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# ***JPRS Report***

# **China**

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## GENERAL

### New Trends in World 'Regionalization' Noted

93CM0242A Beijing GUOJI SHANGBAO in Chinese  
27 Mar 93 p 3

[Article by Li Xiao (2621 2556): "New Characteristics in the Present Phase of Regionalizations in the World Economy"]

[Text] Since the beginning of the 1980's, following the shifts that have occurred in the overall international political and economic situations and the rapid development toward internationalization of production and capital, the movement toward regionalization of the world economy is rapidly spreading and penetrating more deeply. It has obviously arrived at the beginning of a new phase. The present phase of regionalization of the world economy may be summed up as having the following four characteristics:

1. As more countries are drawn into the trend of economic regionalization, economic relations between economic blocs are gradually replacing economic relations between countries. Thus, blocs are becoming the main entities in the present international economic relations.

Organizing regional economic blocs has not remained a prerogative of the developed countries. One after the other of the developing countries are organizing, consolidating, and expanding regional economic blocs in order to develop their own national or regional economies and take a joint stand against economic exploitation by developed countries. Thus, not only are developed countries—without exception—participating in this new wave of economic regionalization, but regional economic blocs organized and set up by developing countries are also rapidly springing up, like mushrooms. In Africa, where there are such existing regional economic blocs as the "Economic Community of West African States," the "East African Preferential Trade Zone," and the "Arab-Maghreb Federation," and where new blocs are constantly developing, the heads of state and government of various countries met in June 1991 and signed a treaty to form an "African Economic Community." The treaty provides for the gradual establishment—within three or four years—of an "African Economic Community." It shall be established in six stages, and ultimately commodities, capital, and labor shall circulate freely throughout Africa, and one common central bank shall be set up that issues a unified African currency. In Asia, although primary economic regionalization of the entire East Asian area would meet with many difficulties, there has been rapid development in secondary regional economic cooperation. The Association of Southeast Asian Nations [ASEAN], and the Northeast Asian Region [as published] appear to be the beginnings of economic blocs. In inner Asia foreign ministers of six states, including Kazakhstan, Azerbaijan, Kyrgyzstan, Turkmenistan, and Uzbekistan—all part of the former Soviet

Union—and Afghanistan, signed the charter of an "Economic Cooperation Organization" (inner Asia) on 28 November 1992. This can be expected to form the largest economic bloc in Asia. In Latin America various countries have by now realized that, in order to avoid having the 1990's become another "lost decade," it is necessary to rely on collective strength and speed up the process of economic regionalization in Latin America. In March 1991 Argentina, Brazil, Uruguay, and Paraguay signed an agreement establishing the "Southern Cone Common Market." Common markets will be established by the original Andes Group in 1995, by the Central American Common Market in 1992, and by the Caribbean Community and Common Market in 1993.

On entering the 1990's, the main theme in economic regionalization that reverberates in all regions of the globe, clearly indicates the following: The regionalization of the global economy has become an irreversible trend, and contention between blocs, mutual competition, and mutual cooperation have become a major trend in the development of the global economy.

2. It is quite possible that the continents of Europe, America, and Africa will, as continents and also as entities, form economic blocs. In the course of regionalization of the world economy, the new trend of "regionalization by continents" will occur.

At present the European Community is expanding further, and the trend toward a "European economic bloc" has become evident. On 22 October 1992, after arduous negotiations that lasted for as long as 16 months, an agreement was reached to have the European Community [EC] and the European Free Trade Association establish a "European Economic Area [EEA]." Its 19 members would thereby form the world's largest free trade zone. International opinion holds that the EEA will quite possibly become the springboard for members of the European Free Trade Association to join the EC. At present, Turkey, Austria, Cyprus, Malta, Finland, Sweden, and Norway have already officially applied for membership in the EC. After the huge political changes in Eastern Europe in 1989, Poland, Romania, and other East European states have also asked to be admitted to the EC. In December 1991, 12 countries of the EC passed a resolution at Maastricht to the effect that the EC will rapidly expand after the Treaty on European Union is approved. Furthermore, although it will still be quite some time until all European states join the EC, the fact is already a foregone conclusion. Many Europeans therefore suggest establishing a "European Economic Sphere" with three concentric circles. This would make the EC the center, the EEA the second circle, and Eastern Europe the third circle. The three concentric circles would gradually expand to build up a "New Europe." If there is smooth progress in the formation of these unions, it can be expected that the 1990's will indeed see construction of the fundamental framework for a "European Economic Sphere."

The signing of the North American Free Trade Agreement at the end of 1992 was an important milestone in the economic regionalization of the American continent. Already in June 1990, then President Bush had officially presented an "American Economic Cooperation Plan" for regional trade, reduction and remission of debts, and increased investment. Its major points were: U.S. readiness to conclude free trade agreements with Latin American countries, reduction and remission of some of the debts owed by Latin American countries to the United States, increases in private investment in those regions by the United States, promoting faster privatization in these countries, etc. The purpose was to increase U.S. trade and investment in Latin America and to promote mutual economic cooperation, so as to build up a pan-American free trade zone. Even though most of the various Latin American countries maintained a cautious attitude toward this suggestion, people generally believed that Bush's plan would speed up progress toward regionalization of the American continent. At present, the United States has formulated in very clear terms a "Plan for an All-American Economic Federation." According to this plan, the United States will be the nucleus, and the U.S.-Canada-Mexico free trade zone the foundation, for expanding the sphere of economic regionalization to encompass the entire American continent. It will entail organizing and setting up an All-American economic sphere, from Alaska in the north to Argentina in the south. It is expected that in the 1990's the buildup of an "American Continental Economic Sphere" will very likely achieve progress of a breakthrough nature.

As stated earlier, the various countries of Africa have clearly placed African economic regionalization on the agenda. Actual progress in this respect may be very difficult due to historical, political, economic, and numerous other reasons. However, when faced with the huge pressure that threatens to reduce Africa to a "fourth world" and serious challenges from other regional economic blocs, there is the possibility that establishing an "African Economic Sphere" in the 1990's may also make smooth progress.

3. Regarding the progress made in developing various kinds of economic blocs, some blocs have already achieved institutionalization and a unified cohesion, some have remained at a very low level, and others are in the process of being conceived. Thus, regionalization of the global economy is obviously very uneven.

Judging by the present state of regional economic blocs and the course of their development, there are mainly four kinds of organizational patterns—from low to high level. Namely, these are the free trade regions, customs federations, common markets, and complete economic unions. Obviously, the present EC is at the highest level of economic regionalization. After the inception of the unified large market as of 1 January 1993, the EC is now in the process of advancing further toward the highest level of economic regionalization—a complete economic union. Most economic regionalizations in other areas

remain at the levels of free trade regions and customs federations. Taking the recently signed treaty for the U.S.-Canada-Mexico free trade zone as an example, the three parties—the United States, Canada, and Mexico—have reached a consensus only on such issues as the gradual reduction or elimination of customs duties, promotion of freedom of investments, protection of intellectual property, etc. on a mutual basis. Only to an extremely limited extent did they mutually yield any of their economic sovereign rights, thus remaining at the lowest level of economic regionalization. In the East Asian region, the issue of organizing and setting up an East Asian economic bloc is so far only a concept, and whether it could be materialized still depends on whether the complex social, political, economic, and even military contradictions of this region can be smoothly resolved. It shows that organization and setting up of economic blocs in the various regions and their actual development is very uneven, and this situation will persist in the future. The uneven development of economic regionalizations in the world constitutes a new content and new characteristic of the uneven developments in the present world economy.

4. A trend has arisen of organizing and setting up, or of preparing the setting up of regional economic blocs among countries with different levels of economic development and different social systems. The economic regionalization in the world is thus in the process of developing in the direction of eliminating the gap in levels of economic development and in eliminating the differences in social systems.

For a considerable period of time after the war, economic developments were more or less at the same level, and social systems were alike. This was an important precondition for the organization and setting up of regional economic blocs. This is how the EC and the Council of Mutual Economic Assistance [COMECON] were established. Although there were relatively few conflicts in organizing and setting up economic blocs in this way, and although they could easily and rapidly be consolidated and developed in depth, it was difficult to expand the scope of these blocs. As a consequence of the changes in the overall political and economic situation in the world, and under the impact of the extremely swift development of productive forces and the growing trend toward internationalization of production and capital, the world faces an almost daily stiffening international economic competition and political rivalry. Developed capitalist countries in Europe, as well as the United States and Japan, each began to gradually expand the scope of its regional economic bloc to include Western countries with less developed economies, also developing countries and socialist countries.

As the EC expanded from its original six countries to 12 countries, the internal disparity among its members evidently widened. At present, the EC country with the highest level of economic development is Germany, then comes France, and compared with these two countries, there is a certain, and sometimes considerable disparity

in the case of the other countries. For instance, if we assume the average GNP per person in the Federal Republic of Germany in 1989 to be 100, this figure would be 84 in the case of France, 72 in the case of Britain, 29 in the case of Greece, and only 20 in the case of Portugal. The internal differential in the level of economic development is as high as four times. On the American continent, after the signing of the U.S.-Canada-Mexico free trade agreement, the accomplishment of the U.S.-Canada-Mexico free trade agreement signifies that the establishment of regional economic blocs overcomes the obstacle of a considerable disparity in economic development between developed countries and developing countries, and that a new way and new pattern is in the process of being shaped of reducing and eliminating the North-South disparity and of strengthening the North-South economic interflow and cooperation. In the Northeast Asian region, Japan is making efforts to build up its own sphere of strength, in order to match that of the EC and of the U.S.-Canada-Mexico free trade region. In view of the objective reality that it would be difficult to build up in the near future an economic bloc comprising the entire East Asian region, Japan first devotes its energy to forming an economic cooperative organization and bloc comprising various secondary regions. In this respect, the regions of Northeast Asia around the Sea of Japan and the regions around the Yellow Sea and the Bay of Bohai are increasingly attracting Japan's primary attention. At present, some believe that the complex political and economic conflicts in Northeast Asia makes it impossible for the various countries of that region to organize an economic bloc.

This view may not necessarily be accurate. First, the world's economic regionalization has already grown into an irreversible tide whose basic motive force is the deepening international division of labor and the internationalization of production and capital. This course will not be changed by the existence of different social systems. Second, if we cannot speak of regional economic blocs, then let the comparatively high level of the EC or of the U.S.-Canada-Mexico free trade region be our standard, with the central governments of the various countries as main entities, and arriving at clearly institutionalized economic blocs. Subsequent to a further relaxation in the international situation in Northeast Asia, and through spontaneous economic interflow and cooperation in the said region, it is not altogether impossible that a low-level economic bloc of a somewhat detached, loose organizational pattern can be formed, with local governments of the various countries as main entities. Once this is formed, this economic bloc of a secondary regional character built up by countries of differing economic developmental levels and different social systems, can undoubtedly become a kind of new model for economic regionalization.

The above circumstances clearly indicate that the method of a country's economic participation in the world economy will more and more change from individual participation to collective participation. Regionalization of the world economy, as a new economic state in the world, is now in the process of breaking down former frameworks moving in the direction of a deeper and broader development.

### Pre-NPC Power Struggle in CPC Discussed

93CM0205A Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 53, 18 Feb 93 pp 16-18

[Text] The Eighth National People's Congress (NPC) has been set to open 15 March, but considerable dispute remains on filling the higher positions. As promotion of the market economy has created pressure to revise the Constitution, a further concentration of power and numerous contradictions are poised in the imminent card game.

During the spring holidays (Chinese Lunar New Year), Deng Xiaoping showed up in Shanghai. The state of his health, as seen on television, prompted intensified attention both at home and abroad. The masses on the Chinese mainland have been whispering privately that "the old Buddha may not be able to last through this year." On 7 February, unexplainable sources in Hong Kong and Taiwan suddenly announced the news that Deng had died. Media followup in several directions was unable to track down the sources.

### Deng Ill While in Shanghai

Even though the XINHUA NEWS AGENCY immediately clarified the matter by saying that Deng was in good health, and WEN HUI BAO further reported that Deng had returned to Beijing on the night train, questions still remained concerning his health.

According to a newsworthy source, Deng's itinerary in Shanghai was a secret well guarded by the CPC. This source said he heard that Deng was hospitalized all the time he was in Shanghai, and the prospects were not good.

At this time, Deng Xiaoping's old comrade-in-arms Yang Shangkun made an unusual move in not spending the Spring Festival with Deng, as had been his practice in past years. Instead, he made an ostentatious trip south by himself, which had some people guessing.

Yang Shangkun arrived in the Zhuhai Special Economic Zone the day after the advent of the Chinese Lunar New Year, and spent the first 10 days or so resting up. After that, he went on to Guangzhou, where he was frequently seen giving interviews. He settled in the presidential suite of the White Swan Hotel, on the 28th floor. According to Hong Kong reporters also staying at the hotel, security there was very tight and no one was allowed on the 28th floor. Whenever Yang was leaving or entering the hotel, the route taken was always sealed off.

According to a knowledgeable source, during the three days that Yang was ensconced at the White Swan, he was busy receiving guests, including provincial leaders and Hong Kong business tycoon Huo Ying-tung [7202 5391 2639].

The Yang family had been pushed out of the power center during the 14th CPC Plenum, and Yang

Shangkun is expected to resign his presidential post soon. Some people think this trip is a last fling before he retires.

### Yang's Trip South Has People Guessing

However, there are those who feel that every action of a scheming and very politically ambitious figure such as Yang Shangkun would be politically significant, and his present trip south to Guangdong is not simply a New Year's vacation.

These people indicated that during the time Yang was in Guangdong, some figures peripheral to the CPC's power center such as Tian Jiyun [3944 4764 7189], Zou Jiahua [6760 1367 5478], Li Tieying [2621 6993 2503] etc., also converged coincidentally at the south China locale. Moreover, Tian Jiyun was seen together with Yang Shangkun quite often. These sources say that before the 14th CPC meeting, Tian had participated in Yang Shangkun's anti-Jiang Zemin moves in the power struggle. The fact that they are now seen together naturally arouses speculation, particularly on the eve of the Eighth NPC, that they may make waves to force a showdown.

According to newsworthy sources, before the NPC and the National People's Political Consultative Conference (NPPC) are to be held, the CPC needs to have two more meetings—the first being the CPC's working conference to be held in mid-March, and the second being the Second Plenary Session of the 14th CPC, which may be held in late February or early March.

The two meetings are preparatory conferences for the upcoming 8th NPC. Their chief purpose is to plan and establish a list of national leaders to be voted on by the people's congress.

### Central Government Concerned Over Loss of Local Control

Sources also say that having a CPC plenary session before the people's congress meets is routine, but holding a CPC working conference is an exception. This may be due to the fact that the central government lost control of local elections held before the 8th NPC. Many local candidates selected by the Politburo lost in the provincial 373 and local elections, which upset the CPC's Office of Personnel considerably. There was nothing the CPC Central Committee could do about it. Its general secretary Jiang Zemin had already let word out that as long as elections were carried out legally, the Central Committee would accept the results.

On the other hand, the highers-up also recognized the seriousness of the situation, and expressed their views in RENMIN RIBAO. They emphasized the CPC's system of democratic centralism, and announced at the same time that a Central Committee working conference will be called the end of this month by bringing various leaders to Beijing to plan personnel arrangements and reaffirm the Central Committee's power and clout.

It is said that Zhongnanhai has an even more serious concern—that the liberalized capitalist class will gain the upper hand during leadership changes on the local level, and create a local base surrounding the central government. It is said that Jiang Zemin discussed this situation internally and strongly emphasized that June 4th incidents cannot be repeated.

As for the list of new leaders for the national government, it is rumored that the CPC's Politburo had held many expanded conferences, but had not come up with a final draft. According to Deng Xiaoping's directive, the policy of unifying party and politics calls for the positions of president, premier, and chief committeeman of the NPC and chairman of the Political Consultative Conference to be assumed by the Politburo's standing committee members. This writer has mentioned this in an earlier article, but up till now, except for Qiao Shi [0829 4258] being definitely slated for chief committeeman of the NPC, nothing is definite for the other posts.

#### **Candidates for President and Premier Not Decided**

According to sources from Beijing, selection for the two posts of president and premier will be made from three candidates—Jiang Zemin, Li Peng and Zhu Rongji, with the final selection made by Deng Xiaoping.

Deng Xiaoping had always wanted Zhu Rongji to be in charge at the State Council, but if he became premier, where would Li Peng go? Was it necessary to maintain the Jiang-Li (Jiang Zemin and Li Peng) team? Should Li Peng become president, would this image be internationally acceptable?

Moreover, if Deng were to abandon Li Peng and select Zhu Rongji, there would be two problems. One is not to let people misunderstand that the CPC wishes to reevaluate the Tiananmen affair. Second is the strong conservative influence within the party that wants the Jiang-Li team to be maintained.

According to sources in the State Council, if Zhu Rongji could not hold his own this time, but just continue in his present position as executive vice-premier, it would be difficult for work in the State Council to make any progress. They say that if Li Peng and Zhu Rongji continue to be at loggerheads with each other and hold each other back 3n3 in the State Council with their conflicts, it will be difficult for people working under them to serve two bosses.

#### **Majority Unhappy With Li Ruihuan as Chairman of CPPCC**

Deng's desire to have Li Ruihuan [2621 3843 3883] as chairman of the Chinese People's Political Consultative Conference National Committee also has problems. Many people are not receptive to the idea, for they feel that the chairmanship of this group should be assumed by one with impeccable moral credentials and high standing. One rumor states that one party exhibiting

public dissatisfaction with this approach is Wan Li [5502 6849], the present committee chairman of the NPC. This old politician still has pretty strong political motives, for he has designs on the prestigious chairmanship of the CPPCC. However, another rumor states that Wan Li supports Li Ruihuan, but says he would be available should Li be unacceptable.

It was also rumored that for the CPC's leadership "succession" this time, more than one vice-premiership would be established, and opened up for a non-party figure to assume. To realize the cooperative spirit of the CPC's multi-party system, the most likely candidate was rumored to be the red capitalist Rong Yiren [2837 3015 0088].

The most drastic changes will be in the State Council. The present two vice-premiers Yao Yilin [1202 0181 2651] and Wu Xueqian [0702 1331 6197] will be retiring, and Tian Jiyun [3944 4764 7189] is rumored to leave the State Council to become a committee vice-chairman in the NPC and aide to Qiao Shi. It is also rumored that candidates for vice-premiers in the new congress include Zou Jiahua [6760 1367 5478], Li Tieying [2621 6993 2503], Qian Qichen [6929 0366 3819], Li Lanqing [2621 1526 3237], and Jiang Chunyun [1203 2504 7186], the CPC secretary for Shandong Province. As the post of State Affairs committeeman will be abolished, the position of the present committeeman central bank president Li Guixian [2621 6311 7639] may not be assured.

Right now, much private discussion and speculation on candidates for the state's new leaders are taking place in Beijing political circles, and the dust will settle after the Second Plenary Session of the 14th CPC has been held. It is just that in recalling how military leadership by the Yang clan changed overnight during the 14th CPC plenum, we can be prepared psychologically for the unexpected, should that happen.

#### **Concern Over the State Report and Revisions to the Constitution**

At the moment, everyone is also concerned about how the Eighth NPC state of the nation report will be written, and whether it will bring up the question of revising the Constitution. Basically, the gist of the report from the Eighth NPC and that for the 14th CPC Plenum are consistent. However, views on how to assess the speed of economic reform and deal with anti-right and pro-left problems in the ideology area vary widely among the CPC's higher echelons.

Originally, the CPC leadership felt that economic reform had gone out of control. Late last year, Jiang Zemin, Zhu Rongji and Li Peng had spoken out many times on the need to prevent the economy from overheating. But during the spring holidays, when Deng Xiaoping was in Shanghai, he called for the leaders at the front line not to sit down and lose the opportunity for great economic development. Indirectly, he expressed his view that the "economy overheating" was not so. On this basis, the

state-of-the-nation report from the 8th NPC is highly likely to affirm the stepped-up economic reform policy announced after Deng Xiaoping's South China trip and the 14th CPC Plenum, and economic growth for the following year is expected to be at an appropriately high figure.

Moreover, after Deng had taken control of the overall economic reform operation, the leftist slogans proposed during his south China trip has been muted. Most recently, a new slogan suggesting that "pro-left must also be anti-right" surfaced. So the state-of-the-nation report is likely to be more conservative ideologically.

#### **Constitutional Crisis Following 14th CPC Plenum**

The new party constitution voted on and passed at the 14th CPC Plenum proposed a "socialist market economy" which contradicts the CPC constitution operating at present. In the present constitution, a so-called "planned economy is implemented by the state on the foundation of the socialist public ownership system. The coordinated balance of the economic plan passed by the state, and the complementary action of market regulation assure proportional lock-step development of the state economy." Scholars in mainland China have already pointed out the constitutional crisis that appeared after the 14th CPC Plenum. This will require

revising the constitution to eliminate it. It is rumored that this task is being carried out under Qiao Shi's direction.

As to the CPC's overall structure, the focus of the 8th NPC is to simplify its organization by changing the state's agency function to adapt it to developing a market economy. On the other hand, the characteristically centralized type of leadership to strengthen the party has become more obvious. At the 8th NPC, people will clearly be aware of the CPC's two labels of party and of government, but just one of team, a new label describing no separation between party and the body politic.

Before this, only the military had two labels—the "CPC Central Military Commission" and the "State Central Military Commission," which are all one and the same team. However, with respect to the 8th NPC, besides standing committee members of the Politburo assuming state positions, the Central [government]-Taiwan office and the State-Taiwan office will be staffed by the same group. The Commission for Discipline and the Ministry of Control will merge into one.

Along these lines, the Eighth NPC is expected to be like the 14th CPC Plenum last year, still supporting economic reform but tightening the political reins.

## NATIONAL AFFAIRS, POLICY

### Two Economists See No Present Danger of Inflation

93CE0363A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 6,  
15 Feb 93 p 25

[Article by staff reporter Ho I-wen (0149 0076 2429):  
"Tong Dalin, Wu Mingyu Don't Think Danger of Inflation Exists"]

[Text] Over the past several months an atmosphere of worry has shrouded Beijing. Last year the investment in capital construction grew rapidly, and the economy's growth rate exceeded a two-figure number. Does this mean that the economy has already become overheated. Will there, because of this, be triggered a new round of inflation? These are questions being discussed and pondered by people high and low.

