of 30, is undoubtedly a reaction to my fundamental disillusionment! But I feel that Kuo Pei-hung was more persistent and bolder in action.

His "retaliation" against the powerholders was certainly as powerful as a thunderbolt.

His most persistent aspect could be seen in the work that he did for the TAIWAN GUNGLUN PAO (TAIWAN PUBLIC OPINION REPORT), which he managed. This twice-a-week report was the official newspaper of the Coalition for Taiwanese Independence. Running a newspaper overseas takes the utmost strength, and while no Taiwanese had ever done it successfully, Kuo Pei-hung determinedly took on the task of publishing this official newspaper when he was elected chairman of the Coalition. Lacking resources and manpower, he and his wife Shun Hua [5293 5478] both moved into the newspaper office, and worked round the clock to publish the newspaper successfully. Even though his children were still very young, they still spent their nights with their parents in the simple and crude living facilities of the newspaper office.

I was so deeply touched by his painstaking attempts to keep up appearances, that I had to give my most sincere support to his determination and persistence. When he was in charge of the newspaper office, I wrote political commentaries for almost every issue of his paper. Even when I was completely exhausted both physically and mentally, I still did my best to get my contributions to him before his cutoff dates. I did this for no other reason than to simply let him know that he was certainly not alone; that he still had a friend who would help him pass the long, lonely time in this foreign land even in the still of the night.

I believe that resistance can lift one's spirits and enrich one's life. My criticism of the unjust system was also the beginning of my process of personal purification. Kuo Pei-hung would certainly be able to understand this, because it was the reason why I always felt such passion radiating from his words and deeds every time we met. Did his dauntless integrity not burst forth from his innermost spirit of resistance?

The will to fight that he showed in this land that is so faraway from his native one was unparalleled. When I went south to Los Angeles to take part in a study group in the early summer of 1989, I had a long talk with him one night, in which he calmly told me that he had decided to return to Taiwan before that year's elections. While I was somewhat taken aback when I first heard this news, I did not feel that it was so surprising after recalling his courageous and resolute actions over the past years. He certainly had done everything that he had said he would. Since I had known him, I know that he had fulfilled all of the promises that he had made to himself. He had certainly made good on his decision to run for Coalition chairman, and had truly fulfilled his promise to run its newspaper. As I had never known him to fail to keep an appointment, I certainly did not doubt him when he said that he was going to brave the journey back to Taiwan.

His safety was the only thing about which I might have had any misgivings, which the facts have proved were actually unnecessary. When the tumultuous election battle had just begun in Taiwan, the news suddenly came to us from across the Pacific that he had returned safely to Taiwan. This news shook every overseas Taiwanese like a sudden clap of thunder. His successful return to Taiwan itself was a great mockery of the regime that seemed so strong yet was actually so weak. While having absolutely no room for existence in international society, the Taiwanese powerholders were still taking active steps to create enemies within Taiwanese society. They saw the movement of overseas Taiwanese to return home as a hard-to-accept sign of their rapidly-approaching fate. Sure enough, after Kuo Pei-hung returned home, the powerbrokers worked themselves to the bone sending their lackeys everywhere to watch and try to arrest him

for something. But despite their seemingly great diligence and administrative efficiency, all of their bustling about was simply to no avail.

Before long, the news had come that Kuo Pei-hung was being allowed to enter and leave meetings to express his political views, despite the scrutiny of thousands of riot-suppression troops and intelligence peddlars. His sober cool-headedness had once again reflected his supreme wisdom. One can imagine what irresistible unrest he had aroused. He not only had exposed the rulers' mask of hypocrisy, but also had held high the banner of Taiwanese resistance. His return to Taiwan was almost unimaginable to participants in the overseas political movement. He simply wanted to prove that he belonged to Taiwan and Taiwan belonged to him. Just as no one could cut him off from his native land, no one could stand in the way of his coming and going freely.

Kuo Pei-hung's words were more consistent with his actions as a leader than were those of any of my other young friends. While his many years of efforts were a clear proclamation of the coming of a new age, he has taken a brand new spirit and breadth of vision back to Taiwan, because he was certainly not satisfied with overseas activities. While Taiwan's fate can absolutely not be settled in a foreign land, and it is hard to maintain one's right to speak out on solutions to Taiwanese problems once one has left, Kuo Pei-hung's views on these problems were necessarily clearer than those of anyone else.

