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# ***JPRS Report***

# **China**

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## NATIONAL AFFAIRS, POLICY

### Article on Raising Economy to New Level

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[Article by Lin Zhaomu (2651 0340 2606): "Seize the Opportunities and Strive To Raise the Economy to a New Level in a Faster, Better Way"]

[Text] In the 1980's, guided by the theory of building socialism with Chinese characteristics and propelled by reform and opening up, we achieved tremendous success in the national economy and social development, which has attracted the world's attention. We have realized the first-step strategic objective of socialist modernization construction ahead of schedule, raising economic construction, people's living standards, and overall national power to a great new level. It is our central task in the 1990's to accelerate the pace of reform and opening up and the modernization drive, raising the national economy to a new level in a faster and better way. The current favorable international environment and the availability of domestic conditions are rare opportunities for us to speed up development. We must conscientiously study the documents of the 14th Party Congress, further emancipate our minds, and enhance the understanding of the importance and urgency of accelerating reform and opening up and economic development.

### International Environment: A Challenge and an Opportunity

The international situation has undergone major changes in recent years. Ending the pattern of polarization, the world is now heading for multipolarization. In light of changes in the world situation and economic developments in various countries, fierce competition on the international stage has shifted from predominantly political and military fields to the overall competition of national power based on economic, scientific, and technological strength. In the future, the international status of a nation and its political, economic, military, and diplomatic influences will depend on the level of its overall national power. A nation with a backward economy and science and technology will become very passive and be subject to others' control. It is only through constantly enhancing our national power through all-around development—after organically integrating such factors as the economy, science and technology, education, culture and politics, as well as the military—that we will be kept in an unbeatable position among fierce international competition, followed by an unceasing enhancement of our international standing. China is a big country with a large population and a vast land area, and the Chinese nation has a long history and strong cohesive power. Since its founding in 1949 and particularly after the policy of reform and opening up was adopted, China's economy has been developing rapidly, with an average 9 percent annual GNP growth rate in the 1980's. Its overall national power has

increased substantially with marked improvement in its people's standard of living; however, from an historical point of view, China was 200-300 years late in launching its industrialization programs, compared with developed Western countries. Although we have been trying very hard to catch up in the past few decades, the original gap had been too wide for us. In addition, we had wasted more than two decades—from the 1950's through the 1970's—in class struggle. As a result, the gap between China's level of economic development with that of advanced countries remained wide, particularly in terms of per capita GNP and per capita output of major commodities, quality of economic growth, the industrial structure level, the stage of scientific, technological, and educational development, population quality, and the capability to specialize internationally. These conditions are very much incompatible with China's deserved international status and the role it should play. Hence, it is our urgent task to tightly grasp these favorable opportunities to rapidly enhance the level of China's overall national power.

The new wave of the evolving scientific and technological revolution and industrial structure readjustment in the world has posed a challenge to our country's economic development. Science and technology have advanced by leaps and bounds over the last several decades. Science and technology—as primary productive forces—have begun to play larger and larger roles in economic development. The core of the new wave of the ever-evolving scientific and technological revolution, represented by a new high-technology generation, which includes microelectronics, space technology, and bioengineering, not only points to the in-depth development of high technology at macro and micro levels, but also creates a tremendous impact on economic development and profoundly changes the actual production process. A case in point is the adoption of a "flexible assembly line" system in Japan. The system, characterized by the application of modern electronic technology, information technology, and robotics, shifts from the large-scale serial production of products to the production of more varieties and more models of products on a smaller scale, to adapt to the ever-changing international market. At the same time, the pace of the commercialization of scientific results has been quickened. Scientific and technological development promoted by transnational companies that is directly aimed at serving commercial purposes has further quickened the readjustment speed in the international industrial structure; they have, in a large degree, help effect a shift from the vertical and horizontal international division of labor between departments to an intersectional division of labor within a department. Faced with such a situation, if developing countries, which have a relatively low degree of participation in the international division of labor, fail to readjust their economic structures in a timely manner and raise their level of participation in the international division of labor, they will land in a disadvantageous position. Although our country is a big country striving for scientific and technological progress

and for a multilevel and comprehensive development of the industrial structure, our levels in science and technology in general and the industrial structure are still low, and our participation level in the international division of labor is still restricted to supplying primary grade products and low-grade finished products; therefore, it will be a rather arduous task to use the results of scientific and technological progress to improve the existing industrial structure and to expedite the process of scientific and technological progress and the commercialization of scientific and technological results.

We should also take note of the following two trends. The first one is that, as a result of scientific and technological development and structural readjustments, the world economy is moving away from an economic era that was marked by a reliance on natural resources and the manufacturing industry to an economic era that is characterized by a reliance on information resources and the service industry. The second trend is that the situation of the world market being dominated by a small minority of economic powers has now given way to another situation with regional economic blocs. This changed situation has led to a realignment in the world market. For late-starting developing countries, faced with the changing times and the evolving situation, as well as the trend toward the internalization of the world economy and the realignment of the world market, they are confronted with only two choices: Either keep clinging to the traditional mode of thinking and the old idea for development, which will bring no development or slow development and run the risk of widening the gap with world economic development and of being relegated to the fringe of the world market, or change or readjust developmental thinking and try to catch up and join the ranks of other advanced nations through pursuing a super fast development speed. In future world economic development, there will not only be a classification for "rich countries" and "poor countries," but also a distinction will be made between "fast-developing countries" and "slow-developing countries." It goes without saying that we should opt for the second choice. Taking the second path requires us to seize the favorable opportunities; pay close attention to new development in international scientific and technological progress; do a good job commercializing scientific and technological results; and comprehensively raise the contributory factors of scientific and technological progress to economic growth through importing advanced technology and innovation. This is the way to accelerate our country's economic development and enhance our country's overall strength.

Many countries in the world, particularly our neighbors, have stepped up their pace of development. If we choose slow economic development, then we will be placed in a rather disadvantageous position. Countries in the West Pacific regions have maintained the lead in world economic growth. Japan, the "four little dragons" of Asia, the ASEAN countries, and China constitute the center of economic growth in this region. During the 1960's and

1970's, Japan's economy experienced a high growth period, with the average annual growth in domestic output value reaching 10.9 percent, and it still leads other developed countries in terms of economic growth. Japan is expected to play a more important role in future world economic development. Asia's "four little dragons" have maintained relatively high economic growth since the 1960's. In terms of average annual growth in domestic output value, the Republic of Korea registered 9.9 percent from 1965-1980, 9.7 percent from 1981-1990, and 7 percent in 1991; Singapore registered 10 percent from 1965-1980, 6.4 percent from 1981-1990, and 6.7 percent in 1991; Taiwan registered 9.9 percent from 1965-1980, 7.6 percent from 1981-1990, and 4.7 percent in 1991; and Hong Kong registered 8.6 percent from 1965-1980, 7.1 percent from 1981-1990, and 3.9 percent in 1991. The economic growth rate of Asia's "four little dragons" has slowed down in recent years, but generally they still maintain the trend of either seeking a fast-growth rate or a stable fast-growth rate. ASEAN countries have significantly picked up their economic development speed since the middle and late 1980's, and at one time the rate of their economic growth outstripped that of Asia's "four little dragons," with some countries registering double-digit economic growth. For instance, Thailand's economic growth in 1989 was 12 percent, 10 percent in 1990, and 8.6 percent in 1991; Malaysia registered economic growth of 8.6 percent in 1989, 9.8 percent in 1990, and 8.5 percent in 1991; and Indonesia registered 6.5 percent growth in 1989, 7.4 percent in 1990, and 7 percent in 1991. Asia's "four little dragons" and ASEAN countries have all mapped out their blueprints for economic development in the next century. The "four little dragons" now are striving to enter the ranks of the world's developed economies. ASEAN countries also want to become newly industrialized countries. To ensure the sustained development of their economies, the "four little dragons" and ASEAN countries are investing large amounts of capital and attracting foreign capital to carry out large-scale construction projects and lay a solid foundation for modernizing their economies and for attaining a high-speed growth rate. The acceleration of the pace to quicken development by some of our neighboring countries and regions practically constitutes an invisible pressure on us and a challenge to us. Because we can put the advantages of a socialist system into play through concentrating efforts to embark on major undertakings, there is no reason why we cannot achieve faster development than those countries and regions. Our country's rate of economic growth cannot be said to be high because of the economic retrenchment in recent years (4.4 percent in 1989, 4.1 percent in 1990, and an increase to 7.7 percent in 1991). If we are unable to achieve a fast economic growth rate of 8-9 percent in the 1990's, then it will be very difficult for us to maintain the rising momentum of our position in the West Pacific region and in the world.

These challenges have also provided us with rare opportunities for accelerating development. The multipolarization of the world's economic and political structure has enabled us to maintain a peaceful environment for a relatively long period and have more room for maneuvering in international relations. In light of the pattern and the trend of economic progress in general, developed nations such as Europe and the United States—after their recessions—may enter a stage characterized by low economic growth rates in the near future. The Asian region, including Japan, will maintain the momentum of rapid economic progress. Economic recession has ended in most Latin American nations, and a period of economic growth has begun. Africa's economic conditions have also improved. Only countries in the Middle East, the former Soviet Union, and East Europe will still be in economic recessions in the near future. According to predictions, East Asia's economic growth rate in the 1990's will be at the top of the world's list; the world's economic progress in the 1990's will be slightly better than that of the 1980's; and the international markets' consumption capacity will rise. The growth rate of the world's trade volumes has been higher than that of its economic progress since 1983. It is expected that this trend will continue in the 1990's. The West Pacific areas especially will sustain rapid economic growth rates. This environment has provided China with many favorable conditions for opening wider to the outside world and accelerating economic progress. The key favorable conditions are as follows: 1) The West Pacific area markets have further utilized and expanded their potential. Many nations and regions have pursued the strategy of increasing their exports, resulting in abundant foreign exchange. Besides, they have also implemented policies in recent years to raise domestic demand (mainly by increasing wage levels and infrastructural construction). These factors have been very conducive to China's utilization of foreign funds and to its expanding exports. 2) The West Pacific's industrial structure has specific divisions of labor, and it is well-defined with various trades and professions. China's industrial sector is well-coordinated and well-structured. Therefore, China can contribute, at various levels, to the international divisions of labor by attracting investments and increasing production in these areas. Through active participation and various flexible ways and means, China seeks to obtain comparative advantages in these exchanges and endeavors. 3) Various countries (and regions) in the West Pacific have implemented policies to open wider to the outside world. Tariffs and other nontariff protectionist restrictions in the areas are relatively low or are being lowered. This situation has provided us with a good opportunity to enter their markets. 4) As a center of economic progress in the world, the West Pacific has a powerful attraction for the influx of international capital and commodity trade. At present, a relatively obvious tendency is that developed nations such as Europe and the United States have shifted the objectives of their foreign economic policies to the West Pacific. The favorable impact of the West Pacific's economic development on other regions—which respond positively—may

enable China to utilize its advantageous position as a part of the center of economic progress to comprehensively expand its international economic and technological exchanges and cooperation with foreign nations.

#### **Domestic Conditions: The Number of Favorable Conditions Is More Than the Number of Unfavorable Conditions**

In light of its domestic conditions, China's acceleration of its economic progress in the 1990's has been based on its objective conditions and material foundation. The key objective conditions and material foundation are as follows:

First, after more than 40 years' construction, China has created a relatively rich material foundation and a relatively comprehensive category of industries. It has established a preliminary pattern for deploying its productive forces. Especially under the enormously propelling force of reform and opening up in the 1980's after the Third Plenary Session of the 11th CPC Central Committee, China has made considerable progress in several aspects, including agriculture, industry, infrastructural construction, technical transformation, domestic trade, science and technology, education, and foreign economic relations and technological exchanges. It has greatly increased its comprehensive national strength and has significantly improved people's living standards. It has also brought historic, profound changes to its social environment. The above situation has laid the foundation for accelerating economic progress in various sectors in the 1990's. At present, China has built a certain foundation for its heavy industries, which are capable of producing most of its domestically demanded energy resources, raw and semifinished materials, and most technological equipment. Light and textile industries in particular made tremendous progress in the 1980's. Consequently, their capacity to produce many consumer goods has enormously surpassed the demand of urban and rural residents' markets. Furthermore, as China has continually opened wider to the outside world, its total foreign trade value has reached one-third of its gross national product. It has accumulated a certain level of foreign exchanges and has continually improved its environment to attract foreign funds and investments; therefore, China has been able to regulate its demand and surpluses through the international markets by exporting its surpluses and importing goods to fulfill domestic needs for further economic growth.

Second, our country's progress and achievements made in reform and opening to the outside world in the 1980's will have a great impact on its economic development in the 1990's. The achievements include a theoretical achievement made in the course of reform and opening up, and the line, policies, principles, systems, and measures that took shape on the basis of this theoretical achievement. The line, policies, principles, systems, and measures, whose points of departure and objectives are to build socialism with Chinese characteristics, will continue to play a role in our modernization drive in the

1990's. In the course of reform and opening up in the 1980's we not only accumulated rich experiences but also trained a large number of qualified personnel.

Third, there is great potential in the domestic market. With the advancement of industrialization, the increase of population, the improvement of living standards from having enough to eat and wear to leading fairly comfortable lives in our country in the 1990's, consumer demands and investment demands will surely increase at a quicker pace. As the incomes of urban and rural residents increase, a change will take place in the consumption structure; consumption and choices will expand; and consumption demands will increase quantitatively in food, clothing, housing, and transportation. Moreover, consumers will set higher demands on the variety and quality of consumer goods. This will have a stimulating effect on the development of industry as a whole and will cause a change in the industrial setup and in industrial enterprises themselves, thereby giving rise to great demands. Judging from the angle of production and investment, investments in construction of basic industries and infrastructural facilities will increase by a large margin as industrialization progresses. In particular, in the wake of progress in science and technology, the division of work in each specialized field, the change in the industrial structure, and the development of new industries, the intermediate demands within the industry as a whole will increase at a quicker pace, thereby becoming an important factor for stimulating economic growth. This means the means of production and the production of consumer goods will cause the demand for the means of production to increase. Therefore, in the 1990's, the great potential of the domestic market will consist of two aspects: The increase in the demand for means of production caused by investment increases, which will play a greater role than in the 1980's, and the increase in the demand for consumer goods caused by the increase in the incomes of residents and the improvement in people's living standards.

Fourth, there is also great potential in fund accumulation in our country. China has a huge population with a weak foundation. It needs to develop many undertakings, but the shortage of funds is a serious problem; however, there is a favorable factor. The savings of urban and rural residents have increased by a large margin for many consecutive years. In 1989, savings increased by 13.34 billion yuan; in 1990, 18.87 billion yuan; in 1991, 20.76 billion yuan, marking an annual average rate of 30 percent. By June 1992, the savings deposits of urban and rural residents had exceeded 1,000 billion yuan. In the 1990's, following the development of the economy and the increase in the incomes of residents, it is expected that their savings will increase at a fairly fast pace, thereby creating a favorable condition for increasing investments.

Fifth, the three years of endeavor to improve the economic environment, rectify the economic order, and deepen reform have solved some problems that emerged in the course of economic development, thus giving rise

to a fairly good economic and social environment. As a result of these endeavors, the imbalance between total demand and total supply has been basically solved; the general price index has been kept at a low level for many consecutive years (in 1990 the annual retail sales price index rose 2.1 percent, and in 1991, it rose 2.9 percent, all lower than the projected figure). Our foreign exchange reserves have increased considerably in the past two years. In particular, our country has had three years of consecutive bumper harvests; in three years grain production has increased by 170 billion jin; national reserves have increased; there is potential for agriculture to render support to industry and for economic development as a whole. These factors have created a favorable opportunity for accelerating the development of the economy.

Of course, there are also some unfavorable elements. We still face a rather outstanding problem concerning domestic fund supply and demand, a situation caused by the relatively large debts owed by our basic industries and infrastructure, our financial difficulties, and the fact that we are entering a peak period for clearing domestic and foreign debts. In particular, when we switch to the industrialization stage, which focuses on promoting heavy industries in the 1990's, we will require more investments for per unit production and longer construction periods, and we will achieve our desired results at a slower pace when compared to the mode of growth we attained when we promoted light industries in the 1980's. We will face a more serious problem concerning the relatively insufficient supply of petroleum and other natural resources. The problem will probably be more prominent than in the 1980's in regions in the east, where economic growth was restricted by the availability of natural resources. A stronger tendency toward regionalization in the world also presents an unfavorable factor to our country's further opening up; however, a comprehensive analysis of domestic and international situations shows that difficulties and opportunities exist side by side, as well as challenges and hopes. On the whole, we have more favorable factors and we can overcome some unfavorable ones if we promote reform, widen our opening up, and transform the methods used to achieve economic growth. For example, our efficiency in distributing and utilizing natural resources is still rather low. This means that through deepening reform, exercising stringent controls, promoting technological progress, and upgrading our industries, there is a great possibility that we will be able to economize on our natural resources and that we will be able to support faster economic growth with less natural resources than were used in the 1980's.

#### **Accelerate Economic Development by Optimizing Structure and Improving Performance**

The 10-Year Program originally set the speed of national economic development in the 1990's at 6 percent average annual GNP growth. From what we see now, we

can achieve faster economic development; an estimated 8-9 percent is possible. We should strive to achieve this objective.

Past experiences and the actual economic situation tell us that to accelerate economic development, we must effectively handle relations between speed and balance, speed and structure, and speed and performance.

1. We must work hard to maintain a basic equilibrium between total social demand and total social supply and a basic equilibrium between finances, credit, revenue, and expenditures in foreign exchange, and supply and demand of important materials while we accelerate economic development. We should therefore correctly regulate and control the total amount and structure of demand. Regulation and control of the total amount of demand chiefly involves regulation and control of indicators for the value of currency and the volume of financial, credit, and international revenues and expenditures. Generally, we should focus on maintaining an equilibrium between finances, credit, and current trade items to maintain the equilibrium of total social supply and demand and control the inflation rate and price indices within a limit acceptable by society. The country's past experiences tell us that it is important that we pay attention to finding the solutions of two issues to maintain the basic equilibrium between total social demand and supply.

One issue is that the scale of investment in fixed assets should be compatible with our national strength. An excessively large investment will create a series of problems for our economic activities and is also an important factor that leads to economic instability. This is because, first, investments for fixed assets come mostly from financial expenditures and bank loans. A large investment that exceeds our financial and banking capabilities will definitely enlarge our financial deficit and credit imbalance, leading to excessive issuance of money and causing inflation and price hikes. The second reason is that excessively large investments that require more supply of the means of production than we can handle will definitely cause an imbalance between supply and demand of materials, push the prices of means of production higher, trigger a chain reaction, and cause an overall price increase. The third reason is that about 40 percent of the amount of investments for fixed assets will be turned into consumption funds. An overly large scale of investment will definitely stimulate consumer demand to grow too fast and aggravate the problem concerning supply and demand of consumption materials. The fourth reason is that, under normal circumstances, the distribution of national income to fixed asset investments can only be made after deducting the sum of consumption and circulating funds from the total amount of national income. An excessively large investment, especially investments made beyond our estimation, will definitely swallow up part of the total circulation fund, affect production for relevant years, and thereby aggravate the problem of supply and demand.

Of course, the scale of fixed asset investments cannot be too small. Otherwise, inadequate effective demand will lead to a sluggish market, which will in turn result in certain nonutilization of production capacities and resources. For instance, in comparison to 1988, urban and rural residents only increased their consumer goods purchases in 1991 by about 2.5 percent; according to actually completed projects, the scale of the total social fixed asset investments was even lower than that of 1988, whereas the GNP has accumulatively risen by 17 percent during the same period. Because supply was greater than demand, a sluggish market resulted, followed by an enormous increase in stockpiled products. We should pay attention to sustaining economic stability and coordinated development; however, stability and coordination are relative, not absolute. What really matters is development. Excessively small investments are detrimental to balancing macroeconomic control and regulations, and they will impede the acceleration of economic progress.

A principal way to enhance economic growth in the 1990's will be for us to shift from expanding consumer demands to increasing investment demands. The reasons are as follows: Consumption pattern restructuring in the 1990's requires a relatively long period; we need a long process for accumulation and cultivation—beginning from increasing the supply capacity to expanding markets. Industrial restructuring and improvement will depend on the rapid development of heavy and chemical industries, which are capital- and technology-intensive; therefore, we should fully understand the changes involved in readjusting the demand structure, and we should emphatically increase demand by shifting from expanding consumer demands to increasing investment demands. In light of current circumstances, because urban and rural residents have greatly increased their savings over the past three years or so, there is still a certain level of unused banking funds. Hence, it is necessary for us to appropriately raise the scale of investments to propel an increase in demand and economic growth. Nevertheless, we should also refrain from rushing headlong into mass action that may cause indiscriminate investment, resulting in another excessively large scale of total investments.

The second issue is that the increase in consumption should be proportionate to the rise in production. Total social demand includes investment demands and consumption demands. Under given conditions for certain fixed total supply and demand, if we merely increase consumption by a certain percentage while reducing investments by the same percentage, generally speaking, we will not change the balance of total supply and demand; however, when both investment demand and consumption demand are increased simultaneously, total demand will surpass total supply, thereby resulting in inflation and price increases. Therefore, we should not expect too much of an increase in individual incomes and improvements in living standards. The increase in urban and rural residents' consumption levels should not

be higher than the GNP growth rate; and the increase in the workers' real income (including wages and other benefits) should not be higher than the growth rate of labor's productivity.

2. Economic development should be accelerated on the basis of optimizing the economic structure and raising efficiency. In accelerating economic development in the 1990's, we should not simply seek quantitative increases. We should seek quantitative increases and try to upgrade the quality of economic growth. What is especially important is to raise the quality of the national economy as a whole. Raising the quality of economic growth refers mainly to the optimization and upgrading of the economic structure as well as the upgrading of product quality, technological levels, and economic efficiency. Quantitative increases and quality upgrading are closely related. Judging from our country's conditions, the optimization and upgrading of the economic structure as well as the upgrading of quality, technology, and efficiency are not only very important but also are necessary for achieving qualitative increases. Without optimizing the economic structure and upgrading efficiency, a quantitative increase will not last long, and sustained, steady, and coordinated development of the national economy as a whole will be impossible. Let us consider the resources and driving force—the conditions—for economic growth. In the 1980's, China's GNP increased at an annual rate of 9 percent, and it will increase at an annual rate of 8 or 9 percent in the 1990's. A simple calculation based on the consumption level of the 1980's shows that by the year 2000, China roughly needs 1.6 billion metric tons of crude coal and 104 million kilowatt hours of electricity, and the volume of cargo tons by the railways will exceed 2 billion metric tons. Based on the availability of resources in China, it would be difficult to achieve increases of such a magnitude. This shows that it is no longer possible to follow the old path of high input, high consumption, and low output. If we wish to accelerate economic development, the only way open to us is to change the method of economic growth from the extensive method of allowing large amounts of resources to be wasted to the intensive method of relying on scientific and technological progress, optimizing structures, lowering consumption, and increasing the added value of products. Only thus can we increase economic efficiency considerably and achieve higher economic growth with a small amount of resources. Otherwise, it will be difficult to accelerate economic development. Adjustment of the economic structure and raising efficiency are also closely related. Adjustment of the economic structure is the basic means for raising efficiency. The main purpose of adjusting the economic structure is to achieve industrial upgrading by relying on scientific and technological progress. On the one hand, this will lead to improved quality of processed products and increase in the value of products; on the other hand, the reorganization and transformation of enterprises will expand the scale of economic activities, thereby lowering the consumption coefficient per unit production and raising economic efficiency.