On 5 February, before the Latern Festival, on Jianguomenwai Avenue in Beijing, Tong Dalin [4547 1127 2651] and Wu Mingyu [0702 2494 3542], two leaders of the China and World Survey Institute and well-known mainland economists, in their office gave the latest viewpoints from their research on the current situation.

Although the 14th CPC Congress set forth the theory of the market economy, from a look at the current situation it is seen that there still exist many problems, among them the biggest problem is the relationship between reform and development. Coming straight to the point, Wu Mingyu spoke first.

If it is the case that, provided economic development is fast, the economy does not need to be reformed, then, in fact, high speed can be produced under the planned economy and, therefore, there is no need for reform.

China's leaders have two fears about the economy: one is that there will be runaway inflation, and the other is that the economic growth rate will be lower than 5 percent. Last year there was a clear expansion of the scale of newly added loans and capital construction, and this expansion caused people to panic. I think we should not look at the new problems now from the angle of the old situation in 1988.

There are now three views of the new situation:

Some people, primarily those at the policy-making level, are fairly nervous.

The greater part of the scholars are in an intermediate state, thinking that one cannot look at problems with old eyes and that the dynamics of reform should increase.

Local governments do not admit that the economy has become overheated. Officials in the interior cite the high speed in the coastal regions to prove that their own economy has not yet become overheated; but the high speed and the large scale of capital construction in the

coastal regions also mainly stems from the increase in foreign capital, and the foreign business investment craze also needs a complete capital construction system.

Wu Mingyu maintains that most of the statistical indices now made public are production indices, but in fact the state of the people's life should be the starting point of the government's policy making. He gave an example: In 1978 the savings deposits of all people in China totaled 40 billion yuan, and today it is 160 billion yuan, an enormous increase. Today's situation was produced under the condition of an increase in material wealth. He particularly stressed: The market economy has saved China, has saved socialism!

Mr Wu does not think that there now exists the danger of inflation, and also does not believe that prices will rebound. His explanation is:

From a look at agricultural production, we see that now not only is there no insufficiency, but, on the contrary, there is a large amount of overstocking.

From a look at industrial production, we see that in the consumer product industry there now widely exists a situation of under-capacity operation.

Last year there really was a certain rise in prices, but we must see that at that time the controls on the prices of several hundred kinds of products were just being loosened. This could not but affect prices, and at the same time last year wage outlays increased 25 percent.

People in financial circles worry: If credit is tightened, how will the huge amount of deposits on hand be dealt with? This is because the present savings rate is still quite high. Wu Mingyu thinks that if loans are not directed to investment in fixed assets but are directed to circulation, there will be a greater danger, because investment in energy and communications will, sooner or later, produce beneficial results. In the investment in fixed assets, we must guard against a rise in the amount of investment in the system of ownership by the whole people, because, from a look at the present situation, we see that the beneficial results of this part of investment are the poorest. He said this not without showing some worry.

Last year foreign exchange savings rose, and the trade surplus was \$5 billion.

There is no need to worry about the increase in investment in township-town enterprises and wholly foreign-owned enterprises.

What makes Mr Wu most worried is that, in the period after the 14th CPC Congress up to now, not one effective reform has been seen, and the National Systems Work Conference, held early last year, also did not come up with any new measures.

After attending the memorial service for the late Mr Jiang Yiwei [5592 0001 5517], Tong Dalin returned to the institute. He said that what Mingyu had said represented the views of this institute. What needs to be

added, he went on, is that, no matter whether from China or from the world, the news coming in is hard to forget. He expressed extreme dissatisfaction with the coverage by the mainland press this year of the news in China and abroad concerning the 14th CPC Congress, because most of the coverage was arranged in order of days and did not boldly present the news in order of importance. He said that what shook the world the most last year was China's reform and opening up to the outside world, including the 14th CPC Congress' decisions to establish a socialist market economy, to open up to the outside world in all directions, to develop all kinds of markets, and to develop various kinds of ownership system economies besides the state-owned economy.

At the conclusion of the interview, Tong Dalin disclosed that the Beijing World Institute last year struggled for a year to set market goals; and that this year it will would be hard to promote reform in the market trends, and in March will hold a series of special-topic discussion meetings.

## PROVINCIAL

### Gansu Economic, Social Development Statistics

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[Article: "Statistical Report by the Gansu Provincial Statistical Bureau on the Provincial Economy and Social Development in 1992"]

[Text] In 1992, while conscientiously studying and trying to implement the ideas contained in the important remarks made by Comrade Deng Xiaoping during his southern inspection tour, as well as those enunciated at the 14th CPC Congress, our province made efforts to seize the opportunity and comprehensively implemented the strategic policy of "bringing along two things, readjusting and promoting," proceeding on the basis of the actual situation in Gansu. The pace of reform and opening up was markedly quickened across the province, and the growth rate of the provincial economy became higher amidst steady development. The various tasks of macroeconomic regulation and control were accomplished well. The entire provincial economy began to

enter a new period of development, thereby creating good conditions for the economy's further growth in the 1990's. According to preliminary statistics, the provincial GDP for the year was 27.7 billion yuan, an increase of 8.1 percent. The growth of the tertiary industry amounted to 8.4 billion yuan—an increase of 8.9 percent—and its share of the GDP rose to 30.3 percent. But, in our province, the economic basis remained relatively weak; the natural conditions for agricultural development were rather poor; there were shortages with regard to transportation and communications; and construction and development funds were insufficient. As a result, while the growth rate of the provincial economy became higher amidst steady development in 1992, the province was still below the national average in terms of development levels, lagging behind the developed regions.

### I. Agriculture

In 1992, the rural areas of our province continued to deepen the reform, further perfected the rural output-linked contract responsibility system, proceeded with the construction of multifaceted socialized service systems, increased agricultural input, and implemented policies of "invigorating agriculture with science and education," thereby further enhancing agriculture's position as the basis. Despite the attacks of multiple natural disasters such as severe drought, agricultural production continued to develop in a comprehensive way across the province, and still led to good results. For the entire year, the added value created by agriculture (the primary industry) amounted to 7 billion yuan—an increase of 4.3 percent, thereby accounting for 25.3 percent of the GDP.

The crop composition of production was adjusted to some extent. High-quality, high-yield, and high-efficiency agricultural production was given more attention. The outputs of main grain crops and cash crops all registered some growth. There were increases in unit-area output and in the commercialization rate of agricultural products. Province-wide, the commercialization rate of agricultural products rose by 2.6 percentage points, reaching 45.6 percent. The unit-area outputs of gain, cotton and oil-bearing crops reached 153 kilograms per mu, 93 kilograms per mu, and 79 kilograms per mu respectively. The total grain output reached 6,888,000 tons.

The outputs of the main agricultural products are as follows:

	1992	Increase over the preceding year (percentage)
Grain	6,888,000 tons	4.9
Cotton	18,000 tons	42.4
Oil-bearing crops	365,000 tons	12.1
Beet	942,000 tons	-9.1
Tobacco	51,000 tons	62.4
Medicinal materials	32,000 tons	15.8
Vegetables	2,325,000 tons	16.1
Fruits	471,000 tons	16.6

Across the province 2,331,000 mu of land was afforested in 1992 (calculated on the basis of an area survival rate of over 85 percent), an increase of 117,000 mu. Of the afforested land, land covered with trees of economic value accounted for 494,000 mu, an increase of 88,000 mu. Forestry production of the province entered a situation of benign cycle, with forest resources having growth larger than consumption. Forest coverage rate rose to 8.5 percent. The outputs of main forestry products all increased. The output of walnuts increased by

13.3 percent; the output of tung oil seeds increased by 76.7 percent; and the output of edible fungi increased by 9.5 percent.

Animal husbandry production continued to develop in a steady manner. The development of fresh water fishery was delightful. The supplies of meat, milk, eggs, and aquatic products grew. The following are data on outputs of main animal products, heads of livestock, and outputs of aquatic products:

	1992	Increase over the preceding year (percentage)
Pork, beef and mutton	445,000 tons	7.2
Beef and mutton	96,000 tons	3.2
Milk	84,000 tons	5.0
Sheep wool	15,000 tons	-1.0
Poultry and eggs	98,000 tons	3.7
Number of pigs used	5,089,000	5.1
Number of pigs at year-end	6,270,000	5.0
Number of sheep at year-end	10,122,000	-0.8
Head of large livestock at year-end	5,906,000	0.9
Aquatic products	4,846 tons	12.9

The conditions of agricultural production further improved. The development of agricultural irrigation infrastructure continued. There was 52,236,000 mu of farmland in the province, representing an increase of 138,000 mu. Land under effective irrigation accounted for 25.4 percent of farmland, with 263,000 mu of land coming under effective irrigation during the year. The modernization level of agriculture was raised to some extent. In the year, the areas of farmland covered by mechanized plowing and mechanized planting reached 15,746,000 mu and 9,746,000 mu, representing increases of 7.0 percent and 7.3 percent respectively. At the year-end, the total power of farm machinery was 6.3 billion watts, an increase of 5.1 percent. The number of large, medium-sized and small tractors reached 263,000, an increase of 6.1 percent. The number of farm-use trucks was 11,649, an increase of 3.9 percent. Rural electricity consumption totaled 2.04 billion kilowatt-hours, an increase of 6.9 percent. Agricultural fertilizer consumption (converted to amount in the unmixed form) totaled 400,000 tons, an increase of 3.7 percent. Agricultural plastic sheeting consumption totaled 20,954 tons, an increase of 42.1 percent.

Across the province, township enterprises developed rapidly, and the rural economy grew in a comprehensive manner. At the end of 1992, there were 239,000 township enterprises, an increase of 19,000. Those enterprises employed 1,436,000 people, an increase of 115,000 people. The production rate of township enterprises was 33.2 percent. The share of township industrial production in the production of township enterprises rose to 51.2 percent. For the entire year, such non-agricultural economic sectors as the industrial, construction, transportation, commerce, and food catering sectors

accounted for 45.2 percent of the rural economy, representing an increase of 3.9 percentage points.

## II. Industry and the Construction Sector

In 1992, proceeding in the market-oriented direction, industrial enterprises of the province energetically adjusted the production structure, deepened enterprise reforms to transform operational mechanisms, and proceeded with technological progress continuously. The production rate increased markedly. The main targets of macroeconomic regulation and control were achieved in a satisfactory manner. At the year-end, the production of enterprises at the township level or above increased by 11.9 percent. The industrial added value (created by enterprises with independent accounting) was 10.5 billion yuan, an increase of 5.4 percent. The ratio of light to heavy industries in terms of shares of industrial added value was 21.9:78.1. The share of state industrial enterprises was 86.7 percent. Large and medium-sized enterprises accounted for 68.6 percent of the share of state enterprises. The share of collective enterprises was 13.3 percent. The share of enterprises of other ownership statuses such as foreign-financed enterprises was rather small, representing 27.72 million yuan of added value.

Affected by changes in the market and demand, in 1992, the outputs of some main industrial products increased, and the outputs of some other main industrial products decreased in the province. The outputs of some energy products, raw materials, and building materials increased. The following is the actual situation:

	1992	Increase over the preceding year (percentage)
Chemical fibers	19,000 tons	5.6
Yarn	20,000 tons	7.0
Cloth	46,537,000 meters	-11.3
Machine-made paper and cardboard	127,000 tons	14.4
Cigarettes	295,000 cases	5.4
Household washing machines	222,000	-18.6
Household refrigerators	48,000	-19.8
Television sets	144,000	-18.6
Synthetic detergent	17,000 tons	2.5
Raw coal	15,424,000 tons	-0.1
Crude oil	1,981,000 tons	22.4
Electricity	20.03 billion kilowatt-hours	6.5
Crude oil processing	5,184,000 tons	6.0
Pig iron	1,020,000 tons	6.7
Steel	934,000 tons	9.2
Steel products	645,000 tons	27.2
Ten non-ferrous metals	311,000 tons	18.3
Sulphuric acid	422,000 tons	7.9
Synthetic rubber	49,000 tons	6.2
Farm chemicals	3,000 tons	50.0
Plastics	100,000 tons	15.3
Cement	4,896,000 tons	19.7
Plate glass	2,913,000 weight-measurement cases	12.1

The economic efficiency of industrial enterprises continued to rise. Production was well-linked up with marketing. There was some improvement in product qualities. Some products received rewards at nationwide appraisals, thus entering the ranks of name brand and quality products. In 1992, the comprehensive index of economic efficiency of industrial enterprises rose by 3.2, reaching 81.3. In this respect, the sales rate of industrial products rose to 96.0 percent; the profit and tax rate on funds was 8.9 percent; the profit and tax rate on cost was 4.6 percent. The flow of funds became faster, with the turnover rate of circulating funds being 1.29. The net value rate of industrial output was 28.8 percent. Calculated on the basis of net value of output, the overall labor productivity reached 8,287 yuan per person. But, the overall economic standards of industrial enterprises were not high. There were prominent gaps between enterprises, with some enterprises having many production difficulties. The problems of unsold products tying up funds and enterprise losses remained rather serious. Loss-making was still plaguing 11.4 percent of the sector of industrial enterprises with independent accounting in the province, and the amount of losses increased by 25.1 percent.

Production of the construction sector recovered and grew with the increase in fixed-asset investment. Building activities expanded, and the construction market became ever more brisk. The sector created 1.5

billion yuan in added value, an increase of 4.8 percent. Through deepening reform, the construction enterprises speeded up production, got efficiency rising again, and reduced loss-making in the sector. In 1992, 88.2 percent and 38.7 percent of the state-owned construction enterprises practiced the contract responsibility system and carried out bidding in business operations respectively. The value of output of the construction sector reached 2.61 billion yuan. The enterprises' overall labor productivity reached 18,450 yuan per person (calculated in terms of the total value of output). Some 1,311,000 square meters of building floor space were completed.

### III. Fixed-Asset Investment

In 1992, demand for fixed-asset investment was rather strong in our province. The number of construction projects increased. The scale of development was moderate. The situation of blind development was put under effective control. State-owned establishments started 887 capital construction and renovation and transformation projects this year. Society-wide, completed fixed-asset investment amounted to 8.36 billion yuan, an increase of 21.8 percent. In this regard, investment of state-owned establishments totaled 6.85 billion yuan, an increase of 20.2 percent; investment of collectively owned establishments totaled 0.43 billion yuan, an increase of 22.5 percent; and investment of individuals totaled 1.08 billion yuan, an increase of 33.0 percent.

With regard to the investment of state-owned establishments, capital construction investment totaled 3.91 billion yuan, an increase of 15.2 percent; of that amount, local investment accounted for 43.9 percent. Renovation and transformation investment amounted to 1.97 billion yuan, an increase of 25.5 percent; of that amount, local investment accounted for 52.2 percent. Commercial housing construction increased its rate of progress, completing investment worth 0.3 billion yuan, an increase of 52.8 percent. Completed investment in other sectors amounted to 0.68 billion yuan, an increase of 40.0 percent.

Investment structure was further adjusted. The policy of tilting toward the focus was followed. Investment in basic industries and sectors and in the tertiary industry increased. In the area of capital construction investment, agricultural investment totaled 0.38 billion yuan, an increase of 11.6 percent; energy industry investment totaled 1.18 billion yuan, an increase of 5.6 percent; investment in the non-ferrous metal industry totaled 0.6 billion yuan, largely at the level of the preceding year; tertiary industry investment totaled 1.11 billion yuan, an increase of 55.0 percent. Investment in the transportation and posts and telecommunications sectors increased by 122.6 percent; investment in the science, education, cultural, and health care sectors increased by 30.9 percent; housing construction investment amounted to 0.44 billion yuan, an increase of 16.5 percent. In the area of renovation and transformation investment, tertiary industry investment totaled 0.39 billion yuan, an increase of 144.7 percent; production expansion investment totaled 0.48 billion yuan, an increase of 26.8 percent; investment for increasing product variety totaled 0.36 billion yuan, an increase of 18.2 percent; and investment for improving product quality totaled 0.2 billion yuan, an increase of 30.9 percent.

The pace of progress of construction projects was quickened. In the year, 681 capital construction investment projects were completed and put into operation, and the rate of completion and commissioning was 44.1 percent. Some 411 renovation and transformation investment projects were completed and put into operation; the rate of completion and commissioning was 41.4 percent. Province-wide, 33 large and medium-sized construction projects and 25 key construction projects proceeded smoothly. The three large and medium-sized projects—Jingyuan Power Plant, Yongchang Power Plant, and Longxi Aluminum Plant—and 15 key construction projects such as the Northwest Lead and Zinc Smeltery, the Dawu section of the Lanwu electric railway, and the

project of the Lanzhou telecommunications hub were completed and put, or partly put, into operation.

In the year, capital construction, renovation and transformation resulted in an increase of fixed assets worth 3.36 billion yuan. The commissioning rate of fixed assets was 57.1 percent. The formation of new productive capacities—including the capacity to irrigate 93,000 mu of farmland, the capacity to generate 300,000 kilowatt-hours of electricity, the capacity to smelt 50,000 tons of lead and zinc annually, the capacity to produce 9,600 tons of electrolytic aluminum, and 127 kilometers of electric railway—provided foundations for future development.

#### IV. Transportation and Posts and Telecommunications

In 1992, our province gave great emphasis to the transportation and posts and telecommunication sectors, and adopted tilting policies, thereby starting a new tidal wave of construction. A group of construction and transformation projects important for the future provincial development such as the dual-track Lanzhou-Xinjiang railway and the Pingqing local railway got under way one after another. Meanwhile, some construction projects were completed and put into operation. For instance, the construction of the Lanzhou communications hub was basically completed; the Lanzhou-Xining optical-fiber cable project, the Lanzhou-Baiying digital microwave project and the Lanzhou-Xining microwave expansion and transformation project were completed and put into operation; the renovation project for the thousand-kilometer west-of-the-river national highway was completed; the Chedaoling highway tunnel was put into operation. In addition, the Lanzhou Airport was formally put into operation, and the operation involving direct flights to Hong Kong was successful. Civil aviation was administered in an open manner. Against the background of cooperation with domestic airlines, several domestic routes were opened. The transportation and posts and telecommunications sectors of the province achieved significant development, producing 1.5 billion yuan in added value, an increase of 8.3 percent.

In 1992, under the circumstances of very strong demand, the transportation sector enhanced scientific management, and made some achievements. But, the imbalance between supply and demand remained prominent, and the constraints of "bottlenecks" remained obvious. The rate of transportation development did not suit the rate of production. The situation regarding the various means of transportation for the year is as follows:

	1992	Increase over the preceding year (percentage)
Goods flow	9,291,390,000 ton-kilometers	7.5
Railway	31,275,730,000 ton-kilometers	3
Highway	8,012,530,000 ton-kilometers	28.9
Air	3,130,000 ton-kilometers	-6.4
Passenger flow	13,051,170,000 person-kilometers	2.8

	1992	Increase over the preceding year (percentage)
Railway	8,356,670,000 person-kilometers	4.5
Highway	403,110,000 person-kilometers	-0.5
Air	291,390,000 person-kilometers	3.7

The posts and telecommunications sector developed at a higher rate. The total volume of posts and telecommunications business for the year was 0.27 billion yuan, an increase of 28.5 percent. Some new posts and telecommunications services—such as wireless mobile phones, electronic mail, international remittance, pager service, and card-operated phones—started and developed quickly. The business volume for express delivery, long-distance calls, and pager service increased substantially. Province-wide, 71.4 percent of the counties provided urban direct dialing. Some 21 cities and counties were covered by long-distance direct-dialing networks, and 16 of them joined the networks in the year. There were 53,000 program-controlled telephones, an increase of 30,000. Province-wide, the number of urban telephone subscribers reached 114,000 by the end of the year, representing an increase of 31.6 percent; the number of rural telephone subscribers reached 14,000 by the end of the year, representing an increase of 13.3 percent.

#### V. Commerce and Market Prices

The consumer goods market was invigorated gradually. Supply was abundant on the market, with sources of goods being large and extensive. In the year, in terms of the entire trading sector of the society, net goods purchase amounted to 13.2 billion yuan, an increase of 25.9 percent; net sales amounted to 13.6 billion yuan, an increase of 22.8 percent. The total social retail sales amounted to 14.42 billion yuan, an increase of 19.3 percent. In this respect, retail sales of consumer goods totaled 12.83 billion yuan, an increase of 20.8 percent; retail sales of agricultural production means totaled 1.6 billion yuan, an increase of 8.4 percent. With regard to social retail sales, urban retail sales increased by 22.1 percent; and rural retail sales increased by 15.7 percent.

Retail sales increased in sectors of different ownership status—by 14.3 percent in the state sector, by 12.8 percent in the collective sector, and by 42.6 percent in the private sector. The farming population's retail sales to the non-farming population increased by 18.4 percent. Of the total social retail sales, the share of retail sales of the non-state sector increased to 54.4 percent. Licenced individual traders accounted for 21.2 percent of the retail sales of the non-state sector.

In 1992, province-wide, retail sales of food, clothing, daily-use goods, and fuel all registered some growth. In this respect, food sales increased by 19.0 percent; clothing sales increased by 26.8 percent; and sales of daily-use goods increased by 17.3 percent. In the year, retail sales of some goods increased, while retail sales of some other goods decreased. Among the goods having large sales increases were: fresh eggs (108.1 percent);

aquatic products (23.0 percent); undershirts (42.5 percent); cotton jerseys and underpants (37.5 percent); cotton sweaters and knitwear pants (16.4 percent); matches (81.0 percent); tape-recorders (46.9 percent); video-cassette recorders (119.2 percent); refrigerators (19.1 percent); cameras (15.4 percent); and sewing machines (14.4 percent).

Thanks to the increase in investment and rise in production rate, the markets for means of production in the province were active, with a lot of buying and selling going on. The scale of the work on building markets for means of production increased. In the year, there was a general balance between supply and demand for most materials. The consumption of major materials increased, but some materials were in short supply. There existed structural shortages, and prices were rising. In the year, the purchase of production means carried out by enterprises engaged in the supply and marketing of materials amounted to 4.31 billion yuan, an increase of 43.5 percent. The total sales amounted to 4.49 billion yuan, an increase of 41.1 percent. State-owned materials enterprises changed their views so as to adapt to market economy conditions. Their standards of business operation and economic efficiency improved substantially. The materials sector of the province increased its sales by 40.1 percent, and their profits grew by 55.9 percent. In terms of categories of goods sold, sales of goods in the eight major categories all increased over the preceding year. In this respect, sales of goods in the ferrous metal category amounted to 1.25 billion yuan, an increase of 50.9 percent; sales of goods in the non-ferrous metal category amounted to 0.63 billion yuan, an increase of 62.2 percent; and sales of goods in the construction materials category amounted to 0.28 billion yuan, an increase of 29.6 percent.