His emphasis in the last two years on "taking the Coalition back to Taiwan," is another of his well-thought-out activities. It is entirely possible that he will fulfil this latest and boldest of his promises. His disposition to do whatever he says he will do, is bound to make it possible for him to break through many unknown difficulties.

While I have heard far too many angry and unrestrained roars from abroad over dissatisfaction with Taiwanese society since 1980, this turbulence will never subside as long as the unjust system continues for even one more day. The high tide stirred up by Kuo-Peihung will very shortly be smashing against Taiwan's shoreline, and his expertise in adding fuel to the flames is going to bring new direction to the trend of the day.

Legislative Politics After First Direct Elections

92CM0008A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 247, 1 Sep 91 pp 10-13

[Article by Teng Yueh-ming (6772 2588 2494): "The Chess Situation—The Changing Situation—The Influence of Various Factions After They Enter the Legislative Council—Governor's Headaches After Direct Elections to the Legislative Council"]

[Excerpts] [passage omitted] *This journal interviewed Ling-nan Academy Social Science Department political science professor Li P'eng-kuang [2621 1756 1639] and asked him to analyze the possibility of a new appearance and a changed situation in the Legislative Council [Legco] after the 1991 direct elections. [passage omitted]*

Question: What affect do you think that the historical change of having members directly elected to the Legco in 1991 will make in the appearance of the Legco? What roles will the various political groups play in the Legco? And how much political influence will they have?

Answer: I think that after the 1991 direct elections, several new phenomena and influences could occur in the Legco. These can be summed up under the following points:

(1) With the addition of the directly elected members, the traditional structure of the Legco could be somewhat changed and a great many different opinions and voices could be reflected through the Legco, creating "conflict" in the Legco and the predominantly "unanimous" opinions of the past will be no more. On the contrary, differences of opinion among the legislators could increase somewhat. When discussing legislative proposals, the democratically elected members could reflect grass-roots opinions and would inevitably bring up "diametrically opposed" opinions or another legislative proposal, or there could even be "stubborn contention" with the majority of appointed members, representatives of functional groups, holders of politically conservative opinions, or supporters of motions. I believe that this stubborn contention will increase in frequency and become obvious in the legislative process.

(2) In the past, government bills were quite frequently passed by the legislators. But after 1991, if the government wants its bills to pass smoothly, it will have to improve its "lobbying" of legislators. This could be a matter between the departmental officials who determine policy and the democratically elected legislators, and I believe that the frequency and the time and effort spent on lobbying might all be greater than in the past. Because the appointed legislators are fewer, the government will have to do a great deal of lobbying if they are to get passage by the majority of the legislature.

(3) Rather serious problems could be introduced in the structure of relations between the Executive Council [Exco] and the Legco, and it could create a "constitutional crisis." Is this to say after all that past relations

between the Exco and the Legco could be changed somewhat because of this? Because in the past some members of the Legco also were members of the Exco, the "unanimity" of this body made it possible for the legislative processes in the past Legco to be "harmonious." Because of the concurrent members of the Exco and the Legco, when a bill was proposed, quite often the content of the legislative process was known before hand, thereby reducing the occurrence of debates in the Legco. But after the direct elections of 1991, will the government appoint some democratically elected members of the Legco to the Exco? This is an issue that the Hong Kong government must resolve shortly. To a certain extent, it also could be a constitutional difficulty, because in its routine administration the Exco requires "protection of secrets" and a "collective responsibility system." But the problem is that if the Hong Kong governor does not appoint democratically elected members of the Legco to the Exco, it could give people the impression that "the government does not take democracy seriously" and [it could] be criticized. If the government appoints democratically elected or indirectly elected legislators to the Exco, it also could easily create a structural change. That is, if a certain proportion from various factions are appointed to the Exco, it could create a challenge to the "protection of secrets" and the "collective responsibility system." Would those democratically elected legislators appointed to the Exco, after all, be responsible to the Exco or to the governor? Or, would they be responsible to the constituents who supported them or to the groups to which they belong? It could be said that in their different capacities their objects of responsibility would naturally be different. As democratically elected members of the Legco, they naturally should be responsible to their constituents. But in the Exco they should be responsible to the governor. This "overlapping" and "obscure" status could make for conflicting roles, and could easily create a constitutional crisis.