To vigorously adjust the industrial setup, we must first strengthen and develop agriculture. The stable development of agriculture forms the foundation for the sustained, steady, and coordinated development of the national economy, as well as the foundation for political and social stability. The few major economic adjustments carried out since the founding of New China have been closely related with the decline or stagnation of agricultural production. The three years of consecutive agricultural bumper harvests have played a very important role in helping us achieve marked success in curbing inflation over the past few years. In the future, finding a resolution to the problem of food for China's more than 1.1 billion people remains a major task. China's population increases by about 16 million every year. By the end of this century, if calculated in terms of a population of 1.28 billion people, the average per capita amount of grain will be 780 jin. Therefore, total grain output must reach 1,000 billion jin. Besides, it is also necessary to develop economic crops, such as cotton, oil-bearing crops, and sugar-bearing crops, as well as meat and aquatic products. Therefore, our task to develop agriculture in the 1990's remains very arduous. The per capita area of cultivated land in our country is small, and it is becoming even smaller. Many farmland irrigation facilities are old and in a state of disrepair because of decreased investment in agriculture in previous years. Peasants' enthusiasm for growing grain, cotton, and oil-bearing crops has been dampened because the economic returns from agriculture these years are on low. If we are to achieve major agricultural development, we must adopt a series of important measures to strengthen agriculture in the 1990's.

In actively readjusting the industrial structure, we must also step up infrastructure construction and develop basic industries to eliminate a "bottle-neck" in economic development. At the same time, we should make great efforts to reorganize and reform processing industries and to rationalize the ratio between processing industries and basic industries. In the development of basic industries and infrastructure construction, we should stress both development and conservation, with even more emphasis on conservation in the near future. We should adopt a proper investment policy. We should raise as much necessary capital funds as possible to step up the development and construction of energy, transport, and important raw materials projects, and build, renovate, and expand a number of large and medium projects. China's processing industries are on a fairly large scale, but they are widely dispersed, with seriously overlapping low-standard projects that have a low level of technology and specialization. From now on, we should give high priority to reorganization and reform of existing enterprises. Success or failure in this regard has a bearing on the overall situation of modernization and on the improvement of economic quality and efficiency. We should formulate regional and departmental plans on the basis of studies and investigations and comprehensively

use economic, administrative, and legal means to implement plans in order to make great progress. In readjusting the industrial structure, we should give high priority to developing new and high-technology industries. At the same time, great efforts should be made to develop the tertiary industry and make its growth rate surpass the growth rate of the GNP. This is the way to help enhance economic efficiency, create more jobs, increase capital accumulation, and make people's lives easier. While readjusting the industrial structure, we should seriously readjust the structure of various trades and professions, the product mix, the organizational structure of enterprises, and the geographic distribution of enterprises.

Reform and opening up are the most powerful motivating forces for China's economic and social development. The great achievements made by us in the 1980's would have been impossible without reform and opening up. In the 1990's, we should seize the opportunity, optimize the structure, and enhance economic efficiency to accelerate economic development and maintain economic stability and coordination; however, the most fundamental point is to have a rational economic structure and operating mechanisms. We should meet the demands of building a socialist market economy, rapidly change the operational mechanisms of state-owned enterprises, push enterprises to the market, establish new pricing mechanisms, and create full market competition. Only in this way can we promote technological progress and the improvement of management, promote organizational readjustment, and fundamentally improve the quality of economic growth and the quality of our national economy as a whole. For this reason, to accelerate economic development, it is inevitably necessary to accelerate reform and opening up. We may say that the acceleration of reform is the precondition for accelerating economic development. The efforts to accelerate economic development will fail if we do not accelerate reform and do not establish a socialist market economy soon. Only by accelerating reform can we avoid excessive demand and inflation caused by accelerated economic development.

#### **Government Takes Measures To Improve State Firms**

*OW0802040393 Beijing XINHUA in English  
0239 GMT 8 Feb 93*

[Text] Beijing, February 8 (XINHUA)—The State Administration for Industry and Commerce recently issued a series of measures on the transformation of the management mechanism in state enterprises.

More than 40 measures are included in the "Proposals on Improving Registration of Enterprises, Promoting Reform and Opening Up and Economic Development" issued by the administration.

The five main aspects of the measures are as follows:

Supporting state large- and medium-sized enterprises in organizing enterprise groups and implementing shareholding systems; allowing state enterprises to develop trans-industrial businesses; relaxing restrictions on commercial and materials supply for enterprises and allowing them to conduct wholesale and retail businesses and act as business agents. Some state enterprises will also be granted with power to export their own products and import materials and equipment they need.

Encouraging collective enterprises to develop commerce and the catering, entertainment and service industries in urban areas.

Allowing government organizations to establish economic entities while separating government administration and economic management during the course of transforming their functions.

Promoting the development of an agricultural social service system.

And encouraging the service industry to use foreign funds, in areas such as land development, development of telecommunications and transportation, and the finance and insurance industry.

Liu Minxue, director of the State Administration for Industry and Commerce, said that industrial and commercial departments at various levels should further open their minds and change their ideas to reform the old ways and measures.

Liu stated that at present six laws on stimulating the market economy in the country are being carried out or have been submitted to the State Council for approval.

#### **Major Taxation Reform To Be Introduced in 1993**

*HK0802053893 Hong Kong CHING CHI TAO PAO  
in Chinese No 3, 18 Jan 93 p 28*

[From the "China Economic News" column]

[Text] The State Administration of Taxation said that China will undergo major reform in its taxation system this year, and the focus is to standardize personal income tax, domestically invested enterprises' profit tax, and to reform circulation tax.

Jin Xin, director of the State Administration of Taxation, said: The government plans to integrate the three kinds of taxes—personal income tax, adjusted personal income tax, and industrial and commercial individual traders profit tax—into a unified whole and to strive to complete the legislation in the first half of this year. Moreover, a reform scheme standardizing profit tax of enterprises of different kinds of ownership, which has been advocated for a long time, will be introduced as soon as possible.

Jin Xin said: The objective of reforming circulation tax is to establish a new circulation tax system with double-layer readjustment, that is, with the coexistence of value-added tax, product tax, and turnover tax, value-added tax will be used to readjust the system under general circumstances, whereas product tax will be used to play a role in special readjustment. Once the legislation of circulation tax is completed, the state will also abolish the unified industrial and commercial tax levied on foreign-funded enterprises and complete the integration of the circulation tax systems of domestically and foreign-funded enterprises.

The State Administration of Taxation is organizing a strong group for reforming taxation. Full investigation and study, meticulous proof and calculation, and drawing on international experience is the basis for devising and organizing reform plans and concrete measures, which will be introduced one after another when the time is ripe.

#### **State To Issue Bonds, Impose Credit Controls**

*HK0502130893 Hong Kong WEN WEI PO in Chinese  
27 Jan 93 p 2*

[Dispatch from Beijing by staff reporter Chen Chienping (7115 1696 1627) on 26 January: "China Will Issue National Bonds Worth 30 Billion Yuan This Year and Raise Coal Prices in April"]

[Text] According to an authoritative source here in Beijing, when speaking about 1993's financial work the other day, a senior central leader disclosed that China will issue national bonds worth 30 billion yuan this year. As regards the price structure, China will raise coal prices in April and railroad transportation charges by 1.5 fen per ton per kilometer in July. Moreover, China will also raise electricity and petroleum prices and impose strict controls over the scale of credit and loans.

The authoritative source quoted the senior official as saying that the state will exert its utmost to guarantee the issuance of 30 billion yuan of national bonds. This is because in order to support several reforms scheduled for 1993, the state treasury has to raise a total of 30 billion yuan. Given the fact that this year's financial deficit will exceed 1992, the central authorities have demanded that no further projects characterized by high inputs and low output should be built and stated that only those new projects capable of repaying both principal and interest on their investment loans will be approved.

The central authorities pointed out that 1992 had already witnessed a sharp increase in investments in fixed assets. As a result, a large number of buildings, auditoriums, hotels, and hostels have been built. Therefore, it is imperative to impose strict controls over the scale of credit and loans in 1993.

#### **Article on Market Pricing System**

*OW2801011093 Beijing QIUSHI in Chinese No 24,  
16 Dec 92 pp 21-24*

[Article by Zhang Zhuoyuan (1728 0587 0337), director of the Institute of Finance, Trade, and Commodity Economics: "Actively and Steadily Establish a Market Price System"]

#### **[Text] Establishing a Market-Set Pricing System Is the Objective of China's Price Reform**

Price reform has two aspects: First, it will establish a rational price structure by rationalizing price relations and eliminating distortions. Second, it will reform the price system by letting the market set the prices for the overwhelming majority of commodities and labor services through competition—except the prices of a small number of important monopolistic resources and public goods. The state will primarily resort to economic policies and economic means to control general price levels and regulate changes of the most important strategic prices (interest rates, wages, exchange rates). Of these two aspects, the second one—reforming the price-setting mechanisms and regulatory and control mechanisms—is even more important and substantive. In this sense, it can be concluded that establishing a market price system is the objective of China's price reform.

China's price reform is market-oriented, and its objective is to establish a system under which prices are set by the market. This reform is closely related to the objective that China will determine for its overall economic reform. The reason why China's traditional socialist economic system has to be reformed is primarily because its highly centralized and planned controls have rejected commodity market relations and market mechanisms and suppressed the enthusiasm and initiative of the vast number of producers and operators. It is also because these controls have become increasingly incompatible with the development of highly socialized mass production and rapid technological changes, as well as consumers' diverse and complex needs. Moreover, they are unfavorable for the full and optimum use of resources, and thus they have adversely affected the country from improving its economic efficiency, increasing its overall strength, and improving people's living standards. Thus, reform means that, while our society proceeds with its economic activities, commodity market relations will be gradually expanded, market mechanisms will be introduced and broadened, and a socialist market economic system will be eventually established. The reform programs China has carried out over the last decade or so prove that market-oriented reforms have liberated society's productive forces, powerfully promoted production and economic development, actually benefited the people in a way never seen before, and significantly increased the nation's economic strength. On the basis of the enormous successes China has achieved in reform, the 14th National CPC Congress clearly pointed out that establishing a socialist market economic system is the

objective of China's economic reform. This being the case, the market price system will inevitably become an organic part of the new socialist market economic system.

Rather than be totally free of control or being controlled by an "invisible hand," the market price system in China will be controlled by an "invisible hand" and also regulated by a "visible hand" under the guidance of plans, macroscopic regulations, and control. First of all, this price system requires the decontrolling of prices of an overwhelming majority of commodities and labor services that can compete in the market, and this system also requires that prices of important production ingredients must be set by the market. At the same time, it also requires that the government will set or control the prices of a small number of commodities and labor services that should not compete in the market. These are essentially prices of monopolistic resources and public goods and rates for labor services. The government must also appropriately regulate the prices of important production ingredients, especially interests of capital, wages of labor services, and renminbi exchange rates because they are particularly important.

Second, decontrolled prices will not be absolutely free from control. They must still be restrained by market regulations that reflect the law of commodity exchange. For example, commodity prices must be clearly marked, and the prices of goods of equal quality should be the same, and so forth. Under special circumstances, the state, to stabilize the market, can also resort to interim administrative measures to intervene in the market and freeze commodity prices partially or completely, or to set maximum or minimum protective prices of some products.

Furthermore, the state will closely watch macroscopic prices, or the general price level, and will mainly resort to economic means and policies to regulate and control the level to make sure that economic stability and development will not be affected by dramatic changes of the general price level.

#### **Implement Both Price Regulation and Decontrol, Actively and Steadily Carry Out Price Reform**

Like reforms in other fields in China, price reform should develop gradually. We should implement both price regulation and price decontrol, with price regulation taking precedence, and gradually link domestic prices to prices in the international market.

Why should we do this?

First, implementing both price decontrol and regulation, with the latter taking precedence, will enable us to control within certain limits price increases resulting from price reform, and this will contribute to stabilizing prices. The conventional economic system has resulted in and accumulated hidden inflation. As price reform, either price regulation or price decontrol, is being carried out, hidden inflation will begin to surface, resulting in

price increases. If we implement both price regulation and decontrol with the former taking the precedence and carry out price reform step by step, inflation will surface in different stages, and the magnitude of price increases will not be too large.

Second, if we implement both price regulation and decontrol with the former taking precedence, the impact of price reform on people's economic interests will not be too serious. The process of price reform is the process of the changes of the relative prices of all kinds of commodities and services. Although prices are somewhat irrepressible—prices rise easily and rarely go down—the magnitude of the increase of prices of different commodities and services are also different. Differences in the magnitude of price changes directly affect the economic interests of localities, departments, enterprises, and workers—those whose prices increase more will benefit more, and those whose prices increase less will gain less or even suffer losses. The quicker price reform is carried out, the larger the changes in the economic interests of different localities and social groups will occur. Implementing both price regulation and decontrol, with the former taking the precedence, and carrying out price reform step by step will lessen and alleviate contradictions in economic interests, thereby reducing resistance to reform, winning more extensive support for reform, and preventing preventable social shocks.

Third, implementing both price regulation and decontrol with the former taking the precedence will be conducive to matching the development of the new price system with market development. China's commodity economy and market have been poorly developed. Besides, a highly centralized planned economic system has been used in the country for a long time, defying relations between commodity and the market. In 1979, the year when the country began to adopt the policy of reform and opening up, there was only an incomplete market of consumer products. Since then, although market relations of various kinds have developed rapidly, the government has faced a heavy task of nurturing and developing markets from the beginning because of a poor foundation. Market development needs to go through a long process—it can gradually mature only after gradual development of the relations between commodity and currency. After more than a decade's reform, the market of production essentials has just begun to develop. Although the commodity market has developed quite well, a nationally unified and open market system of a competitive nature is yet to be developed. Regularized price regulation by the market should develop in a nationally unified and open market with a competitive nature, and a market pricing system should function in a nationally unified and open market system with a competitive nature. Market development can gradually mature only after going through a certain period, and the system that restrains market prices also requires some time to properly develop and function. Therefore, price reform can only be carried out step by step.

Fourth, linking China's price system to international market prices also should be carried out step by step. Reform of China's economic system has been carried out simultaneously with the policy of opening to the outside world. As China's foreign economic and trade relations develop, the country's economy has been increasingly relying on its foreign trade. After a few years' reform of the country's foreign trade system, foreign trade enterprises currently have taken the responsibility of their own profitability and losses in exporting goods, and have basically adopted the agency system in importing goods. All these indicate that relations between domestic prices and international market prices are becoming increasingly closer. The domestic prices of commodities imported through the agency system have already been directly linked to international market prices. Obviously, in light of further development of China's socialist market economy, continued enhancement of the level of dependence in foreign trade, and expansion of the single world market, more and more Chinese companies and enterprises will compete in the international market and bring about a link between China's price system and that of the international market to an increasingly greater extent; however, because China's original price system was completely disjointed from the international market's, the gap is still very wide. For example, the state-designated price (FOB [free on board]) of China's power coal is only one-third of the international market price (FOB), and the state-designated price (FOB) of China's crude oil is hardly a quarter of the international market price. As such, we can only link domestic prices with the international market step by step, starting from the field of marketable commodities and branching out gradually from there. Even in the case of marketable commodities, there is no guarantee of a full linkage. Take the case of energy; there may be complete linkage in crude oil, as well as its end products, but not in coal. This is because China's coal production cost is low. To enhance the competitiveness of China's processed industrial products in the international market, the price of coal can still be controlled at a level slightly below international market prices.

In short, in deepening price reform in the future, we should uphold the principle of gradual progress and should not expect to complete the whole process in one move. Of course, the format for gradual reform does not necessarily mean seeking mere stability, slowing down, and not being positive enough in promoting reform. As long as conditions permit, we can always take bolder strides forward—like the price liberalization of agricultural products in 1985 and the massive price adjustments and liberalization in 1990 and 1991. We should strive to basically straighten out price relations and establish a market price system within five years or by the end of the century, at the latest.

#### **Widen the Vision in Price Reform, Basing It on the Need To Develop a Market Economy**

China's price reform has achieved tremendous success. In the fields of commodity and labor services, the market

price system has begun to function advantageously, with market mechanisms playing a leading role in forming prices; however, this does not mean that price reform has been completed. Today in price reform, we still have many arduous tasks to accomplish. This is particularly true when we view it from the perspective of developing a socialist market economy, which demands us to widen our vision and adopt various approaches in deepening price reform.

Currently, prices in China are still considerably twisted. Factory prices for controlled coal and adjusted prices for crude oil have been marked so low that both industries have suffered losses industry-wide. Low energy prices lead to abuse and waste. It has been estimated that the amount of coal wasted yearly is 100 million metric tons—worth about 100 million yuan. Low efficiency in energy utilization has become the most important cause for China's low industrial efficiency. Low energy prices have also widened the economic and income gaps between economically developed southeastern coastal areas (who essentially get extra subsidies for utilizing coal at a cheaper rate) and economically less developed central and western areas (who essentially pay extra taxes for cheap energy). Similarly, low transportation charges, particularly in railway transportation, have led to a serious shortage of funds needed for railway transportation investment, maintenance, technical transformation, and construction of new railways, severely stagnating the capacity for transportation. Transportation departments have become the most prominent "bottlenecks" in developing the national economy, affecting sea, land, and air transportation. According to estimates by relevant departments, the railway transportation capacity can currently only meet about 60 percent of its needs. Moreover, low state contract prices and unified purchasing prices for agricultural products have relatively lowered the interests of producing peasants. All these problems need gradual solutions. Low rental costs for public-owned housing in cities and towns has aroused widespread social concern. Obviously, to smoothly promote the development of a socialist market economy, we must energetically resolve the problem of twisted prices, making sure that price signals—the most important market signal—will be accurate enough to really reflect the level of resources shortages and correctly guide the direction of fund investments and decisions in both production and operation.

Unrealistic price signals and distorted prices stem from traditional price controls or government control over prices. The exceedingly low prices mentioned above are government-controlled prices, and they cannot fully reflect market supply and demand. Even today, the government still sets 30 percent of prices for commodities and labor services, and the government still has certain control and influence over about 10 percent of the guiding prices. Apparently, the government still controls too many prices, particularly the prices of commodities that should and can compete in the market. The government should decontrol them with daring and

let the market regulate them. Currently the supply and demand in the market of consumer goods and the market of supplies and equipment are largely balanced, the pattern of buyers' market of limited consumer goods remains intact, and decontrolled prices, instead of causing substantial price increases, will bring about price changes and a change in the mechanisms for setting prices; therefore, the time is good for price reform. Conversely, while the government still has to set prices for monopolistic resources and public goods, it should, for the sake of keeping pace with the development of a market economy, fully consider market supply and demand, respect the law of value, increase the prices of some goods if need be, and not hold down the prices excessively; otherwise, it will encourage resource misuse and waste. As prices continue to be decontrolled and regulated and mechanisms for setting prices continue to change, a proper system for price regulation and control should be established to control the general price level, as well as the prices of certain important agricultural goods and seasonal products so that they will not fluctuate dramatically.

During the course of current price reform, one important issue that must be immediately dealt with is to accelerate the process of merging the two prices set for materials for industrial production. The two-price system is a product of China's gradual reform, and it was a sensible choice when market mechanisms were gradually introduced into the process of setting the prices of industrial production materials. Shortly after the two-price system was adopted, inflation rapidly widened the price differences by two times, and even several times. Consequently, the system could hardly demonstrate its positive roles, whereas its defects of obstructing normal economic operations became increasingly pronounced. Although people in various quarters have demanded that the two-price system be retracted as quickly as possible and that the two prices should be merged into one, the process of merging the two prices has been quite slow. Of the few prices that have been merged, they have been merged to become prices planned by the state, or guiding prices set by the state. This shows that the merger must have clearly defined direction and objectives. In other words, most of the prices should be merged to become market prices, and only some should be merged to become prices planned by the state. As long as the difference between two prices is not substantial—when market prices are higher than state-planned prices by about 50 percent, when supply and demand are largely balanced, or when supply and demand are quite flexible even though supply demand is greater than supply, for example—prices can be merged to become market prices. The work to merge the two prices and let the market regulate most of the prices of materials for industrial production must also be integrated with the change of government functions so that the market can set the prices of goods sold on the market.

It should be emphatically pointed out that, as China's economy develops into a socialist market economy and

reform of the country's market orientation accelerates, price reform will very soon go beyond the narrow domain that limits reform to prices of material products and services, more attention will be given to price reform in its broader sense, and reform of production essential pricing will become more prominent.

The most prominent characteristic of a market economy is that the market becomes a major means for distributing resources, prompting resources, following the trend of the market, to flow from low-efficiency sectors and enterprises to high-efficiency ones. The preconditions for resources to flow freely and rationally are the commercialization of production essentials and circulation of production essentials in the market; in addition, prices of production essentials will be decided by the market. Since reform was initiated, we have gradually realized that production essentials should gradually be commercialized and enter market circulation, which requires the prices of production essentials to be gradually decided by the market; however, reform in this field has proceeded relatively slowly. Compared with reform of prices of material products and services, reform of prices of production essentials has noticeably lagged behind. This is also an important reason why the country's current efforts to readjust the industrial structure has yielded little results. Now that we have decided to develop a socialist market economic system, it has become especially important to carry out price reform of production essentials to enable prices to be decided by the market.

The most basic elements of production essential prices include price interests of funds, price wages of labor, prices of leasing land (and land prices), and the exchange rate of renminbi against foreign currencies. To be in line with the requirements for developing a socialist market economy, all these elements should be decided and regulated by the market to prevent the most important market signals from being distorted. Prices of production essentials being decided by the market are inseparable from the nurturing and development of the market for production essentials. Currently, it is necessary to urgently quicken the pace of reform in these two areas so that prices of production essentials will be decided by the market at the earliest possible date.