Price reform in the province advanced greatly. The province gradually removed restrictions on prices of over 400 commodities under provincial supervision. Prices for the majority of goods were determined by enterprises themselves and regulated by the market. In 1992, effective social supply increased. There was a great variety and abundance of goods. Prices on the market were basically stable. The general retail price level of the society reached 105.8 percent, and was thus within the confines of the macroeconomic targets. But, prices for some items rose greatly. Prices of grain and edible oil were raised by 29.2 percent and 16.2 percent respectively. In addition, prices of services, fuel, and electricity, purchase prices of raw materials, producer prices of industrial products and prices of drugs and medical supply all rose by more than 10.0 percent. The following are price indexes (100 for the preceding year) for various goods:

1. Prices for living expenses	107.2
Urban	107.3
Rural	106.4
2. Retail prices	105.8
Prices of consumer goods	105.7
(1) Food	108.2
Item in the food category: Grain	129.2
Item in the food category: Edible oil	116.2
(2) Clothing	101.5
(3) Daily-use goods	102.1
(4) Books and periodicals	105.9
(5) Drugs and medical supply	111.1
(6) Building and finishing materials	102.8
(7) Fuel	107.1
Prices of agricultural production means	106.7
3. Prices of services	118.7
Urban	116.7
Rural	119.6
4. Prices of fuel, electricity, and raw materials	117.2
5. Producer prices of industrial products	110.3
6. Purchase prices of agricultural and side-line products	108.8

#### VI. Economic Activities Involving Foreign Businesses

In 1992, our province expanded the opening to the outside world in an overall manner. There were energetic economic activities involving foreign businesses. As a result, there occurred an unprecedented, delightful situation.

Foreign trade continued to develop. In the year, the total volume of import and export reached \$420 million, an increase of 50.4 percent. In this regard, export totaled \$350 million, an increase of 39.1 percent. Some 28 enterprises (enterprise groups) in the province were given authorization to engage in direct import. The value of exports delivered by industrial enterprises (at or above the township level) reached 780 million yuan. The booming foreign trade resulted in some increase in the profit level of foreign trade enterprises, and in some improvement in their economic efficiency. The total value of goods purchased for foreign trade purposes in the province reached 1.91 billion yuan, an increase of 44.8 percent.

Our province achieved breakthroughs in the securing and using of foreign funds. In 1992, 256 enterprises received foreign investment. In the year, approval was given to 217 enterprises. According to concluded contracts, the total amount of foreign funds to be used was \$340 million. Some \$130 million was actually used. There was also new progress in foreign economic and technological cooperation. During the year, 47 contracts on completing construction projects or providing labor service overseas were in effect. Of these contracts, 17

were signed in the year. The contracts involved a total amount of \$220 million, an increase of 32.6 percent. The total volume of business was \$49.85 million, an increase of 25.5 percent.

The tourist industry continued to be in a good shape, producing the best ever record in terms of reaching the main business targets. The efficiency of the tourist industry improved quickly. In 1992, the number of overseas tourists visiting the province was 110,000, an increase of 11.0 percent. Foreign exchange revenue from tourism amounted to \$11.88 million, an increase of 11.7 percent.

#### VII. Finance, Insurance and Environmental Protection

The financial sector provided services for the provincial economic development. Keeping a clear focus, it continued to increase its volume of business, thereby ensuring the healthy development of the provincial economy. The number of financial institutions in the province reached 5,445. In 1992, bank deposits totaled 25.7 billion yuan, and loans totaled 30.2 billion yuan, representing increases of 26.1 percent and 18.4 percent respectively. Under the circumstances of the existence of many side-channels and of the tendency of people to invest in many ways, the individual savings deposit still totaled 16.1 billion yuan by the end of the year, an increase of 25.3 percent. In this regard, urban individual savings deposit totaled 13.6 billion yuan; rural household savings deposit totaled 2.5 billion yuan. Economic development raised stronger demand for funds. The

total provincial money supply reached a record high, representing an increase of 55.9 percent.

Insurance business developed in an overall fashion. The number of insurance institutions in the province reached 120. The total insured sum was 63.8 billion yuan. Of that amount, international business accounted for 14.0 percent. The total revenue from insurance business in the province was 380 million yuan. Of that amount, property insurance accounted for 220 million yuan; life insurance accounted for 150 million yuan. Insured-deposit revenue totaled 160 million yuan. Society-wide, the willingness to buy insurance was enhanced. Meanwhile, efficiency of the insurance industry also improved. In 1992, 10,306 enterprises had property insurance; 773,000 households had property insurance; and 4,216,000 people had life insurance. In the year, the insurance industry handled 41,000 domestic cases of property damages, paying damages totaling 97.77 million yuan. Some 44.94 million yuan in life insurance damages was paid to 306,000 people.

Environmental protection further developed in terms of both scope and depth. In 1992, in the province, there were 25 environmental monitoring stations of various levels, and 24 natural conservation zones, with a total area of 2,457,000 hectares (25,000 square kilometers), which is about 5.5 percent of the total area of the province. With 17.92 million yuan invested in the year, 132 deadline environmental cleanup projects were completed. The investment in the environmental protection projects among the projects with three-way simultaneity totaled 32.19 million yuan. The environment of our province was partially brought under control or improved. However, the environmental situations of a majority of the large and medium-sized cities of the province remained unsatisfactory. The environmental protection consciousness of the entire population remains to be further enhanced. The potential of the environmental protection industry remains to be developed in a faster manner.

### VIII. Science, Education, Culture, Health Care and Sports

Science and technology as the most important productive force was given ever more focused attention. Scientific and technological input increased continuously. Local fiscal outlays on the three science-and-technology items and on scientific operations increased, on a cumulative basis, by 51.6 percent and 15.4 percent respectively. The reform of the science and technology system deepened continuously, thereby stimulating the development of science and technology of our province. All the science and technology programs progressed smoothly. Some research projects—such as the serial Monnare alloy research, the non-leaking pump based on neodymium-iron-boron magnetic transmission, the research on hydatid disease prevention, the research on the Qiaozhan growing technique characterized by close planting, high yield, stable yield and high quality for

Yuanshuai apple, and the research on and demonstration of the comprehensive efficiency-optimization model for grain, grass and livestock in the inland irrigation areas west of the river—produced results which were up to the advanced international standards and which led to actual benefits. The number of private scientific and technological research institutions in the province reached over 300. As experiments on integrating science and technology with production, the Lanzhou national development zone for high and new technologies, the Jinchang provincial development zone for high and new technologies, and the Xigu Spark concentration zone experienced quick progress, and produced significant achievements. The output value of the Lanzhou development zone was over 300 million yuan. The construction of key laboratories experienced further progress. Some laboratories of the Lanzhou branch of the Chinese Academy of Sciences became available to society. Cooperation on scientific and technological projects was carried out. The work on invigorating agriculture with science and technology produced prominent results. The contracting practice in the area of agricultural science and technology led to breakthroughs in the conversion of scientific and technological achievements. In relation to science and technology, 2 model counties, 126 model townships, and 1,050 model villages were established in the province. There was increase in the use of such technologies as using fertilizers according to prescriptions, building farmland with a unit-area output of one ton of grain per mu, economical use of irrigation water, mechanized farming, and comprehensive prevention and treatment of disease and insect infestation.

In 1992, the provincial technology trading market was more active than previously. Technology shows of various types provided conditions for integrating scientific and technological achievements with production. The standards of technology trading were greatly raised. In the year, officially concluded contracts involved a total sum of 230 million yuan. In addition, the province allocated 3 million yuan as funds for testing results of scientific and technological work, so as to speed up the conversion of the results.

The provincial educational system was further perfected. Education developed in a steady manner. In the year, the number of graduate students newly enrolled reached 423, an increase of 45. There were 1,227 graduate students in school. The adjustment of the disciplinary composition of ordinary institutions of higher learning was guided by the needs of economic construction. In the year, the number of students newly enrolled at three- or four-year colleges was 12,065, an increase of 15.1 percent. The total number of students was 35,000, an increase of 4.7 percent. Secondary-level occupational and technical education developed continuously. The total number of students was 129,000, an increase of 4.0 percent. The total number of high school students in ordinary secondary schools was 185,000, a decrease of 8.0 percent as compared with the preceding year.

Universal compulsory education developed steadily. In 1992, the number of students in lower secondary schools was 755,000. The number of students in primary schools (including private primary schools) was 2,473,000. Province-wide, the school attendance rate of school-age children rose to 95.28 percent. The Spark Program and the Hope Project produced good results. The dropout rates of students of ordinary lower secondary schools and students of primary schools were 4.4 percent and 3.6 percent respectively. In the province, 52 counties succeeded in providing universal compulsory primary education, and 11 counties succeeded in providing universal lower secondary education.

Adult education for degree purposes boomed, and produced prominent results. In 1992, 8,000 students were newly enrolled in three- or four-year institutions of adult higher education. The total number of students was 18,000, a twofold increase. The number of students in secondary technical schools for adults was 31,000, an increase of 14.8 percent. Province-wide, technical schools for adults graduated 781,000 students. The number of students in primary and secondary schools for adults was 342,000. Our province reduced the number of illiterate people by 201,000. Some 38 counties basically eliminated illiteracy.

At the year-end, in the province there were 83 performing art groups, 98 cultural centers (including mass art centers), 86 public libraries, 49 museums, and 2,844 motion picture theaters of various kinds. The radio and television sector of the province achieved large development. There were 27 radio stations, 23 radio broadcasting and transmission stations, 12 television stations, and 979 television broadcasting and transmission stations. The population coverage rates of radio and television rose to 63.3 percent and 68.5 percent respectively. In the year, the provincial publishing sector published 1,206 titles with 79.87 million copies, 103 periodicals with 49.86 million copies, and 55 newspapers with 267.84 million copies.

In 1992, the province had 4,192 medical and health care institutions, 21,922 rural village-level clinics, and 32,498 rural doctors and health care workers. At the year-end, the province had 49,119 hospital beds, an increase of 2.7 percent, and 76,000 health-care technical personnel of various specialties, an increase of 3.7 percent. Of those people, 35,000 were doctors and 17,000 were nursing specialists and nurses.

In 1992, 24 athletes from our province took part in 8 international sports events, winning the first place in 4 events, the second place in 3 events, and the third place in 1 event. At domestic sport events, athletes from our province won 14 gold medals, 9 silver medals, and 25 bronze medals. In the province, mass sports activities boomed continuously. Some 1,769,000 students satisfied the requirements of the National Athletic Standards.

### IX. Population and People's Life

The work on controlling population growth, especially rural population growth, of the province produced results. According to a sample survey on population changes, in 1992, in the province the birth rate was 19.37 per thousand; the death rate was 6.64 per thousand. The natural growth rate thus fell by 0.6, reaching 12.73 per thousand. At the year-end, the total provincial population was 23.14 million, an increase of 290,000.

In 1992, the life of the people of the province became even better. Urban and rural residents increased their incomes. According to the sample survey, urban residents' per capita income relating to living expenses was 1,567.2 yuan, an increase of 14.5 percent. Net rural per capita income exceeded 500 yuan, and reached 502.7 yuan, an increase of nearly 50 yuan. Thus, among the recent years, 1992 was one which experienced a rather large increase. But, the gaps between incomes of peasants of different regions were large. Net per capita income of 7 prefectures and cities reached or exceeded the provincial average. The average monetary wages of employees in the province reached 2,837 yuan, an increase of 10.6 percent. With the price factor eliminated, the actual growth was one of 3.2 percent. There were some gaps between incomes of workers of different sectors.

In 1992, in the urban areas of the province, 97,000 people found jobs. The urban job-waiting rate was 3.5 percent. At the year-end, the total number of employees in the province was 25.19 million, an increase of 1.8 percent. The number of contract workers increased rapidly, and reached 353,000, thus accounting for 14.0 percent of the total number of employees. In the province, the work on the comprehensive program of old-age insurance and job-waiting insurance proceeded smoothly. 858,000 employees and 126,000 retirees joined the comprehensive program of old-age insurance.

Housing conditions for urban and rural residents continued to improve. Investment on housing construction increased. The investment of state-owned establishments on capital construction and renovation alone resulted in the completion of housing with 1.25 million square meters of floor space in the year. According to the sample survey, in 1992, the housing conditions of the urban residents of the province continued to improve. But there were many problems in the distribution and use of housing. The per capita housing space for rural residents increased, reaching 13.1 square meters. But, only 6.9 percent of the housing was accounted for by brick and wood buildings and reinforced-concrete buildings. With the announcement of the general program of the reform of the housing system of the province, more urban and rural residents built or bought homes. Meanwhile, there was further development in the construction of commercial housing. 317,000 square meters of floor space of commercial housing was completed. 373,000 square meters of floor space of commercial housing was sold.

The social welfare sector was given attention, and achieved development. In 1992, in the province there were 1,509 social welfare establishments, with 28,000 employees. 971 of those establishments were enterprises. Social welfare institutions of various kinds had 7,070 beds, and housed 3,781 people. In the urban and rural areas of the province, over 19,000 people of various relief statuses received reliefs from the state, and distress households with over 900,000 people received temporary reliefs from the state. The collectives were supporting over 26,000 orphaned, old, disabled and very young people who were scattered across society.

#### Footnotes

1. The rates and amounts of increase not explained in the bulletin refer to those over the preceding year.
2. GDP and the added value for various sectors were calculated on the basis of current prices; growth rates were calculated on the basis of comparable prices.
3. The difference between GDP and GNP lies in that the former does not include net factor revenues from overseas while the latter includes those revenues.
4. Added value refers to the value added in the process of producing goods or providing services, and is also called increased value, that is, the difference between total output and intermediate input.

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[Article by Guizhou Provincial Statistical Bureau (23 March 1993): "1992 Guizhou Provincial National Economy and Social Development Statistical Report"]

[Text] In 1992 people of all nationalities in Guizhou Province, under the leadership of the provincial party committee and the provincial government, conscientiously studied and implemented the spirit of Comrade Deng Xiaoping's important talks on his southern inspection and the party's Fourteenth Congress and up and down the entire province further liberated thinking, acted boldly, made full use of their advantages, quickened the pace of reform, broadened opening up, and clearly increased the rate of development in such areas as production, construction, and circulation. The national economy from being steady returned to a stage of rather rapid growth and overall economic results improved. There was new progress in such social endeavors as education, science and technology, culture, and sports and the people's livelihood further improved. According to preliminary calculations, in 1992 the gross value of output for the entire province was 55.15 billion yuan, a 7.5 percent increase over the previous year and the gross domestic product (GDP) was 32.4 billion yuan, a 9.1 percent increase over the previous year. Of that, the added value of primary industry was 11.1 billion yuan, a 0.5 percent decline; the added value of secondary

industry was 13.1 billion yuan, a 14.1 percent increase; and the added value of tertiary industry was 8.2 billion yuan, a 9.9 percent increase. The share of the added value of the three industries in the GDP changed to 34.3 percent, 40.4 percent, and 25.3 percent from 39.9 percent, 35.2 percent, and 24.9 percent the previous year. National income was 27 billion yuan, a 9.5 percent increase over the previous year.

The main problems in economic development are: agriculture with a weak infrastructure and rather lacking in the capability to withstand natural disasters; slow establishment and development of rural markets, restricting the circulation of agricultural and sideline products, and a rather pronounced contradiction between production and sales; high increases in the prices of energy and raw and processed materials and residents' living expenses; a rather large deficiency in funds for key construction projects; and a situation in transportation and post and telecommunications that remains tense.

#### I. Agriculture

In 1992 localities throughout the province continued to conscientiously implement a series of party and government general and specific rural policies. They constantly intensified reform and strove to improve conditions for agricultural production. They continued to increase agricultural income and improve leadership in rural endeavors; increased capital construction on farmlands; implemented scientific and technical initiatives for agriculture; and with overcoming and defeating natural disasters and alleviating the losses from natural disasters, agricultural production still produced rather good harvests. For the year agriculture realized an added value of 11.1 billion yuan, a decline of 0.5 percent from the previous year. Within that, except for field crops which declined from the previous year because they suffered rather greatly from natural disasters, the forestry, livestock, sideline, and fishery industries all grew. In provincial agricultural added value, the added value of field crops was 6.391 billion yuan, a 3.3 percent decline from the previous year; forestry had an added value of 851 million yuan, a 1.0 percent increase; livestock had an added value of 2.43 billion yuan, a 1.5 percent increase; sideline industries had an added value of 1.338 billion yuan, a 0.2 percent increase; and fisheries had an added value of 90 million yuan, a 0.4 percent increase. The total value of agricultural output for the province was 17.672 billion yuan, a 0.8 percent increase over the previous year.

Production of principal agricultural products was affected by natural disasters and the output of some products declined from the previous year. In 1992 the province's total grain yield was 889,000 tons [as written], a 10.9 percent decline from the previous year. Within that, summer grain had a 3.7 percent increase in yield and fall grain had a 14.2 percent decline in yield. Rapeseed production was 499,000 tons, a 13.4 percent decline from the previous year. Although grain and

rapeseed production declined from the previous year, it was still the second highest yielding year in history. Flue-cured tobacco production following the large bumper harvest of 1991, once again established a record

high yielding year. The annual yield was 449,000 tons, a 16.6 percent increase over the previous year.

**Output of principal agricultural products was as follows:**

		1992	Percent Increase From Previous Year
Total grain yield	7.889 million tons	-10.9	
Within that:	Summer grain yield	1.674 million tons	3.7
	Fall grain yield	6.215 million tons	-14.2
	Rapeseed yield	499,000 tons	-13.4
	Cured tobacco production	449,000 tons	16.6
	Silkworm cocoon production	1,189 tons	36.5
	Tea leaf production	12,300 tons	-4.8

Tree planting and afforestation achievements are obvious and forestry production made new progress and the output of major forest products has increased. In 1992 afforestation area throughout the province was 4.025 million *mu*, an increase of 248,000 *mu* or 6.6 percent over the previous year. Within that, artificially afforested area was 3.323 million *mu*, a 9.7 percent increase. Major forestry product output was 92,102 tons of tungseed, 9,884 tons of rapeseed, and 1,019 tons of

gallnut, for increases over the previous year of 28.6 percent, 8.4 percent, and 16.7 percent, respectively.

Livestock industry production maintained fourteen years of continuous growth and output of major livestock products increased. Within that, the 856,000 ton meat output was a 4.9 percent increase over the previous year.

**Principal livestock product output and end of year livestock count were as follows:**

		1992	Percent Increase From Previous Year
Meat production	856,000 tons	4.9	
Within that:	Pork production	769,000 tons	3.8
	Beef production	35,000 tons	20.7
	Mutton production	13,000 tons	8.3
	Milk production	12,500 tons	22.6
	Egg production	48,400 tons	2.8
	Pork hogs removed from inventory	8.839 million head	4.4
	Beef cattle removed from inventory	383,000 head	22.8
	Mutton sheep removed from inventory	831,000 head	14.9
	Yearend count of large livestock	6.907 million head	1.5
Within that:	Yearend cattle count	6.166 million head	1.4
	Yearend live hog count	14.025 million head	0.3
	Yearend sheep count	1.657 million head	-6.0

Fishery production developed rather rapidly. Aquatic product output throughout the province in 1992 was 23,607 tons, an increase of 718 tons or 3.1 percent over the previous year.

Agricultural investment increased and production conditions continued to improve. Throughout the province in 1992 local treasury expenditures in support of agriculture and the endeavors of the rural population increased by 3.3 percent over the previous year. At the end of the year, total power used in agricultural machinery was 3.150 million kilowatts, a 3.9 percent

increase over the previous year. There were 31,200 small and hand-held tractors, a 5.0 percent increase over the previous year and 8,147 trucks used for agriculture, a 337 vehicle increase over the previous year; and 393,000 kilowatts was used to power irrigation and drainage machinery, a 2.9 percent increase over the previous year, and 1.265 million kilowatts was used for agricultural byproduct processing machinery, a 3.7 percent increase over the previous year. There were 49,800 water pumps and 614 sets of sprinkling machinery used for agriculture, an increase over the previous year of 6.0 percent and 28.7 percent, respectively. Rural electrification

improved. Throughout the province, rural use electricity increased by 28.0 percent over the previous year. At the same time, farm irrigation and water conservancy facilities also increased somewhat. Throughout the province, effectively irrigated agricultural area was 9.259 million *mu*, an increase of 1.575 million *mu* or 20.5 percent over the previous year.

The structure of rural industry was further adjusted and non-agricultural industrial development picked up. In 1992 throughout the province rural society total value of output was 24.991 billion yuan, an increase of 2.694 billion yuan over the previous year. Within that, the total value of output for such non-agricultural industries as rural industry, construction, transport, and the commercial food and drink industry was 7.319 billion yuan, an increase of 1.55 billion yuan over the previous year. Within nonagricultural industry total value of output, rural industry total value of output was 4.631 billion yuan, a 1.134 billion yuan increase over the previous year. The share of the total value of output for rural nonagricultural industry in the total value of output for rural society rose to 29.3 percent from 25.9 percent the previous year.

## II. Industry and Construction

In 1992 industry throughout the province thoroughly implemented the spirit of the provincial government's working conference to "convert losses into profits" and continued to concentrate on "adjusting structure and improving results" and made great efforts in such aspects as speeding up the adjustment of the product mix, improving product sales, and improving economic results. At the same time, they intensified internal reform of enterprises and accelerated the conversion of enterprise operating mechanisms. Throughout the province, industrial production maintained a rather high growth rate, product sales rates gradually improved, and economic results took a turn for the better and enterprise management vitality and development of stamina constantly improved. In 1992 industry throughout the province achieved an added value of 11.441 billion yuan, a 15.2 percent increase over the previous year. Within that the added value of industry at the township level and above was 10.195 billion yuan, a 15.4 percent increase. Sales of products from industries at the township level and above were valued at 25.857 billion yuan, a 14.3 percent increase over the previous year, and industrial product sales rates improved by 1.4 percentage points over the previous year. Throughout the province, industry achieved a gross output value of 29.337 billion yuan, a 15.1 percent increase over the previous year.