Although there was this situation in the past, it was not as obviously serious. This 1991 direct election could cause this issue to turn even more white-hot. After the democratically elected legislators are appointed to the Exco, because of the restraints of the electoral system, the overlapping and conflict of roles could become increasingly obvious. Simply said, the political future of the legislators appointed is tied to their constituents. If someday in the Exco there is a "bill" for an across the board "tax raise" for the citizens or the citizens are in general opposition, would this democratically elected legislator appointed to the Exco, after all, continue to be responsible to the governor and would he continue to "protect the secrecy" of the bill? Or, would he choose sides with his constituents and "submit his resignation" from the Exco? The legislator is thus faced with a crisis between his "political future" and "resigning his post!"

If legislators protected their political future and "submitted their resignation" to the Exco, the administrative functioning and efficiency of the Exco could be affected

by the frequent change in the membership, unless the legislators no longer relied on their constituents and continued to support the policy proposed by the government, so that this choice would not be a major problem. But with the present appointed legislators being gradually reduced to the point that in a few years they could be completely eliminated, the increasing number of legislators dependent on their constituents to enter the Legco can by no means "cut off" their own political future, unless they are prepared to no longer "play" after "1997!" So, based on this consideration, if the governor appoints democratically elected legislators to the Exco, "protection of secrets" and the "collective responsibility system" will inevitably come under great attack. I think, after all, that whether or not to appoint democratically elected legislators to the Exco is the governor's greatest headache. Whether he appoints them or not, it will actually be a "difficult situation!"

Question: What affect do you think that it might have if the "Hong Kong United Democratic Alliance" and democratic parties favorable to it gain a slight advantage in this election? Could it provoke the Beijing authorities to further tighten their policy toward Hong Kong? Or even further restrict the activities of democratic parties?

Answer: If the "Hong Kong United Democratic Alliance" and groups favorable to it (democratic parties) attain the advantage in the 1991 direct elections or even bag all eighteen directly elected seats (a fundamental impossibility), they would not have a very great affect in the 1991-95 legislative term. But after 1995 an increase in the directly elected seats could permit the democratic parties to slowly increase their power in the Legco to the point that they could influence whether a bill passes or not. Naturally, this depends on whether after 1997 the Basic Law limitations on the directly elected seats in the legislature are eased. Because up until 2001 the seats will be half and half, the democratic party forces will actually not have a very significant affect on whether or not a bill is passed. Even if after 2001 the seats held by democratic parties increase to thirty, it still would not be enough to cause a bill proposed by the government not to pass. As far as bills are concerned, for the time being they still would not have a great influence.

But if the democratic party democratically elected legislators still receive the support of the citizens in two or three elections, a "power struggle" could occur and the democratically elected representatives could demand from the ruling authorities an increase in the directly elected seats. Because they must expand the area of their political activity to achieve greater political influence, if the democratically elected legislators do not broaden their political influence, their political credit could decrease because of their inability to influence government policy and they could be gradually abandoned by the electorate. For this reason, the democratically elected legislators must be inclined to demand that the Basic Law be revised regarding the share of directly elected seats. This could create a certain amount of "political tension." For now there still is no way to say how this

tension will be resolved, because it will depend on how the Hong Kong electorate "at that time" views the increase in directly elected seats and how the Beijing authorities view this matter.

Question: What political effect might be produced from the "political tension" following from the struggle for an increase in directly elected seats? Would it cause the democratic parties to be further controlled?