#### Zhang Yanning on Implementing Enterprise Regulations

93CE0119A Beijing *QIYE GUANLI* [ENTERPRISE MANAGEMENT] in Chinese No 10, Oct 92  
pp 17-24, 34

[Article by Zhang Yanning (1728 1750 1337), deputy director, Economic Relations and Trade Office, the State Council: "Implement 'Regulations' in Earnest To Usher in New Stage in Enterprise Reform"]

[Text] These days the entire nation from top to bottom is studying in earnest the spirit of the key speech made by Comrade Deng Xiaoping when he inspected the south,

the important address made by Comrade Jiang Zemin at the central party school, and the meeting of the CPC Politburo. Across the nation the situation is good—reform and the open policy are thriving and the economy is booming, spurring us on. It was against this backdrop that the Economic Relations and Trade Office of the State Council and the State Restructuring of the Economic System Commission convened with the permission of the State Council a national working conference on transforming operating mechanisms of enterprises. The goal was to report and review the progress that had been made in transforming enterprise operating mechanisms since the central working conference of last September and make plans for implementing the “Regulations for Transforming the Operating Mechanisms of Industrial Enterprises Owned by the Whole People” promulgated by the State Council on 23 July so as to further enterprise reform.

**I. Since the central working conference, new progress has been made in the various reforms aimed at transforming enterprise operating mechanisms and making large- and mid-sized state enterprises a success.**

To implement the spirit of the central working conference, three tasks were undertaken simultaneously. One, implementing the 20 measures intended to turn large- and mid-sized state enterprises around, improving the enterprises' external environment, and intensifying reform and management inside the enterprises. Of these 20 measures, 12 designed to increase depreciation funds, new product development funds, and circulating funds have largely been put into effect. By and large enterprises would have an additional 8 billion yuan in retained funds at their disposal this year. Two, implementing the “Enterprise Law” and formulating the “Regulations for Transforming the Operating Mechanisms of Industrial Enterprises Owned by the Whole People.” Three, launching all sorts of pilot projects in enterprise reform in many places across the nation in keeping with the spirit of the central working conference and that of appropriate State Council meetings. According to incomplete data, already 8,469 industrial enterprises within the budget have been experimenting with reform. Most of these pilot projects are doing well currently and have accumulated new experience for enterprise reform. These three tasks complement and support each other. After Deng Xiaoping made an important speech when he inspected the south, in particular, reform and the open policy have entered yet another stage of development. Grasping this favorable opportunity, all sectors and localities have quickened the pace of reform and applied themselves to their work, creating a positive encouraging momentum in the drive to transform the operating mechanisms of enterprises. New progress has been made in enterprise reform, as mainly demonstrated in the following ways.

1) Further liberated thinking and enhanced the consciousness of and sense of urgency about continuing enterprise reform.

After studying the spirit of Deng Xiaoping's speech carefully and grasping its underlying essence, everybody, from leading cadres at all levels to the rank-and-file enterprise workers, has further liberated his thinking and updated his ideas, believing even more strongly that everything must revolve around economic construction. We must take advantage of the opportunity and concentrate our energies on developing the economy sooner, striving to scale new economic heights once every few years. Understand thoroughly the logic of using reform and the open policy to develop the economy, reform being a revolution that can liberate productive forces. Emancipate ourselves from the ideological straitjacket of thinking in terms of either capitalism or socialism and establish evaluation criteria. Clarify the fuzzy relations between planning and the market. Clearly establish the important role played by the market mechanism in the development of a commodity economy. All of that has laid a philosophical foundation for our drive to continue enterprise reform.

Our goal is to build socialism with Chinese characteristics. Critical to building socialism with Chinese characteristics and developing socialist productive forces is making state enterprise, particularly large- and mid-sized state enterprises, a success. Since reform and the open policy went under way, state enterprises have been bestirring, but years of being fettered by a highly centralized planned economic system under which government administration was fused with enterprise management had enervated enterprises, making them unprofitable. Many enterprises have been incurring heavy losses. These problems take on an additional urgency now that we are confronted with the grim challenge of international competition. When state enterprises, particularly large- and mid-sized state enterprises, remain devitalized and unprofitable for years, this state of affairs hardly proves the superiority of socialism with Chinese characteristics. The fundamental way out of this mess lies in continuing reform. Only by quickening the pace of reform and the open policy to fundamentally transform the existing economic system that hampers the development of productive forces and establishing a new revitalized economic system can we tap the potential socialist initiative and creativity of enterprises and their vast number of workers and fully bring out the superiority of the socialist system, putting them on the track of self-perpetuating growth.

Recently the central government explicitly declared that “enterprise reform lies at the heart of the restructuring of the entire economic system. At present the thrust of enterprise reform is transforming the operating mechanisms of enterprises.” The key to transforming the operating mechanisms of an enterprise is ensuring that it actually exercises decision-making authority in its operations. Only when decision-making authority becomes a fact will the enterprise live up to the requirements of the market and become a commodity producing and operating unit that enjoys autonomy in its operations, assumes responsibility for its own profits and losses, and

is capable of self-development and self-discipline in accordance with the law. To transform an enterprise's operating mechanism and turn decision-making authority for the enterprise into a fact, we must at the same time alter government functions, separate government administration from enterprise management, manage the macroeconomy properly, and decontrol the microeconomy. If government functions are not changed in earnest, it may very well prove impossible to transform the enterprise's operating mechanisms or force us to abandon the effort midway. Leading cadres at all levels and the rank-and-file enterprise workers have understood all this very well and have enhanced their consciousness and sense of urgency about continuing reform, particularly enterprise reform.

2) Further expanded the enterprise's decision-making authority in its operations and strengthened its self-discipline mechanism.

The "Enterprise Law" is the legal basis for continuing reform and transforming enterprise operating mechanisms. Now that they have become more aware of the importance of implementing the "Enterprise Law," all localities and sectors have begun turning enterprise decision-making authority into a reality even as they monitor the way the "Enterprise Law" is being put into effect and announced the annulment of a host of documents inconsistent with the spirit of the "Enterprise Law." To begin with, the scope of command planning has been reduced. The State Planning Commission and other departments involved and the various localities have scaled back the commitments of large- and mid-sized enterprises with extensive monopolistic allocation responsibilities to turn over their output to the state as required under the command plan. Guangdong, Shandong, Jilin, and other provinces have decontrolled those products whose supply and demand are basically in balance. Apart from commitments laid down in the state plan, there are no longer any provincial requirements. Second, enterprises have been given more power to set prices. Provinces like Jiangsu and Anhui have loosened their control over prices. Other than prices directly set by the state, enterprises are free to determine the prices of most products and charges for labor services. Shandong has granted 132 enterprises that are experimental units provincial-level price-setting power. Third, enterprises have been given the power to examine and approve investment projects. Already Guangdong, Guangxi, and other provinces have delegated to enterprises the authority to examine and approve projects involving retained funds or self-raised funds. In Guangdong, large-scale enterprises already enjoy provincial-level power to examine and approve projects. Fourth, enterprises have been given increased authority in labor and personnel matters and in distribution. As a result, many enterprises in the experiment have been able to carry out such reforms as the recruitment and appointment of cadres and workers based on merit and to distribute wages on their own as they see fit. Fifth, the examination and approval of applications by qualified production enterprises to export and import has been speeded up. Today

over 650 large- and mid-sized state industrial enterprises, including the newly approved ones, enjoy autonomy in foreign trade.

Concomitant with the increase in their decision-making authority, steps have been taken to tighten enterprise self-discipline and hold them accountable for their own profits and losses. For one thing, many areas have further improved the practice of linking wages to the margin of profit, to the extent that nowadays when an enterprise's profits decline, so does its total payroll. In Zhuzhou City, total wages at the 15 municipal enterprises which failed to meet the profit target by the end of last year fell 15.3 percent on the average, 20 percent in the worst case. Second, at money-losing enterprises, the issue of bonuses was suspended, floating wages were lowered, and the factory-level leading group was reshuffled. In Qingdao City, for instance, when an enterprise loses money for four consecutive months and when its losses exceed the specified base figure, its bonuses and floating wages for the year in question would be withheld in full. Every factory-level leader would have his fixed wage lowered one grade. Leading groups at 30 unprofitable enterprises have been reshuffled this year.

3) Adopted a "turn on the water to raise fish" policy. Some enterprises have been suspended, closed, acquired, or transformed. The "survival of the fittest" mechanism has begun operating in some enterprises.

In view of the fact that enterprises shoulder a heavy burden but have little retained funds, some provinces and municipalities have adopted a policy of "turning on the water to raise the fish" toward profitable and well-managed enterprises as well as enterprises in such dire straits that they need special assistance, provided they have first met their financial commitments to the state. Tianjin allows its 109 key enterprises to retain in full the income they have after fulfilling their contracting obligations to be spent on technological transformation. Building on strong growth last year, these enterprises increased sales earnings by 22.6 percent in the first half of this year and boosted profits realized by 14.4 percent. Meanwhile, loan repayments also rose 85.3 percent.

Even as they foster the development of a host of enterprises, all localities have been closing, suspending, acquiring, or converting to other lines of product some enterprises that had been losing money for years, that had more liabilities than assets, or that were beyond rescue, thus creating a mechanism that rewards the strong and penalizes the weak. Taking a constructive attitude, the localities more often try to merge enterprises or switch them to another line of product than to close or suspend them. After starting bankruptcy proceedings against 18 collective enterprises, Shenyang followed up this year with similar actions against Shenyang No 2 standard parts plant, an enterprise owned by the whole people, and eight other collective enterprises. In Hunan Province, three enterprises within the budget, including Changsha Electronic Equipment Factory, were declared bankrupt on a trial basis. Because of stronger

leadership and efforts made to place the affected workers in jobs and handle the liabilities properly, bankruptcy work went quite smoothly. Hubei, Henan, and Sichuan, among others, have launched experiments in which enterprises are first closed or declared bankrupt and subsequently acquired, with fairly good results. Of the enterprises closed, suspended, acquired, or switched to another product line, there has been an increase in the number of inter-trade, interregional, and inter-ownership-system enterprises this year. A new phenomenon is that of small enterprises acquiring large ones and commercial enterprises acquiring industrial ones. For instance, in Beijing the Dongan Group has acquired Beijing No 2 Watch Factory; in Hangzhou, school-run Huahaha Nutritious Food Company has acquired the state-owned Hangzhou Canning Plant; and in Qingdao, the Qingdao Commercial Machinery Company has acquired a commercial transportation company. According to statistics on 31 provinces, regions, municipalities, and municipalities with provincial-level economic decision-making authority, 1,729 industrial enterprises were closed, suspended, acquired, or converted to another product line in the first half of this year, of which 600, or 34.7 percent, were state enterprises. Of the 66 enterprises that went bankrupt, 15, or 22.7 percent, were state enterprises.

4) Experimented with all sorts of operating methods in a diligent search for a formula that is suited to the market operating mechanism.

To find and choose the right enterprise operating method, all localities have conducted useful experiments. Beijing, for instance, has initiated the "eight boats" project, Tianjin has adopted "eight new methods for experimental units," and Shanghai has proposed "10 approaches." Among this flurry of new methods, which one should the enterprise pursue? In some cases, the enterprise has been free to decide on its own, in others the choice was made through consultation between a government department and the enterprise.

As the principal operating method, the contract system has further improved in the course of practice. These are the major improvements. One is "working one's way up the tax brackets and reaching the target." That is, enterprises are put into different tax brackets depending on their size and operating conditions. The higher the tax bracket, the greater the difficulty, and the higher the payoffs. Jixi City, the first to introduce this method in Heilongjiang, succeeded in quadrupling profits and taxes and increased revenue 1.7-fold in the last five years. Another improvement is the property management contract responsibility system. Shanghai, for instance, has reformed the state property management system and instituted enterprise property management contracting for state property operating companies. A third improvement is input-output general contracting. So far nationwide 717 industrial enterprises within the budget have adopted this method. A fourth improvement is that made to existing contracting procedures. Some localities have introduced a contract system under which the

enterprise strictly guarantees the base figure, with increased retention of above-quota profits. Some have adjusted the base figures as appropriate to facilitate enterprise development. Others have replaced leading group contracting with all-personnel contracting. Yet others have substituted a single evaluation target with multiple targets and improved the practice of linking wages to profits.

Experiments in shareholding are being standardized gradually. Since the latter half of last year, enterprises experimenting with the shareholding system have been developing rapidly. To resolve the operating anomalies in the experimental units, the State Council in April released the summary of a seminar on the work of enterprises experimenting with the shareholding system that was held in Shenzhen jointly by the State Restructuring of the Economic System Commission and the former productivity office of the State Council and demanded that shareholding experimental units be standardized. Five agencies, including the State Restructuring of the Economic System Commission, have jointly issued the "Regulations for Enterprises Experimenting with the Shareholding System" and other related documents. Last May the State Council established a securities management working conference to step up leadership in this area. Thus far 123 enterprises nationwide have issued shares to members of society. Pilot projects in "tax and profits separation" have also gone under way, with localities everywhere working to improve the way such experiments are being conducted.

The operations of some state enterprises are being decontrolled in the following ways: Modeling the management method on that of enterprises that are either wholly or partially foreign-owned, and township and town enterprises; giving enterprises the five decision-making powers (to make decisions in production operations, price-setting, internal distribution, labor and hiring, and technological transformation) and four decontrols (in operations, prices, distribution, and hiring); applying the high-tech industrial development zone policy; forming joint ventures with foreign firms, and "one plant, two systems." The Shanghai Industrial Sewing Machine Company, which was decontrolled on an experimental basis in September last year, increased its sales earnings 66.6 percent in the first half of this year. New products accounted for 71 percent of its output value, its export sales grew 31.4 percent, tax payments increased 54.6 percent, and workers' wages grew 20 percent on the average. In Chongqing City, 90 percent of state commercial enterprises were involved in a "four-decontrol" experiment. Last year these enterprises increased total sales 8 percent and profits 51 percent, operating losses fell 25 percent, and the quality of services has improved markedly.

5) Vigorously pushed ahead with reforms in internal labor, personnel, and distribution, and lessened the social burden on industrial enterprises by developing the tertiary industry, among other things.

Reforming the three systems of labor, personnel, and distribution within the enterprises is a priority to leaders at all levels and has received the support of the rank-and-file workers. Judging from the progress that has been made earlier, many enterprises have been proceeding steadily, with better than expected results and fewer than expected problems. The No 1 steel mill at Anshan iron and steel complex originally had 3,469 workers. Then it reformed its labor, personnel, and distribution systems. Through painstaking organization and careful work, with administrative offices taking the lead in streamlining, and making careful plans to place the workers affected in other jobs, it has successfully trimmed the number of people on its payroll by 700 (including 120 cadres), a 23 percent cut, even as productivity climbed more than 30 percent. In Shandong, Boshan Cement Factory introduced all-personnel contract management and reduced its workers by two-thirds. Meanwhile, output rose 40 percent and it continued to lead the industry in nine out of a total of 11 indicators.

To solve the problems of state industrial enterprises— heavy social burden, over-staffing, and low productivity, many localities and enterprises have taken a leaf from the book of Baoshan iron and steel complex and the No 1 Plastics Company in Shijiazhuang. On the one hand, they support large state industrial enterprises in entering the tertiary industry. On the other hand, they are gradually severing the enterprise-run social welfare undertakings and turning them into independent operations. Breaking with the old practice of having the mine run society, the No 1 mine of Dayan mining bureau of Dongmei Company finds jobs for redundant personnel in mining. Thus far the mine has reduced its number of workers from 5,005 to 1,322. Between January and May this year, raw coal output rose 36.5 percent over the same time last year, and costs per ton has dropped substantially. Within five months, the mine was able to turn a loss into a profit.

6) Government functions have begun to change. The construction of a market system and social security system have been intensified.

Since the central working conference, many departments in the State Council as well as appropriate departments in provincial and municipal governments have begun formulating detailed measures to change government functions. Several provincial governments, including those in Shandong, Guangdong, Henan, Yunnan, and Hebei, have made it clear that the responsibilities of government departments in charge are limited to the appointment and dismissal of directors of enterprises experimenting with reform, along with their rewards and punishments; the review and approval of the contracting plan; and the supervision of auditing, and that enterprises would be free to participate in competition under the market mechanism. In conjunction with the change in government functions, some localities and sectors have been mulling over plans to reform the government machinery, with some actually taking action.

New progress has been made in the nurturing and development of the market system. Reportedly there are now 294 large steel exchanges and 369 large-scale trading centers for capital goods, with a combined annual volume of business worth almost 500 billion yuan. Markets for funds, technology, information, labor, real estate, and property rights have also begun to take shape to varying extents. Jiangsu Province has established appropriate regulatory bodies at each of the decision-making, supervision, and service levels, and drawn up regulations for wholesale markets in different localities and of different types. The Ministry of Public Security and Ministry of Communications have issued orders explicitly directing all localities to dismantle checkpoints. Shanxi has torn down over 2,300 checkpoints that had been a barrier to circulation. At the Ministry of Materials, the formulation of provisional regulations for the wholesale and trading of capital goods is now a top priority.

The reform of the social insurance system has notably quickened its pace. In Hainan Province and Shenzhen, comprehensive experiments in reforming the social insurance system got under way at the beginning of this year. Zhuzhou City has introduced social labor insurance and established a training network for people waiting for jobs. It has also created a labor market and qualified personnel market to provide services for enterprises, basically forming a social labor insurance system. Nationwide 75 million workers who work in enterprises owned by the whole people and 25 million others who work in large collectives now have pension insurance. The gradual creation and improvement of a range of social insurance systems have facilitated reform of the three systems within enterprises.

The new progress in enterprise reform earlier can mainly be attributed to the immense importance that all localities and sectors as well as enterprises attach to living up to the spirit of the central working conference and the transformation of enterprise operating mechanisms and to their high degree of enthusiasm for reform. Top leaders at all levels personally take charge of reform and pay close attention to it. They relate the central government's reform and open policy to the reality in their locality or sector and carry out reform step by step in a systematic manner. In their work they focus on what is important and provide customized guidance. They take pains to see that reform measures are coordinated and support one another. Taking the mass line, they rely on the workers and employees, combine the transformation of enterprise operating mechanism with structural readjustment and the improvement of economic results. In the first half of the year, the national economy grew faster than at any other time in recent years. In particular, both the rate of growth and profitability of large- and mid-sized state enterprises have improved, proof enough that the string of policies designed to turn those enterprises around has begun to work.

The preceding paragraphs summarize some of the more successful experiences and practices of the various localities and sectors as they experimented with reform, including enterprise reform. However, localities and sectors differ in how much progress they have made in enterprise reform. Nor do their efforts yield identical results. A considerable number of enterprises remain in straitened circumstances. There the pace of reform must be quickened; restructuring and an easing of burden are necessary to turn the situation around.

Right now there remain a number of problems in enterprise reform that we should take note of. Some comrades have not liberated their thinking enough. Fettered by "left" ideology, they are still taking a wait-and-see attitude and dare not go ahead boldly to further enterprise reform, tackle the more difficult issues, or achieve any breakthrough. The change of government functions and other related reforms are lagging behind, unable to meet the needs of enterprise reform. The decision-making authority granted to enterprises by the "Enterprise Law" has not been put into effect fully. There are also some in enterprise reform whose work is erratic, merely pay lip service to reform, and do not care about the actual results. An effort must be made to resolve all these problems gradually.

## **II. Implement the "regulations" in earnest. Accelerate the transformation of enterprise operating mechanisms and advance enterprise reform to a new stage.**

Last year the central working conference demanded in no uncertain terms that enterprise operating mechanisms be transformed and that enterprises orient themselves to the market. Going one step further, the central government this year demanded that by transforming their operating mechanisms, we increase the number of well-run enterprises so that they account for two-thirds of all enterprises during the Eighth Five-Year Plan, up from the current one-third. Implementing fully and in earnest the "Regulations for Transforming the Operating Mechanisms of Industrial Enterprises Owned by the Whole People" promulgated by the State Council recently is a key component of enterprise reform and is critical to achieving the strategic mission proposed by the central government.

1) Enhance our understanding of the importance of the "regulations" and concentrate our energies on their implementation.

The "regulations" were drafted through close cooperation between the State Restructuring of the Economic System Commission, the Economic Relations and Trade Office and Legal Affairs Bureau of the State Council, and other pertinent agencies under the leadership of leading comrades from the State Council. In-depth studies were conducted and opinions were repeatedly sought from all quarters. The "regulations" went through successive drafts, a process that took more than six months. They

were discussed and approved by the Standing Committee of the State Council and have been formally promulgated.

Based on the "Enterprise Law," the "regulations" embody the basic lessons we have learned from the early phase of reform in China. They are informed with the spirit of the central working conference, which is to make large- and mid-sized state enterprises a success, particularly the spirit of the important speech made by Comrade Deng Xiaoping recently. They spell out in detail the main provisions of the "Enterprise Law" in accordance with the principle of separating government administration from enterprise management and managing the macroeconomy properly while revitalizing the microeconomy. The "regulations" represent significant departures from existing policies, rules, and rules, symbolizing that enterprise reform has entered a new stage. The promulgation and implementation of the "regulations" provide a crucial legal basis for the transformation of enterprise operating mechanisms. The full and conscientious implementation of the "regulations" will go a long way toward putting the "Enterprise Law" into effect, mobilizing the enthusiasm and creativity of enterprises and workers, expediting the march of enterprises toward the market, consolidating and furthering the achievements of the early period of enterprise reform, bringing about the transition from the old to the new economic structure, and enabling the national economy to scale new heights sooner and more easily.

Many prevailing conditions favor the full implementation of the "regulations." The new situation of reform and openness has laid the ideological groundwork for transforming enterprise operating mechanisms and created a hospitable climate. The useful experiments in enterprise reform conducted earlier provide some successful experiences for transforming enterprise operating mechanisms. Be that as it may, we must realize clear-headedly the arduous and complex nature of such a transformation. The "regulations" are a hard-won victory, but implementing them will be an even more herculean task. The reason is that transforming enterprise operating mechanisms is intimately related to the restructuring of the economic system overall. The process of transforming enterprise operating mechanisms is more than that of reforming the old economic system and requires a change in government functions as well. Organizational reform requires the establishment and perfection of a market system and social insurance system and the intensification of legal construction. The amount of work that needs to be done is enormous and many problems need to be resolved. It is indeed an arduous and complex job to make sure that the "regulations" are implemented to the full all the way down to each and every enterprise. It will take an enormous amount of hard work and effort on our part.