Within that the gross output value of industries at the township level and above was 26.491 billion yuan, a 13.5 percent increase.

The aggregate production of various economic types grew similarly. In the added value of provincial industry, industries owned by the whole people had an added value of 8.601 billion yuan, a 15.6 percent increase over the previous year. Collectively owned industry had an added value of 1.375 billion yuan, a 12.6 percent increase over the previous year. Within that, township run industries had an added value of 619 million yuan, an 18.5 percent increase. Other types of industry (including joint venture, cooperative venture, and individual urban and rural industry) had an added value of 1.465 billion yuan, a 10.9 percent increase over the previous year.

The rate of production of heavy industry was clearly higher than that of light industry. In the added value of industries at the township level and above, light industry had an added value of 3.91 billion yuan, a 9.7 percent increase over the previous year, and heavy industry had an added value of 6.285 billion yuan, an 18.3 percent increase over the previous year. Heavy industry's increase was 8.6 percentage points higher than that of light industry.

Production and sales of large- and medium-sized industrial enterprises greatly improved. In 1992 large- and medium-sized industrial enterprises throughout the province achieved an added value of 6.817 billion yuan, a 16.9 percent increase over the previous year, and achieved a gross value of industrial output of 17.821 billion yuan, a 16.7 percent increase over the previous year. They achieved product sales valued at 17.499 billion yuan, a 13.1 percent increase over the previous year, and their industrial product sales rate reached 98.2 percent, higher than the provincial level by 0.6 percentage points.

Industrial economic results improved somewhat. According to an assessment of the new industrial economic results indices, 1992 provincial industrial economic results combined indices were 96 percent, a 23 percentage point improvement over the previous year. The six indices reflecting industrial reproduction cycle and production factor use results all were better than the previous year's levels. Within that, the industrial product sales rate was 97.6 percent and the industrial fund interest tax rate was 13.8 percent; the cost profit rate was 3.4 percent; the industrial all personnel labor productivity was 9,745 yuan per person; the total fund circulation turnover was 1.4 times; and the net output value rate was 36.2 percent.

**Principal industrial product output was as follows:**

	1992	Percent Increase From Previous Year	
Cigarettes	2,085.5 million cases	7.5	
Potable alcohol	309,900 tons	17.5	
Televisions	422,300 sets	13.1	
Home washing machines	154,500 machines	44.5	
Home refrigerators	47,600 appliances	-26.9	
Raw coal	41.03 million tons	10.2	
Electrical generating capacity	12,949 billion kilowatt hours	11.6	
Of which:			
Hydroelectric	5,126 billion kilowatt hours	15.7	
Pig iron	906,500 tons	11.5	
Ferroalloy	153,300 tons	-12.8	
Steel	598,200 tons	13.5	
Steel products	476,100 tons	49.4	
Aluminum	107,800 tons	18.3	
Cement	3,867 million tons	25.5	
Phosphate ore production	3,721.1 million tons	8.5	
Agricultural use chemical fertilizer (net)	545,400 tons	5.6	
	Synthetic ammonia	472,500 tons	7.3
	Chemical pesticides (raw)	392 tons	-2.0
	Sulfuric acid	116,900 tons	2.9
	Caustic soda	17,700 tons	15.7
Tires	781,700	29.6	
Internal combustion engine production capacity	1.07 million kilowatts	57.2	
	Automobiles	8,011	88.5
	Coking coal (machine coke)	734,000 tons	8.2

The main problems that provincial industry has are: tight power and energy supply and overloaded infrastructure and overuse of "three kinds" of investments and rather large losses in some losing enterprises.

With overall increases in fixed asset investments, the inadequate starts in the construction industry have been somewhat alleviated, production is coming out of the valley, the project rate is picking up, and the area where the contract responsibility system is practiced continues to expand. In 1992 the construction industry under the ownership of the whole people realized an added value of 527.81 million yuan, an increase of 83.78 million yuan over the previous year. With that, the central construction industry accomplished 338.14 million yuan, a 62.88 million yuan increase over the previous year, and local construction industries accomplished 189.67 million yuan, a 20.9 million yuan increase. They achieved a gross output value of 1.687 billion yuan and a project completed output value of 867 million yuan, an increase of 334 million yuan and 227 million yuan, respectively, over the previous year. The output value project completion rate was 51.4 percent, a 4.1 percentage point improvement on the previous year. The (all personnel)

labor productivity calculated in accordance with the gross value of output increased by 16.4 percent over the previous year. Housing construction area was 3,871 million square meters, a 19.6 percent increase over the previous year. The year's new start area was 1,541 million square meters, a 24.1 percent increase over the previous year. The area where the contract responsibility system was practiced reached 82.7 percent, a 5.8 percentage point improvement over the previous year. There were 938 projects from units implementing investment contracts making up 33.3 percent of those practicing the contract responsibility system, a 17.9 percentage point increase over the previous year.

Geological prospecting also produced new results. In 1992 the geological prospecting industry completed 61,045 meters of mechanized core drilling and discovered three major new mineral producing fields, one newly proven reserve, and four major newly advanced mineral producing fields.

### III. Fixed Asset Investment

In 1992 with improvement in the macroeconomic environment, provincial fixed asset investment maintained a

rather high growth rate and the investment structure continued to be adjusted. For the year, the whole society accomplished 7.091 billion yuan in fixed asset investments, a 21.3 percent increase over the previous year. Within that, investment accomplished by units under the ownership of the whole people was 5.421 billion yuan and investment accomplished by urban collective units was 100 million yuan for increases over the previous year of 26.2 percent and 14.9 percent, respectively. Among fixed asset investments by units under the ownership of the whole people, capital construction investments were 3.296 billion yuan, replacement and transformation investments were 1.778 billion yuan, and commercial housing construction investment was 196 million yuan for increases over the previous year of 30.6 percent, 30.0 percent, and 51.9 percent, respectively.

Investment in local projects was higher than investments in central projects. Among fixed asset investments by units under the ownership of the whole people, local project investments were 2.956 billion yuan, a 30.5 percent increase over the previous year, and central project investments were 2.465 billion yuan, a 21.4 percent increase over the previous year. Increases in local project investments were 9.1 percentage points higher than those of central projects.

The rate of progress on large and medium-sized projects was rapid. In investments by units under the ownership of the whole people, 1.702 billion yuan was invested in large- and medium-sized capital construction projects, making up 51.6 percent of capital construction investments by units under the ownership of the whole people. Within that, 51.6 percent were projects listed in the state large- and medium-sized project plan and within that, 1.67 billion yuan was invested in projects listed in the state large- and medium-sized project plan. By the end of the year, total investment was completed in the large- and medium-sized projects for the Zunyi power plant generating set with a capacity of 250,000 kilowatts and 40,000 tons of corundum abrasive for the Number Seven Mill. In addition, one after the other, investment was made to complete construction in the following ten large- and medium-sized single-phase projects: the third stage expansion of the Guizhou Aluminum Factory for electrolysis of 40,000 tons of aluminum, 42 kilometers of transmission lines between Qingzhen Power Plant and the southern suburbs of Guiyang, an 81 kilometer output project from the Zunyi Power Plant, 8 kilometers of transmission lines from Zhudong to Jichang, 73 kilometers of transmission lines from Zhanjie to Puding, 3.6 kilometers of output from the Pan Xian Power Plant to Shuicheng, 120,000 kilovolt-amperes of transformer equipment for the transformer substation in the southern suburbs of Guiyang, 90,000 kilovolt-amperes of transformer equipment for the Puding transformer substation, 63,000 kilovolt-amperes of transformer

equipment for the Zunyi Shifodong transformer substation, and 38,000 kilovolt-amperes of transformer equipment for the Xingyi transmission and transformer project.

New starts increased. Throughout the province, there were a total of 2,167 new starts on capital construction and replacement and transformation projects by units under the ownership of the whole people, 280 more than in the previous year, and gross planned investment in new starts was 2.285 billion yuan, a 51.8 percent increase over the previous year.

The investment structure continued to be adjusted. In 1992 capital construction and replacement and transformation investments by units under the ownership of the whole people, investment used on tertiary industries was 1.137 billion yuan, which was a 7.0 percent increase over the previous year, and its share was 22.4 percent. Within that, investment used in the transportation and post and telecommunications sectors increased by 40.1 percent. Investment in the energy and raw and processed materials sectors was 2.536 billion yuan, a 22.3 percent increase over the previous year, and investment used in the agriculture, forestry, livestock, fishery, and water conservancy industries increased by 26.0 percent. In replacement and transformation investments by units under the ownership of the whole people, that used to increase varieties, improve product quality, and reduce consumption increased 38.3 percent over the previous year and that used for increased production increased by 19.5 percent. The annual capital construction and replacement and transformation investment newly added fixed assets amounted to 2.378 billion yuan. Newly increased major production capability was: mining of 170,000 tons of coal, electrolysis of 40,000 tons of aluminum, a 127,500 kilowatt capacity generating set, 207.6 kilometers of (110,000 volt or greater) transmission lines, (110,000 volt or greater) transformer equipment with a capability of 311,000 kilovolt-amperes, 60,000 tons of sulfuric acid, 80,000 tons of synthetic ammonia, 12,500 tons of chemical fertilizer, 10,000 within city automatic telephone switchboards, and 58.23 million kilograms of grain storage.

#### IV. Transportation and Post and Telecommunications

In 1992 the transportation sector throughout the province strengthened internal management, improved the transportation environment, and achieved new successes in highway construction. Throughout the province, 31,900 kilometers of highways were opened to traffic, a 500 kilometer increase over the previous year. Within that, 11,601 kilometers was rated highways, a 355 kilometer increase over the previous year. Transportation production acted as a limited force ensuring that key materials were transported. Throughout the society, 140.79 million tons of materials were transported, an increase of 14.63 million tons or 11.6 percent over the previous year. There were 26.557 billion ton kilometers of goods and 10.03 billion passenger kilometers of people circulated, an increase over the previous year of 14.0 percent and 15.5 percent, respectively.

The circulation of various means of transport is as follows:

	1992	Percent Increase From Previous Year
Amount of goods circulated	26.557 billion ton kilometers	14.0
Railroad	22.21 billion ton kilometers	15.2
Highway	4.041 billion ton kilometers	7.7
Water transport	306 million ton kilometers	13.8
Amount of passengers circulated	10.03 billion passenger kilometers	15.5
Railroad	6.87 billion passenger kilometers	21.3
Highways	3.138 billion passenger kilometers	4.6
Water transport	22 million passenger kilometers	27.4

Post and telecommunications continued to achieve rather rapid development, communications facilities were further improved, and overall post and telecommunications business continued to increase. Post and telecommunications tasks completed in 1992 totalled 192.86 million yuan, an increase of 34.72 million yuan or 22.0 percent over the previous year. With in that there were 57.4 million letters, 4.42 million telegrams, and 12.64 million long distance telephone calls for an increase over the previous year of 6.0 percent, 10.8 percent, and 35.0 percent, respectively. In the post and telecommunications totals there were 57,300 express special deliveries, a 130 percent increase over the previous year, and 9.44 million rapid postal letters, a 14.0 percent increase over the previous year. At year's end, throughout the province there were a total of 37,500 kilometers of postal routes and 1,916 long distance telephone lines, increases over the previous year of 2.7 percent and 14.5 percent, respectively. At year's end, city switchboards had a total capacity of 106,300 telephones, program controlled switchboards had a capacity of 32,300 telephones, and there were 74,500 city telephone users for increases over the previous year of 25.2 percent, 160 percent, and 15.9 percent, respectively.

#### V. Domestic Commerce and Market Prices

In 1992 with constantly intensified circulation system reforms, updated management concepts in commercial enterprises throughout the province, changed operating mechanisms, and broadened circulation channels, provincial markets were prosperous and brisk and there was brisk buying and selling of commodities. For the year, social commerce's net domestic purchases totalled 14.225 billion yuan, a 22.5 percent increase over the previous year, and total retail sales of social commodities were 12.096 billion yuan, a 14.7 percent increase over the previous year. Within that, consumer product retail sales were 10.675 billion yuan, a 14.9 percent increase. Agricultural means of production retail sales totalled 1.421 billion yuan, a 13.7 percent increase over the previous year. In total consumer product retail sales, residential consumer product retail sales were 9.644 billion yuan and social group consumer product retail

sales were 1.031 billion yuan for increases over the previous year of 14.4 percent and 19.6 percent, respectively.

As regards urban and rural consumer product markets, urban consumer product market sales were clearly higher than the rural. In 1992 urban consumer product retail sales were 7.733 billion yuan, an 18.4 percent increase over the previous year, and rural consumer product retail sales were 2.942 billion yuan, a 6.6 percent increase over the previous year. Urban consumer product retail sales increases were 11.8 percentage points higher than the rural.

Numerous economic components coexist and various economic types help each other and develop together. In total social commodity retail sales, retail sales of units under the ownership of the whole people were 4.713 billion yuan, an 18.6 percent increase over the previous year, and retail sales by collectively owned units were 2.823 billion yuan, an 8.7 percent increase over the previous year. Within that, retail sales of supply and marketing cooperatives were 1.765 billion yuan, a 1.8 percent increase over the previous year; those of individual commerce were 3.039 billion yuan, a 13.2 percent increase over the previous year; and peasant retail sales to nonagricultural residents were 1.491 billion yuan, a 17.5 percent increase over the previous year.

Market construction within the province picked up. During the year, 313 commodity markets of various types covering 1.0769 million square meters were newly constructed or expanded with a total investment of 93 million yuan. There also were a group of special markets covering an area of 1.0769 million square meters with a total investment of 93 million yuan and a group of special markets that are under construction. Along with the accelerated development of the commercial network within the province, markets outside the province are being actively opened up and border trade is being developed.

There also have been new changes in the structure of food, clothing, and useful commodity retail sales. Food commodities increased by 7.8 percent over the previous year. Within that, cereals increased by 12.7 percent,

edible vegetable oils increased by 63.4 percent, and pork increased by 28.9 percent. Clothing commodities increased by 13.6 percent over the previous year. Within that, woolen goods increased by 55.3 percent and silks and satins increased by 34.7 percent. Useful commodities increased by 29.1 percent. Domestic electrical appliances showed especially brisk sales. Within that, 36,400 color television sets, 50,500 tape recorders, 7,200 videotape recorders, and 54,400 washing machines were sold, for increases over the previous year of 20.9 percent, 4.1 percent, 150 percent, and 3.2 percent, respectively. In addition, sales of such things as vacuum cleaners, air cleaners, and jewelry looked good.

Commercial enterprises strengthened enterprise management, adjusted the mix of stocks, expanded market sales, and obtained rather good business results. In 1992 total state and cooperative commercial commodity sales in the province increased by 14.8 percent over the previous year, sales gross profits increased by 31.4 percent over the previous year, and total tax revenues increased by 60.7 percent over the previous year.

The rate of development of means of production markets picked up with production, demand increased sharply, and increases in purchases and sales were obvious. Throughout the province, supply and marketing organization means of production purchases totalled 3.182 billion yuan, a 38.4 percent increase over the previous year, and sales totalled 3.395 billion yuan, a 38.4 percent increase over the previous year. Within that goods and materials system means of production purchases totalled 2.491 billion yuan and sales totalled 2.672 billion yuan for increases over the previous year of 52.7 percent and 52.3 percent, respectively.

The pace of price reforms picked up. Overall market price levels throughout the province on the base of relative stability in the previous few years, exhibited rather high inflation. In 1992 grain and oil and housing price adjustments and the implementation of some price reforms pulled up the prices of related commodities. Throughout society overall retail price levels rose 7.6 percent over the previous year and agricultural means of production price levels rose 5.6 percent over the previous year. Of 371 commodities surveyed the price levels of 266 rose from the previous year. Categories with rather large rises were: Grains rising 40.8 percent, edible vegetable oils rising 12.2 percent, fresh vegetables rising 21.9 percent, and rent rising 23.5 percent. Because the prices of some livelihood consumer products and consumer items rose, residents' cost of living increased rather rapidly. Throughout the province, urban resident cost of living rose 8.7 percent over the previous year and peasants' cost of living rose 6.9 percent over the previous year. Throughout the province, agricultural product and byproduct purchasing prices rose by an overall 6.0 percent over the previous year.

#### VI. External Economy and Trade and Tourist Industry

Foreign trade by implementing a new system, further transforming operating mechanisms, enlivening foreign

economic relations, and import and export trade, entered a new stage of development. In 1992 provincial foreign trade imports and exports totalled US\$335.42 million, an increase of US\$92.95 million or 38.3 percent over the previous year. Within that, imports totalled US\$111.18 million and exports totalled US\$224.24 million, increases over the previous year of 100 percent and 20.0 percent, respectively. For the year, foreign trade had a favorable balance of US\$113.06 million. Within foreign export totals, industrial and mineral products were US\$158.7 million, a 15.5 percent increase over the previous year; agricultural and sideline processed products were US\$29.18 million, a 17.2 percent increase; and agricultural products and byproducts were US\$36.36 million, a 48.0 percent increase.

Utilization of foreign funds achieved a breakthrough. In 1992, 210 new foreign investment contracts were signed, 179 more than the previous year, and investments from newly signed agreements for utilization of foreign funds totalled US\$190.79 million, a 690 percent increase over the previous year. Throughout the province actual utilization of foreign funds was US\$43.65 million, an 88.1 percent increase over the previous year. Within that, direct absorption of investments from foreign firms was US\$19.79 million, a 170 percent increase over the previous year.

The pace of cooperation in foreign economic technology has picked up. In 1992 throughout the province, 145 cooperative projects from outside the province were actually introduced, 42 more than in the previous year; 196.69 million yuan in funds was introduced, a 40.7 percent increase over the previous year; and 130 projects introducing technology from outside the province jointly introduced 360.9 million yuan in goods and materials.

The tourist industry, centered around the " '92 China Friendly Visit Year," strove to open up the international tourist market, improve tourist services, and realize the prospects for good development. In 1992 the province received a total of 76,300 overseas tourists, a 100 percent increase over the previous year. Within that, we received 18,700 foreigners and 57,300 overseas Chinese and compatriots from Hong Kong, Macao, and Taiwan, for increases over the previous year of 80.5 percent and 110 percent, respectively. Tourism took in 37.78 million yuan (foreign exchange renminbi) in foreign exchange, an increase over the previous year of 23.63 million yuan or 170 percent.

#### VII. Science, Education, Culture, and Health and Physical Education

New achievements in science and technology were constantly emerging, playing an important role in giving impetus to the development of the economy of the whole province. In 1992 throughout the province, a total of 244 natural science and technology projects were achieved. Among those, 22 attained international advanced levels

and 162 attained domestic advanced levels. Among the science and technology achievements, 242 provincial science and technology advancement awards were received, eleven more than the previous year. Four of those were first class awards, 21 were second class awards, 111 were third class awards, and 106 were fourth class awards. At the end of the year, throughout the province there were a total of 114 independent natural science scientific research organization at the county level and above under the ownership of the whole people. General institutions of higher education scientific research forces in the province increased. During the year, 72 scientific research organizations were approved by the upper echelon administrative departments concerned and 88 scientific achievements were authenticated. There were 9,515 people engaged in scientific and technical activities.

Educational endeavors continued to make progress. In 1992 throughout the province, 74 graduate students were newly enrolled, there were 150 graduate students in school, and 36 graduate students graduated. In general institutions of higher education, 8,339 regular and professional students were newly enrolled, there were 26,685 students in school, and 7,247 graduated. In technical secondary schools, 20,200 students were newly enrolled, there were 57,000 in school, and 18,100 graduated. In general senior middle schools, there were 133,000 students in school and 39,900 graduated. In general junior middle school, there were 906,900 students in school and 230,500 graduated. There were 4.3594 million elementary school students in school. Of school age children, 92.35 percent were enrolled in school. Within that, 91.54 percent of rural children were enrolled in school. Throughout the province, there were 1,319 preschools with 270,700 children. New progress also was made in higher education self-study tests. A total of 52,400 people submitted self-study exams and 862 people received diplomas and 31,600 people received professional certification.

Cultural endeavors continued to make progress. In 1992 the province had 32 performing and arts troupes, 2,883 units of various types showing motion pictures, 84 culture palaces, and 86 public libraries. There were 6.35 million magazines of various types, 130.43 million picture books of various types, and 175.65 million issues of various type newspapers published. There were seven broadcast stations and eleven radio transmitting and relay stations covering 58.62 percent of the population. There were seven television stations and 1,102 television transmitting and relay stations covering 63.73 percent of the population.

Medicine also made new progress in improving treatment and hygienic conditions. At the end of 1992, there were 4,734 medical and health organizations of various types, including 1,626 hospitals, 2,377 outpatient departments (clinics), 89 women and children health centers (stations), and 106 sanitation and immunization stations. There were 87,900 health professionals and 57,800 hospital beds. Among health professionals, there

are 3,602 Chinese medicine doctors, 20,790 Western medicine doctors, 171 high level combined Chinese and Western medicine doctors, 8,696 nurse practitioners, and 9,981 nurses.

Physical education conscientiously implemented the policy for coordinated development of mass physical education and sports. Throughout the province, mass physical education flourished and sports constantly improved. In 1992 throughout the province, a total of 1,680 sports events were held at the county level and above with 428,400 people participating. There were 1.6581 million people who attained national physical training standards. Among them 82,400 were outstanding. During the year, athletes throughout the province received 138 awards in major foreign and domestic meets. Among them, there were 26 awards for international meets and 112 awards for domestic meets. Among the awards received were 26 gold medals, 26 silver medals, and 21 bronze medals. There were 57 people who broke 60 provincial records and 77 people who broke 69 provincial youth records. In team sports, eleven teams broke four provincial youth records.

#### VIII. Population and People's Livelihood

Based on a sampling of provincial population changes, in 1992 the provincial birthrate was 22.40 per thousand, a decline of 0.02 per thousand from the previous year, and the death rate was 8.52 per thousand, a 0.41 per thousand rise from the previous year. The natural population increase was 13.88 per thousand, a decline of 0.43 per thousand from the previous year. According to this calculation, the total yearend provincial population was 33.6096 million, a 463,300 increase from the previous yearend.