Answer: If the democratic parties take a large share of the directly elected seats in one or two successive Legco elections, it will indicate that they are being accepted by the Hong Kong citizens. As regards whether the Chinese Communists will suppress them or not, I think "probably not," because, on the basis of "one country, two systems," (This example of "one country, two system" was brought up mainly to attract the thousands and thousands of Taiwan people. In reality the Chinese Communists still plan to use the "one country, two systems" model to unite with Taiwan and accomplish the great task of unification.) Hong Kong in the present political environment functions as a model of "one country, two systems." If the Chinese Communists, on the one hand, tell this model that they will give it "a high degree of autonomy" but, on the other hand, suppress the strength of democratic parties, this could cause Taiwan to lose faith in "one country, two systems" and the model will not be able to function as a model. Based on a rather high-level political consideration (unifying China), I believe that the Chinese Communists will temporarily allow the Hong Kong democratic parties a certain area of political activity. Based on this premise, democratic party forces could gradually coalesce and increase, and [because] this increase is based on Beijing authorities' "one country, two systems" premised activity, the Chinese Communists could not publicly suppress them. But this situation is by no means the same as the Beijing authorities' freely permitting the democratic parties widespread popular acceptance. They (the Chinese Communists) would have to "restrict" the democratic party forces within a definite area of activity through another channel. This definite area could be that in the Legco we (the Chinese side) will allow you (the democratic parties) to increase to forty directly elected seats (hypothetically). But in the administrative leadership, they would still maintain the present selection system, so that the democratic party forces would not play a major role in the selection of administrative leaders. This would be a scheme of "exchanging" Legco seats for the democratic parties' having no power to interfere in or influence administrative functions to the point that it could be that no democratic party member would want to join the Exco.

As I see it, 1991 to 1995 can be described as "a period for the democratic party forces to coalesce" and gather some supporters. How great will that strength be by 1995? To what extent and to what point will it coalesce? Will the Beijing authorities truly be unable to overlook this strength? These are issues worth serious consideration.

Question: It is said that the democratic parties' strategy is in 1991, but the Chinese side is deployed for 1995. If this conjecture is correct, what problems might it entail?

Answer: If we say that 1995 is the time for the Chinese side to launch a full-scale attack on the Legco, it could be a period of acute clashes between the democratic parties and the leftist parties and pro-Chinese forces. In this respect the pro-Chinese forces could have some problems:

(1) A lack of leadership: They are quite lacking in attractive political leaders or political talent that can take charge. This is a problem faced by both the pro-Chinese forces and the democratic parties, but the democratic parties are slightly better.

(2) The effect of 4 June: Since 4 June, if someone politicking in Hong Kong strikes a pro-Chinese slogan, his acceptance by the electorate is discounted. Thus, because of the effects of the 4 June incident, people considering running for office who feel this way cannot go public. The silent majority of Hong Kong people are always brooding over the 4 June incident.

(3) Drawing in third forces: Beijing's scheme requires drawing in some conservative forces, functional groups, or independents in the Legco through pro-Chinese forces in Hong Kong to offset the influence of the democratic parties and thereby dissolve the threat of the democratic parties on the Hong Kong political stage.

Question: For continued Hong Kong "stable prosperity," a great many Hong Kong people do not want to see the Chinese Communists again provoked to retaliatory words and actions to avoid stepped up interference in Hong Kong affairs. On this basis, do you think that groups with anti-communist ideology might change their way of doing things and take the initiative in fostering cordial relations or narrowing the distance with the Chinese side?

Answer: This is inevitable and as it should be, because if you enter the council "game," you already recognize the future legality of the Beijing authorities. If you enter the council, you must have "covert" or "overt" contact with the opposite side. This contact is not necessarily direct contact with the "leftist parties" (although it could be). It could be with an intermediary as a conduit. That is not to say that after 1991 it will simply be like today where workers' groups get together with different factions to maintain the benefits of the working class. As long as it does not involve ideology and matters of principle, everyone has the chance to cooperate. But after the direct elections, if this cooperation can be raised to the legislators' positions or the voters' mindset, I believe some legislators cannot pass up this kind of opportunity. But this cooperation will not necessarily require that these legislators abandon their political views, nor will this cooperation lead to "kindness and enmity disappearing" between the two factions and their never again being divergent views. This is not what I am saying. For legislators to be able to have a common stand in a certain situation or on a certain policy certainly does not mean

that they also will have an identical understanding of some higher level matters. [passage omitted.]