Leading comrades on the CPC Central Committee and the State Council take the successful implementation of the "regulations" very seriously. Commenting on the "regulations" in writing before their promulgation,

Comrade Jiang Zemin said, "Years of practice prove that making large- and mid-sized state enterprises a success is no easy matter. But we must stick with it. In the midst of an excellent situation—the entire party studying and fulfilling in earnest the spirit of the speech Comrade Deng Xiaoping made when he inspected the south, the State Council has formulated these 'regulations.' I hope party and government organs at all levels continue to liberate their thought, change government functions, and turn decision-making authority for enterprises into a reality." This very important instruction by General Secretary Jiang Zemin is the guiding thought of this conference and of the implementation of the "regulations" in the future. As directed by leaders on the CPC Central Committee and State Council, we must grab the opportunity to press forward in the face of difficulties and go all out to successfully implement the "regulations."

2) Devote some time to an extensive campaign aimed at publicizing the "regulations" and educating people about them.

The "regulations" include numerous provisions and cover a broad area. To implement the "regulations," we must begin by fully understanding and mastering their spiritual essence and main content and familiarizing ourselves with the process in which they were formulated. This is a precondition for implementing the "regulations." Accordingly, we need to spend some time studying and publicizing the "regulations" extensively and thoroughly. Not only must enterprise leaders and the rank-and-file workers study the "regulations" in earnest, but every government agency also must come to grips with them, with leading comrades at all levels taking the lead. Organize personnel to compile a "regulations" publicity outline and teaching materials. Devote two to three months organizing training courses at every level to educate workers in government departments as well as enterprise directors (managers) and employees.

Propaganda departments must step up the publicity of the "regulations" and the task of transforming enterprise operating mechanisms. Use all news media to publicize the "regulations" in every way. Focus the attention of government agencies, enterprises, and workers on the central mission of transforming enterprise operating mechanisms. Make more people understand the "regulations." Make society at large support, encourage, and supervise the implementation of the "regulations."

Through study and publicity, enhance the sense of legality of government departments. Government departments must discharge their responsibilities in accordance with the law and enterprises must produce and operate in accordance with the law. In our study and publicity, do not argue over some theoretical problems; there are things that need to be explored and improved in the course of reform in the future.

3) The key to transforming enterprise operating mechanisms is to ensure that enterprises really have decision-making authority in their operations.

Targeting the weaknesses of enterprises—devitalization and poor economic results—and taking into consideration the possibility in reality, the "regulations" spell out in detail the four powers for enterprises in their operations, thus amplifying and expanding the relevant provisions in the "Enterprise Law." While adhering to the principles of the "Enterprise Law," the "regulations" include some departures from existing policies, rules, regulations, and practices, particularly when it comes to the enterprises' decision-making authority in production and operations, investment, product price-setting, import-export, personnel and labor, the distribution of wages and bonuses, and its own internal organizational setup. In doing so, the "regulations" play a significant role in turning decision-making authority for enterprises into a reality, further mobilizing the enthusiasm of enterprises and all employees, expediting the adjustment of the product mix and enterprise organizational restructuring, enhancing the enterprise's capacity for self-development, and improving its economic results. Even as they grant decision-making authority to the enterprise, the "regulations" make the enterprise even more responsible for its own profits and losses, laying down appropriate policies and measures to establish and improve the enterprise's self-discipline mechanism and correctly handle the interest relations among the three parties: the state, enterprises, and workers. On the one hand, the enterprise must exercise to the full the rights thus conferred on it by the state and use the law to protect its own legitimate rights and interests. On the other hand, it must be thoroughly cognizant of its own civil liabilities, operate on its own in accordance with the law, and assume responsibility for its own profits and losses.

Choosing and deciding on the right method of operations is an important issue in correctly handling the relations between the state and enterprises and turning decision-making authority for enterprises into a reality. Continue to follow and perfect the enterprise contract responsibility system. These days over 90 percent of state industrial enterprises have introduced just such a system, adhered to it, and improved on it. The thrust of reform is to expedite the transformation of enterprise operating mechanisms and increase its developmental momentum. Through the contract system, the Shoudu iron and steel complex has succeeded in transforming its operating mechanism and achieving both fast growth and a high profit rate. Its experiences and lessons are highly inspiring to us as we try to improve the enterprise contract responsibility system. Units experimenting with the shareholding system must strengthen leadership and conduct pilot projects systematically, steadily, and cautiously in accordance with a plan based on the requirements of standardization. Continue the experiment in tax-profit separation and improve the way in which the experiment is carried out.

4) The change in government functions must keep up closely with the transformation of enterprise operating mechanism. Other related reforms must be tackled promptly.

The "Enterprise Law" grants decision-making authority to enterprises, which however, has not really been turned into a fact. An important reason for this is the fact that the change in government functions has failed to keep up. Accordingly, government departments at all levels should speed up the change in government functions in accordance with CPC document No 4 and provisions in the "regulations." In addition to the departments in the State Council, government departments at all levels also must change their functions. Direct management is to be replaced by indirect management, using a combination of economic, legal, and the necessary administrative tools, and doing a good job in "planning, coordination, supervision, and service." The 14 decision-making powers granted by the "regulations" to the enterprise must be carried out to the letter. They must not be withheld by any department or unit. Where the "regulations" stipulate that an enterprise must secure the permission of the pertinent department before it is given a decision-making power, work procedures, rules and regulations, and responsibilities must be laid down in accordance with the principle of "simplifying formalities, shortening the chain of command, improving efficiency, and making things convenient for the enterprise." After turning over to the enterprises matters they should not deal with, government departments at all levels should take pains to do a good job dealing with things they should deal with, intensify macroeconomic regulation and control, regulate their trade properly, and set up a macroeconomic regulatory and control system that can revitalize the enterprises, on the one hand, and facilitate the orderly operations of the economy, on the other. They should set up a social insurance system and perfect the market system, make use of the market as a regulator, and create a positive social environment where enterprises can orient themselves to the market. They should also develop and perfect public facilities and other public welfare undertakings related to enterprises.

Even as we change government functions, we should quicken the pace of coordinated reforms, such as those in planning, investment, finance, taxation, banking, prices, materials, commerce, foreign trade, personnel, labor, and wages. Government departments must be serious about translating decision-making authority for enterprises into reality, but they must at the same time take care to enhance the enterprises' developmental momentum. If enterprises are saddled with an excessive burden but have too little retained funds, it would be difficult for them to exercise decision-making authority in their operations or assume responsibility for their own profits and losses. Governments at all levels, therefore, should take actions, including genuinely implementing the several provisions in the "regulations" relating to the strengthening of enterprise developmental momentum, to heighten their capacity for self-development.

5) Improve leadership and work out methods of implementation to ensure that all policies and measures in the "regulations" are really put into effect where it matters.

All localities and sectors must step up leadership over this piece of work in earnest, with top leaders taking charge personally. An office must be clearly put in charge. All necessary operating systems and responsibility system must be created so that there are people to get the work done and responsibility is pinpointed. As they implement the "regulations," government departments must not for a second waver from the goal of transforming enterprise operating mechanisms, which will enable the enterprise to meet market demands and become commodity producing and operating units which have decision-making authority in their operations, are responsible for their own profits and losses, are capable of self-development and self-discipline, as well as enterprise legal persons which enjoy independent civil rights and assume civil obligations. If more than two-thirds of enterprises are to basically achieve decision-making authority and assume responsibility for their own profits and losses during the Eighth Five-Year Plan, the change in government functions must be expedited and a relatively sound social insurance system and market system must be put together without delay.

Revolving around the goal mentioned above and based on the requirements of the "regulations," all localities and sectors must work out detailed implementation rules for their own jurisdiction in accordance with this principle: unify planning, implement step by step, provide individualized guidance, and emphasize practical results. Here we put forward five requirements. First, the methods of implementation must achieve the specific policies and measures of the "regulations," spelling them out in greater detail. Second, the method of implementation must be consistent with the spirit of the "regulations," neither narrowing nor taking back the decision-making authority granted explicitly by the "regulations" to enterprises. On the other hand, further innovations and amplifications are permissible in light of the reality. Third, the focal point of a method of implementation must be the translation of decision-making authority for enterprises into reality and the changing of government functions. Fourth, provide guidance that differentiates between the coastal region and the interior, between large-, mid-sized, and small enterprises; between profitable enterprises and unprofitable ones; and between for-profit enterprises and social-welfare-oriented ones. In localities which meet the requirements, the transformation of enterprise operating mechanisms must quicken its pace even more. Enterprises that are already experimental units should speed up the transformation to be the first in fully implementing the "regulations." Since large- and mid-sized enterprises are the main players in the transformation of enterprise operating mechanisms, they should be the first to implement some of the more important decision-making powers granted them by the "regulations." Fifth, seek truth from facts. Emphasize practical results. Suit

measures to the conditions in each enterprise. Respect enterprises' wishes. Overcome formalism. Do not impose a single solution or formula on everybody across the board.

Previous enterprise-related policies, rules, and regulations must be checked against the "regulations" and the method of implementation of the locality or sector in question. Wherever they violate the "regulations" or method of implementation, they must be amended or annulled. At the same time, the formulation of new rules and regulations compatible with the "regulations" must proceed with urgency for completion before year-end.

Intensify the supervision and inspection of the way the "regulations" are being implemented so that every law is complied with, laws are enforced strictly, and violations of the law will be investigated. This will determine whether or not the "regulations" will really work. Government departments at all levels must operate in accordance with the law, step up self-supervision, enthusiastically accept complaints and tip-offs from members of the public, and take the initiative to correct behavior that violates the "regulations." If a department fails to correct its behavior in defiance of the "regulations," the higher authorities must order it to do so in accordance with regulations and hold it responsible administratively and legally, instead of sheltering its misconduct. Enterprises also must strictly comply with relevant provisions in the "regulations," restrain their own behavior, and submit themselves to the supervision of the appropriate government department and of society. Supervision by the masses and the media of the implementation of the "regulations" must also be intensified.

Under the leadership of provincial (regional, municipal) governments, economic commissions (planning commissions, production commissions) everywhere must properly organize the implementation of the "regulations." To begin with, working in conjunction with the restructuring of the economic system commission, the legal affairs bureau, and other departments, they must work out a method of implementation for the locality in question and plan their implementation. Second, coordinate the relations between department and department and between departments and enterprises to minimize the conflicts that must occur in the course of implementation and avoid discrepancies between the rules and regulations of the departments, on the one hand, and the "regulations," on the other. When a problem arises, it should be examined and resolved jointly with other pertinent departments. Third, supervise and inspect the way in which the "regulations" and methods of implementation are being put into effect. Behavior that violates the "regulations" and other problems should be dealt with and rectified without delay. Failing a solution, they should be reported to the local government. Fourth, review experience promptly. Organize exchanges and replicate experiences. Expedite the work at hand. Fifth, report the situation relating to the implementation of the "regulations" to the local government in a timely fashion. Important events and problems must be

reported promptly. Besides acquainting itself with the way the "regulations" are being carried out on a day-to-day basis, the economic relations and trade office of the State Council plans to organize an inspection of the implementation early next year and make a report to the State Council.

6) Study and replicate the experiences of enterprises like the Shoudu iron and steel complex and accelerate the implementation of the "regulations."

A host of advanced enterprises that are keen on reform, innovative, and eager to forge ahead, and have been quite successful in transforming their operating mechanisms have sprung up across the nation since reform and the open policy began. Their experiences have been promptly reviewed and popularized by localities and sectors. Beijing, for instance, has been emulating Shoudu iron and steel complex; Shanghai, the No 2 spinning machine company; Hebei, Handan iron and steel complex; Guangdong, Guangzhou MSG Factory; the chemical industry, Jilin chemical industrial plant; the petrochemical industry, Yan petrochemical plant; and the coal industry, Shigejie, etc.

Interregional and inter-sector exchanges also have been very active. At the instruction of leaders of the State Council, the Economic Relations and Trade Office of the State Council recently proposed that the industrial front nationwide study and replicate the successful experiences of the Shoudu iron and steel complex, Jilin chemical industrial company, and Shanghai No 2 spinning machine shareholding company Ltd. so as to advance the enterprise economy. Replicating the experiences of these enterprises means emulating their adherence to the party's basic line, their taking the initiative to transform the operating mechanism, and their marching at the front of reform and the open policy. It means taking the advanced international level as one's goal, as they have done, participating in market competition enthusiastically, and combining fast growth with good economic results. It means following their example in correctly handling the relations between the state and enterprises, exercising decision-making authority in their operations, assuming responsibility for their own profits and losses, establishing sound mechanisms for distribution and self-discipline, and maintaining the ability of state properties to increase value. It means imitating their efforts to bring about technological progress and make their leading products more and more competitive. It means running the factory strictly, improving management, continuously raising the standard of modern management, and emulating, in particular, the style of their leading groups to liberate their thought, close ranks and forge ahead, seek truth from facts, and avoid empty talk. It means relying on the masses of workers, as the three enterprises have done, tackling the construction of the two civilizations at the same time, combining the transformation of operating mechanisms with the push for technological progress and improvement in enterprise management to upgrade the overall quality of the enterprise. Studying

and popularizing the experiences of these three enterprises on the industrial front nationwide not only meets the need of improving the overall quality of a vast number of enterprises and enabling them to compete on both the domestic and international markets, but will also be highly instructive and push our drive to accelerate reform, the open policy, and the transformation of enterprise operating mechanisms.

The promulgation and implementation of the "regulations" is consistent with emulating and replicating the experiences of those three enterprises and should go hand in hand to promote each other. We believe that by implementing the "regulations" and replicating the experiences of these three enterprises, many more enterprises will come to life and join the ranks of the advanced, just like the three enterprises. They will be a remarkable force, on whom we will pin our hopes for speeding up the transformation of enterprise operating mechanisms. What needs to be emphasized is that the development and experiences of the three enterprises are the outcome of their correct application of government policies and their taking the initiative to transform their operating mechanisms. They are also the outcome of the government's decision to expand their decision-making authority and apply to them a string of flexible revitalization policies. Thus not only must the vast number of enterprises study their experiences in earnest, but government departments too should do likewise, further liberate their thought, change their functions, and work hard to steer state enterprises onto the road of reform, openness, and development. Government departments must take pains to nurture a host of enterprises with a good foundation, give them more decision-making authority, and encourage them to organize enterprise groups, even going multinational in some cases. In implementing the "regulations" and replicating the experiences of the three enterprises, we must rely on the working class and strengthen ideological and political work. Make the most of party organs in the enterprises as the political core. Put trade unions and the Communist Youth League to use. Support the factory director in discharging his duties and responsibilities in accordance with the "regulations" and protecting workers' legitimate rights and interests under the law. All parties should work together with one heart, conduct thoroughgoing and painstaking ideological and political work, and properly preserve, guide, and put to good use the enthusiasm of workers for supporting and participating in reform. Integrate the implementation of the "regulations" and the replication of the experiences of the three enterprises with the conduct of our current work, concentrating on solving some of the more outstanding problems encountered in the course of production and operations. Go all out to turn losses into profits, sort out the "triangular debt," and limit output to clear swollen inventories. Work hard to adjust the structure and improve economic results. Speed up the rate of economic growth.

Grasping the favorable opportunity existing now to implement the "regulations" across the board and quickening the pace of reform and the open policy is an important policy that would help accomplish the strategic mission put forward by the central government of raising the national economy to a new high. All localities and sectors must take the initiative to implement the "regulations" to the letter, working imaginatively and steadfastly.

### **World Bank To Help Upgrade Accounting Standards**

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[Text] Beijing, February 5 (XINHUA)—The World Bank has recently approved a loan plan for China in a bid to bring the Chinese accounting system up to world standards.

As part of the technical assistance provided by the World Bank for China's reform of financial sectors, the loan, which totals about three million U.S. dollars, will be used to help China develop a new set of accounting standards required by a market economy.

Deloitte Touche Tohmatsu, one of the leading international accounting firms, has won the bidding for this project. A contract was signed here today between the Ministry of Finance and Deloitte Touche Tohmatsu.

According to the contract, Deloitte Touche Tohmatsu will provide consulting services for the preparation of Chinese accounting standards for three years starting from 1993.

Part of the loan will be used to train Chinese certified public accountants to ensure the quality of accounting service under the new standards, according to officials from the Ministry of Finance.

In a landmark step out of the traditional accounting principles and accounting models, China promulgated the enterprise accounting standard last November to gear up for the country's burgeoning market economy.

However, the enterprise accounting standard could only provide a framework for future accounting standards. Several accounting standards needed to be worked out by discipline for a whole brand-new accounting system.

With the financial help from the World Bank and consulting services provided by Deloitte Touche Tohmatsu, China plans to realize the goal by the end of 1995.

## PROVINCIAL

### Sichuan Defense Industry Develops Civilian Exports

OW0402043093 Beijing XINHUA in English  
0404 GMT 4 Feb 93

[Text] Chengdu, February 4 (XINHUA)—The defense industry in Sichuan Province in southwest China has made progress in developing civilian and export commodities.

The province has 86 military plants of various kinds, and their fixed capital, industrial output value and pre-tax profits are sizable.

Since the early 1980s China's defense industry has stepped up development of civilian production and made active efforts to use foreign funds to put more military-turned-civilian technology and products onto the international market.

Last year the province made 650 million yuan (about 118 million U.S. dollars) from exports of civilian-use products, 109 percent up over the previous year. The export of a dozen products, such as motorcycles, jeeps, hydraulic jacks and eyeglasses have been on the rise. A nail gun made by the Nanshan machinery plant has been exported to over 20 countries and regions.

In 1992 some 19 military plants in Sichuan signed 23 contracts and letters of intent for joint-venture projects with overseas firms—for the production of motorcycles with Japanese companies, paints with U.S. companies and oil tanks with Taiwan firms.

Meanwhile, the province's military plants have set up 30 foreign-funded firms.

At the same time they have set up agencies and sale centers in China's coastal cities to promote overseas ties.

In 1992 they signed four contracts on setting up branch firms abroad.

### Tianjin Develops New-Tech Industrial Park Zone

SK0802143093 Tianjin People's Radio in Mandarin  
2300 GMT 6 Feb 93

[Text] The Tianjin New-Tech Industrial Park Zone is accelerating the pace of development and plans to make greater development in 1993.

According to the plan, by the end of this year, the zone should possess 800 new high-tech enterprises, run another 50 foreign-funded enterprises involving foreign capital, earn more than 2 billion yuan of income from local industrial trade, and send some products to the international market. This news was released by a responsible comrade of the park zone's party committee at the work conference of the zone's management and service departments held on 6 February.

The park zone should create a fine environment and solid intellectual and information resources for developing new high-tech industries. The park zone is continuing to develop at a rapid speed. The park has 571 new high-tech enterprises and authorized the establishment of another 369 new enterprises, surpassing the total figure from 1989 to 1991. Last year, the 380 enterprises with management activities earned 886.01 million yuan of income from the local industrial trade, created 61.97 million yuan of profits, and handed over 32.5 million yuan of taxes to the higher levels. Therefore, the park zone has become one of the areas filled with vitality for economic development in the municipality. The zone has concentrated on developing tangible conditions. This year, we should comprehensively complete the leveling of ground and the building of infrastructural facilities, including roads, running water, electricity, telecommunications, and gas, for three square km of (Wujin) development zone; invest 160 million yuan to complete the construction of a project covering an area of 50,000 square meters; implement the use of three square km for (Huayuan) industrial zone; and also start the development of the zone on 1.1 square km of land. Simultaneously, the (Beicouba) development area should complete the construction of high-tech standard workshops, occupying an area of 20,000 square meters. It is necessary to essentially develop and build such projects covered in the draft construction plan as a scientific research base occupying an area of 88 mu, the multi-functional group buildings, the (Baiji) road, and the (Kemao) square. Simultaneously, the zone is making efforts to perfect and implement various detailed rules of management methods, and will work out, in succession, 12 relevant documents, and strive to further create a fine environment for the development of new high-tech enterprises.

This year, the zone will vigorously expand the invitation of businessmen, extensively conduct cooperation with brotherly provinces and municipalities with the focus on bringing in projects and skilled persons. It will send groups to foreign countries with the purpose of inviting businessmen. At the time of increasing, by a big margin, the number of new high-tech enterprises, the zone will concentrate energy on developing increasingly more star enterprises. The zone has preliminarily defined that by the end of this year, it will develop more than 100 enterprises whose individual local industrial trade income will range from 2 million yuan to 50 million yuan. To fulfill the aforementioned tasks, the management organs and information service departments at various levels in the zone have made efforts to ceaselessly strengthen their self-improvement, to carry out the method of management by one station, and to offer integrated service.

### Guangdong Relaxes Restrictions on Private Business

HK0502001693 Hong Kong ZHONGGUO TONGXUN  
SHE in Chinese 1241 GMT 4 Feb 93

[Text] Guangzhou, February 4 (HKCNA)—Guangdong will adopt more flexible policies for private businessmen

in order to meet the demands of the development of the market economy in the province. Such policies to be implemented in the province which is taking a lead in the country's economic development aim at promoting the individual privately-owned economy to one of bigger scale and of a higher stage.

According to the Provincial Administration Bureau of Industry and Commerce, the relaxation measures are:

First, the scope of businessmen in this sector will be broadened with all except state cadres and other staff allowed to engage in individual private business. Scientific personnel, technicians and professional personnel will be allowed to take another job and do private business provided it does not interfere with their basic work and does no harm to their unit. Resident foreigners in China will also be allowed to engage in such business with the approval of the public security department and will be able to get a one-year business license.

Second, the scope and ways of conducting such business will be broadened. Individually-owned business households and privately-owned enterprises will be allowed to engage in production and operation of all kinds of businesses and handle all kinds of commodities except those disallowed by law.

Third, appraisal of their registered capital will be simplified. Private-owned limited liability companies engaging in scientific business or other kinds of business serving agricultural production with registered capital up to 50 percent of the regulated sum can be appraised for registration.

Fourth, such individually-owned business households will be allowed to cooperate with foreign business in setting up Sino-foreign joint-funded and cooperative enterprises.

Fifth, persons from outside the province will be allowed to do such business there. From 1993 on, private businessmen, be they locals or from outside the province can obtain registration for such business in the province provided they have fixed operation sites.

Sixth, businesses such as grocers, mortgagers, wholesale grain dealers, wholesale book dealers, privately-run schools and kindergartens will be permitted.

Seventh, privately-owned enterprises will be encouraged to develop into enterprise groups and those with adequate funds, technological strength and a big operational scale will be allowed to practice trial shareholding.