Personal consumption of urban and rural residents rose with the rapid recovery and development of the national economy and increases in monetary income throughout the province. Based on a sampling of urban and rural households, 1992 urban resident per capita living expense income was 1,637.46 yuan, a 19.5 percent increase from the previous year, and per capita living expense expenditures were 1,564.34 yuan, a 16.8 percent increase from the previous year. Peasant net per capita income was 506.13 yuan, an increase from the previous year of 40.60 yuan or 8.7 percent. Within that, income from engaging in tertiary industry was 74.36 yuan, a 23.1 percent increase from the previous year. Its share of home managed net income rose to 16.3 percent from 14.2 percent the previous year, a rise of 2.1 percentage points. In addition, the number of low income peasant households was reduced. The share of peasant households with a net per capita income of 300 yuan or less fell to 16.4 percent from 21.3 percent the previous year and peasant households with a net per capita income of 800 yuan or more rose to 29.4 percent from 23.1 percent the previous year. Peasant per capita cash expenditures were 465.95 yuan, an 11.9 percent increase from the previous year. Within that, cash used for production expenses was 121.29 yuan and cash used for living expenses was

231.34 yuan, increases over the previous year of 10.0 percent and 10.9 percent, respectively. But the uneven development of the economy in various regions and especially the reduced grain yield in quite a few regions because of natural disasters caused difficulties in the livelihood of some resident families.

The labor sphere also achieved new success with intensified reform of the labor use and allocation systems. There were 113,100 people that had new employment arranged by the provincial labor department, an increase of 3,300 people or 3.01 percent over the previous year. At the end of the year, there were 2.3214 million people employed throughout the province, a 0.12 percent increase from the previous year. Within that, 1.9134 million were in units owned by the whole people, a 0.47 percent increase from the previous year. Among staff of units owned by the whole people, 239,600 were engaged in labor contracts, a 15.97 percent increase over the previous year.

Staff wages continued to rise. In 1992 total staff wages throughout the province were 5.173 billion yuan, an increase of 476 million yuan or 10.13 percent over the previous year. Within that, total staff wages of units under the ownership of the whole people were 4.517 billion yuan, a 10.25 percent increase. The average annual staff wage was 2,230 yuan, a 6.70 percent increase.

Urban and rural resident savings continued to increase. At the end of 1992, urban and rural resident savings account balances throughout the province reached 9.485 billion yuan, an increase from the previous year of 1.889 billion yuan or 24.88 percent. Within that, urban residents' savings account balances were 7.991 billion yuan and rural residents' savings account balances were 1.494 billion yuan for increases over the previous year of 23.64 percent and 31.89 percent, respectively.

The insurance industry persisted in developing business while improving administration, put forth great effort to develop new insurance sources, and improved insurance services. It achieved breakthroughs and played a greater economic compensation role. In 1992 the insurance business took in a total of 454 million yuan, a 71.72 percent increase over the previous year and 141.81 percent of the annual plan. Insurance contracts amounted to 49.097 billion yuan, a 1.24 billion yuan increase over the previous year. During the year 219,700 cases were settled with 191 million yuan in claims for increases over the previous year of 39.85 percent and 47.72 percent, respectively.

Social welfare continued to develop. At the end of 1992, the civil administration department ran 54 social welfare institution of various types, cared for 1,543 people, and had 2,817 beds. The 4.445 million households and people that the civil administration department provided assistance to were a 28.3 percent increase over the previous year. Urban and rural collectives ran 703 old

age homes caring for 5,474 people, increases over the previous year of 41.7 percent and 57.1 percent, respectively.

Environmental protection also made new progress. At the end of 1992, the provincial environmental protection system had 54 environmental monitoring stations with 1,281 actual people. There were 39 limited time environmental pollution rectification projects accomplished during the year with a total investment of 11.6 million yuan and 22.82 million yuan in pollution fees was levied. A total of 16 soot control districts covering a 66 square kilometer area were constructed and six regions meeting pollution and noise standards covering a 22 square kilometer area were established.

Notes: All data in the reports are preliminary annual statistics.

2. Absolute figures on gross domestic product, the added value of various industries, and total value of output in the report are calculated based on current prices and the rates of increase are calculated according to comparable prices.

3. In cycles completed by various means of transportation, water transport freight cycles as well as highway and water transport passenger cycles are internal figures of the transportation department system.

4. Gross domestic product and the added values of various industries mainly include such values as labor compensation, profits, tax revenue, and depreciation, but do not include such intermediary consumption values as energy and raw and processed materials.

## FINANCE, BANKING

### Official on GATT Membership, Uniform Rate

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[Article by Tao Shigui, of the Lianyungang Office of the State Foreign Exchange Administration: "The Restoration of China's Signatory State Status in the GATT and Uniform Exchange Rates"]

[Text] The Fourteenth CPC Congress clearly called for the establishment of a socialist market economy. Meanwhile, China is trying to restore its signatory state status in the GATT. All this demands that the control over foreign exchanges be loosened, and that uniform floating exchange rates for the RMB [renminbi] yuan against foreign currencies be introduced. Our current system characterized by the coexistence of official and market exchange rates is neither helpful to the development of market economy, nor adequate to meeting the needs of accelerated growth in foreign-involved economic activities. Therefore, it is absolutely necessary to introduce uniform exchange rates. Presently, the main question is what time and what steps should be selected to introduce

uniform exchange rates, so as to reduce the shock resulting from the restoration of the signatory state status in the GATT ("restoration" for short; the same below) and to ensure the smooth development of foreign economic relations and trade.

### **I. Selecting the Time To Introduce Uniform Exchange Rates and the Basis of Selection**

We can discuss the time to be selected to introduce uniform exchange rates in terms of three periods: before the "restoration," at the time the "restoration" is achieved, and after the "restoration." There are basically two views on the selection of the time to introduce uniform exchange rates: According to one view, in 1993, at the time of adopting the practice of spot exchange retention—that is, before the "restoration," terminate the practice of foreign-exchange quota retention, so as to unify the official and market exchange rates and introduce uniform exchange rates, thereby completing the task in one step and creating favorable conditions for the "restoration." According to the other view, gradually introduce uniform exchange rates on the basis of considerations of the state of economic development some time after the adoption of the practice of spot exchange retention—that is, after the "restoration," so as to prevent the economic development from being subject to an excessively severe shock after the "restoration." We incline to the latter view.

The adoption of the spot exchange retention system is a significant turning point in the reform of China's foreign-exchange regulation system. The adoption of the spot exchange retention system is the basis and prerequisite for the introduction of uniform exchange rates, but having this condition does not mean that conditions are ready for introducing uniform exchange rates. Introducing uniform exchange rates involves not only foreign trade, but also non-trade sectors, the price system, and the foreign exchange markets as well as all spheres of social life. Consequently, in selecting the time to introduce uniform exchange rates, it is necessary to follow the following principle: It is necessary to both satisfy the requirements of GATT principles and take into full account the new situations that can happen after the "restoration," so as to reduce the shock as much as possible in an effort to facilitate the smooth development of foreign-involved economic activities and foreign trade. According to this principle, we believe, it is necessary to introduce uniform exchange rates at a point in time after the "restoration." For conditions will not be ready for introducing uniform exchange rates before the "restoration." If uniform exchange rates are introduced at the same time as the "restoration" is achieved, then the lack of a firm grasp of the situation after the "restoration" and the lack of flexible, effective means of regulating exchange rates can lead to large fluctuations of exchange rates, aggravating economic fluctuations. Thus, it is advisable to introduce uniform exchange rates after the "restoration." The main reasons are as follows:

#### *1. It is difficult to establish mechanisms producing uniform floating exchange rates*

A unified, complete system of foreign exchange markets is the material foundation for uniform floating exchange rates. After conducting foreign exchange transactions with customers on foreign exchange markets, banks will allow foreign exchanges to flow between themselves on the inter-bank market, thereby generating foreign exchange demand and resulting in exchange rates through the process of price competition. The foreign exchange markets of capitalist countries were established—and have been perfected—during a long process of development of commodity economy. Under the uniform floating exchange rate system, the main means used by the central banks of the Western countries to regulate the exchange rates so as to achieve set exchange-rate objectives are: first, to carry out direct intervention in foreign exchange markets by using exchange-rate stabilization funds; and second, to try to directly affect exchange rates by adjusting the interest rates of loans to commercial banks. However, it has been just a few years since foreign-exchange swap markets were established in China. The regional foreign-exchange swap markets are seriously segregated from each other. The regulation and control tend to be too tight, and the markets are not linked up with markets abroad. Trading is mainly done in foreign exchange quotas and spot-exchange U.S. dollars. Neither the buyers nor the sellers can minimize foreign exchange risks, or protect the value of their currency. Therefore, such markets are not foreign exchange markets in a strict sense. The foreign-exchange swap markets are now moving toward openness and unification, but the establishment of real foreign exchange markets so as to increase domestic financial institutions' activities in international financial markets would have to wait for the deepening of the reforms of the economic system and the financial system. Furthermore, China does not have very effective means of foreign-exchange regulation and control. Especially the mechanisms of determining, regulating and spreading the use of interest rates have not been fully developed, and the role of interest rates in exercising quantitative monetary regulation and control has not been given full play. All these imperfections cannot be eliminated in a short time. Therefore, there should be no hurry in introducing uniform exchange rates.

#### *2. The situation regarding the balance of international payments after the "restoration" will not be encouraging; thus the immediate introduction of uniform exchange rates will be unhelpful to the stability of exchange rates*

After the "restoration," China will be automatically granted the long-term, unconditional most-favored-nation treatment as well as the GSP [Generalized System of Preference] treatment that the developed countries apply to developing countries, enjoy tariff concessions from other countries, assume the duty to increase import, and acquire the right to eliminate quantitative restrictions. All this is helpful to such things as acquiring data provided by other trading nations,

thereby helping China develop foreign trade, expand export and increase foreign exchange earnings. But, this is only one side of the matter. On the other side, the Uruguay round of multilateral trade negotiations in the GATT has extended the scope of negotiations to cover such subjects as trade in services and intellectual property rights. In this respect, some of the technologies and equipments currently used by China were acquired and made through reverse engineering based on imported goods; this situation is far from satisfying the requirements of the agreement on protecting intellectual property rights. Some products are far from being up to international standards. As a result, after the "restoration," the matter of protecting intellectual property rights will cost China dearly. This will directly affect the growth of export. Furthermore, the rapidly growing protectionism in the forms of regionalization and bloc formation during the 1990's has increased the scope of application of some countries' tariff and non-tariff barriers against countries outside the region (bloc) concerned. For instance, the unified North American market and the great unified European market are strongly exclusive, and this will have great impact on the growth of export of China. In addition, the world market of the 1990s will be dominated by high-tech, high-quality products characterized by high price elasticity of export demand, but primary products characterized by low price elasticity of export demand still constitute a major part of China's exports. This situation will constrain the growth of export of China.

With regard to import, the GATT demands that we further open up our domestic market and provide large tariff concessions so as to have tariff rates similar to those of the developing countries. At the same time, China will also gradually reduce planning, the use of licenses, and active quota management. Except for a few goods in which trading must be done by monopolies, restrictions on trading in most of the items and categories of goods will be lifted. During the Eighth Five-Year Plan period, the volume of import of China will reach \$350 billion, almost equal to the total volume for the entire Sixth Five-Year Plan and Seventh Five-Year Plan period. It can be expected that after the "restoration" the growth of import will greatly accelerate. According to some statistics, the phenomenon of cumulative import growth being faster than cumulative export growth in China first occurred in August 1991. For the first half of 1992, import grew at the rate of 23.11 percent, much higher than export's cumulative growth rate of 17.3 percent. After the "restoration," the rapid growth of export can lead to trade deficits.

In view of all those factors discussed, after the "restoration," if large breakthroughs cannot be achieved in securing nontrade foreign exchange earnings, China may experience an unfavorable balance of international payments. The balance of international payments is the main factor determining changes in exchange rates. Of that balance, the item of the balance of current account affects changes in exchange rates in a fundamental way.

When there are trade deficits and when there is an unfavorable balance of international payments, to remove the control over exchange rates and to introduce uniform exchange rates will inevitably result in large fluctuations of exchange rates, leading to economic instability. The experiences of foreign countries have testified to this point. For instance, in Russia, after the loosening of the control over foreign exchanges, the fall in the value of industrial and agricultural output, the occurrence of trade deficits, the fluctuations of the exchange rates and the fall in the value of the ruble have led to exacerbated inflation, rampant foreign-exchange black-market activities, an unfavorable balance of international payments, and the difficulty in paying back foreign debts on time, thus seriously affecting the economy.

*3. To introduce uniform floating exchange rates at the same time as the "restoration" is achieved will induce or aggravate inflation*

At present, inflationary pressures are strong in China. According to statistics, in 1990 and 1991, the growth of money supply markedly picked up, and the growth rate was surpassed only by that of the credit-expanding 1984 in terms of being higher than the rate of economic growth. In the three years 1989-1991, the growth at a rate higher than the rate of economic growth resulted in the issuance of an extra 33.5 billion yuan, a sum even greater than during the preceding five years. At the same time, fiscal deficits grew continually, going beyond the 20.1 billion yuan mark in 1992. By the end of June 1992, net currency retrieval totalled 2.19 billion yuan, a decrease of 10.52 billion yuan over the same period of the preceding year.

In the recent years, the trend toward price rise has been obvious. In January-May 1992, the price index for means of living of workers rose by 5.1 percent, an increase of 3 percentage points over the same period of the preceding year. After the "restoration," the price level may further rise, because the goods of which prices are set or controlled by the state are mainly such basic goods as industrial raw materials, electricity, and transport items and because the prices of those goods have long been on the low side. The Planning Department of the State Planning Commission recently contrasted the prices of 18 major means of production and agricultural products with the prices on the world market and analyzed the differences; the result shows that the domestic plan-based prices of the major products are mostly lower than the prices on the world market. In this regard, the price of crude oil is only 23.7 percent of the world market price, and the prices of such agricultural products as rice are only 50-80 percent of the world market prices. After the "restoration," the prices of those products will be raised or no longer be controlled. There will occur the cost-push effect on prices and the resultant chain price rises, leading to the rising of the general price level. When, domestically, prices and the inflation rate are on the rise, the introduction of uniform floating exchange rates will lead to lower RMB exchange rates which will

lead to further increases in domestic prices, thereby resulting in a vicious cycle. In addition, the impact of exchange rates on prices is a long-term one; once prices get high, they are unlikely to come down in a short time.

As the preceding analysis shows, uniform exchange rates should not be introduced in a hurry, and it is necessary to consider such factors as those of foreign trade, the domestic price level, the balance of international payments, and the people's psychological preparedness; otherwise, there will be aggravated economic turbulence. Therefore, China should introduce uniform exchange rates at an appropriate point in time after the "restoration." By that time, China will have accomplished the transformation of the foreign trade system in accordance with the GATT principles; the problems relating to the balance of international payments and the price level will have basically come into the open and thus the shock resulting from the introduction of uniform exchange rates will be alleviated. And, as the system of socialist market economy will be getting further consolidated and as the reform of the financial system will be further deepening, the uniform floating exchange rate system based on a market system can come into being smoothly.

## II. Basic Ideas about the Introduction of Uniform Exchange Rates

The transformation of the dual-track RMB exchange rate system into a uniform floating exchange rate system should be accomplished gradually and there should be full preparations in the process. In a nutshell, the development can be described as: official rates as the main rates—official rates and market rates working together—uniform floating market rates. This is a process in which the role of market rates grows continually. In order to ensure the successful introduction of uniform exchange rates, it is proper to adopt the following steps in a planned way:

*The first step: the change from quota retention to spot exchange retention before the "restoration."*

The swap price of foreign exchange quotas is, in one sense, the difference between market exchange rates and official exchange rates. Consequently, the termination of the use of foreign exchange quotas and the adoption of the system of spot exchange retention are a crucial step toward the introduction of uniform exchange rates. In fact, the conditions for adopting the system of spot exchange retention are now ready. Since the practice of foreign-exchange quota retention is no longer appropriate to the development of foreign-involved economic activities and foreign trade, all the parties involved would like to change foreign-exchange quota retention into spot exchange retention. In addition, the system of spot exchange retention is working well in trial operations, and can be implemented nationwide early this year. There are basically two views on the fate of the existing foreign exchange quotas: According to one view, a deadline should be set; the quotas should be used up before the deadline and would be purchased by the state

at the market price after the deadline. According to the other view, the owners should determine how to use the quotas and there should be no deadline. In the view of this author, in order to ensure policy continuity and to protect the autonomy of foreign exchange-earning enterprises, it is proper to let the owners determine how and when to use the foreign exchange quotas, and to use economic means to gradually reduce the difference between official exchange rates and market exchange rates, so as to make the difference gradually disappear. This factor and the increasingly obvious defects of the quotas themselves will make the enterprises speed up the use of the quotas. Using the market for transforming the existing quotas can also prevent the occurrence of inflationary pressures which will result from the excessively concentrated use of foreign exchanges and the loss of control over foreign exchanges.

*The second step: after the "restoration," press forward with establishing a unified, well-developed foreign exchange market as well as exchange rate mechanisms for the foreign exchange market.*

In view of the current circumstances, now is the best time to establish market-based exchange rate mechanisms: First, the situation concerning the balance of international payments is good, and foreign exchange reserves are growing, while there is a basic equilibrium between the supply and demand as well as the earnings and expenditures with regard to foreign exchanges. Second, market-oriented reforms in such areas of foreign trade and price which are closely related to the matter of foreign exchanges are speeding up. Third, the economic environment is stable, and between now and the "restoration" there is still a certain amount of time during which we can deal with and observe the new situation occurring in the process of the formation of the foreign exchange market and accumulate experience of operating and regulating the foreign exchange market. The harsh economic situation and balance of trade situation immediately after the "restoration" will not allow us to open up the foreign exchange market. Nevertheless, if the formation of the great unified foreign exchange market has to be accomplished only after the shock has been alleviated and after trade is balanced, then the process of transition to uniform exchange rates will be prolonged, and such a situation will not satisfy the requirements of the GATT and will not be appropriate to the accelerated growth of foreign-involved economic activities. Therefore, it is necessary to fully utilize the existing conditions, seize the opportunity, and press forward with establishing a unified, well-developed system of foreign exchange markets.

1. In terms of operating models, in view of the current situation in China, it is proper to establish public foreign exchange markets in the Special Economic Zones and large cities on the basis of a unified national public swap market. While continuing to develop visible markets, it is necessary to establish invisible markets, forming a unified system of expeditious quotation and transaction used by foreign exchange markets nationwide with the

help of such modern communication tools as telephone, telex, and fax, so as to speed up the foreign-exchange swap transactions and to move toward the integration of foreign exchange trading with foreign exchange swap.

2. In terms of the scope of swap activities, it is necessary to enlarge the scope. Increase the volume of transaction in spot exchanges and the number of currencies traded on the basis of adopting the system of spot exchange retention. Further expand the scope of the swap activities on foreign exchange markets; gradually bring trade, non-trade, and individually held foreign exchanges all to the markets; and let the markets regulate supply and demand, so that the foreign exchange markets will become the main places to regulate the nationwide supply and demand of foreign exchanges, thereby creating conditions for introducing uniform exchange rates.

3. Permit some financial institutions which engage in foreign exchange business to enter the foreign exchange markets. Currently, not a few branches of specialized banks in China engage in foreign exchange business, but none of them can enter the foreign exchange markets. They are being constrained on matters concerning the sources and use of foreign exchanges. It is necessary to permit some of those banks—which handle large amounts of foreign exchange business—to send people to directly participate in the swap activities on the foreign-exchange swap markets. And, gradually make the financial institutions which engage in foreign exchange business the main actors on the foreign exchange markets. On a mature foreign exchange market, exchange rates are the equilibrium prices produced in the process of the banks satisfying each other's foreign exchange needs. Letting the specialized banks enter the foreign exchange markets can have the effect of regulating, controlling, and stabilizing the markets, that is, establishing market-based foreign exchange mechanisms in a preliminary form. At the same time, it is necessary to study the issue of establishing a market where firms give day-to-day foreign exchange loans to each other, so as to promote the circulation of foreign exchange funds between financial institutions. The practice of firms giving each other day-to-day loans can be first used between some state-owned banks, and then, gradually, more banks will be allowed to use the practice. Form central bank-controlled foreign-exchange interest rates through regulating the interest rates of the day-to-day loans given by firms to each other, so as to exercise regulation and control over the movement of foreign exchange funds.

4. Allow forward trading in the forms of trading the RMB yuan for foreign currencies and trading one foreign currency for another, linking up domestic and overseas foreign exchanges markets, thereby giving play to the role of foreign exchange markets in managing foreign exchange risks. With regard to forward trading, it is necessary to review the experience and lessons learned during the trial operations, and then gradually expand such activities. Actively develop activities of trading one foreign currency for another on the basis of activities of trading the RMB yuan for foreign currencies; such

activities can play the following roles: (1) the clearing role, that is, providing instruments of clearing and payment in international economic exchanges, so as to transfer purchasing power; (2) the fund-raising role, that is, that the banks which engage in foreign exchange business can make use of the time difference between the receiving and paying of foreign exchanges by providing enterprises with loans used for importing and exporting goods; and (3) the risk-minimizing role, that is, to conduct value-preserving hedging through forward trading, so as to avoid and minimize foreign exchange risks. The development of activities of trading one foreign currency for another can further perfect the foreign exchange markets.

5. Establish foreign-exchange stabilization funds. The central bank should earmark certain foreign exchange funds and RMB funds to be used as foreign-exchange stabilization funds, so as to form a regulation and control system characterized by central-bank intervention in the markets for the purpose of stabilizing exchange rates. In addition, it is also necessary to further develop and perfect relevant laws and regulations on regulating markets, and enhance the central bank's capability to use legal, economic, and rational administrative means for regulating and controlling the foreign exchange markets, so as to reach the set exchange-rate objectives.