Question: The popularly elected legislators in the "Liberal Democratic Federation" and the legislators from the ranks of various functional organizations can both play the part of merchants. Would their interests and positions be consistent?

Answer: The indirectly elected legislators from various functional organizations do not need to be supervised by the general citizenry. They just have to please the people in their various circles or receive support from within their various circles and they can continue to operate.

However, despite this, contention for "sources of power" can still occur between various functional organizations and directly or indirectly elected legislators from business circles. Who can represent popular opinion and who is the spokesman for popular opinion are both focal points for controversy. The contradictions produced from the different sources of power can cause the two sides to come into conflict in broadening their own political areas. Generally before 1995, there could be contradictions between democratically elected and indirectly elected legislators or indirectly elected and officially appointed legislators, or between democratically elected and officially appointed legislators. This is inevitable. For example, an officially appointed legislator wants to establish a regulation controlling financial or real estate cash sales, but the representative of the functional group (financial or real estate) could stand up and oppose government policy. So, the point of contradiction would be over which policy to bring out, should it be to "influence" and stir up the present "beneficiaries." This also will be a point of contradiction in post-1991 Legco policy debates and a place of conflict for various factions.

Question: If the "Federation of Trade Unions" gains a certain ascendancy, could it more fully reflect the sentiments of the lower classes? Or could their upholding the interests of the lower classes lead to frequent differences of opinion and antagonism with the upper class representatives in the Legco?

Answer: Actually I personally feel that the "Federation of Trade Unions" is not yet a political force, at least not in the legislature.

Question: But they are rather broadly representative because workers make up the vast majority of the total Hong Kong citizenry even if there are not many political leaders or political stars in this organization. But if the "Federation of Trade Unions" only has representatives who come out and speak for labor's stand, would its argument not gain more across the board support and thereby increase its voice for encouraging or obstructing the passage of bills in the Legco?

Answer: Actually, as regards passage of bills, none of the forces in the present structure of the Legco or the

structure after the 1991 direct elections would be able to affect or control the passage of a bill. As regards the new Legco selected in 1997, there is no force that could influence the bills proposed by the government decision-making departments. What you just said about the influence from representing the broad masses of laborers is only a reflection, it is really not an influence at all. Democratically elected legislators from a great many other groups could use this method to reflect the interests of the middle and the lower classes, but this would not influence whether a bill is passed or not.

Naturally, if legislators in the Legco express their opinions and the Hong Kong government completely disregards them and the matter is automatically accomplished, if this goes on for a rather long period of time, it could cause the electorate to lose faith in the electoral system and return to the extreme of "political apathy" to show their dissatisfaction with those elected and the electoral system.

Question: But, at the same time, could it not give rise to the opposite activity? Could the electorate because of the feeling that they cannot force the government to change its policies become aware that the representatives of their own class's point of view in the Legco are still in the minority and, therefore, throw themselves into the next election campaign even more to help increase the candidates active for their class in the council?

Answer: That would be determined by whether Hong Kong's young generation changes its view of politics and

whether the young generation can wipe away the past "dread" and "indifference" to politics and become a "new political generation." This would prove extremely decisive. Indeed, at the present, there still are a great many young people that are not concerned about society and are not concerned about elections and current affairs. Certainly there are two sides to the matter, but it will take a long time to go from one side to two sides. So, in a short eight to ten years, we will not necessarily see a "new political generation" capable of thoroughly wiping away the past "indifferent" and "transient visitor" attitude toward politics and feeling that they want to throw themselves into building up the whole society. [passage omitted.]

Question: Could Hong Kong get into party politics through the experience of these direct elections? If it could, what form would it take? Could the political shape and party power of a future Legco be "balanced"?

Answer: Because Hong Kong's political development is still in the initial stage and the electorate is not very aware, after the legislators that are elected enter the council, they cannot constantly follow the "mass line" and demand the support of the people on the street. There is not a good market for this. On the contrary, they could reasonably aim at proposing bills as tactful criticism. No force in the Legco could follow the line of "trying to please the public with claptrap." But neither could there be a "balance," because it basically cannot be balanced. The Hong Kong government is a gambling house and it will always be the "big winner."

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