### **Guangdong To Begin Major Infrastructure Projects**

*HK0902074593 Hong Kong WEN WEI PO in Chinese  
2 Feb 93 p 1*

["Dispatch" from Guangzhou by reporting group: "Guangdong Provincial Vice Governor Zhang Gaoli on Province's Key Capital Construction Projects, Including

Yangjiang Nuclear Power Station, International Airport, Railroad, and Highway Projects"]

[Text] Guangzhou, 1 Feb (WEN WEI PO)—Today, Zhang Gaoli, vice governor of Guangdong Province, indicated in his report delivered to the Guangdong Provincial People's Congress on this year's key infrastructural construction projects, that Guangdong will step up the construction of the nuclear power station in Yangjiang, start preparation work for large, new international airports in Guangzhou and eastern Guangdong, and will also start a key water conservancy project in Feilai Gorge.

When talking about railroad construction, Zhang Gaoli said that Guangdong would quicken projects to electrify the Guangdong section of the Beijing-Guangzhou Railroad and modernize junctions in Guangzhou, and that they would also advance support projects for the Guangzhou-Shenzhen Expressway, the Guangzhou-Meizhou-Shantou Railroad, the Guangdong section of the Beijing-Kowloon Railroad, and the Sanshui-Maoming Railroad. Efforts will be made to start the construction of the Guangzhou-Zhuhai Railroad and the subway system in Guangzhou and preparatory projects for laying double track along the Litang-Zhanjiang Railroad and constructing railroads between Maoming and Haian, Longyan and Meizhou, Chunwan and Luoding, Chenjiang and Aotou, and Yangchun and Yangjiang. In the field of civil aviation, existing airports will be modernized with more support facilities built, construction of the Sanzao Airport in Zhuhai will be accelerated, and site selection and preparations for large international airports in Guangzhou and eastern Guangdong will be stepped up.

This year, according to Zhang Gaoli, Guangdong will build seven expressways, including a beltway around Guangzhou and expressways between Guangzhou and Shenzhen, Guangzhou and Qingyuan, Foshan and Kaiping, Guangzhou and Zhuhai East, Guangzhou and Zhuhai West, and Shenzhen and Shantou.

Preparation works for another eight expressways will be started, and these will include the following: Qingyuan-Shaoguan-Pingshi, Meizhou-Heyuan-Huizhou, Dali-Sanshui-Zhaoqing, Kaiping-Zhanjiang-Haian, Chaozhou-Shantou-Fenshuiguan, Jieyang-Shantou, Yangjiang-Guanghai-Yamen-Gaolangang, and Guangzhou-Baiyun.

In the aspect of power production, construction of an energy-reserved power plant in Guangzhou will be quickened, efforts will be made to start the construction of the Zhuhai Power Station and the Taishan Power Station, and preparatory work will begin for the nuclear power plant at Yangjiang and the power stations at Shanwei, Huilai, and Guangao.

In the aspect of water conservancy, the third-phase of an expansion of the water supply facilities in Shenzhen, a

key water conservancy project in Feilai Gorge, and early work on the Dahe Reservoir will be advanced more intensively.

### **Guangdong's Revenues Increase by 25 Percent in 1992**

*HK1002045693 Beijing RENMIN RIBAO in Chinese  
2 Feb 93 p 1*

[By reporter Liang Zhaoming (4731 0340 2494): "Guangdong's Financial Revenue Increases by 25 Percent, Shenzhen's by Over 55 Percent"]

[Text] Guangzhou, 1 February (RENMIN RIBAO)—Guangdong's path of economic development, which unites high speed and efficiency, has succeeded.

At the first session of the Eighth Provincial People's Congress, a person in charge of the provincial financial department disclosed today that, last year, the province's financial revenues were 22.136 billion yuan, an increase of 25.25 percent over the previous year.

Last year, Shenzhen City's financial revenues amounted to 4.296 billion yuan, 55.05 percent higher than the previous year; 13 counties (cities) had revenues in excess of 100 million yuan each; and six towns exceeded 50 million yuan in financial revenues each, with Shunde City's Guizhou topping the 100 million yuan mark.

In terms of the province's overall revenue and expenditure situation, revenue and expenditure is expected to balance with a small surplus.

### **Shanghai To Open Chemical Products Futures Market**

*OW0902112393 Beijing XINHUA in English  
1059 GMT 9 Feb 93*

[Text] Shanghai, February 9 (XINHUA)—Shanghai is to open its fourth national futures market, a chemical products market, an official said.

Previously, Shanghai has opened a metal products market, a grain market and a coal market under the futures trading system.

Zhao Luheng, president of the planned market, said that the market will adopt a the similar system with open price competition.

He said that 36 chemical products manufacturers, circulation units, foreign trade companies and financial institutions of notable scale and influence from around China have become its members.

### **Jiangxi's Birth Rate Drops**

*OW0702103593 Beijing XINHUA in English  
0949 GMT 7 Feb 93*

[Text] Nanchang, February 7 (XINHUA)—The population birth rate in eastern China's Jiangxi Province has dropped continuously thanks to the implementation of the family planning policy.

According to statistics, Jiangxi's population birth rate reduced by 1.67 per thousand, or 60,000 babies, in 1992 compared with the previous year.

Last year saw the provincial government shift its attention of family planning to rural areas by taking effective measures to encourage late marriage and late childbirth among young farmers.

Meanwhile, use of contraceptives was spread among floating population in the province.

An official of the province in charge of family planning affairs said that the provincial governor has concluded new contracts with leading officials of the 11 prefectures and cities recently to strive to reduce the population birth rate by between 0.5 per thousand and one per thousand this year so as to create more favorable conditions for the provincial economic and social development.

### **Xinjiang's Song Hanliang on Family Planning**

*OW1002121893 Urumqi XINJIANG RIBAO in Chinese  
20 Jan 93 p 1*

[Report by Zhang Yu (1728 6735): "The Region Gives 200,000 Yuan in Rewards to Units That Attained Family Planning Targets"]

[Text] On 19 January the autonomous regional party committee and people's government held a regional forum on family planning work and stressed that, in the new year, leaders at various levels must give priority to family planning work and persist in simultaneously taking charge of the "two kinds of production" to promote economy, bring down the birth rate, and ensure the objective set for population control is attained.

At the forum, leaders from Urumqi, Kashi Prefecture, and Ili Prefecture gave briefings on their respective localities' experiences in successfully achieving the local population-control targets.

Wang Lequan, deputy secretary of the autonomous regional party committee and vice chairman of the regional government, read out the "Decision of the Autonomous Regional People's Government on Commending and Rewarding Units Which Attained the 1992 Target for Population and Family Planning Work." Relevant departments and leaders from 13 prefectures, autonomous prefectures, and cities—including Urumqi and Kizilsu Kyrgyz Autonomous Prefecture—were rewarded with cash awards totalling 200,000 yuan.

Autonomous regional Chairman Tomur Dawamat pointed out at the forum: Our forum on family planning is being convened just after the closing of the regional people's congress session; this shows that the autonomous regional party committee and the autonomous regional people's government have not changed their policies of keeping up good family planning work under the new situation of accelerated reform, opening up to the outside world, and modernization. He urged all major leading comrades from the party, as well as from the government, who were present at the forum to further strengthen their population consciousness and concept of per capita share of resources and to really give family planning its place as a basic national policy. In carrying out this work, they should carry out proper investigation and study, promptly sum up experience, and take personal charge of and enthusiastically support and administer family planning work, instead of stopping at making only written or oral statements and general calls.

After his speech, Chairman Tomur Dawamat signed the "contracts on administrative responsibilities for attaining targets for population and family planning" for 1993 with responsible persons from Hotan, Changji, Karamay, and 13 other prefectures and cities.

To ensure that the region will achieve the objective set for population control in 1993, autonomous regional party Committee Secretary Song Hanliang stressed that it is necessary to do a good job in carrying out the following work:

Party committees and governments at various levels should further improve their understanding, seek unity of thinking, continue to take charge of family planning work in an effective and down-to-earth manner, and leave no room for the slightest relaxation. Efforts should be made to guide child bearing among the masses with policies and minimize unscheduled births not in accordance with the policy to ensure population plans are carried out.

Population planning is an important part of national economic planning. Party committees and governments at various levels should study new situations and new problems as well as attend to and learn new trends to bring about smooth development of family planning work. In the course of building a socialist market economic system, in particular, the grip on family planning should never be released and the implementation of the basic national policy should never be shaken. Otherwise, it will be difficult to accomplish the national economic plan and impossible to attain the objective of our multinational region's struggle for this century.

We should further strengthen the building of a service network for family planning and begin with grass-roots villages in strengthening technical services. The pressing task of the moment is to solve the problem of inadequate medical services and supplies as well as underdeveloped technical services in farming areas and strive to build a

multilevel family-planning service network covering the entire region within two years.

Because family planning concerns every family, as well as party committees and governments at all levels, it is necessary to resolutely stabilize the existing policy on family planning, strengthen legislation on family planning, and administer family planning in compliance with the law. In addition, we should continue to increase funding for family planning and satisfy as far as possible the needs of family planning undertakings.

## FINANCE, BANKING

### Shanghai Speeds Up Reform of Financial System

OW0202133793 Beijing XINHUA in English  
1322 GMT 2 Feb 93

[Text] Shanghai, February 2 (XINHUA)—Shanghai, China's largest business hub, is to reform its financial services around a new financial system and operation mechanism.

Mao Yingliang, president of the Shanghai branch of the People's Bank of China, announced the plans today in Shanghai.

He said this year Shanghai is to admit more overseas banking organizations while allowing foreign-funded banks to expand the scope of their business.

The city will also cultivate its renminbi exchange rate mechanism based on the market exchange rate, and promote a free exchange for business corporations. For individuals free exchange will be available but with some controls.

According to Mao, the city is to strive to establish and develop "a fair, efficient, open and unified financial market."

While continuing to cultivate and develop the markets of inter-bank loans, discount bills, securities and foreign exchange swap, it is to explore the markets for gold, insurance and foreign currencies.

Plans are being drawn up to set up a gold ornaments exchange center. And the city is to open its gold market within certain limits and encourage more connections with the world gold market, Mao said.

Shanghai will accelerate the establishment of its insurance broker system and insurance notary system as well as insurance intermediaries such as consultation companies and loss assessors.

This year the city is to carry out inter-bank loans, expand business scope of the foreign exchange swap center while introducing a futures exchange.

In addition, Shanghai is to form a material capital market this year.

Mao added that Shanghai will further accelerate the offshore finance business in the Waigaoqiao free trade zone in the Pudong new area of the city, relax control over foreign currencies and abandon deposit reserve funds in foreign currencies.

The city will open new financial business involving financial futures and forward exchanges in a bid to mobilize its financial market.

### Shanghai Stock Exchange To Promote Unified Market

OW0202022993 Beijing XINHUA in English  
0143 GMT 2 Feb 93

[Text] Shanghai, February 2 (XINHUA)—The stock exchange in Shanghai, China's leading metropolis, will work to promote the formation of a national unified securities market.

According to Wei Wenyuan, president of the Shanghai Stock Exchange, as the first step, Shanghai will enhance links with the Shenzhen Stock Exchange in south China, the country's only other stock business center.

The two exchanges are totally separate, resulting in difficulty for investors.

Wei said that communications between the two exchanges could be solved by a joint computer network. This would lead to a nationwide stock market and an expansion of business.

The Shanghai Stock Exchange has 216 member agencies and is represented in most parts of China. Its computer network covers major cities in 22 provinces, municipalities and autonomous regions.

## INDUSTRY

### National Industrial Output Falls in January

HK1002045893 Beijing ZHONGGUO XINWEN SHE  
in English 1326 GMT 9 Feb 93

[Text] Beijing, February 9 (CNS)—According to statistics from the State Statistical Bureau, the national industrial output in January was rmb 217.9 billion, a drop of 22.8 percent over the previous month, the biggest monthly reduction in recent years.

Last January, rapid growth in industrial production could be seen in the coastal provinces and autonomous regions including Jiangsu, Zhejiang, Shandong, Guangdong and Guangxi, where growth rates were between 12 percent and 48 percent. There was, however, a drop in growth in many provinces, autonomous regions and municipalities including Beijing, Inner Mongolia, Liaoning, Heilongjiang, Hunan, Guizhou, Shaanxi, Ningxia and Xinjiang, with drops in growth of between 1.9 percent and 11.6 percent. The output value of heavy industry last January was rmb 115.9 billion, up 15.6 percent on the month before and an increase of 58

percent from township enterprises although that from state-owned industry was down 0.6 percent.

### Jiangsu Electronics Industry Growth Detailed

92CE0241B Beijing ZHONGGUO JIDIAN BAO  
in Chinese 24 Nov 92 p 1

[Article by Xia Guoliang (1115 0748 2733): "The Machinery Industry in Jiangsu Accomplishes a Strategic Turnaround"]

[Text] The machinery industry in Jiangsu Province, seizing the rare opportunity afforded by comrade Deng Xiaoping's address during his southern tour, has changed its thinking, transformed its way of doing things, and accomplished a turnaround in industrial output 99 months ahead of schedule, achieving a happy situation where there is large-scale growth in profits and tax payments.

This year, in only nine months, Jiangsu's machinery industry has exceeded its plan for the year, by the four economic measures of production, sales, efficiency, and foreign exchange earnings. From January to October, gross industrial output value reached 19.111 billion yuan, a 44.53 percent increase over the same period last year; income from sales reached 17.63 billion yuan, a 54.3 percent increase; and profits and tax payments were 1.59 billion yuan, a 82.4 percent increase.

Since the beginning of the year, when comrade Deng Xiaoping gave the major address of his southern tour, enterprises in Jiangsu's machinery industry, one after another, revised this year's annual plans, and development goals for the Eighth and Ninth Five-Year Plans. They focused their attention on developing economies of scale, seeking as a new starting point, the integration of evolutionary change in the relations of production, with optimal use of the factors of production, stepped up the pace of technical progress, and orientation toward the market. Within the system of enterprises under the Provincial Department of Machinery, the number of enterprises whose annual production value exceeds 100 million yuan can be expected to grow to almost 30, from 17 last year. Four of them will exceed 500 million yuan in annual production value for the first time, namely the Taizhou Chunlan Refrigeration Equipment General Manufacturing Company, the Changzhou Diesel Engine Factory, the Xuzhou Amalgamated Engineering Machinery Company, and the Nanjing Agricultural Implements Factory. By the end of September, a group of 23 major businesses had exceeded 10 million yuan in profits and tax payments, and 75 enterprises had exceeded 5 million yuan. The number of money-losing enterprises, and the total amount of money lost, declined 55 percent and 75.3 percent respectively, compared to the same period last year, and the composite index of economic efficiency for the machinery industry is 21 percentage points above the average level for the same industry China-wide.

Of the raw materials used by the machinery industry in Jiangsu, 85 percent come from other provinces, and 80 percent of its products are sold to other provinces, or other countries. As China advances at a quickening pace toward membership in GATT, the Provincial Department of Machinery is promoting a mind-set of competition in "a marketplace without national boundaries." It insists that matters concerning "foreign capital, foreign trade, and foreign-style management" must all be addressed together, so as to bring in foreign capital and technology, put more force into adjustment of the product mix, and speed up the development of "hot-selling" products.

At present, sales of agricultural implements, engineering machinery, and machinery for environmental protection, in China and abroad, are growing 40 to 70 percent faster than in the same period last year. Exports of more than 130 products have earned a total of \$250 million in foreign exchange, an increase of 43 percent over the same period last year. Recently, the Provincial Department of Machinery arranged for the purchase of more than 50,000 square meters of land in the Kunshan Development Zone, and is now, in keeping with the requirements of the joint development of secondary and tertiary industry, inaugurating a policy of coordination with economic development in Pudong, which will provide power for the rapid growth of Jiangsu's machinery industry.

#### **Jiangsu Encourages Purchasing on Open Market**

*93CE0241C Nanjing XINHUA RIBAO in Chinese  
27 Nov 92 p 2*

[Article by Xia Qihui (1115 0796 5476): "Jiangsu Has a New Way To Import Mechanical and Electrical Equipment: Changing From Bi-Lateral Negotiations to Purchases by Competitive Bidding"]

[Text] Purchasing imported equipment by international competitive bidding, which emerged in response to the great tide of reform and opening up, is serving an ever more important function in technical transformation in Jiangsu. According to informed sources, by the middle of October, the Jiangsu Provincial Mechanical and Electrical Equipment Open Tender Company had managed more than 40 purchases of imported equipment by international competitive bidding this year, and saved 16.64 percent of expenditures of foreign exchange, compared to what was originally planned. Zhang Jiuliang [1728 0046 5328], general manager of the company, said: "Purchasing by competitive bidding is a new method that comports better with the principles of a market economy."

In the past, when an enterprise imported equipment from overseas, it usually engaged in bilateral negotiations itself with a foreign vendor. Purchases made by this traditional method were often ill-considered, thus some machinery was imported at very high prices, and quality could not be assured. Beginning in 1990, the Jiangsu

Provincial Mechanical and Electrical Equipment Open Tender Company introduced the market competition mechanism into the purchase of imported equipment. For equipment that was suitable for importation through competitive bidding, the company established the terms of the offering, in accordance with international practice, circulated the solicitations for bids, and arranged for foreign vendors to participate in the bidding, so that the enterprises picked the best imported equipment. This method manifested the following advantages:

**Lower costs.** In April of this year, many foreign vendors bid against each other to supply the Xinyi Paper Factory with sheet spreaders. After comparison, when the most satisfactory one was chosen, the company saved more than \$200,000 in foreign exchange compared with the original plan. According to statistics, purchase by competitive bidding is, in general, about 10 percent cheaper than other methods of importing equipment.

**Assurance of quality.** Through competitive bidding, enterprises can do real comparison shopping. Moreover, the companies invited to bid will arrange for experts in related fields to comment on the bids, assuring the quality standards of imported equipment.

**Higher efficiency.** Much is involved in the work of importing foreign equipment. In the past, enterprises often were weighed down with this work. Now, companies invited to bid undertake all the affairs involved in purchases through competitive bidding. The burden on enterprises was reduced, and work efficiency rose. In September of this year, four enterprises in Jiangsu commissioned the Provincial Open Tender Company, to solicit bids to supply 27 sets of fishnet manufacturing equipment. Only 10 days passed from the opening of the bids to the signing of the contract. Under the old procedures, at least three months would have been required.

#### **Textile Export Problems in Jiangxi**

*93CE0241A Beijing ZHONGGUO FANGZHI BAO  
in Chinese 23 Nov 92 p 3*

[Article by the Jiangxi Provincial Bureau of Textiles: "Three Present Problems With Export Textiles That Must Be Addressed"]

[Text] According to concerned departments, problems with Chinese export textiles are showing up very plainly in such areas as quality, variety, price, service, etc. This makes it difficult to export textiles.

First, there is the problem of quality. Chinese gauze does not compare in quality to gauze from Pakistan or Taiwan, and does not meet the requirements of the international market. For instance, gauze must have a requisite fiber length, be without burrs, and be free of static electricity. Otherwise, the price will be low. We recommend that inspection standards for textile goods made for export be raised, to meet the international standards of the International Standards Organization.

Next, export prices are low. Low prices cause great economic losses for China. Prices in the Shenzhen Special Economic Zone differ by 10 to 15 percent from China's normal export prices. Similarly, price differences for the same products among various regions are also very great. Some enterprises are not well-informed, and blindly create surpluses in the market, such as TC 45x45 110x76. It is said that there are 1,110 enterprises producing 40x40 130x72, and their output comes to 100 million meters.

Again, there is the problem of variety. Variety is a technique for creating economic efficiency. Inasmuch as there is a glut in the market for low and middle quality textiles, the need to develop new varieties is urgent. The only way to give textile exports a new lease on life, is to change old varieties, and create new ones.

## FOREIGN TRADE, INVESTMENT

### Trade, Investment With Hong Kong, Taiwan Discussed

93CE0255A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 10, 30 Oct 92 pp 16-19

[Article by Ji Wenxiu (0679 2429 4423), People's Bank of China, Lianyungang Branch: "Strengthen Trade and Economic Cooperation Among the Mainland, Hong Kong, and Taiwan"]

[Text] During the late 1970s, China implemented reform and opened up to the outside world; in 1984 China and Britain signed the Joint Declaration on Hong Kong; and in November 1987 Taiwan relaxed rules governing family visits to the mainland. These policies stimulated development of trade and investment among the mainland, Hong Kong, and Taiwan and ushered in a new state of affairs in the economic and trade cooperation among the three regions.

### I. Features of the Economic Development of the Mainland, Hong Kong, and Taiwan

#### 1. High Growth Rates

For the mainland, GNP grew from 447 billion yuan to 1.74 trillion between 1980 to 1990, a rise of 1.36-fold at constant prices, for an average annual rate of 9 percent. National income rose from 368.8 billion yuan in 1980 to 1.43 trillion in 1990, or 1.31-fold in constant prices, for an annual rate of 8.7 percent.

Taiwan's annual economic growth rate between 1983 and 1990 was 6.8 percent. The rate for 1985 was 4.7 percent; those of 1984, 1986, and 1987 were double digits, 10.5, 11.64, and 11.9 percent, respectively; and the rates for the other years varied between 7 and 8 percent. That for 1990, while a mere 5.11 percent, must still be considered high, given the global recession at the time. For that year, Taiwan's per capita GNP reached \$8,600.

Hong Kong's growth rate averaged 8.4 percent between 1984 and 1988, while those for 1989 and 1990 lagged, at 3.3 and 2.5 percent, respectively. Per capita GNP topped \$10,000 in 1990, high in world terms.

#### 2. Rapid Growth in Foreign Trade

The mainland's two-way trade rose from \$38.1 billion in 1980 to \$115.4 billion in 1990, up more than two-fold, and exports climbed from \$18.1 to \$62.1 billion, up 2.4-fold.

During the same period, Taiwan's two-way trade rose from \$39.5 to \$121.9 billion, up 2.1-fold, and exports climbed from \$19.8 to \$67.2 billion, up 2.4-fold.

Meanwhile, two-way trade for Hong Kong rose from HK\$209.9 to HK\$886.6 billion (excluding reexports amounting to HK\$414 billion), up 3.2-fold, while exports rose from HK\$68.2 to HK\$225.8 billion, up 2.3-fold.

### II. The Current State of Economic and Trade Cooperation Among the Mainland, Hong Kong, and Taiwan

#### 1. Bilateral Trade Has Surged

In recent years, indirect trade between the two sides of the Taiwan Strait has skyrocketed, from only \$7.7 million in 1979 to \$270 million in 1988 and to \$4.05 billion in 1990. During this 12-year period, bilateral trade has risen 51-fold, and Taiwan's trade surplus has exceeded \$10 billion. The mainland has become Taiwan's fifth largest trade partner; Taiwan, the mainland's sixth.