*The third step: after the "restoration," press forward with perfecting exchange-rate adjustment mechanisms and finally introduce uniform exchange rates*

It is necessary to proceed with the introduction of uniform exchange rates after adopting the practice of spot exchange retention and on the basis of well-developed foreign exchange markets. Generally, there can be two ways of moving from dual exchange rates to uniform exchange rates: The first is to gradually reduce the difference between the two kinds of exchange rates, leading finally to uniform rates. For example, at first, Zaire determined the official rates to be no more than 10 percent higher or lower than the parallel exchange rates, and then gradually reduced the difference, which was reduced to 5 percent in 1981. On 28 February 1984, the two kinds of exchange rates became the same, resulting in uniform exchange rates. The second is to gradually increase the share of parallel markets in foreign exchange trading, leading finally to a situation where all trading is conducted at parallel exchange rates. For example, there were two kinds of markets in the Dominican Republic before 1985. Transactions between the central bank and other banks were governed by official exchange rates, while transactions between commercial banks and foreign-exchange banks were governed by parallel exchange rates. Export earnings were partially handed over to the central bank and partially sold on parallel markets. Then, the part of export earnings sold on parallel markets was continually enlarged, while the official transactions of the central bank were also gradually moved to parallel markets. Dual exchange rates were turned into uniform exchange rates on 23 January 1985. In view of the actual circumstances in China, it is advisable for

China to use both approaches: on the one hand, adjust official exchange rates, so as to make the rates approach the market rates; and, meanwhile, gradually increase the share of transactions governed by market-regulated exchange rates and the scope of application of those rates, leading finally to a situation where foreign exchange transactions are all regulated by the market and where exchange rates are uniform.

In view of what may happen after the "restoration," the main task for the period immediately after the "restoration" is to stabilize market exchange rates and to prevent the difference between official exchange rates and market exchange rates from growing. To that end, it is necessary to set up an adjustment mechanism which will link up official exchange rates with market exchange rates in a limited manner. It can embody the GATT's antisubsidy principle and ensure the smooth transition from dual exchange rates to uniform exchange rates. The concrete method is as follows: Stipulate that the difference between the official exchange rates and market exchange rates should not go beyond a certain limit and should be gradually reduced, and that when the limit is exceeded, there should be intervention in the foreign exchange markets or adjustment of official exchange rates or both, so as to make the exchange rates both reflect supply and demand relationships and conform to the set exchange-rate objectives. When the difference has been reduced to around 5 percent, adopt resolute measures to introduce uniform exchange rates. This approach can be demonstrated in a formula:

$$D=I/Ex(1-M/N)\times 100 \text{ percent.}$$

If D, I, E, M, and N in the formula are used to represent, respectively, the allowed difference between the official exchange rate and market exchange rate, the volume of import, the volume of export, the official exchange rate, and the shadow exchange rate, then the allowed difference between the official exchange rate and market exchange rate equals the product of the multiplication of the ratio of the volume of import to the volume of export for the preceding period and the ratio of the difference between the official exchange rate and market exchange rate to the shadow exchange rate. The formula is based on the premise of  $I > E$ , that is, a trade deficit. The larger the trade deficit is, the greater the allowed difference between the official exchange rate and market exchange rate will be; and vice versa. It can be expected that China will have an unfavorable balance of international trade after the "restoration." If we assume that October this year will see a volume of import totalling \$8 billion, a volume of export totalling \$6 billion, an official exchange rate of 6.2 RMB yuan to 1 U.S. dollar, and a shadow exchange rate of 6.8 RMB yuan to 1 U.S. dollar, then the allowed difference between the official exchange rate and market exchange rate for the month of November will be 11 percent. If the situation of foreign trade improves in November which sees a volume of import totalling \$9 billion, a volume of export totalling \$8 billion, an official exchange rate of 6.4 RMB yuan to 1 U.S. dollar, and a shadow exchange rate of 7 RMB

yuan to 1 U.S. dollar, then the allowed difference between the official exchange rate and market exchange rate for the month of December will be 9 percent, a decrease of 2 percentage points over November. When the effect of the shock resulting from the "restoration" is getting weaker, when people have gradually gotten used to satisfying GATT demands and the requirements of GATT principles, when the situation of foreign trade is improving, leading to an equilibrium between import and export, and when returns on retained foreign exchanges approach zero, discontinue the practice of announcing official exchange rates so that there will be only uniform market exchange rates, and adopt the practice of regulated floating, thereby accomplishing the task of introducing uniform exchange rates. The formula discussed above can only serve as reference material in the process of introducing uniform exchange rates; it is also necessary to consider such factors as those of the state of the development of foreign-involved economic activities and foreign trade and the domestic population's capacity to bear price increases.

In short, we believe that after the "restoration," if only the various tasks relating to the introduction of uniform exchange rates can be carried out in a planned, step-by-step, and coordinated way, and if only the job is done in an orderly, gradual manner, the introduction of uniform exchange rates can be accomplished according to pre-determined plans.

## SMALL-SCALE ENTERPRISES

### Jiangsu, Fujian Township Firms Prepare for GATT

93CE0467A Beijing NONGMIN RIBAO in Chinese  
23 Mar 93 p 1

[Article by staff reporters Zhao Zekun (6392 32419 3824) and Tang Jiahou (3282 1367 0624): "After China Returns to GATT, What Will Township-Town Enterprises Do?"]

[Text] China is returning to its position as a GATT signatory state. After it does, what will township-town enterprises do? Our newspaper's reporters interviewed some delegates from two provinces who attended the First Session of the Eighth National People's Congress. Below is a summary of what they said:

Chang Zhongjian [7022 6774 1017] of Kunshan City, Jiangsu Province: Last year the output value of the township-town enterprises of Kunshan City, which has a population of 570,000, was 11.4 billion yuan; the city used \$1 billion in foreign capital and earned 2.1 billion yuan in foreign exchange. Faced with the challenge of "joining GATT," our measures are: First, we will set up industrial parks, i.e., designate enterprises that are original, or that we intend to develop, as local "recycling centers." Thus we will save land, infrastructure, and investment; benefit the construction of small cities and towns; benefit the adjustment of the industrial structure;

and benefit the attraction of foreign businessmen and foreign capital. Second, we will "open the gate," i.e., run as joint ventures and joint contractual ventures a number of grafting-type industries, and cooperate with foreign businessmen in the use of the original factory buildings and equipment. Third, we will make use of the special features of townships and towns to develop an export-oriented economy.

**Wu Guangying [0702 0342 5391], director of the Sheshan Main Electric Furnace Factory, Nanjing City, Jiangsu Province:**Market competition, in the final analysis, is product competition, and the essence of product competition is technological competition. We must raise our consciousness of competition. It is like eating: The mouth eats one thing, the hand holds one thing, the eyes see one thing, and the mind wants one thing. By doing things in this way we will be able to take the lead in competition. Now the "monkey" (the individual and private sector) has loosened his bonds, the "tiger" (the military and industrial sector) has come down from the mountain, and the "old foreigner" has made his entrance. In scrambling for markets, the township-town enterprises should put more emphasis on technology. We must display the flexible mechanisms of township-town enterprises, perfect management, and try to come up with our own set of methods. Originally, township-town enterprises were an "irregular army"; now they are a "regular army," and there must be an investment in quality. We must run training centers, research institutes, and information centers. We must further perfect distribution methods, generously award scientific research personnel and managerial personnel, and solve the problem of the talent and technology drain.

**Xie Hua'an [6200 5478 1344], director of the Sanming City Agroscience Institute, Fujian Province, and national young and middle-aged expert:** Faced with the new situation of returning to GATT, township-town enterprises must continue to display their superiorities in flexible management mechanisms, having fairly few raw materials subject to foreign attack, a more labor-intensive product mix, and having products that are convenient to renew or replace. They must continue to develop the export-oriented economy and actively participate in international competition. At the same time, township-town enterprises will be rigorously tested, viz., by a shortage of talent. Therefore, township-town enterprises must join with large and medium-sized enterprises to form enterprise groups; in production, they must expand the scale and lower the cost; and in technology, they must enhance the tackling of key problems to improve product quality. Otherwise, some township-town enterprises that are fairly low in efficiency will be seriously hammered.

**You Junming [1429 0143 2494] of the Hongyu Group, Yangzhou City, Jiangsu Province:**The Hongyu Group is one of the hundred mainstay enterprises in Jiangsu Province. Its products are formed into six large series, and its annual output value is 350 million yuan. We long ago wanted China's return to GATT. Obviously, it will not do for us, as a large enterprise group, to only fix our

gaze on the domestic market. We must consider our development from the angle of the international market. We have taken a stride toward opening up the international market. First, we conduct our production in line with international standards, and we collect information worldwide and set up marketing networks. In 1992 our products gained entry in the American market, and we set up branch enterprises in America, Malaysia, and Hong Kong. The return to GATT is near at hand, and we are not worried about it; rather, we are considering how to expand the dynamic of opening up to the outside world. The Hongyu Group has made a big effort with regard to first-class equipment, packaging, and management with the aim of trying to make first-class products.

**Wu Renhao [0702 0088 1405], chairman of the board, Huaxi General Industrial Company, Jingyin City, Jiangsu Province:**Last year Huaxi Village's output value was 500 million yuan, and this year it will rise to 1 billion yuan. Faced with fierce competition on the domestic and international markets, Huaxi is making preparations in three main ways. First, it is setting up enterprises abroad to get an understanding of the information and markets there. Huaxi is now running a board and net factory in Malaysia. Second, its products display a pattern of improvement in quality. What the enterprise faces is great storms on the market, and doing things piecemeal will not work. It must carry out processing at a deeper level in order to increase products' value-added character. Third, it is sending people out and inviting instructors in, all for the purpose of training talents. Huaxi has now sent out more than 20 persons to study the English, Japanese, and Russian languages.

**Han Yulin [78287 3768 2651], mayor of Zhangzhou City, Fujian Province:**Since last year we have been doing some research and making some preparations. Zhangzhou City's national economy, including state-owned enterprises, long ago went on the market, and the planned proportion in it is very small. In agriculture, that part of agriculture which earns foreign exchange occupies a very large proportion. Last year imports earned more than 1 billion yuan in foreign exchange, over half of which was from agricultural and sideline products. After the return to GATT, the benefits from our economy, which earns foreign exchange from agriculture, will be even better. Because exports are now restricted in volume, if the annual output of mushrooms is 80,000 tons, which is 25 percent of China's total output, only 20,000 tons can be exported. The export of other products, e.g., asparagus, prawns, Holland beans, and Japanese chickpeas, which are imported from abroad, are also restricted. Our labor is inexpensive, and the cost of agricultural and sideline products is low, so our competitive power on the international market is strong.

Township-town enterprises are the main pillars of Zhangzhou's rural economy, and even of its national economy. Since their birth they have been the precondition for the market economy, i.e., for the preparation for the return to GATT, and, compared to state-owned enterprises, it is easier for them to get on track with the

international market economy. After the return to GATT, many intermediary links can be eliminated, something that will be advantageous for accelerating sales and improving economic returns. After the return to GATT, carrying out production in line with international standards will further strengthen our competitive power on the international market.

**Zheng Ruiying [6774 3843 5391], party committee secretary of Hongshan Township, Fujian City suburbs, Fujian Province:** When talk about returning to GATT began, everybody worried that the township-town enterprises would take a hammering. After studying the policy and doing research on countermeasures, the quality of information about this was enhanced. It looks as if, first, we must change our concepts, turning pressure into motivational power and turning unfavorable conditions into favorable conditions. Last year the output value of the township-town enterprises in our township was 870 million yuan, a 105-percent increase over that of the year before. The profits tax increased 33 percent, and earnings from foreign exchange increased 58 percent. But each of the more than 400 enterprises does things in its own way; the scale of some of them is small, and they are not well-known. To meet the challenge of the return to GATT, we have changed the concept that township-town enterprises are a case of "a small boat turns around well," and we have achieved a transregional, transtrade unity, forming enterprise groups, getting scale benefits, and strengthening competitive power. At the same time, we have set up a stock company and implemented the stock system in which one is responsible for one's own profits and losses and in which profits are shared. We have also adopted the methods of "borrowing a boat to put out to sea" and "borrowing a ladder to climb to the top of a building," i.e., setting up a talent market and pursuing preferential policies. We have gone to Japan and America to recruit Chinese students studying in those countries. We have gotten a tight grip on the technological transformation of township-town enterprises, strengthened enterprise management, and improved product quality in order to enhance our competitive power on the international market.

**Yu Jingjuan [7411 7234 1227], director of the Shijing Gauze Mill, Nan'an County, Fujian Province:** Originally we were a small dress shop run by husband and wife. We had few staff and workers, and our output value did not exceed several hundred thousand yuan. By chance I saw on the Hong Kong market a very pretty strip of gauze that had been produced in Korea. Its producers had originally marketed it in the Middle East, but because of the Gulf war it had not sold. I immediately took a sample back to our mill and organized its production. After it was put on the market there was an immediate rush to buy it. In only two years' time our mill has grown to an enterprise with more than 150 staff and workers and an output value of 50 million yuan. It almost monopolizes China's gauze market. After the return to GATT and after it goes on the international market, we will encounter more and stronger competition than we did on

the domestic market, but we have made full mental preparations and grasped the opportunity to constantly develop new products and to improve our products' grade.

## FOREIGN TRADE, INVESTMENT

### Reforming Procedures for Approving Foreign Investment

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[INTERNATIONAL TRADE JOURNAL] in Chinese  
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[Article by Tao Shigui of Lianyungang Branch Bureau of State Administration of Exchange Control: "Analysis on Reforming System for Examining and Approving Direct Foreign Investment"]

[Text] Since comrade Deng Xiaoping gave talks during his inspection tour in South China, enterprises with foreign investment have entered a new stage of rapid development. This demands that the departments at all levels in charge of economic relations and trade free themselves from the routine work of examining and approving foreign investment; shift the focus of their work to strengthening macroeconomic control, studying policies and attracting more foreign investors; and set up a set of scientific macro-control system with Chinese characteristics, which will meet international standards. With regard to this objective, I wish to express some views on reforming the system of examining and approving direct foreign investment.

#### 1. Trends for Examining and Approving Direct Foreign Investment in Developing Countries

NIHON KEIZAI SHIMBUN reported that on the basis of the regular revenues and expenses in various countries throughout the world, the amount of funds needed in the world in 1992 will reach \$270 billion including \$45 billion for developed countries and \$75 billion for developing countries. It is expected that developed countries will need more capital in 1993. This global shortage of funds results in rising cost for fund raising, stringent condition for financing and impedes normal economic development. For this, various countries have vied with each other in instituting new laws for foreign investment. One of the major moves is to simplify the procedure of examining and approving foreign investment and improve administrative efficiency to attract more foreign business people to make investments. This article uses Korea, Tunis, Mexico, Hungary and Poland as illustrations. Based on the degree of leniency in examining and approving foreign investment, there are two major systems as follows:

The first is the system of liberal registration. The revised decree on joint ventures with foreign countries promulgated by Hungary in January 1991 stipulated that Hungarian-foreign joint ventures are only required to register with the Hungarian court, no matter how much foreign

investors have contributed. In 1969 Tunis promulgated the Investment Law. In 1987, it revised the original investment law, and instituted a new investment law. In 1989, it again instituted a taxation reform law, abolishing the provision that investment is subject to approval of the administrative department, and liberalized investment. The taxation reform law stipulates: Any person, either foreigner or Tunisian, who invests in Tunis in building a new factory, making an extension or renovating an existing one may be exempt from corporate tax, profit tax and personal income tax indefinitely as long as he or she exports more than 15 percent of the factory's products. He or she may feel free to import all necessary raw materials and equipment and transfer the profits made. Tunis will take care of the social insurance expenses for the investor for a period of five years. The investor is only required to file his or her investment plan with the relevant department for reference.

The second is the system of limited automatic approval. Korea relaxed the restriction on foreign investment in manufacturing industry as of 1 March 1991. A foreign investor who is interested in investing less than 50 percent of the total capital of a joint venture in the manufacturing industry is only required to notify the Bank of Korea about his or her investment plan. However, any foreign investor who plans to invest more than 50 percent of the total capital in any joint venture is still required to go through the examination and approval procedure. Since 1993, foreign business people who invest in most of Korea's manufacturing industries are no longer required to go through the examination and approval procedure. However, foreign investment is still restricted in areas where such investment will threaten the existence of Korea's medium-sized and small enterprises. The new law for joint ventures adopted on 14 June 1991 in Poland also stipulates that in general foreign enterprises and Polish-foreign joint ventures in Poland are only required to register with the local court after completing their taxation procedure with the tax authorities. However, they need the approval of the relevant Polish department and the certificate of approval for registration, if they involve any of the following circumstances:

- (1) Their operations involve harbor and airport administration.
- (2) Their operations directly or indirectly involve real estate.
- (3) They engage in wholesale trade business for imported consumer goods.
- (4) They are in the defense industry which is not authorized to engage in foreign trading.

Mexico promulgated a new provision on foreign investment in May 1989. The provision stipulates that there is no need for any foreign investor to have his or her investment plan examined by the relevant department and approved by the State Foreign Investment Commission as long as he or she meets the following conditions:

- (1) Investment does not exceed \$100 million.
- (2) Investment capital comes from abroad.
- (3) Investment is used in areas other than the three large industrial districts in Mexico City, Monterrey and Guadalajara.
- (4) A balance of foreign exchange revenue and expenditure will be achieved in three years after operations begin.
- (5) Permanent jobs can be created and a personnel training program is available.
- (6) All applied technologies must conform with the law for ecological balance. That is, they must not pollute the environment. Any project that does not meet any of the aforementioned conditions is subject to approval by the State Foreign Investment Commission. If there is no negative reply within 45 days after the application is filed, the case can be automatically considered as legally approved.

The liberal registration system and the limited automatic approval system mentioned above basically manifest the current trend in examining and approving direct foreign investment in developing countries. These countries tend to liberalize the investment procedure to attract more international capital which is by no means abundant.

## 2. Importance in Reforming China's Existing System of Examining and Approving Foreign Investment

(1) To quicken the pace in attracting direct foreign investment, it is imperative to simplify the procedure of examining and approving foreign investment. Statistics showed that at the end of July 1992, a total of 57,000 enterprises with foreign investment were approved; the amount of contracted investments totalled \$71 billion; and the actual investment realized was \$27.5 billion. As compared with the earlier period, foreign investment entered a new era of rapid development. However, in view of the rapid economic development in the country, China has not attracted enough foreign capital. The amount of actual foreign investment realized was \$18.9 billion between 1980 and 1990, accounting only about 2.5 percent of the total investments in fixed assets in China. It made up 4.5 percent of China's investment in fixed assets in 1991. This percentage remained small. Besides, most foreign investment is made in the coastal area. Seventy percent of China's large- and medium-sized enterprises are located in China's inland, playing an important role in the development of the national economy. However, not many of them have foreign investment. These enterprises will attract foreign investment if they increase their contacts with foreign countries. According to statistics compiled by the quarterly journal published by the Center of the United Nations Trans-National Companies, the amount of global direct foreign investment totalled \$225 billion in 1990, up 7 percent over 1989. However, the amount of average

direct foreign investment into either developed or developing nations was about four times of the total output value and twice of the total domestic investment of any of these nations from 1985 to 1990. The proportion of China's foreign investment to its domestic economy and the per capita foreign capital attracted in China is much lower than those in the developing countries where economic development is rapid. From this, we can see that the amount of foreign investment attracted by China is still limited. Therefore, to make new progress in attracting more foreign investment to China, we must quicken our pace in introducing foreign investment, and simplify the examination and approval procedure so as to facilitate the influx of foreign capital.

(2) The drawback of the existing system in examining and approving foreign investment has become more and more noticeable. Problems in the soft environment in China for investment are caused by the complicated procedure in examining and approving foreign investment, too many barriers and low administrative efficiency. Particularly some large investment projects are subject to approval by administrative departments at different levels. They are also subject to final approval by the Ministry of Foreign Economic Relations and Trade. It takes much longer time. This has greatly slowed down the procedure in handling foreign capital, and dampened foreign businessmen's enthusiasm in making investment in China. Under these circumstances, some foreign businessmen who originally plan to make huge investments in China give up their investment plans and turn to countries where efficiency is relatively high in examining and approving foreign investment projects, because they fear that the complicated procedure in China in handling foreign investment will affect the schedule in production and make their products less competitive in the world market. All this runs counter to China's aim in attracting foreign investment. The effects achieved by the existing system in examining and approving foreign investment is also not very ideal. As seen from the amount of negotiated foreign investment (\$27 billion) and the amount of actual foreign investments utilized in China (\$27.5 billion) at the end of 1992, the amount of actual foreign investments utilized only accounts for 38.73 percent of the amount of negotiated foreign investments. This percentage is quite low. In addition, the existing system in examining and approving foreign investment spends too much time and efforts in doing work in the preceding stage, while paying little attention to the rate of actual foreign investment utilized, the investment return rate and the rate of profits and taxes. This has created many problems. We need to change this situation quickly.

(3) The examination and approval procedure is different in various localities. This can easily create negative effects. First, the procedure in examining and approval foreign investment in one locality may be more lenient or strict than that in another locality. In some localities, a foreign investment is required to go through each relevant department for examination and approval.

There are too many barriers. A problem at one step will affect the next step. In some other localities there is one "stamp" at one "window"; and work efficiency is high, because all departments closely coordinate with each other in completing the procedure. Therefore, a certain investment project can go through the procedure very quickly in one locality, while it fails to do so in another locality. This is bad for creating an environment for fair competition among various enterprises. Second, this situation can easily sow corruption. Some individuals make use of their power in examining and approving foreign investment to extort bribes, while others do not hesitate to betray the interests of the state to reap benefits for themselves. Some evildoers use some of the loopholes in the existing examination and approval system and the preferential policies in various localities aimed at attracting foreign investment to carry out fraudulent activities under the pretext of attracting foreign capital.

### **3. Establish a New System of Examining and Approving Direct Foreign Investment**

#### **(1). Carry Out Limited Automatic Approval System on Trial Basis**

In accordance with the current trend in developing the world economy and China's state of affairs at present, we can choose the limited automatic approval system as a new form in examining and approving foreign investment. That is, under normal conditions, foreign investors may register with the general administration for industry and commerce and the tax authorities for business operation and taxation without securing the prior approval of the government department in charge of the work as long as they adhere to China's orientation in encouraging foreign investment. They are only required to, first, submit their investment plan to such department and pay 15 percent of the total amount of investment which they agree to contribute within 30 days after the investment agreement comes into force. However, those who involve the following circumstances are still required to secure the prior approval of the relevant department:

- A. The total investment exceeds \$100 million.
- B. It is difficult to attain a balance between revenue and expenditure.
- C. The investment will be made in a restricted line of business for foreign investment such as doing wholesale trade business for imported consumer goods and harbor or airport administration business. If there is no reply within 60 days after the investor files its application to the relevant department, the application may be considered as automatically approved.

#### **(2) Merits in Carrying Out Limited Automatic Approval System**

First, the limited automatic approval system will greatly simplify the complicated procedure in examining and

approving foreign investment, and save manpower and material and financial resources so that enterprises with foreign investment may concentrate their efforts in carrying out production and business operations, and attain even greater economic results.

Second, the limited automatic approval system will help the government department responsible for the work extricate itself from the tedious routine administrative work; shift the focus of its work to exercising macroeconomic control, making policy studies and encouraging investments; increase the actual amount of foreign investment used, the investment return rate and the rate of profits and taxes; and achieve the desired results in the use of foreign capital.

Third, various localities must firmly put the limited automatic approval system into practice, once the state implements this system. It will certainly help raise work efficiency and create a situation conducive to fair competition so that all foreign investors will be provided highly efficient services and treated on an equal basis in various localities. Meanwhile, this system will also help combat corruption and do things in accordance with law.

Finally, the limited automatic approval system is a big step ahead of China's existing examination and approval system. It follows the trend of development in liberalizing international investment, and narrows the gap between China and other countries. This will definitely attract more foreign investors to China.

### (3) Several Issues That Merit Attention

A. To implement the limited automatic approval system does not mean that the government department responsible for the work is no longer required to carry out coordination and administrative work and render services. However, it must change its ways and methods in doing so. After implementation of this system, the departments responsible for the work at various levels should set up and improve the organization to encourage foreign investment. They should also help this organization coordinate, administer and serve the enterprises with foreign investment in official or semi-official capacity. In dealing with Chinese-foreign joint ventures, emphasis must be placed on giving them guidance. For example, we must brief them on the laws, regulations and policies of relevant countries and help them acquire knowledge on international trading and financing. We must help them sign contracts; work out clauses, provisions, rules and regulations; and prevent themselves from ignoring the work in the preceding stage.

B. It is necessary to set up a regular system for sending reports and forms. To timely understand the various situations in production, business operation and financial affairs after the establishment of a joint venture, the department of foreign economic relations and trade should join other relevant departments in studying and setting up a system for sending reports and forms, periodically brief the departments concerned on the

situation, and coordinate with each other in timely tackling new situations and solving new problems that have cropped up.

C. It is essential to concentrate our efforts in doing well our legislative work. After the establishment of the new system in examining and approving foreign investment, we should energetically help foreign investors to follow the normal legal path and do things in accordance with law. The relevant departments should concentrate their efforts in instituting a series of laws for investment so that foreign investors have laws to comply with; and use such laws to restrain and adjust the orientation in the use of foreign capital, optimize the industrial structure and make new progress in using foreign capital.

### Article Reviews Legislation on Overseas Investment

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[Article by Yuan Dongbiao (5913 2639 1753) and He Yue (0149 1878): "A Review of China's Overseas Investment Legislation"]

[Text] Since reform and opening, transnational operations by Chinese enterprises have grown rapidly. Statistics show that by the end of August 1991, China had approved the establishment of 911 overseas nontrade enterprises of all types, for an agreed investment of \$2.47 billion, of which \$1.07 billion, or 43.3 percent, was Chinese investment. While these enterprises are spread throughout 101 countries and regions on all five continents, with most of those that have gone into production and operation achieving good economic efficiency, China still has no legislation directed at overseas investment and Chinese-invested overseas enterprises, meaning that China's overseas investment legislation is essentially lagging. Due to this lack of the necessary legal standards, Chinese-invested overseas enterprises are experiencing a rather severe phenomenon of operating without laws or regulations to follow.

We believe that in order to intensify China's reform and opening and expand our degree of opening, encourage Chinese enterprises and enterprise groups to invest overseas, and achieve our aim of the "transnationalization" of socialist enterprises, we should immediately put on our agenda legislation to enhance and strengthen China's overseas investment, so as to strengthen and perfect China's overseas investment laws.

Capital-exporting countries have long used legislation on one hand to protect the security and interests of their overseas enterprises, in order to make them more internationally competitive. On the other, they employ legislative oversight to keep their overseas-enterprise products from competing with domestic-enterprise ones, in order to protect their domestic-product markets. Capital-exporting countries aim their legislation at balancing the interests of host countries, investors, and investment parent countries, in order to ensure that the security and

interests of their overseas enterprises are legally protected, promote and encourage private overseas investment by their citizens, and enhance their international competitive standing.

We believe that as a capital-exporting country, China's overseas investment legislation should include a national sovereignty immunity law, a foreign aid law, an overseas investment company law, an overseas investment insurance law, and a banking law.

### 1. A National Sovereignty Immunity Law

*1. Placing restrictions on national sovereignty is a current world trend.*

Since World War II, the major developed Western countries have abandoned the principle of absolutism in national sovereignty immunity, changing to the theory of restrictivism. In the late 1970's and early 1980's, countries, such as the United States and Great Britain, officially declared in legal form restrictions on sovereignty immunity, which forced countries adhering to the principle of absolutism to make certain concessions and accommodations. While countries, such as the former Soviet Union and East European countries, as well as China, have continued to adhere to the principle of absolutism, they have had to take initiatives to avoid conflicts with other countries in international business dealings, or to deal with their governments being constantly involved in sovereignty immunity lawsuits, by in some cases adopting the reciprocity principle to add similar restrictions to the restrictions on absolute sovereignty immunity of other countries, or in others signing bilateral agreements, in order to resolve the sovereignty immunity issue. Thus, placing restrictions on national sovereignty immunity is a major trend in current international law.

*2. Adhering to absolutism in national sovereignty immunity is detrimental to the attraction of foreign investment and investment overseas by developing countries.*

The integration trend of the global economy is leading to the interdependence and mutual infiltration of the economies of all countries, and sharply expanding mutual economic intercourse, while bilateral trade has to be beneficial to both sides, so that, in addition to mutual trust, it also requires reciprocal economic, financial, and legal safeguards. If countries that adhere to the principle of absolutism in national immunity rights do not adopt flexible measures and policies, and instead take the stand that they have absolute freedom in the resolution of reciprocal trade disputes, this is likely to produce a psychology of fear for trade enterprises. So adhering to the principle of absolutism in national sovereignty immunity has a very bad impact on the attraction of foreign investment and investment overseas by developing countries. In other words, if a country adheres inflexibly to the principle of absolutism in national sovereignty immunity, business dealings underway or likely to be conducted in that country will possibly be shifted to other regions.

In light of these two factors, we believe that in order for China to realize its Eighth Five-Year Plan, practice a more open economic strategy, and create a real international climate, it will be imperative for it to draw up a "National Sovereignty Immunity Law." Such a law should conform to the international trend, by abandoning the principle of absolutism in national sovereignty immunity, and changing to the theory of restrictivism. That is, on one hand it should grant sovereign countries extensive sovereignty immunity, while on the other providing many exceptions to that immunity. These exceptions should include the following:

1. Immunity in cases where foreign sovereign countries clearly renounce jurisdiction.
2. Immunity in cases of overt or covert foreign renouncement in areas, such as confiscation, enforcement, and arrest.
3. Foreign engagement in business activities or trade of a business nature.

### 2. A Foreign Aid Law

In order to achieve a more open economic development strategy, China needs to draw up a "Foreign Aid Law," so as to integrate aid, trade, and investment, combine overseas investment with foreign aid, and put overseas investment and foreign aid onto a legal course. This law ought to provide overseas investment limits, and establish corresponding departments and agencies to be responsible for examination and approval of overseas investments.

### 3. An Overseas Investment Company Law

As China's reform and opening are now being developed in depth, which is pushing us to root our economic development strategy in the "global economy," by striving to place equal emphasis on investment attraction and capital export, in order to achieve a two-way balance of input and output, we must push Chinese enterprises toward the world market, by launching large-scale overseas investments, in order to realize our strategic objective of the transnationalization of socialist enterprises. This will mean organizing certain large-scale investment companies as the core, by ensuring that China's existing enterprise groups steadily develop into transnational corporations that venture out to capture foreign markets, in order to enhance China's standing in international market competition. This means that it will also be imperative to draw up an "Overseas Investment Company Law." Such a law ought to provide a definition of Chinese overseas investment companies, as well as their relations in all areas, such as production, marketing, and overseas investment profits, including items on investment examination and approval procedures, investment limits, capitalization percentages, investment terms, investment region status, insurance, and duplicate insurance, as well as incentives and preferential policies for overseas investment companies by

the capital-exporting country, diversified service measures for overseas investment companies, and investment dispute resolution.

#### 4. An Overseas Investment Insurance Law

An overseas investment insurance law, or overseas investment insurance regulations for a capital-exporting country, also called overseas investment guarantee regulations, is a key legal institution pertaining to international private investment. An overseas investment insurance law is a domestic legal institution used by a capital-exporting country to stimulate and protect overseas investment by its private citizens through domestic legislation, as well as the most common legal form through which a capital-exporting country protects its overseas investments, playing a key role in promoting overseas investment by private citizens, and in enhancing the country's international competitive standing. As China's reform and opening are now intensifying and our opening to the outside world is expanding, meaning that our overseas investments are growing by leaps and bounds, we also need to draw up an "Overseas Investment Insurance Law" to protect the security and interests of Chinese overseas investment enterprises.

We believe that China's "Overseas Investment Insurance Law" should cover the following items: 1) Overseas investment incentive measures. 2) Overseas investment insurance, including items, such as insurance limits, insurers, insurees, insurance subject investment qualifications, investment insurance applications and procedures, insurance terms, insurance costs, insurance funds, joint insurance and insurance sharing, investment insurance disputes, and investment guarantee agreements.

#### 5. A Banking Law

In light of China's current new situation of further expanded opening up to the outside world, a key issue is whether China should strive to eliminate its current imbalance between investment attraction and capital export, by urging qualified enterprises and enterprise groups to develop transnational operations, and to vigorously launch direct overseas investments, in order to achieve a two-way balance of foreign investment attraction and capital export. This will mean setting up a special bank for overseas investment—The China Overseas Investment Bank which, under the leadership of the PBC, would institute lending services for direct overseas investment. Thus, drawing up a "Banking Law" ought to be put on our agenda as a very pressing matter. We believe that China's "Banking Law" ought to provide for the establishment of overseas investment bank operating limits, loan projects, project auditing, investment orientation, and feasibility reports, as well as government incentives, preferences, and restrictions for overseas investment, and a special clause to explain the management and leadership relations of the PBC as the central bank with other financial institutions. In addition, it ought to have a restrictions clause (i.e., investment

percentages) to control overseas investments by banks and financial institutions. For instance, Hong Kong's 1986 "Banking Law" provides that bank loans to any other company or individual may not exceed 25 percent of capital.

In short, China's aims as a capital-exporting country in drawing up a "Banking Law" will realize transnational operations by Chinese enterprises or enterprise groups, achieve the transnationalization of socialist enterprises, provide a specific framework for direct overseas investment by Chinese enterprises or enterprise groups, supply laws and regulations to follow, and stimulate and promote overseas investment growth within legally permitted limits.

#### Using Petrodollars for Potential Investment

*93CE0458A Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 15 Mar 93 pp 30-31*

[Article by Liu Yongbin (0491 3057 2430), Economic Research Office, Xinyu Town Government, Jiangxi Province: "Making Petrodollars More Widely Available for Loans"]

[Text] Since reform and opening to the outside world, China's attention in its efforts to import foreign capital was mainly directed toward the developed countries and the newly industrialized regions of Asia. There is now in the world another type of countries with abundant financial strength, engaged in a brisk business of placing foreign investments: these are the oil exporting countries. If China wants to maintain the impetus of its rapid growth during the remaining years of this century, it must further broaden the channels for the use of foreign capital funds, and in this connection China must not overlook the oil exporting countries as prospective partners in cooperation.

At present, relatively few industries in China have been financed by oil exporting countries. Three years ago, the Saudi Arabian Arbulaka [phonetic] Company opened an investment company in China and was the first to enter on such a project. This company allows us to gain an insight into the very brisk investment activities abroad carried out by the oil exporting countries, especially those on the Gulf. The Arbulaka Company is a worldwide investment company of great financial strength. Its registered capital is over \$2 billion. In 43 countries of the world it owns 24 banks, five investment companies, as well as 175 holding companies in industry, agriculture, commerce, trade, tourism, and the service industry. Its total personnel numbers 55,000. This company is composed of six investment departments: service industries, manufacturing industry, commerce, agriculture, finance, and public utilities. The sphere of the service industry investment department comprises: construction, repairs, and maintenance, tourism facilities, medical and health care facilities, educational and training facilities, propaganda and publishing, and public relations. The department in charge of industrial investments has investments

in 26 projects of a value of \$295 million, its main area being the foodstuffs industry, the chemical industry, and the metallurgical industry. The department in charge of commercial investments is used for special-purpose loans in support of exports from Islamic countries and territories to the developed countries, which amount to \$50 million each year, and the aggregate amount up to now is \$300 million. Among the main agricultural projects in which investments have been placed are: in Saudi Arabia, the planting of 11,000 hectares of wheat, vegetables, and fruits, and in Sudan, the planting of 1.5 hectares of maize, sesame, and sunflower. As to finance, the company has set up financial service and investment organizations in 33 countries, with a total investment capacity of \$4 billion, and has absorbed \$2.6 billion of private deposits. To ensure the right selection of investment projects, the company has the world's top-ranking economic and financial specialists, whose job is to analyze economic returns of projects and assess the trustworthiness of partners for intended cooperation.

Investment projects of the Arbulaka Company have for a long time been mainly concentrated in Arab countries and Islamic countries and territories. It has had no financial branch companies in the Western developed countries. In recent years, the economic growth of the world as a whole slowed down somewhat, while China's economy maintained a trend of forceful progress. This circumstance induced the said company to decide three years ago to establish an investment company in China, to be in charge of investments in China. Preparations for this company are now drawing to an end, and it is expected to start operations in the first half of 1993. At present, the said company has invested \$80 million in the purchase of a piece of land in the Pudong district of Shanghai, and has invested \$50 million in the development district of Ningbo for the development of projects at Ningbo. It is preparing further investments in the manufacturing industry, in agriculture, and in the tourist industry in other areas of Mainland China.

In the oil exporting countries, there are quite a number of other enterprises with abundant financial strength, similar to the Arbulaka Company. We must strengthen trade interchanges and investment cooperation with these enterprises and improve mutual understanding and trust. The oil exporting countries are part of the third world, the same as China, and state-to-state relations are completely normal, so that the use of the financial resources of these countries would not be threatened by the imposition of political conditions, and it would create further means of breaking and preventing economic blockades by Western developed countries. At the present stage, it is necessary to energetically expand economic relations with these countries, also to actively propagate China's reform and opening to the outside world, and its huge achievements in economic construction, so as to strengthen their confidence in investing in China. From the 11th to the 14th of October 1992, a seminar was held in Beijing for the discussion of economic cooperation between the states along the Arabian

Gulf and Chinese industry, as a useful attempt to strengthen relevant economic cooperation. The seminar was attended by 50 entrepreneurs from the six states of Saudi Arabia, Kuwait, Oman, the United Arab Emirates, Qatar, and Bahrain. During the meeting, intentions were declared by the Arabian Gulf entrepreneurs and the Chinese corporations with regard to such items as trade, contracting for engineering projects, and the establishment of Chinese commercial firms in Saudi Arabia.

The Islamic countries among the oil exporting countries are bound by the restrictions of the Islamic religion, and these include certain restrictions on the charging of interests when enterprises engage in banking activities and when placing investments. They are, however, allowed, under certain conditions, to charge expenses and to pay remunerations and commissions. This causes certain difficulties for economic cooperation, but it is possible to adapt to the circumstances by the following forms of cooperation:

- 1) Trust funds: A company provides funds, another party accepts the funds and creates profits, and the distribution of the profits is agreed upon in advance.
- 2) Progressive reduction in participation: A company provides funds, another party accepts the funds and manages the enterprise. The profits are then shared according to an agreed-upon ratio, until ownership of the enterprise completely reverts to the party that is managing the enterprise.
- 3) Cost plus profit. The investing party purchases commodities or equipment according to the demands of a client and then sells it to the client with the addition of a certain profit, payment to be made in cash or on deferred terms.

There are, furthermore, the possibilities of leases, joint investments, special-purpose investment plans, etc. In actual fact, with improved mutual understanding, there are many flexible methods. The rules of Islam will not on the whole adversely affect the breadth and depth of cooperation.

Apart from direct investments, China can also make use of loans from the oil exporting countries. After the war, the flow of capital from the oil exporting countries to countries in need of capital funds took place mainly through such channels as the money markets of the various countries, through the European money market, through international financial organization, and through bilateral government loans, but mostly through the European money market. The form was mostly that of short-term investments, i.e. the oil exporting country would deposit its capital funds in an account with a European bank, and would then through that bank provide credit to a foreign enterprise or government. After the seventies, there have been some changes in the direction of the flow of capital from the oil exporting countries. On the one hand, there was a change in the form of investments from mainly short-term bank deposits to more extensive purchases of various bonds, and in the places and currencies of investments, there was an expansion from the former concentration on the

European and U.S. markets to a larger number of countries and currencies. On the other hand, with the establishment of a banking system by the oil exporting countries, they have started their own direct credit operations. Most of the capital funds of the oil exporting countries are petrodollars, made up of foreign exchange for exports of oil and other commodities and labor services, after deducting payments for imports of commodities and labor services. According to estimates by the International Monetary Fund, during the period from 1973 to 1982, the 13 member countries of the Organization of Petroleum Exporting Countries [OPEC] had an aggregate surplus in their international current account of \$432 billion. However, the surplus was not evenly distributed; the four countries of Saudi Arabia, Kuwait, Iraq, and the United Arab Emirates accounted for about 80 percent, Iran, Libya, and Qatar accounted for 20 percent, and very little of the surplus went to the other six countries. Some even had deficits. In view of China's relations with the oil exporting countries, and considering the depression in Western countries, while there is healthy growth in the Asian, especially Chinese economy, conditions are favorable, and there is a good potential for the use of government and private loans from the oil exporting countries.

There is a further way for the use of capital funds from the oil exporting countries, namely to bring manufacturing and tertiary industries to these countries. Since the 1970's, most oil exporting countries hope to be able to use the large sums of oil income now at their disposal for the rapid industrialization of their countries before the exhaustion of their oil reserves. During the early years of the 1980's, Saudi Arabia established more than 2,000 industrial enterprises. The oil exporting countries are generally adopting an open policy toward foreign investments, and particularly encourage foreign enterprises to cooperate with their, the oil exporting countries', capital. For instance, in 1979, the new investment law of Saudi Arabia provides that joint ventures with a 25 or more percent share of Saudi Arabian capital shall be exempt from corporate income tax for five to 10 years. The state would also provide the joint venture with low-price energy and fresh water. The two development funds of the government, the Public Investment Fund and the Industrial Development Fund, could provide 50 to 60 percent of the financing of the joint venture enterprise. Chinese enterprises with suitable capabilities could consider starting industries in the oil exporting countries.

### Hinterland Receives Most Hong Kong Transshipment

93CE0429A Beijing GUOJI JINGMAO XIAOXI [INTERNATIONAL TRADE NEWS] in Chinese 28 Mar 93 p 1

[Report: "Hinterland Remains Hong Kong's Largest Trading Partner, According to Latest Statistics"]

[Text] Hong Kong, January 16 (Xinhua)—According to the latest statistics released, of the goods worth HK\$691 billion transshipped at Hong Kong in 1992, 86.2 percent involved the hinterland. This shows that the hinterland remains Hong Kong's largest transit trade partner.

The Statistical Office of the Hong Kong government published the 1992 transit trade statistics on the 15th. In terms of the place of origin, the hinterland accounted for 58.4 percent of the total value of goods transshipped at Hong Kong. In terms of the place of destination, the hinterland accounted for 30.7 percent. Comparing 1992 with 1991, we can see that the value of transshipment goods involving the hinterland, among the ten major places of origin and ten major places of destination, registered the largest growth.

A large part of the Hong Kong transit trade involving the hinterland as the place of origin or destination is related to foreign trade processing. This is so because a lot of raw materials and semi-processed goods are first transported to the hinterland and then transported back to Hong Kong after being fully processed.

In 1992, in terms of the value of goods, 90.1 percent, 65.4 percent and 56.6 percent respectively of the Taiwan-, Japan-, and U.S.-originated goods transshipped at Hong Kong were shipped to the hinterland. In terms of the value of goods, 34.7 percent, 7.6 percent and 7.1 percent of the hinterland-originated goods transshipped at Hong Kong were shipped to the United States, Germany and Japan respectively.

### Problems With Compensation Trade

93CE0428A Beijing GUOJI SHANGBAO in Chinese 20 Mar 93 p 3

[Article by Wang Guisheng (3769 2710 3932) and Chen Min (7115 2404): "Initiating Compensation Trade Items—Issues That Require Attention"]

#### [Text] I. Item Selection and Credit Investigation:

In accordance with Chinese law, the practical steps to be taken before China sets up compensation trade are as follows: The sponsoring unit must first prepare a proposal and submit it for approval by the department in charge before further action can be taken. After contacting the foreign business agent and obtaining price quotes, a formal feasibility study is prepared for the agency in charge, which reviews and approves it. After approval, formal contract negotiations with the foreign business agent begin so that a contract can be signed. We see from this that each compensation trade item must undergo two steps before the discussion and contract signing with the foreign business begins. One step involves selecting the compensation trade item to be produced. The other involves preparing a feasibility study and proposal for approval. In determining which items should be selected, we should pay attention to the following problems:

1. Items selected must meet China's purpose for using foreign capital. In other words, production of such items must meet requirements contained in the decree issued by the State Council on 3 September 1979. This decree is called "Measures To Develop Processing and Packaging [of Goods] for Export and Compensation Trade on a Medium and Small Scale" (hereafter referred to as "measures"). Production must also meet requirements contained in a set of regulations issued in 1981 by the State Import and Export Control Commission. These are called "Regulations Implementing 'Measures To Develop Processing and Packaging [of Goods] for Export and Compensation Trade on a Medium and Small Scale'" (hereafter referred to as "regulations"). It must be possible for selected item to raise the level of production technology within the limits set by these requirements; and for production of the item to improve product quality and variety and add to the number of items generating foreign exchange.