Trade between the mainland and Hong Kong has also surged, from a mere HK\$10.8 billion in 1978 to HK\$394.5 billion in 1990 (of which, imports from the mainland totaled HK\$236.1 billion, exports thereto were HK\$47.5 billion, while reexports were HK\$110.9 billion), up 35-fold. Since 1985, the mainland has surpassed the United States to become Hong Kong's largest trading partner (being the port's largest source of imports and her second largest export market), reducing Hong Kong's dependence on the American market (with exports to the United States declining from 44.5 percent of the port's total in 1984 to 29.4 percent in 1990) and rendering her export mix more stable and secure.

Growth in bilateral trade (including reexports) between Hong Kong and Taiwan has also been substantial, rising from \$3.2 billion in 1986 to \$7.5 billion in 1988 and topping the \$10-billion mark in 1990, at \$10.8 billion. Prior to 1986, Hong Kong's exports had always exceeded her reexports, but thereafter the reverse has been true. Since 1988, more than 50 percent of the port's reexports have come from the mainland, and about 30 percent thereof have gone to the mainland. In 1990 reexports reached HK\$414 billion, accounting for 64.7 percent of Hong Kong's total exports, thus enabling her to surpass Rotterdam as the world's largest port in terms of cargo volume.

## 2. Mutual Investment Has Surged

During the past decade, mainland investment in Hong Kong has steadily expanded, both in terms of scope and volume. A mere handful before, more than 1,000 Chinese firms now have investments in the port. The scope of operations has broadened from importing and exporting, retailing and wholesaling, banking, and warehousing to real estate, financial services, industry, infrastructural development, and the like. Chinese investment in Hong Kong has exceeded \$20 billion.

Meanwhile, major Hong Kongese financial groups have invested in Taiwan and the mainland. By late 1988, their investment in Taiwan had reached \$7.5 billion, and by the first half of 1991 they had committed to \$20.6 billion, actually providing \$11 billion, in the mainland, making the port the mainland's largest source of foreign capital. Hong Kongese manufacturing firms have moved many of their plants to southern China and not only created employment for more than 2 million people in the Zhu Jiang delta but also earned much wealth for the port and enabled her industry to expand and retain competitiveness.

Guided by the policies of internationalization and liberalization, Taiwan capital has also steadily been invested in Hong Kong and the mainland. Some Taiwan investors are interested in the port's real estate, electronics, and other consumer-oriented markets, while others, through mergers and buy-outs, have entered markets in the port that are similar to the ones they serve domestically. Although starting late, Taiwan's investment in the mainland has grown rapidly. As of 1987, less than 150 firms had invested in the mainland, principally in Fujian and Guangdong, with a total capital of \$100 million. By 1990, the number of firms involved exceeded 1,600, regional coverage was total, and capitalization reached \$2.043 billion.

In the area of finance, to accelerate economic development the mainland has actively sought out foreign capital. Hong Kong naturally has become a major channel through which foreign financial institutions develop ties with China and a major source of loans thereto. Loans to Chinese nonbank customers by Hong Kong banks rose from \$1.8 billion in 1984 to \$48.8 billion in 1989. Financial links have also advanced from indirect to direct. Many Hong Kong banks now have branches or offices in Taiwan to handle foreign-exchange remittances to the mainland. An office of Taiwan's Hua Nan Bank formally commenced operations in the port during August 1991 (but for the time being cannot institute full banking services), and other Taiwan banks are fighting for turf there. Taiwan's China Investment and Trust Co. is negotiating to purchase a European investment bank that has more than 10 branches in the port, so as to undertake foreign-exchange loans between the mainland, Hong Kong, and Taiwan. The Xiamen Sino-Foreign Joint Investment Bank, headquartered in its namesake, already boasts participation by Taiwan capital.

## 3. People-to-People Contacts Have Grown

According to incomplete statistics, Hong Kongese make more than 10 million trips to the mainland each year to sightsee, visit relatives, or talk trade. Taiwan residents made 1.6 million trips between 1987 and 1989 and more than 1 million in 1990 alone to the mainland to visit relatives, sightsee, or trade. Following expansion of economic and trade cooperation and policy relaxation, semi-official and official, as well as private, contacts have grown. The number of Hong Kong legislative councilors visiting Beijing and Guangdong and the number of visits thereby have increased. The symposium entitled "Hong Kong: China's Window of Foreign Trade," jointly sponsored by the mainland and Hong Kong in Beijing, and the commercial coordination conference and trade and investment symposium, both convened in Shanghai, and the Fujian-Taiwan Economic and Trade Informational Exchange, convened in Xiamen, held between the two sides of the Taiwan Strait all demonstrate that the level of exchange and cooperation is rising.

## 4. Reevaluation of Current Economic Regulations Has Been Placed on the Agenda

During the early 1980s, Hong Kong's Business and Professionals Association initiated exchanges with relevant mainlanders, providing training programs at a variety of levels and in a variety of forms and inviting mainland experts and scholars to explain to Hong Kong industrial and commercial circles the Chinese commercial climate and procedures and regulations for investment in China. With the expansion of economic ties, the many incompatibilities and inconsistencies in the economic regulations maintained by the mainland, Hong Kong, and Taiwan have become painfully apparent and cry out for regulatory revision, perfection, and integration so that we can adjudicate economic disputes and cases accurately, appropriately, and in accordance with international convention. Thus reexamination of current economic regulations has been placed on the agenda. Exchanges, coordination conferences, and symposia have increased, as have contacts among scholars of economic law.

## III. Prospects for Economic and Trade Cooperation Among the Mainland, Hong Kong, and Taiwan

### 1. Taiwan's Dependence on the Mainland Market Steadily Grows

Owing to her small population, lack of resources, and limited market, foreign trade plays a decisive role in Taiwan's economy, accounting for about 8.5 percent of her GNP in 1990. However, Taiwan's trade has long depended on the United States, Japan, and other Western nations, with the United States her principal export market. From 1987 to 1990 she ran up a trade surplus amounting to \$54.5 billion with that country, making her second to Japan in that respect. Long-term trade deficits are unacceptable to the United States, which thus has subjected Taiwan to steady pressure,

forcing her to consider diversifying export markets and reducing exports there. Thus Taiwan's industrial and commercial circles naturally have grown anxious to break into the mainland market. The United States accounted for 48 percent of Taiwan's total exports in 1984 but only 30.4 percent by 1990. Part of the reason behind Taiwan's ability to reduce reliance on the American market is expansion of exports to the mainland.

Taiwan has long had a trade deficit with Japan, with the cumulative total between 1986 and 1990 reaching \$31.7 billion. Thus finding new sources of imports has become an effective way by which to reduce that deficit. The mainland has gradually become a source for some of Taiwan's imports of industrial raw materials and semi-finished goods. With abundant raw materials and a solid industrial base, the mainland enjoys great potential to export to Taiwan, while Taiwan has tremendous need for mainland goods, especially industrial and agricultural raw materials.

Taiwan's international balance of payments has long been awash in black ink due to her large trade surplus. Since 1987, her foreign exchange reserves have remained above \$70 billion, ranking first in the world. Such reserves subject the Taiwan dollar to considerable upward pressure, flood Taiwan with capital, cause the island's real estate and stock prices to skyrocket, wages to rise, labor costs to mount, the investment climate to deteriorate, and much idle capital to flow abroad. In recent years, Taiwan's overseas investment has mushroomed, especially to Asia. The Chinese mainland boasts unequalled advantages compared to the Southeast Asia. First, geographically, the mainland is right on Taiwan's doorstep, exchange of personnel and information is convenient, and it is very easy for Taiwan to use facilities in Hong Kong to transship products employed in investment and production on the mainland. Second, wages and land prices on the mainland are low, making her an ideal place for Taiwan's external investment. Third, the positive factors of similar language and customs make the mainland very attractive to Taiwan investors. In just the short time between 1987 and 1990, Taiwan investment in the mainland exceeded \$2 billion, and growth there has continued to surge ever since. Due to the steady expansion in trade and investment between the two sides of the strait, Taiwan's dependence on mainland markets has deepened, which will force the Taiwan authorities further to relax restraints on economic ties between the two sides.

## 2. Hong Kong Plays an Increasingly Prominent Role in the Development of Economic and Trade Relations Between the Two Sides of the Strait

Because the Taiwan authorities refuse to permit direct trade and investment, the vast majority of economic activity between the mainland and Taiwan is conducted through Hong Kong, making the latter an entrepot for trade there, a bridge for Taiwan investment in the mainland, the site for figures from the two sides to meet and negotiate, and a major channel through which

people from Taiwan visit the mainland. Until the direct "three exchanges" are realized, Hong Kong will play an ever greater role and occupy an increasingly prominent position in the development of economic and trade ties between the two sides.

Hong Kong is both an international financial center and a leading center for banking and credit in the Asian-Pacific region. As such, the port enjoys a wide source of capital and is advanced, in international terms, in the techniques of raising capital and managing debt. She also is a natural, deepwater port, possesses excellent communications and transport facilities, and thus serves as a shipping, aviation, trade, and communications center for the Far East. These advantages ensure that Hong Kong will continue to play a role in promoting trade and economic relations between the two sides of the strait.

Hong Kong enjoys very close ties with both sides politically, economically, trade-wise, and in terms of personnel, which ensures a continued intermediary role for the port prior to realization of the "three exchanges" and for some time thereafter. So far, that role has not only made her the busiest port in the world but also garnered her tremendous economic benefit. The vigorous growth in reexports has propelled development of her service, banking, insurance, transport, and warehousing industries. In 1989 more than 126,000 Hong Kongese were employed in transport, warehousing, and consulting, and 300,000 engaged in importing and exporting. Thus Hong Kong will continue to play this intermediary role.

## 3. The Mainland's Relationship With Hong Kong and Taiwan Is Like the Body to Its Wings; Properly Coordinated, the Economy Will Spread Those Wings and Take Off

The mainland is vast, populous, and rich in resources, precisely what Taiwan and Hong Kong lack. Thus Hong Kong and Taiwan firms have steadily moved their labor, capital, and technologically intensive manufacturing to the mainland. The capital and technology of Hong Kong and Taiwan complement the mainland's abundant natural resources and labor, to the benefit of all. Hong Kong and Taiwan can obtain inexpensive land, labor, and raw materials and thus reduce production costs and enhance international competitiveness, while regions across the mainland can resolve their employment problems, promote exports of raw materials, and accelerate development of productive forces. Thus it is clear that the relationship between the mainland and Hong Kong and Taiwan is like the body to its wings; properly coordinated, the economy will spread those wings and take off.

The people of the mainland, Hong Kong, and Taiwan are Chinese and share common blood, history, cultural background, language, and customs. Ethnic identification forms the natural basis for economic union between the three regions. Such a union will enable each region to exploit its own advantages, engender a powerful economic bloc, enable each region to respond to pressure

from other countries and economic blocs, and help to elevate China's international status.

Nevertheless, the mainland's economic and trade cooperation with Hong Kong and Taiwan has developed in accordance with the principle of comparative advantage and remains essentially free and loose. Due to differing social systems and levels of economic development among the three regions, economic cooperation has failed to reach higher forms. The regions should continue to forge ties with each other according to comparative advantage and improve trust in each other. Beginning with cooperation among individual enterprises and gradually expanding to that among entire industries or enterprise groups and from the current cooperation in processing industry to that in high-tech production certainly will facilitate advance from spontaneous, loose cooperation to a coordinated, closely knit union, which will steadily amass strength and spur its own development, thereby accentuating our interdependence.

## LABOR

### Survey on Professors' Low Wages

93CE0158A Hong Kong CHENG-MING  
[CONTENDING] in Chinese No 11, 1 Nov 92 pp 34-36

[Article by Bai Ren (2672 0088): "Water-Swallowing Professors"]

[Text] "Shuitun," or water-swallowing, is a Japanese word which means "drinking water." In pre-Meiji Reformation Japan, the serfs had only one right: drinking water. That the Japanese call Chinese professors "water-swallowing" professors is actually a slap in the face to the Chinese government.

I recently visited Beijing for the specific purpose of conducting a survey on the wages of teachers at all levels at my alma mater, Beijing Normal University. The results of the survey are reported here. After China embarked on reform and opened its door to the outside world, university teachers are still divided into four grades, as in the past, namely assistant professor, lecturer, associate professor, and professor. Salaries, however, have been revised. In 1956, the State Council set the salaries of university teachers as follows, depending on their rank: assistant professor, 56-78 yuan; lecturer, 89.50-140 yuan; associate professor, 140-180 yuan; and professor, 180-360 yuan. The post-reform salary scale is: assistant professor, 72 yuan; lecturer, 110 yuan, associate professor, 130 yuan; and professor, 180 yuan.

These days a Yongjiu bicycle costs 360 yuan; 180 yuan can buy you only half a bicycle.

It must be made clear that those elderly professors who used to be paid more than 180 yuan have all retired and are no longer on the faculty. The newly promoted professors who are making 180 yuan now are the highest paid professors under the new pay scale introduced in

the post-reform era. They are few and far between, only two or three in each department. My old department—foreign languages—offers three languages, English, Japanese, and Russian. It is a fairly big department and has many teachers, but only two of them are professors under the new pay scale. The entire university has 10 departments and just 30 professors. In other words, only 30 teachers at the university can draw a monthly salary of 180 yuan. All of them are over 60 years old, on the threshold of retirement. The monthly salary of 180 yuan puts them at the top of the pay scale.

Besides half a bicycle, what can a monthly salary of 180 yuan buy you? One-tenth of an 18 inch made-in-China color television set, which sells for 1,800 yuan; 20 yuan short of one-quarter of a Beijing-Guangzhou airplane ticket with a price tag of 800 yuan; 60 jin of pork, which costs 3 yuan a jin; 90 jin of eggs at 2 yuan per jin; 180 jin of apples at 1 yuan a jin; and half a Xinjiang-made lambskin jacket at 360 yuan apiece.

As assistant professors just out of college in the early 1950's, these professors made 50 to 60 yuan per month. What could 50-60 yuan buy you in those days? Bicycles were more expensive then, about 120 yuan each. So you were 2 yuan short of buying half a bicycle. But you could buy 110 jin of pork at 0.50 yuan a jin, 4 yuan short of buying 200 jin of eggs at 0.30 yuan a jin, a leather jacket at a little over 50 yuan apiece. As far as food and clothing are concerned, 180 yuan today does not go as far as 50 or 60 yuan 40 years ago. After teaching 40 years, an assistant professor is promoted professor, rising to the top of his profession, yet his income growth is negative.

### Everybody Is Making More Money, But Not Teachers

How does teachers' pay stack up to that of other professions?

I returned to the Hebei countryside to visit relatives and met a woman who worked in a textile factory in a county town. She just joined the textile plant as an apprentice, but was already earning 72 yuan a month, exactly what an assistant professor makes. Her apprenticeship was only for one year, at the year of which her pay would increase to between 140 and 180 yuan, the same as that of an associate professor or even professor. I found this hard to believe. Then I went to the villages and learned that even a seasonal laborer in the orchard made 3 yuan a day, or 120 yuan a month. Nothing short of this would entice people to leave home to work in the cities.

Sometime in March I was having a drink at a restaurant in a leading hotel in Shenzhen. Noticing that the waitresses were dressed just as smartly as their Hong Kong counterparts, I asked one of them, "How much do you make a month, as much as 500 yuan?" I thought I had over-estimated only to be told that "that is about right." Assuming she is paid 550 yuan, she is making three times what a professor earns.

I had a taxi ride in Beijing, paying 20 yuan for a trip lasting less than 20 minutes. It seems that a tax driver

makes 1 yuan per minute. If he has a passenger six hours each day, he makes 360 yuan a day. In other words, a taxi driver makes double in one day what a university professor earns in one month. Even if the driver has to turn over half of his earnings in the form of taxes to the government, his income is still 30 times that of a professor.

For teachers, meager wages mean a hard, spartan living. For decades they have been living frugally. After paying for food and clothing, most teachers have no money left for the pleasures of life. They don't smoke or drink. Some do not even entertain or drink tea. A pack of cigarettes costs several yuan. Let us say everyday you spend just 1 yuan on cigarettes, that would add up to 30 yuan a month. You drink one bottle of beer at 2 yuan each, not liquor, which would set you back 60 yuan each month. If you also drink tea, that would cost you an additional 10 yuan or so. Between them, these three things would set you back 100 yuan, which is more than half of what a professor makes. So teachers have to give up smoking, drinking, and tea-drinking, not to mention other pleasures.

I told a Japanese university professor the situation in China. He smiled wryly and said, "water-swallowing professors."

In pre-Meiji Reformation Japan, there was a class of serfs reportedly numbering about 2 million who were really slaves. They had no social status whatsoever, not to mention rights. Their only privilege was to drink water any time without restriction. Hence their name "water-drinking people," subsequently was used by poor people to describe themselves. In calling China's professors "water-drinking" professors, my Japanese friend showed endless sympathy for Chinese colleges, and delivered a slap in the face to the Chinese government as well.

#### **Children of University Teachers Can't Afford To Go to College**

A university teacher can bring himself not to smoke, or drink beer or tea. But certainly he feels obliged to give his children an education. In the past, most families, not to mention university teachers, had no economic difficulties giving their children an education. Other than food expenses, primary education, secondary education, and even college education were free. If you attended a teacher-training college, they even paid for your food. In addition, you could apply for some pocket money. Thus the burden on the family was minimal. Despite his low pay, a university teacher did not feel pinched.

Nowadays not only do primary and secondary schools charge all sorts of fees, but university education too comes with a steep price tag, imposing a heavy burden on the family. In the past the schools provided all kinds of aid and subsidies; now they charge you for everything, textbooks, lectures, laboratory use, and computer use. Between them, these four items amount to at least several hundred yuan each academic year, more in some

departments and schools that charge other additional fees. Moreover, you have to pay dozens of yuan for food, the exact amount set by the school based on food standards and so varying from institution to institution. Add pocket money and the expenses of a university student amount to at least 70 or 80 yuan a month, 40 percent of his professor parent's monthly pay, or over 50 percent if you add clothing, articles of daily use, and transportation. If his parent is just a lecturer earning 110 yuan, not a professor, then his expenses would gobble up 80 percent, not 50 percent, of his parent's pay. This state of affairs is unprecedented in the history of education in China, and judging from what my foreign friends have told me, in the rest of the world as well.

Even more frightening is that new fees are being cooked up. Reportedly new rules governing the collection of dorm fees will be introduced on university campuses. Under the new regulations, a student must first pay 2,000 yuan up front before he can move into a dorm. This sum of 2,000 yuan covers four years but must be paid in one lump sum. In return, a student is issued a set of bedding, which the university will launder regularly. When the student graduates at the end of four years, it will be his to keep. In effect, what they are doing is the commercialization of university dormitories. If the regulations go into effect and assuming the school admits 1,000 students a year, it will collect 2 million yuan, a handsome sum of money compared to the grant it receives from the Ministry of Education each year. Yet the fee would exert an enormous economic pressure on university teachers with college-bound children. It will take a professor who manages to save 60 to 70 yuan a month, which is quite an accomplishment, to pinch and save for three years in order to pay for the dorm fees of one college-attending child. This fee is really too onerous. This explains the indignation felt by all university teachers, either retired or still working, when this matter is raised. The children of university teachers cannot afford to go to college. What has the world come to?

#### **Teachers' Pay Cannot Be Improved**

The authorities are aware that intellectuals are underpaid and increasingly so but have not done anything to improve it. Nevertheless, they have made one concession in their policy: allowing intellectuals to moonlight to make an extra buck or the units to tap new sources of revenue to improve their employees' pay. Like the Eight Immortals in the legend crossing the sea, each one showing his special prowess, polytechnic teachers are repairing television sets, motors, and cars, earning a decent wage in the process. Teachers from academies of art can teach painting and teachers from music conservatories can teach piano or violin, which also pays quite well. But where can teachers from teachers' training colleges turn to make extra money? Well, they can be tutors. But the demand for tutors does not exist in every field, only mathematics, science, chemistry, and foreign languages. Tutoring, therefore, is an avenue to extra money for just a handful of people. In any case, the extra

income it does generate is tiny because the hourly wages are low and the number of hours limited. Tutoring is a bonanza only a tad better than volunteer work.

Nowadays whenever a bunch of intellectuals get together, they wrack their brains trying to figure out a way to improve the unit instead of encouraging the individuals to look for extra income on their own. Some units have indeed found a way to increase wages by a wide margin and benefit the units themselves at the same time. Hospitals, for instance, a friend of mine is an elderly doctor. The hospital he works at has set the following schedule of fees for those who seek medical services. All patients want to be examined by an old doctor, preferably a famous one. Taking advantage of this mentality on the part of its patients, the hospital allows them to choose their own doctor. Different doctors, however, command different fees. On the window is a list of the names of doctors along with their fees, the maximum being 10 yuan, followed by 8 yuan, 6 yuan. The fee will be split between doctor and hospital in a 6:4 ratio. So when the fee is 10 yuan, for instance, the doctor will pocket 6 yuan and the hospital will get 4 yuan. If the doctor works 26 days a month, he will make 3,120 yuan, about 10 times his original pay, which may be a mere 360 yuan. Other doctors will not be able to increase their incomes by this magnitude, but still significantly, at least 1,000 yuan. The patients all want to see a famous doctor, even if it means spending more. To them, 8 or 10 yuan is fully affordable. This method therefore is completely feasible. Doctors' wages will soon be improved.

Universities too will soon adopt a new approach called "structural wages." A "structural wage" is one made up of several components. One component is teaching: the more hours you teach, the higher your wage. Another component is administrative work; you get paid varying amounts for being the leader of a teaching group, the head of a teaching and research section, or the head of a department. If a teacher both teaches and takes up administrative duties, his wage will have two components. The idea is that the more you work, the higher your pay. University teachers, however, have no interest in this scheme at all. The increases are minimal, about half of one's original pay at best, only a little more in the case of department heads, simply no match for the increase in doctors' pay. University teachers do not hold out any hope that their pay would be improved. They realize that unlike doctors, any increase in whose wages will be paid for by patients, teachers are dependent on additional educational funding by the state for any improvement in their salaries. And a substantial increase in educational funding is totally out of the question.

#### Children of Teachers Eschew Teaching

What is to be done? There is only one way out: quit teaching and leave the university. Most of my old classmates, having reached retirement age, are retiring one after another. Even those who have not retired would like to do so soon. They simply have no interest in continuing. In the past it was often said that university

teaching was unexciting, but it would be a shame to give it up. Now they say they have no regret in giving it up because they have lost all hope. The teachers all tell their children that under no circumstances should they take up teaching, it is a hopeless profession. Actually such admonition is quite unnecessary. Few people want to teach. Those who have already entered the profession are trying to change jobs. Even among the children of nonteachers, few want to be a teacher anymore. It used to be the dream of a graduate to remain at one's alma mater to be an assistant professor. Not any more. On the contrary, even those who chose to stay now want to quit. The last thing they want to do is to teach. The entire society thinks that as a profession, teaching offers no future.

## TRANSPORTATION

### Minister Urges Transportation Sector To Enter Market

*OW060222393 Beijing XINHUA Domestic Service in Chinese 0611 GMT 6 Feb 93*

[By reporter trainee Chu Baoping (2806 0202 1627) and reporter Wang Yanrong (3769 1693 2837)]

[Text] Beijing, 6 Feb (XINHUA)—Minister of Communications Huang Zhendong recently stated: The communications and transportation sector will speed up the program of reform and opening up; it will also establish and improve the system of transportation markets that operates in accordance with international practice. He asked two-thirds of the communications enterprises to change their operating mechanisms and enter the market within three years.

Since reform and opening up, our country has basically adopted a market orientation for local land and river cargo transportation, international ocean shipping, automobile repairs and maintenance, and the construction of communications facilities. Some local land and river passenger transportation services have also made inroads into the market, as has the design of certain communications projects. Nevertheless, passenger and cargo river transportation and port services that fall directly under the Ministry of Communications [MOC] jurisdiction are still basically operating outside the market. To create a single and open national transportation market, encourage fair competition, and promote the effective deployment of resources, Huang Zhendong proposed: First, the transportation market should be opened wider. In the future, the MOC will encourage public transportation services to operate as economic entities equipped with their own fleets of vehicles and vessels, or to undertake joint operations with other enterprises through the purchase of shares. The transportation of essential materials and goods should be gradually shifted from a planned system to market-oriented service. The main approach would be to reform the system of holding monthly meetings on transportation plans. It is necessary to encourage port authorities,

carriers, and cargo owners to hold meetings; to introduce contract transportation services; to gradually adopt the practice of holding transportation fairs; and to establish freight transportation centers. The MOC will also experiment with the deregulation of passenger river transportation service at selected places in the Bohai Bay by allowing carriers to independently determine their shipping routes, shipping schedules, and freight charges. Moreover, it will also experiment with a system of using passenger transportation routes and licenses for fixed charges, as well as a system of bidding for operating transportation service.

Second, the current freight system should be reformed. Huang Zhendong stated: While the state or local authorities will determine the freight for passenger transportation service by land and water, enterprises should be allowed to adjust the freight on a seasonal basis in accordance with changes in passenger traffic. Taxi cabs may gradually experiment with a system of negotiating prices within the industry and report the negotiated prices to local communications and pricing departments for approval and implementation. Rates must be clearly specified; no taxi operators may change the rates arbitrarily. Freight for local land and river cargo transportation may be set under official guidance; it may fluctuate by a 20-percent margin above or below the median rate, or it may correspond with the prices set by local governments. This policy should also be implemented with regard to freight charged for shipping services that fall directly under MOC jurisdiction. Charges for international shipping service, as well as transportation service into and out of the country by automobile, should be allowed to fluctuate with prices on the international market.

Huang Zhendong said: The MOC will undertake market organizational efforts, including the active development of various cargo transportation markets; the construction of bus stations; the establishment of markets for science and technology, skilled personnel, and labor service to supplement the communications and transportation market; and the gradual development of a convenient transportation network.

#### **Several Airports Under Construction in Southwest** *HK0402012093 Hong Kong TA KUNG PAO in Chinese* 22 Jan 93 p 2

[Text] Chengdu, 21 Jan (TA KUNG PAO)—In order to develop the economy in the southwest region and to give full play to the advantages of air transport, which requires less investment, yields quick returns, and achieves high efficiency, the southwest region is now building a number of new airports.

At present, the airports under construction include the Longdongbao Airport in Guizhou; the Zhaotong Airport and the Wujiaba Airport in Yunnan; the Daxian Airport, the Langzhong Airport, and the Yibin Airport in Sichuan; and the Gongga Airport in Tibet. Another five airport projects have been approved and the preparatory

works have been started. They are the Shuangliu Airport in Chengdu; the Panzihua Airport in Sichuan; the Baoshan, Lijiang, and Dali Airports in Yunnan; and the Bangda Airport in Tibet. These airport projects will all be completed within the period of the Eighth Five-Year Plan. Airports that will be built or expanded in the period of the Ninth Five-Year Plan include Chongqing's Jiangbei Airport, and the airports in Jinyang, Wanxian, Neijiang, Guangyuan, Jiuzhaigou, Nanchong, Ganzi, and Qianjiang of Sichuan.

#### **Guangdong Plans To Construct New Railways**

*HK0902133593 Guangzhou Guangdong People's Radio Network in Mandarin 0400 GMT 5 Feb 93*

[Text] A few days ago, a relevant railway department revealed that Guangdong will construct 703 km of new railways in the coming three to five years. It will complete Guangzhou-Shantou express railways, and expand and transform a number of freight yards. Those new railways to be constructed include Beijing-Kowloon railway, Guangzhou-Meixian-Shantou railway, and Meizhou-Longyan railway.

According to the original plan, the 140 km Guangdong section of Beijing-Kowloon railway is to be completed by 1997. Guangzhou Railway Bureau pointed out they it would strive to complete the project 18 months ahead of schedule. The 480 km Guangzhou-Meixian-Shantou railway, and 128 km Meizhou-Longyan railway are planned to be completed and opened to traffic by 1996.

## **AGRICULTURE**

#### **Bank Says Spring Farming To Get Priority Funding**

*OW0902035893 Beijing XINHUA in English*  
0309 GMT 9 Feb 93

[Text] Beijing, February 9 (XINHUA)—The Agricultural Bank of China has issued a circular asking its branch banks to give spring farming top priority in issuing loans.

The agricultural banks and credit cooperatives plan to increase agricultural loans by over 30 billion yuan this year.

The bank's head office also urged its local branches to carefully implement agricultural input plans and work to satisfy rational demands in agricultural production.

The bank has stressed that lending support for agriculture this year must be market-guided. Local branches must continue to implement the basic principle of "keeping up agricultural production while actively developing diversified economy," and help the agricultural sector adjust product mix and develop agriculture featuring "high yields, high quality and high efficiency."

The application and spread of agrotechniques, production of quality farm products and hard currency earning

farming, farmland irrigation construction and the building of socialized service networks will get most of the loans, said officials with the agricultural bank.

The officials pointed out that like agricultural loans, industrial and commercial loans issued by agricultural banks must also be used to serve spring farming.

According to the officials, last month credit cooperatives across the country issued a total of 15.8 billion yuan in loans to support spring farming, up four billion yuan from last year.

### Increase in Sugar Output, Trading

*OW1002063193 Beijing XINHUA in English  
0608 GMT 10 Feb 93*

[Text] Beijing, February 10 (XINHUA)—China saw an increase in sugar production and trading last year with the China national cereals, oils and foodstuffs corporation exporting nearly 300,000 tons of sugar.

Of the total exports, more than 40,000 tons were produced by China while 250,000 tons were from processing imported sugarcane.

As one of the few countries which produces both cane and beet sugar in the world, China has a long history in sugar production. China used to be the second largest importer of sugar in the world because its sugar output failed to meet local needs.

Through the China National Foodstuffs Corporation, China imported 30 million tons of sugar since the 1960s.

China's sugar output began to increase after the reform drive started. During the last two years China produced 7.91 million tons of sugar a year while annual sugar consumption was 6 million tons.

However, in view of the increasing consumption of sugar, China will still have to import some sugar each year in the future, officials said.

### Chen Jiyuan on Shareholding Cooperative System

*93CE0246A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese No 12,  
20 Dec 92 pp 6-7*

[Article by Chen Jiyuan (7115 0679 0337): "More Research Needed on Rural Community-Based Shareholding Cooperative Economic Organizations"]

[Text] In recent years some parts of Guangdong Province have worked to introduce some mechanisms of the shareholding system into community-based collective economic organizations. Important breakthroughs have been achieved in the establishment of community-based shareholding cooperatives. This has elicited widespread scrutiny. The rise of rural community-based shareholding cooperative economic organizations has presented us with a series of theoretical issues worth exploring. There are still rather distinct differences of

opinion within the theoretical community regarding some important issues. I shall here present some preliminary views.

There is a lot of disagreement about whether a rural community-based shareholding cooperative economic organization constitutes a separate category of economic organization. My view is that the shareholding cooperatives established by Tianhe District in Guangzhou and Henggang Township in Baoan County are different from the cooperative as classically defined or as generally understood internationally, and they are even more different from the standard shareholding economic organization. By taking the originally diffuse common ownership of collective property and converting it to specific ownership rights determined by stock ownership, an important reform of the property rights system in rural community-based shareholding cooperative economic organizations has been achieved. In the Tianhe District and the Huanggang Township community-based shareholding cooperatives, they have established "cash shares" or "development shares," accepting private property from peasants in the community as payment for shares. Inasmuch as they acknowledge the private property rights of peasants, these systems are the same as cooperatives anywhere in the world, but these shareholding cooperatives are community-based. They have strong local roots and have a strong isolationist flavor. In this respect they are completely different from cooperatives in the great majority of countries. In their internal structure (such as the property rights system, income distribution system, and management methods) they also differ in important ways from cooperatives in other countries. One can see certain internal similarities to China's elementary agricultural producers' cooperatives of the 1950's, but today's community-based shareholding cooperatives do not represent a simple return of the earlier type of cooperative. I think that the community-based shareholding cooperatives are different from traditional community-based collective economic organization. Neither do they resemble cooperative economic organization as classically defined or as generally understood internationally. They are even more different from the standard economic organization under the shareholding system. They constitute a very unique form of economic organization that falls in between the traditional community-based cooperative economic organization and the classically defined cooperative. Rural community-based shareholding cooperative economic organizations are still in an exploratory phase. Their internal structure may change in the future as our understanding changes, so whether this unique form of economic organization can in the long run become a separate category of economic organization is a question which merits further discussion.

However, the rise of this unique form of economic organization must certainly be due to a unique environment. I think that the most important thing for us to ask is what in its internal structure reflects the intrinsic requirements of economic development, and what is

merely reflective of the will of some person or persons. In the first phase of rural reform in China, the economic activities of peasant households were brought within the orbit of the community-based collective economy. This achieved an important change in rural microeconomic structure, but rural microeconomic problems were not completely solved by the implementation of the household contract responsibility system. After the reforms, property rights regarding collective property were very fuzzy in community-based collective economic organizations, and an effective oversight mechanism was lacking. After the implementation of the household contract responsibility system with income linked to production, the question of how to clarify collective property rights and link them more directly to the interests of laborers was a problem which urgently required resolution. In addition, rural property relationships underwent a great change after implementation of the household contract responsibility system. The private property of peasants came to account for an increasing percentage of total rural property. As rural factors of production undergo reorganization, the question of how to treat peasant property rights over this type of property is becoming a very real, practical problem. To resolve this problem, community-based shareholding cooperatives have taken inventory of all property, clearly apportioned ownership rights over collective property to individuals, and acknowledged that some individuals enjoy greater property rights than others. At the same time, by issuing "cash shares" and "development shares," they have gathered together the factors of production in the private possession of peasants and converted its value to shares, and this property is being used to develop the economy. Such measures as these do indeed reflect the intrinsic requirements of economic development, as well as the wishes of the great masses of peasants.

However, we must acknowledge that in some aspects the internal organization of rural community-based shareholding cooperative economic organizations do not necessarily reflect the requirements of economic development, nor are they necessarily totally in line with the wishes of the great masses of peasants. To a certain extent, they reflect government activities. We must ascertain the true motives behind these government activities. This will certainly not reduce the effectiveness of rural community-based shareholding cooperative economic organizations; on the contrary, only by clearing up this question can we ascertain the proper course to take in the future. Let us take the example of "collective shares," which are rather controversial right now. Some localities have ruled that at least 60 percent of all shares must be "collective shares," the primary concern being to maintain the primacy of public ownership. This is actually a misunderstanding. You do not necessarily have to require that a minimum of 60 percent of shares be "collective shares" in order to assure the primacy of public ownership. Apportioning ownership of collective property to individuals does not corrode the system of

public ownership, but merely changes its form of existence. After property rights over the value of a given item of collective property have been apportioned to a certain individual, that individual cannot run away with the item in question. Henggang Township has no "collective shares" any longer, yet its collective property has not disappeared as a result; on the contrary, it is continually increasing. Another example: some localities have taken measures to restrict the inheritance of shares by members of the collective. This is not in line with the wishes of the peasants, nor is it conducive to economic development. As for restrictions on the distribution of dividends, we discover some things which are not completely in line with the internal requirement of economic development.

We must closely watch the evolution of community-based shareholding cooperative economic organizations. In particular, the members of such organizations must take the initiative to perfect them in accordance with the intrinsic requirements of economic development and according to the wishes of the majority of peasants. We can fully respect the choice of peasants in regard to collective shares and inheritance rights, and we should not treat with a broad brush all matters regarding restrictions upon dividends. Tianhe District is now exploring the possibility of taking enterprises within the community-based shareholding cooperative economic organization and changing them over to the shareholding system. This will be a valuable experience. The closed nature of the structure of property rights is a major factor working against future development of community-based shareholding cooperative economic organizations. How to change this closed nature is a question worth discussing. At present, community-based shareholding cooperative economic organizations are active mainly in nonagricultural, highly developed areas, and the question of whether traditional agricultural areas are appropriate for such organizations also merits further exploration.

China's rural economic reform has entered a new phase. The most important issue for the 1990s is how to establish a rural market economy as quickly as possible. The formation of a rural market economy depends on the existence of a unified national market (including both a product market and a market for the factors of production) as well as the formation of corresponding systems and laws. It will also require effective government intervention, as well as the establishment of a microeconomic foundation amenable to the development of a market economy. In many aspects, the internal structure of China's community-based collective economic organizations is not conducive to the development of a market economy, and the development of community-based shareholding cooperative economic organizations represents an extremely important step forward in this regard. The main theme of China's rural development in the 1990s will be accelerated change in rural social and economic structure. Peasants in some parts of Guangdong Province are unwilling to apply for status as nonagricultural workers and obtain city residence permits, and some former agricultural laborers

who have obtained such status are even trying to cancel it. This shows that the current closed, fuzzy system of collective ownership is not conducive to efforts to optimize rural social and economic structures. Developing community-based shareholding cooperative economic organizations and fully recognizing the right of those outside the community to enjoy partial property rights will undoubtedly help to accelerate modernization of China's employment structure as well as the urbanization of China's population. It is precisely for this reason that I consider the issue of rural community-based shareholding cooperative economic organizations a matter of supreme importance to the rural reform effort. We look forward to continual innovation in theoretical research into rural community-based shareholding cooperative economic organizations, and to continual breakthroughs in actual practice.

#### **Forestry Minister on Afforestation Efforts**

*HK3101060093 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 31 Jan-6 Feb 93 p 1*

[Report by Wu Yunhe: "Forestry Reform Takes Root"]

[Text] China's forestry industry is to undertake economic reform in an attempt to diversify, says a senior forestry official.

Forestry Minister Gao Dezhan said deepening the economic reform among forestry enterprises is a must this year, as a solution should be found to tackle problems between growing timber consumption and afforestation.

He said projects involving timber processing, paper pulp manufacturing, forest-related foodstuffs, medicine and spice, tourism and farming, are to be the focus of forestry development this year.

Analysts say a diversified economic structure is expected as part of the efforts to improve the economic efficiency among forestry enterprises.

They have to find a way to survive while being solely responsible for their profits and losses.

Thanks to afforestation and consumption controls in the past few years, the country has seen forest coverage and timber resources increase.

Ministry officials noted the timber resources growth rate is now "almost" the same as that of consumption.

Quickening progress in afforestation last year has lifted China's forest coverage up to 13.6 percent from 13.4 percent of the country, ministry statistics revealed.

The Forestry Ministry said about 4.5 million hectares of forests planted last year have been up to the national standard.

To control timber consumption, the government began in 1987 to set quotas for felling of timber trees in national forests. The government also cut production targets of various timber products.

Consequently, consumption of timber resources for commercial purposes decreased from 130 million cubic metres in 1988 to 120 million cubic metres last year.

Now China has 131 million hectares of trees with 10.9 billion cubic metres of storage timber.

The ministry noted the rapid development in forests was a result of the deepening reforms in the country's forestry and strict checking and management.

### **Military Commission Stresses Legal Construction of PLA**

*OW0902031593 Beijing XINHUA in English  
0255 GMT 9 Feb 93*

[Text] Beijing, February 9 (XINHUA)—The Central Military Commission has issued a legislative plan for the Eighth Five-Year Plan period (1991-1995), to further stress and improve the legal construction of China's armed forces.

This is the first time that the Central Military Commission has issued such a plan.

According to the plan, a series of laws and regulations will be worked out to strengthen the construction of China's armed forces. These laws and regulations cover all important fields relating to China's national defence and construction of its armed forces.

China has issued 2,500 military laws, regulations and legislative documents since the promulgation of the current constitution of the People's Republic of China, and they are still valid today.

The army has completed the first five-year program for disseminating legal knowledge two years ahead of schedule, and is now carrying out further legal education among the officers and men.

Currently the policies of building the armed forces according to law have been implemented in enhancing preparedness against war, military training and daily routines.

### **Army Logistics Support Becomes Increasingly Modernized**

*HK0902033293 Beijing XINHUA Hong Kong Service  
in Chinese 0950 GMT 1 Feb 93*

[By Jia Yong (6328 3057) and Zhang Dongbo (1728 2639 3134)]

[Text] Beijing 1 Feb (XINHUA)—Chinese Army logistics support departments have attached importance to quality building in readjustment and reform so that the Army's supplies of clothing, food, housing, and transportation might advance toward standardization and institutionalization, with more efficient comprehensive logistics support.

First, the basic stability of living standards in the Army was insured. Under conditions of price rises and lifting controls over the market, the Army efficiently solved a lack of money for expenditure on food through spreading control over standardized food and developing farm and sideline produce. The Lanzhou Military Region alone, as well as Shenyang, Beijing, and the Navy, built some 4,900 new vegetable farms last year, covering an area of 1.1 million square meters. The Army's sufficiency rate for meat and vegetables was around 50 percent, with some units exceeding 80 percent. Last year, the Army

allotted over 100 million yuan for improving living facilities and mess halls in grass-roots units.

With the smooth implementation of the rationalization and consolidation of the Army's real estate and housing reform, the Army's building and management of barracks began to enter a sound cycle. Last year, the Army adopted a policy of leaning toward grass roots, frontier, and coastal defense units and areas where conditions are the hardest, with the focus on building, rebuilding and repairing barracks at and below battalion level involving floor space of 2.1 million square meters. Up to now, more than half of the officers and men at the grass roots have moved into new living quarters, and conditions for the supply of drinking, heating, and bathing water for troops in remote and border areas have been improved to a considerably great extent.

Furthermore, the Army's capability in fast transport was also improved. With the gradual realization of motorization and mechanization, the percentage of cars and boats in sound condition rose sharply across the Army, with a situation of unprecedented soundness in the administration of cars and boats. Various units coordinated with local transportation and war preparation departments in repairing and building a number of highways for defense as well as coastal and frontier defenses. Vehicles insuring the necessities of life in field operations, including catering, baking, warming, and refrigeration vehicles, began to equip the troops.

### **Air Force Tests Newly Acquired Russian Jet Fighters**

*HK1002080293 Hong Kong SOUTH CHINA  
MORNING POST in English 10 Feb 93 p 9*

[Report by Willy Wo-lap Lam]

[Text] The People's Liberation Army (PLA) is testing its newly acquired fleet of Russian-made jet fighters, the Su-27s, at an air base near the border between Anhui and Jiangsu Provinces.

Military analysts said Beijing had only acquired 24 of the state-of-the-art aircraft and was likely to try to buy additional ones from Moscow.

"Twenty-four is a small number and does not provide for economies of scale in areas like maintenance and servicing," a military analyst said.

"Moreover, for logistics reasons, only around 70 percent of a fleet could be deployed in times of war."

It is understood that Russian military and aviation experts are helping to train the Chinese pilots and technicians who will operate the Su-27s.

"Ideally, the Chinese would like to acquire the technology from the Russians to manufacture the Su-27s," another source said.

"However, since Moscow is desperate for hard currency, it is unlikely to agree to Chinese production under Russian licensing."

The Chinese have also discussed the purchase of other Russian-made fighters, including MiG-29s.

Western diplomats in Beijing said the PLA was eager to hire the large number of Russian military and weapons experts laid off in the wake of the massive cut-back in Moscow's defence capacities.

However, the Russian Government is known to have prevented some of its military experts from leaving for countries including China and North Korea.

The diplomats said Sino-Russian talks on a wide range of military cooperation, including the exchange of technology, were taking place on a "continuous basis."

Meanwhile, the NEW CHINA NEWS AGENCY has reported that the Central Military Commission, China's highest military council, has issued a legislative package for the Eighth Five-Year Plan period (1991-1995), to "further stress and improve the legal construction of the armed forces."

It was the first time the commission had issued such a comprehensive plan.

Military analysts said the laws would legitimise the special status of the PLA in national life, including the devotion of a large chunk of national resources to "military modernization."

### Commentary on Material Gap Between Army, People

*HK1002121493 Beijing JIEFANGJUN BAO in Chinese 29 Jan 93 p 1*

["Contributed Commentary" by Li Qingwu (2621 1987 0124): "Correctly Approach the 'Contrast'"]

[Text] During his recent inspection tour of Yanan, Liu Huaqing, vice chairman of the Central Military Commission, pointed out: It is necessary to foster the spirit of selfless dedication and correctly approach the question of the "contrast" between Army and local material benefits. This earnest and pertinent instruction will be of great significance to the development of the Yanan spirit and dedication to the defense cause under the conditions of reform and opening up.

It should be acknowledged that such a "contrast" is an objective reality. As a process is required for the country's economic development and the circumstances of all trades and localities differ in a thousand ways, it is unlikely that they can become affluent simultaneously. For this reason, the "contrast" between Army and locality, particularly in the affluent regions, will be inevitable. How should we narrow and eliminate such a "contrast?" In the end, we can only rely on the further development of the state economy and further deepening

of reform. As the saying goes, "when the river rises the boat goes up." Only when the country becomes prosperous can the people become affluent. The prosperity of the country is the source and foundation of the prosperity and happiness of every individual and family. Without a considerable increase in the country's material and financial resources and without enhancement of the country's overall strength, the prosperity and happiness of individuals and families will have no foundation. Therefore, it is useless to be unconvinced about the "contrast." The correct attitude is to work in a down-to-earth manner and turn the desire for narrowing and eliminating the "contrast" into selfless efforts of making contributions to the four modernizations.

A correct approach to the "contrast" also involves the realm of ideology. Fan Zhongyan had a motto: "Plan and worry ahead of the people and enjoy the fruits after the people." Regarding communists, they should "plan and worry ahead of the people and enjoy the fruits of prosperity after the people." Is the purpose of our revolution and construction not to let the people lead a happy life? Benefiting from reform and opening up, the people of a number of localities are now leading a happy life. This precisely manifests the purpose of revolution and construction. It is also the best reward for the hard struggle of communists. Things stand thus: Since simultaneous prosperity is not possible, some people should be allowed to become rich ahead of others. The communists and revolutionaries who regard wholeheartedly serving the people as their sole purpose should naturally "enjoy the fruits of prosperity after the people." This is our obligation and honor.

A correct approach to the "contrast" requires the spirit of dedication. The spirit of sacrifice and dedication is the unique character of communists and the people's Army under their leadership. We know that sacrifices are necessary to ensure social development, state prosperity, and the development of our cause. If no one is willing to make sacrifices for the interests of the people, we will not be able to do anything. In addition, normal social operation will also be out of the question. Hence, the spirit of dedication is valuable and indispensable at all times. To take the overall situation into account, the interests of the individual should be subordinate to those of the nation and people and the interests of the Army should be subordinate to those of the country. Comrade Liu Huaqing said well: In carrying out reform, opening up, and the modernization program, the country needs large numbers of people like the People's Liberation Army men who are willing to sacrifice their lives and selflessly dedicate themselves. We are such people!

### PLA Navy Markets Science, Technology Inventions

*OW1002091993 Beijing XINHUA Domestic Service in Chinese 0946 GMT 9 Feb 93*

[By reporter Huang Caihong (7806 1752 5725) and correspondent Chen Wanjun (7115 8001 6511)]

[Text] Beijing, 9 Feb (XINHUA)—Since the Spring Festival, the Navy has marketed more than 200 of its scientific and technological achievements. According to the department concerned, at present some scientific and technological achievements of the Navy have been popularized in the 28 provinces, municipalities, and autonomous regions across the country. More than 500 contracts on technology transfers and cooperation are signed every year between the Navy and local departments, yielding several hundred million yuan in economic returns.

In recent years, the Navy's scientific research organizations and schools, while turning scientific and technological achievements into combat effectiveness, have made their achievements promptly enter the market to serve the national economy through technology transfers, new product development, marketing of scientific and technological achievements, technical counselling, and information exchanges. The six scientific research organizations under the Navy's logistics department have marketed all 85 scientific and technological achievements made by them in recent years. Of their inventions, the boiler cinder cleansing agent, the winner of the third-class national scientific and technological progress

award, has been successively popularized in 27 provinces and municipalities, and it helped save as much as 100 million yuan through energy conservation. On average, the Navy's equipment and technology department markets nearly 200 new technologies in the fields of aeronautics and astronautics, navigation, energy source, electronics, public health, environmental protection, shipping, and marine engineering.

The radio institute under the Navy's equipment and technology department, after learning that the Fushun power plant in Liaoning was planning to import an electrical load control system, immediately showed its product to the power plant. The power plant bought the Navy's product because it is of the same technological level as foreign products and because it costs half as much. Recently, the Ministry of Energy Resources decided to popularize the control system in all power plants across the country. Some high-technology products developed by the Navy's equipment department, such as the platform compass computer and the electronic plotting instrument, have not only occupied the domestic market, but also entered the market in more than 10 countries and regions in southeast Asia, West Europe, Africa, and the United States and earned several million U.S. dollars in foreign exchange for our country.

**Liaoning Enhances Ties With Taiwan**

*OW0702081893 Beijing XINHUA in English  
0732 GMT 7 Feb 93*

[Text] Shenyang, February 7 (XINHUA)—Liaoning Province in northeast China enhanced economic and cultural contacts with Taiwan over the past year.

According to officials with the Taiwan affairs office of Liaoning, last year the province approved the setting up of 217 Taiwanese-funded enterprises involving 160 million U.S. dollars of funds.

As a result, the province has 398 Taiwanese-funded enterprises and has become one of the major areas on the mainland for Taiwanese investment.

The Taiwan-Liaoning ties have resulted in exchange of science and technology, sports, medicine, journalism, archeology and other cultural activities.

Last year more than 28,000 compatriots from Taiwan including some senior officials visited Liaoning for investment affairs, sightseeing and to see relatives. In return eight groups of people from the province visited Taiwan last year.

**Study on Direct Overseas Investment in Asia**

*93CM0227A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 10, 30 Oct 92 pp 30-32, 19*

[Article by Wang Qin (3769 0530) of Xiamen University Southeast Asia Research Institute: "Further on Regional Movement of Taiwan's Direct Overseas Investment"]

[Text] Issue No. 4 of your journal this year carried an article by Professor Chen Jiyong [7113 4949 0516] entitled "Reflection on Major Changes in Regional Movement of Taiwan's Direct Overseas Investment and Our Efforts To Attract Taiwan Investment." The article argues that in recent years, regional movement of Taiwan's investment goes first to the United States, then to Southeast Asia and Mainland China. In my view, this statement is contrary to facts. In reality, the regional movement of Taiwan's investment in recent years is mainly toward the Southeast Asian area and the mainland. The fact that Professor Chen's article came to the above conclusion was probably due to the statistics he used. The data cited by Professor Chen were drawn from the Taiwan official "Investment Review Commission." After the mid-1980s when Taiwan abolished its foreign exchange control, many Taiwan businessmen no longer went through official channels when they invested overseas (particularly in Southeast Asia and the mainland), and the actual scope of Taiwan's overseas investment was much larger than indicated by official statistics. In analyzing the regional movement of Taiwan's overseas investment, the Taiwan government (such as the "Ministry of Economic Affairs") and scholarly organizations (such as the Economic Research Institute) generally use statistics from the ASEAN countries, or use their data

after checking with statistics of the "Investment Review Commission," so that they are able to more accurately reflect the true situation. Furthermore, on the matter of motivation of Taiwan's overseas investment, I also have a different view. In my opinion, Taiwan's overseas investment was due mainly to the fact that enterprises on the island found it difficult to develop and expand, which led a large number of medium and small enterprises seeking to relocate overseas; and in so doing, these enterprises could not help but take advantage of the cheap labor available in Southeast Asia and Mainland China, for they could not possibly make any headway in developed countries such as the United States. I would like to elaborate on these two viewpoints as follows:

**Investment Focus of Taiwan's Capital: Southeast Asia and Mainland China**

Since the mid-1980's, especially after Taiwan abolished its foreign exchange control in 1987, Taiwan's direct investment overseas has increased sharply. According to an April 1992 survey of the Taiwan "Economic Ministry," Taiwan's direct overseas investment from 1987-1991 reached \$19 billion, which placed Taiwan ninth in the world of all countries with overseas investments, and which was channeled mainly toward Southeast Asia and the mainland. In the five year period, 39.52 percent of the investment went to Southeast Asia, 32.57 percent to Mainland China and Hong Kong, and 23.52 percent to the United States, Europe and Japan (of which 18.12 percent to the U.S.).

In Southeast Asia, the rapid increases in the rate and amount of Taiwan's direct investment have been unprecedented. According to official statistics of Southeast Asian countries, from 1986-1991 Taiwan's direct investment in six countries—Malaysia, Thailand, Indonesia, the Philippines, Singapore and Vietnam—exceeded \$12.1 billion, involving over 3,000 Taiwan enterprises. In the mid-1980s, the main thrust of Taiwan's overseas investment was directed toward Thailand. In 1987, Thailand approved \$300 million of Taiwan's direct investment; by 1988 that amount had increased rapidly to \$842 million. In 1988, Taiwan's investment began to turn toward Malaysia; in 1988 and 1989, Malaysia approved respectively \$313 million and \$815 million of Taiwan's direct investment. In 1990 and 1991, these amounts increased to \$2.383 billion and \$1.314 billion, making Taiwan the leading foreign investor in Malaysia. At present, Malaysia has already approved 806 Taiwan investment projects, involving some 300 enterprises. In the last two years, Taiwan's investment in factory building in Indonesia and Vietnam has increased continuously. Last year, Taiwan's direct investment in Indonesia reached \$1.056 billion, making Taiwan the leading foreign investor. In Vietnam, from 1988 when the foreign investment law went into effect to the end of 1991, a total of \$2.69 billion of foreign investment was approved, of which \$562 million was from Taiwan, making it the leading foreign investor.

Taiwan's direct investment in the Southeast Asian area concentrated mainly in the labor-intensive medium and small enterprises, especially those manufacturing electronic equipment, plastics, textiles, processed wood products, paper and paper pulp, shoes and toys. Following the massive investments by medium and small enterprises in Southeast Asian countries, Taiwan's large enterprises also began to invest and operate in the area. For example, the Taiwan Hua-Hsia Gulf Plastics Group invested \$400 million to build a light oil refinery and related facilities in Selangor State in Malaysia, and begin operation this year. Another example, the Ts'an-Wu Steel Work started building a steel mill in Melaka State. Investment by these large conglomerates has led to investments in downstream enterprises and support facilities by medium and small enterprises. In addition, Taiwan's vertically-integrated investment in Southeast Asian countries is beginning to reach a sizable scale. In Malaysia, the Selangor government attracted Taiwan investment by offering the rights to develop a planned 46-project industrial zone in an undeveloped area north of Pahang State; the Kedah government has contracted with Taiwan Yu-Ch'ang Construction Company to jointly develop the Taiwan Industrial Zone in that state. The Taiwan Electric Equipment Association has contracted with Malaysia to develop a "Taiwan electronics processing and export zone" in Sungei Patani [county] in Kedah State. In Indonesia, Taiwan's "Executive Yuan Labor Department" and Indonesia's two financial conglomerates are jointly developing the "Jung-Ma" and "Jung-Chia" commercial-industrial zones in Jakarta and Surabaya. Taiwan firms are also investing to develop a "Kuang-Hua Industrial Park" in Pulau Batam [of Riau Islands] in Indonesia. In Vietnam, the Hsin-Shun export processing zone will be jointly developed by the Taiwan Trade Development Company, the Yueh-Sheng Company and the Ho Chi Minh City Government.

Another regional focus of Taiwan's overseas investment is Mainland China. At present, Taiwan's investment in China exceeds \$3 billion, involving over 2,000 Taiwanese firms. The scale of investment is increasing daily; as to the types of investors, they range from medium and small enterprises to certain large enterprises and conglomerates; as to the investment amounts, they have grown from projects involving several hundred thousand dollars to those costing millions and tens of millions of dollars; as to the area involved, it has expanded from building small industrial parks to developing large tracts of land. The scope of investment has continued to expand and the technical levels elevated; beginning with light industries in the manufacturing of garments, shoes, umbrellas and toys, the scope has expanded to electronics, machinery, microcomputers, precision instruments, petrochemicals etc.; from the labor intensive mode, it has grown into capital and technology intensive enterprises; and from downstream processing industries, it has developed into mid- and upstream industries based on raw materials. At the same time, as the industrial zones are being developed, service industries in real estate, tourism and travel, and finance are beginning to

attract the attention of Taiwan businessmen. Investment by Taiwan businessmen has changed from focussing initially on processing industries or joint venture operations to sole-ownership capital investment; the operating method has changed from simply entrusting processing operations to others, or carrying out compensatory trade to sole-source investment which brings in the capital, production facilities, managerial personnel, raw materials and spare parts as well as overseas markets, including inviting related industries to invest jointly. At the same time, the length of investment in most projects was extended to 50-70 years, and the regional focus began to spread from coastal areas such as Fujian and Guangdong Provinces to the interior, and even investment in the mainland's new economic development zones (such as Shanghai's Pudong) has also increased rapidly.

In addition, it is estimated that in Hong Kong, the transit point of the cross-strait trade, Taiwan's direct investment has reached \$2-3 billion, involving over a thousand firms. According to reports, from the mid-1980s to the first half of 1991, the amount of Taiwan investment in the mainland negotiated through Hong Kong reached \$3.6 billion, and actual investment amounted to some \$2 billion.

#### **Reasons Taiwan Investment Flows Into Southeast Asia and Mainland China**

Since the mid-1980s, it was not by accident that large amounts of Taiwan's investment flowed into Southeast Asia and the mainland. The main reasons are:

First, the obstacles to growth that enterprises encountered on Taiwan accelerated much of the overseas investment by medium and small enterprises. By the end of 1970s, the Taiwan economy with the promotion of industries as a goal entered into an economic transitional period. Because labor shortage became more acute as time went on, the cost of labor continued to mount, and the pressure of increasingly protectionist trade from the developed countries as well as competition from countries nearby, Taiwan's exports produced on the labor intensive model began to lose international competitiveness. This forced the labor intensive enterprises to try to become capital and technology intensive businesses. But Taiwan's medium and small enterprises, which constituted 98 percent of all enterprises and 70 percent of those exporting, lacked the capital and the ability to restructure and they faced serious obstacles in upgrading their technological levels. By the mid-1980s, the large trade surpluses with the United States caused the Taiwanese NT dollar to increase sharply in value, further accentuating the contradictions Taiwanese enterprises faced in seeking to upgrade and develop themselves. From 1985-1988, the NT dollar exchange rate vis-a-vis the dollar increased by 55 percent, wages and salaries by 87 percent, and land prices by 3.1 times, so that medium and small enterprises could not help but try to quickly relocate overseas, moving entire factories or parts of

production facilities to Southeast Asia and the mainland where the labor cost was relatively cheap.

Second, Taiwan's capital surplus provided the economic basis for Taiwan's investment in Southeast Asia and the mainland. Since the 1980s, Taiwan's foreign exchange reserve and citizens savings increased sharply. Taiwan's trade surplus of \$77 billion in 1980 increased to \$11 billion in 1985, and to \$19 billion in 1987. The yearly increasing trade surpluses led to a large official foreign exchange reserve. After 1987, with Taiwan's official foreign exchange exceeding \$70 billion, and reaching \$82.4 billion by the end of 1991, Taiwan's foreign exchange reserve far exceeded any normal foreign exchange requirement. At the same time, with the Taiwan citizens saving rate already traditionally high, the saving rate reached 40.3 percent in 1987, and after adjusting for investment and consumption, citizens savings accounted for 21.5 percent of Taiwan GDP. Viewed from another perspective, since the 1980s, the environment in Taiwan for capital utilization has gradually deteriorated, with both the exchange rate and wages and salaries at all-time high levels, the capital cost of production has increased and the return on investment lowered; as a result, the incentive to invest has declined, and the situation of under-capitalization has become commonplace. From 1980-1986, the rate of Taiwan's investment dropped sharply from 34.3 percent to 16.3 percent, below the average of the 1960s. On top of this, Taiwan's financial system was inadequately developed relative to citizen consumption, and the capital surplus situation has become more serious. In 1987, the Taiwan authorities relaxed the controls of capital outflow and of foreign exchange, which prompted the surplus capital to seek overseas outlets; individual direct investments continued to expand, and Southeast Asian countries which maintain close economic ties with Taiwan and the mainland across the strait then became the main areas for Taiwan's capital investment.

Third, the Taiwan authorities actively regulated the direct overseas investment policies to advance Taiwan's investment in Southeast Asia and the mainland. In the mid-1980s, the Taiwan authorities set forth a strategic goal of "economic liberalization, internationalization and systematization." To achieve the economic internationalization goal, the Taiwan authorities actively regulated and coordinated overseas investment policies. In July 1987, Taiwan abolished its foreign reserve control to carry out the policy of liberalizing foreign exchange; it analyzed the overseas investment law to formulate a long-term strategy and policy to develop overseas investment; it took further steps to relax restrictions on overseas investment, and to simplify the procedures for examination and review of overseas investment, including relaxing or abolishing those investing in plant and equipment overseas controls over the capital requirement, debt ratio, dividend payment ability, investment activities, etc. The authorities further sought out those countries targeted for investment to negotiate agreements for investment guarantee and double-taxation protection, to expand the scope of existing

overseas investment guarantee, and to set up organizations overseas designed to assist and protect Taiwanese investments. The Taiwan authorities put special emphasis on drafting and implementing investment policy for the Southeast Asia area, encouraging and supporting the operation and development of Taiwanese firms doing business in Southeast Asian countries. In May 1987, Taiwan promulgated "A Program for Promoting Investment in Southeast Asian Area," spelling out the actual and projected investment amounts by year, analyzing the investment environment as well as operating conditions in these countries, and concretely and systematically guiding Taiwanese firms to invest overseas.

Since the mid-1980s, the Taiwan authorities have gradually coordinated and relaxed the policy of investment in the mainland, formally recognizing that Taiwanese firms can invest in the mainland through indirect but legal means. Except for high tech industries, no other restrictions are placed on Taiwanese firms investing in any enterprises on the mainland. But the economic policy of Taiwan at this time still limits the cross-strait trading activities to within the "civilian," "indirect" areas. Large enterprises are forbidden to participate, which undoubtedly has prevented further Taiwan's investment in the mainland and created the present situation in which most of Taiwan's investment flows into Southeast Asia and only some of it to the mainland.

Fourth, improvements in the investment climate in Southeast Asian countries and the mainland Chinese policy of promoting the development of cross-strait trade are also important factors in attracting Taiwan investment to these areas. Since the mid-1980s, Southeast Asian countries have revised their foreign investment policies; they have not only relaxed policy controls, but also provided preferential measures, opened up domestic markets, attracted Taiwan's investment to develop trade zones, and improved the investment environment in specific ways. For example, Thailand waived not only the income tax for a period of three to eight years, but also the machinery tax, import tax on raw materials and export tax on end products to encourage Taiwan to invest in specified projects which build up export enterprises, develop national resources, and create other trades and businesses. Taiwanese firms investing in manufacturing enterprises have no limit on stock ownership (service enterprises are restricted to within 49 percent), and 20 percent of the manufactured products can be sold domestically; the firms are permitted to own the land in use, to determine prices of the manufactured products, and to freely remit profit as well as capital; and Taiwanese firms can own real estate, and engage in basic functions dealing with finance, transportation and communication. In Malaysia, stock ownership of foreign investment is relaxed, and Taiwanese businessmen can have 100 percent ownership for the first five years of the investment; enterprises where 50 percent of the products are exported or employing more than 350 persons can be sole-ownership enterprises;

Taiwan's investments can enjoy the same status as newly established industries with preferential investment tax treatments, with taxes levied after expenses and profit, and rebate allowed for export; various commercial and industrial delegations can visit Taiwan to discuss investment projects; various discussion groups and symposia can be held to collect the views of Taiwanese firms wishing to invest, and to conclude agreements to avoid double taxation. Taiwanese firms are allowed to establish their own schools to educate their children. In the case of the Indonesian government, a series of measures were announced to relax foreign investment controls and to improve the investment climate. The length of foreign investment and time limitation for transfer of stock ownership was extended, the scope of investment projects increased, the minimum investment requirement lowered, import restrictions on certain industrial products relaxed, and permission for Taiwanese firms to go into joint venture in domestic distribution and internal transportation enterprises granted. Vietnam announced its foreign investment law in 1988, which has

been called "Asia's most liberal foreign investment law." Except for collecting 15-20 percent income tax on petroleum and natural gas projects, foreign countries investing in Vietnam are not restricted in any way. Vietnam furthermore is making great effort to attract Taiwan firms to develop in country export processing zones, giving special preference in the number of years the land can be rented for this use, and waiving the visa requirement for Taiwanese businessmen traveling in and out of Vietnam. In recent years, China has also put forth relevant procedures designed to attract Taiwan investment, giving Taiwanese businessmen special incentive for investing and particularly flexible operational procedures to facilitate their investment. The government has also designated places such as Xinglin and Haicang in Xiamen to be "Taiwan Investment Zones"; and different localities are all rushing to simplify procedures for Taiwanese investment, to shorten the period required for approval, and to strive to further improve the soft and hard environment for investment in order to strengthen the appeal to Taiwan's businessmen to invest.

**Illegal Mainland Investors Urged To Pull Out**  
*OW0902103093 Taipei CNA in English 0812 GMT*  
9 Feb 93

[Text] Taipei, Feb. 9 (CNA)—The Ministry of Economic Affairs will advise Taiwan investments on the mainland that are not on the government permission list to pull out from the other side of the Taiwan Straits, Vice Economic Affairs Minister Li Shu-chiu said Monday [8 February].

Li made the remarks on the eve of announcing measures governing indirect investments by Taiwan businesses on the mainland.

"In principle the present investments on the banned list will be asked to withdraw from the mainland each with a different grace period of time," said Chen Ming-ang, executive secretary of the Investment Commission.

The ministry hopes to lend a hand but not impose a punishment on the current Taiwan interests on the mainland though they might have violated the new measures, Li said.

Those who violate the measures will face a fine of up to NT [new Taiwan] \$15 million (\$586,000), in accordance with the statutes on relations between people on Taiwan and the mainland.

Officials said the ministry will allow Taiwan enterprises to indirectly invest on a list of [words indistinct] on the mainland. Applications for ventures on the remaining 6,000 items will be screened on a case-by-case basis.

Among the factors determining the application screening, according to Li, will be the possible influence on national security and Taiwan's overall economic

development, whether their home companies will continue investing on the island, and permission of relevant government agencies and shareholders.

Commission tallies indicated that 2,800 Taiwan companies as a whole have invested some \$1 billion on the mainland.

The number of total Taiwan ventures on the mainland could exceed 6,000, and their investments could amount to \$7 billion, Economic Affairs Minister Hsiao Wan-chang indicated.

**Poll Shows Majority 'Satisfied' With President Li**  
*OW0802133293 Taipei China Broadcasting*  
*Corporation News Network in Mandarin 2300 GMT*  
7 Feb 93

[From the "Hookup" program]

[Text] According to a recent Gallup poll, 67.6 percent of the people polled are satisfied or very satisfied with President Li's overall performance this year.

This poll also shows that Taiwan males from 20 to 29 with junior high school education tend to support the Democratic Progressive Party.

The satisfaction ratings are highest among pollees in southern and rural areas.

In addition, 67.8 percent of the pollees believe that it is important or very important that President Li go through democratic coordination within the Kuomintang before making any decision on government personnel. Only 13.3 percent believe it is not necessary or all-together unnecessary for him to do so.

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