2. Selection of compensation trade items must also be coordinated with actual conditions in China, by including labor-intensive items, and not just one-sidedly pursuing the latest applications of automatic equipment, techniques, and processes. If we unduly emphasize the latest in equipment and technology, the other side will raise its compensation trade requirements, which will cost us more in return. Furthermore, if we are limited by the level of our present technology or restrained by certain production conditions which do not allow us to absorb, promote, or use such current equipment and techniques, if introduced they will only "accumulate up in the attic" and will not be used. This does not meet China's purpose for utilizing foreign capital.

However, not excessively emphasizing and pursuing the latest equipment and technologies does not mean we will not consider their merits. If the equipment and technology selected and introduced happens to be outdated or already exists in China, such selection will have lost its value and significance. Therefore, in determining any compensation trade item and selection equipment and technology for producing it, we must overcome the two previously mentioned erroneous tendencies, so that an advanced and suitable technique may be chosen. As one understands it, following more intensified exchanges between both sides of the [Taiwan] Straits, some Taiwan entrepreneurs have wanted to dispose of their outdated equipment in the mainland market. We should not blindly import this and suffer an economic loss. (GUOJI JINGMAO XIAOXI 5 Apr 1988)

3. Whenever possible, the item chosen must make use of plant facilities and equipment that are already available, and its production coordinated with present potential and reform measures, for "China expects to use a reverse marketing form of compensation trade to help reform the 300,000 technological backward cottage industries in the nation today." (P. Fuzhancheng [1715 6363 2052]: *International Reciprocal Trade—Guide to Management and General Economics* Nov 84, p 75)

4. Although we must pay attention to fully utilizing China's natural resources, production potential, and other positives when selecting a compensation trade item, it is also important that the item open new international markets without competing with China's traditional exports in the areas of raw material sources, markets, and—particularly—China's export quota. Because one purpose for China's launch into compensation trade is to expand exports and generate foreign exchange, if marketing of compensation trade products hits at traditional exports and displaces them, then using compensation trade to broaden exports and generate foreign exchange is an empty gesture. Therefore when we launch into compensation trade, we must focus on selecting items that are other than traditional exports and that are outside the export quota.

5. The second article in the "measures" issued by the State Council clearly requires that China's compensation trade not choose items that have too long a payback period, generate little foreign exchange, net a small profit, or even sustain loss. Attention should be paid to these requirements during item selection.

After a compensation trade item has been selected and before a formal and feasible study report is prepared, a proper cooperating business partner must be chosen. A dependable and suitable partner is very important to ensuring that production of the selected compensation trade item is smoothly implemented. Consequently, in order to establish a dependable economic cooperation with foreigners and ensure smooth production of the trade item, we must seriously investigate the prospective partner's capability and credit before the formal negotiations and contract signing are carried out. This credit check should cover the following areas:

A. The credentials of the prospective business partner's legal representative: whether the agent has the authority to represent the company when signing foreign contracts, and whether legally he is the company person who has power of attorney, etc.

B. The legal status of the company represented by the foreign agent: whether it is legally authorized to conduct business. What is its legal name, address, nature of business, and does documentation exist attesting to the company's incorporation as a business.

C. The business ethics and reputation of the company in previous foreign ventures. In other words, does it have a record of deliberately deviating from contract requirements; is it given to delays; can it receive the compensation trade item upon completion; and does it have business creditability.

D. The other party's business capacity—its size, business history, experience, and its marketing channels. In addition, can it find outlets for the compensation trade item, and can it provide equipment and technology needed by our side.

E. The other party's financial status—whether it has abundant capital resources, how much of its capital is registered, and can it directly supply loans upon startup of compensation trade.

F. The other party's present operating conditions. This is a very important point to check, because it directly affects the prospects of cooperation between both sides and the amount of risk our side takes. If the other party currently faces business difficulties, prospects are not good, and cooperation with it will pose considerable risk. As a result, we must reconsider the party as a cooperative partner.

Now, the issue of how to investigate and learn about a foreign business's capacity and credit is a problem that many sponsoring units have not satisfactorily resolved in nine years of compensation trade experience. While most sponsoring units wanted to investigate and learn about their prospective foreign business partners, they did not know where to start. Some of them went through this phase with documents provided by the foreign business. Other units, because they were in a hurry, did not investigate at all and were duped. Take the Shenyang Semiconductor Plant in Liaoning Province as an example. When it negotiated compensation trade for a "miniature luminescent tube" with a foreign business, it did not conduct the necessary credit check beforehand. Only after the contract was signed and the opposite side was providing equipment to us in accordance with the contract was it discovered that the party was a "skeleton" company formed by four individuals. At the time, our side had already paid the first installment of the equipment cost. (Ding Qiming [0002 0796 2494]: "Legal Problems in Compensation Trade," LIAONING UNIVERSITY JOURNAL [LIAONING DAXUE XUEBAO] 1986, Vol 1, p 88) This kind of compensation trade not only forestalls product development, it also causes an unnecessary economic loss for the state.

It must be pointed out that some sponsoring enterprises had required the cooperating business to provide documentation of its credit, which helped the sponsors to learn about the other firm's creditability and capacity. The sponsors' experience with such an investigative approach indicates it can be considered, since China's legal system has yet to address the problem of credit investigation of a foreign business in a systematic way. However, we must note that the results from such an approach are frequently not comprehensive enough. In some cases the information may not be true, or may even be made up. In our experience, we have found the documents from some foreign businesses to be false. Some businesses borrowed someone else's credentials. In some cases, false documents were generated to dupe us. As a result, we suggest that at the same time that we require a foreign business to provide documentation about its creditability, we should also use other channels to check it out and obtain some overall, objective information which can be used when making decisions. This point is particularly important for those compensation

trade items that require sizable amounts of investment capital, because the success or failure of the whole operation hinges on it.

There are mainly three other approaches based on general international practice coordinated with actual experience in China:

A. Petitioning the Chinese bank concerned and the Advisory Council on Foreign Affairs and asking them to contact advisory groups with whom they have business dealings. At present, a more frequently used method depends on information obtained by the Bank of China through its overseas branches and foreign banks with whom it has business dealings. Apart from the bank, there are other consulting companies in China that specialize in this type of service, such as the China International Trust and Investment Corporation, China International Economic Consultants, Inc., etc. We can request these companies to investigate for us, but such services must be paid for.

B. Requesting our diplomatic stations—i.e., the Chinese embassy's commercial section or the Chinese consulate's trade sections—to investigate, if the other party is a large influential company. These reports are usually more accurate and dependable.

C. Contacting credit agencies overseas that also specialize in such services. ("Credit Investigation of Foreign Businesses," JIANGSU FOREIGN ECONOMIC TRADE TRIBUNE [JIANGSU DUIWAI JINGMAO LUNTAN] 1987, No 5, p 53) When we cannot resolve our problem through the two channels described, we can ask these credit agencies to investigate. Because these agencies depend on such work for their livelihood, they must be paid for their services. Moreover, the charge is generally quite high, so this course should not be taken in most situations.

At any rate, there are many ways to check a foreign company's capacity and credit. It does not matter which channel is adopted, but it must encompass one's needs. Any problems must be clarified. Before this is done, it is important to avoid sloppy work and—most importantly—not be in a hurry to sign a contract. We must understand that selecting a foreign business as a cooperating partner requires the business partner to have a certain amount of capital, a good credit rating, and an ability to provide advanced or suitable technical expertise and equipment, reasonable pricing, or favorable loan conditions. It must also possess a certain amount of business know-how and be willing to accept compensation trade products.

## II. With Regard to the Feasibility Study on Compensation Trade Items, We Must Focus on the Following:

1. According to the third article on "the order of item approval" in the 1981 "regulations," after the participating enterprise and the foreign business have made

initial contact, discussed pricing, and conducted a coordinated study of China's production facilities and shop conditions, a formal feasibility study and report must be prepared and submitted to the proper agency for approval. In a manner similar to the joint venture requirements contained in the "Regulations Implementing the Chinese-Foreign Joint Venture Act," the "regulations" also requires a feasibility study report as a necessary step for Chinese enterprises to follow as they engage in compensation trade. What is different here is that the joint venture act requires both sides to prepare the proposal, whereas with compensation trade only the Chinese sponsoring unit is required to prepare the report for compensation trade.

With regard to which report preparation method is better and provides more accurate and decisive data, the writers think the report prepared chiefly by both sides—where the foreign business is invited to participate—or by some neutral party is the better method. This method allows the Chinese and foreign sides to complement each other's inadequacies, thereby increasing the accuracy of the feasibility study. Experience gained in compensation trade activity in the past few years shows that problems surface in feasibility studies made by us alone. Because we do not have an adequate understanding of market conditions and actual difficulties, "some feasibility studies frequently underestimate the amount of foreign exchange capital needed for imported raw materials and equipment parts, as well as the experimental cost of manufacturing complete sets of equipment. They also frequently overlook fluctuations in foreign product prices." (*Investigation of the Foreign Economy in Shanghai*, Fudan University Publishing Co., Apr 1986, p 49) Consequently the actual cost for the equipment and technology introduced is much greater than the feasibility report's estimate. This creates a capital deficiency that is hard to replenish, and this in turn affects the whole operation. If we had invited the cooperating foreign partner to participate in writing the feasibility study, such a problem might have been avoided. At the very least the partner would have a better knowledge of such problems as the amount of foreign exchange needed for imported raw materials, parts and fittings, and the cost for trial production in China of corresponding sets of equipment needed by the facilities and technology that is introduced.

2. According to requirements in the third article of the "regulations," when a feasibility study is prepared by the enterprise initiating compensation trade, its contents must follow guidelines set in Appendix II of the "Temporary Regulations Governing Technology Introduction and Equipment Imports." From this we can see that Chinese law sets requirements for feasibility studies on compensation trade. Even though it uses the term "reference," it means there are "guidelines to follow" when preparing feasibility studies, thereby providing help to those who do not know what a compensation trade feasibility study should contain or who have never prepared such a study. At the same time, they also

provide a standard of reference for the approving agency when it reviews the study. But the actual experience of compensation trade in this area shows some study preparers and approving agencies do not follow the guides in Appendix II when preparing and reviewing the report, and yet the report passes through for approval. It takes some time after the item enters production before problems with the feasibility study surface. There are mainly three reasons that such problems occur:

1. Inadequate understanding of the importance of the feasibility study. To many sponsoring units, such a report is only a "stepping stone" easing one into the approval process. ("Credit Investigation of Foreign Businesses," *JIANGSU FOREIGN ECONOMIC TRADE TRIBUNE* [JIANGSU DUIWAI JINGMAO LUNTAN] 1987, No 5, p 48) In the eyes of the approving agency, the importance of the study is not on a par with contracts and agreements, so such studies are given casual treatment.

2. Lax investigation by the approving agency. Because the approving authority overlooks the importance of such studies, some rough and slipshod studies get through.

3. Poor communication skills of team members assigned to prepare the report. In actual practice, many enterprises do not follow the law requiring a special team to prepare the report. Especially in cases where some small items are considered for production, the leadership will designate a certain person to "close his door and work." How can studies prepared this way provide scientific data for decision making? As a result, cries are being heard after some people looked into how some enterprises in China engage in compensation trade. "Strengthen and improve feasibility studies on compensation trade items!" (Wu Enfang [0702 1869 5364]: "A View of China Launching Compensation Trade," *YINJIN MAGAZINE* 1987, No 2) "Seriously review feasibility studies prepared by enterprises using foreign capital to introduce technology!" (Huang Senhua [7806 2773 5478], Li Zhiquan [7812 2535 3123]: "Problems with Guangzhou Using Compensation Trade To Introduce Technology," *GUANGZHOU WEALTH ASSOCIATION* [GUANGZHOU CAIHUI] 1987, No 1, p 13)

## POPULATION

**Editorial on Major Current Population Problems**  
93CE0490B Beijing *ZHONGGUO RENKOU BAO*  
in Chinese 9 Apr 93 p 1

[Editorial: "Accurate Analysis of the Present Population Situation"]

[Excerpts] Recently, the CPC Central Committee and the State Council held for the third time a symposium on family planning; it created on a nationwide scale an unprecedented general atmosphere favorable for the

expansion of family planning work and forcefully promoted implementation of this fundamental state policy, family planning.

Under the correct leadership of the CPC Central Committee and the State Council, China has achieved remarkable results in family planning and in two consecutive years fulfilled its population plan. During a third peak period of childbirths, the tendency of an overly rapid population growth was effectively controlled. In the five years from 1988 to 1992, the birth rate declined by five per mill points, with about 15 million births less. It may well be said that these five years were the best since the initiation of China's family planning in respect of steady implementation and outstanding performance, and had also been a time of improved understanding of the family planning policy among the people.

As we fully affirm these achievements, we must at the same time soberly recognize that China's present population problem continues to be serious. It is not only necessary for us to fully realize the importance and urgency of family planning work, but we must also soberly recognize its arduous and long-term nature, making ample and effective preparations for a long-term struggle.

Looking at the figures of population growth, we see that although the growth rate of China's population has declined during the last two years, the peak periods of childbirths during the 1960's and in the early years of the 1970's have resulted in a huge population of child-producing ages in China, which could reach 340 million by the end of the century. Annual births during the 1990's are still above the 20 million level, and this is still a serious burden for a developing country like China. Following China's economic and social development and its progress from a subsistence-level country to one with a relatively well-off standard of living, the social demand caused by population growth will continue to expand, and the disparity with the available total social supply will continue to exist, while certain related new social problems will continuously arise.

Looking at the scale of population development, we see that although the birth rate of women has already declined to a comparatively low level, the birth rate is still by far exceeding the death rate and thus directly causing the population base figure to continuously go up and the scale of population growth to continuously expand. According to a survey assessment, if we will vigorously pursue family planning work, we shall be able to control the total population by the end of this century to within 1.3 billion. On this basis, it will be possible with continuous unswervingly vigorous family planning work, to, hopefully, control the country's total population to within 1.6 billion by the time New China will celebrate its 100th anniversary, and the scale of population growth will at that time reach its highest value. If there is vacillation or relaxation in our work during the

said period, the peaking of China's total population will be delayed, resulting in an even more extended scale of population growth.

Looking at the level of population growth, we see that although the general trend is one of a general decline, there are still some fluctuations. Experiences over many years tell us that the annual birth rate and the annual total population growth rate reflect one year's level of population growth. Because mentality of a section of the people in matters of child-bearing has not yet changed, and certain actual difficulties have not yet fundamentally been resolved, it can happen that as soon as work is relaxed just a little, the comparatively low birth rate achieved for a time, can again be going up. Even in areas where family planning work has been very successful, it happened that as soon as work is relaxed, there is again a resurgence of births.

Looking at how well-founded the work is in the various districts, we see that there is still a serious unevenness. Although the various provinces, autonomous regions, and directly administered municipalities of the entire country have fulfilled their population plans last year, family planning work is in many localities not based on a stable foundation, and there, population growth rates and multiple births are comparatively high. We must proceed with a stern resolve and great energy to gradually change this state of affairs.

Looking at the present state of work, not only has it not been possible to properly resolve past difficulties and problems in family planning, but new situations have arisen, posing new problems. During the great wave of accelerating reform and opening to the outside world, and of the modernization drive, the party and government leadership in some localities did not consciously persist in the vigorous pursuit of the "two kinds of production" and have shown insufficient awareness of the importance, urgency, difficulties, and long-term nature of family planning work. Some maintain a blind optimism as to the population situation; some are scared off by the difficulties of family planning work, and as a consequence relax guidances in matters of family planning and weaken and relax in their drive and vigor with which to push family planning. The leadership in some party and government departments does not consciously accept population and family planning work as part of the responsibilities of their departments and therefore do not assume responsibility for this work. Many places have truly not yet achieved the state of working somewhat like a "chorus" that performs together in a joint effort. In the local structural reforms, some localities have abolished or combined family planning organs of villages and even counties, cut down on full-time personnel for family planning duties, and produced new fluctuations in the contingents of family planning cadres. After initiation of the socialist market economy system, the vast number of villages still remain focal points and points of greatest difficulty in family planning

endeavors. The accelerated urbanization of the population has increased population mobility, and that too has added to the difficulties of family planning work.

### **New Opportunity for Improving Family Planning Program**

93CE0490A Beijing ZHONGGUO RENKOU BAO  
in Chinese 12 Apr 93 p 3

[Article by special correspondent Liu Dexiang (0491 1795 5046): "Skillful Guidance Under Prevailing Favorable Circumstances, Promoting a Change for the Better"]

[Excerpts] It is generally recognized that family planning is "the most difficult thing in the world." Even though a large number of cadres have for many years most enthusiastically and with the utmost devotion propagated family planning, have patiently conducted ideological work, and even though family planning is now well understood by a much wider circle of people, it is still much like "sailing against the wind." Family planning benefits the masses, benefits our children and grandchildren, and is a fundamental program in the interest of the country and its people; why is it then that this task is so difficult, and why is it still so difficult after having been in operation for 10, 20 years? Practical experiences over the past many years tell us that there is here a conflict between the current family planning policy and the traditional mentality and some actual interests of the people, and that there is also here a problem in the way we have tried in the past to tackle the problems, and it is particularly the latter factor that must not be overlooked.

Reform and opening to the outside world, especially the rapid development of the socialist market economy, have profoundly changed the social life of the people, has created a favorable environment for a more effective way of conducting family planning work, but the changes have at the same time brought with them some new problems.

1. Against the people's "large population" concept, awareness of the benefits of a well-balanced population is gradually gaining in strength. Reform and opening to the outside world, especially also Comrade Deng Xiaoping's speeches in 1992 on or after his southern inspection tour, have moved China's reform and socialist modernization projects to a new stage of development. As a result of many years of family planning propaganda and bitter historical lessons, most of our cadres have become fully knowledgeable of population as a dividing denominator, knowledgeable about the need to develop the productive forces, the need to raise overall national strength, to improve living standards, and that all this requires effective control of excessive population growth. To achieve best coordination of developments in population growth, economy, resources, and environmental protection, the leadership in party branches and governments at all levels must attach a higher degree of importance to family planning work. They must regard

population control as an important assurance of the ability to attain a new and higher economic level; they must earnestly include it in the agenda of the day, and must take it firmly in hand and administer it in real earnest.

2. Vigorous assault on the old concepts. Social existence determines social awareness. The initiation and rapidly developing system of socialist market economy, the development of the productive forces, the improvements in the material and spiritual livelihood of the people, increases in household incomes, improved living standards, all these will of necessity bring about changes in the mentality and ideas on child-bearing. Old concepts, expressed in such sayings as "men are superior, women are inferior" and "males are exalted, females are demeaned," had for a long time been taken as valid under the feudalistic clan system and the patriarchal system of the past. They have, of course, been assailed by the ideology of commodity economy and have gradually been replaced by new ideas and new concepts.

3. The structure of rural production has undergone changes. Following the development of the rural commodity economy, the fences of the natural small-scale production economy have been torn down, and many people do not cling tenaciously to their plots of land anymore, while the scope for population mobility has gradually widened. Ten years of rural reform have resulted in a very extensive development of productive forces, and have at the same time brought about changes in the structure of rural production; a new force suddenly is coming to the fore in the form of rural enterprises. Specialized households and united entities for crop cultivation, animal husbandry, and transportation have rapidly developed, and this has resulted in new changes in the people's division of labor, in the regional areas of production, and in the direction of social demand. There has been a change in the concept of living a happy rustic life with "three mu of land, one cow, and a wife and kids on the warm 'kang'," as the aspiration now is to achieve prosperity and hasten the attainment of a comparatively well-off standard of living.

4. Social demand has changed. Changes have occurred in the people's views on child-bearing and value concepts, and people sense that "the outside world is truly interesting and fascinating" and that "we must not work in such a tiring way as the preceding generation." Living a happy and fulfilling life is no more exemplified by raising a family, but is now to be the pursuit of a life with abundant material and spiritual content, and as regards children the ambition is no more quantity but quality. For some it is a matter of "rather in the bank account a good sum, than a second baby to come," and for some a matter of "rather than a baby fat and real, holding 'money baby' is of greater appeal." These large changes in the social atmosphere and in people's mentality are deep-going changes indeed, brought about by the developments in the reform of the rural productive forces, as they are also objective indications of the initial stage of

rural commodity economy. On the one hand, commodity economy has brought the peasants substantial benefits, has acted as an extremely strong incentive, induced a wholehearted pursuit of prosperity, and has the peasants understand that "if you want a life of prosperity, have fewer children and work as "specialized households." Place reliance on knowledge; the need is for a higher quality of available manpower, and for more and more people not wanting to have more children. However, on the other hand, it must also be realized that since the commodity economy has not yet been fully developed, natural economy is still widespread, there are still peasants who want more male offspring, and their mentality favoring a large population is still to varying degrees under the influence and yoke of the traditional small-scale peasant economy, and this is causing certain difficulties for family planning work. All this has resulted in some fundamental changes, which not only provide us with the historical opportunity for effective family planning, but also opens up the possibility to effect a shift in family planning management. If the management of family planning could be made to respond to the large ongoing tide of reform, if good use is made of the opportunity, it would be possible, following a broader affluence in villages and among the people and the tendency toward a state of comfortable well-being, to come closer to meeting the demand of the vast number of peasants to build up their family fortunes. Skillful guidance under favorable circumstances, with an effective integration of the long-term benefits from the process of family planning with the immediate benefits from such conduct, together with intensified propaganda and service activities, will provide an ever wider avenue for family planning work.

Effecting this new shift in the management of family planning means continuously perfecting, under the socialist market economy system, the social restrictive mechanism and a benefit-oriented mechanism, and taking the interests and demands of the masses as points of departure in our family planning work. Let us take the "three areas of benefits" as basic criterion for the assessment of family planning work, bring about a change in guiding ideology, change the isolated emphasis on planned child-bearing, and, in order to draw closer to the demand of the masses, intensify services closely related with the demands of the masses in these three respects: production, child-bearing, and living standards.

Jilin Province has conducted a useful experiment as it opened up during the last few years a new path for "three integrations," namely the integration of family planning work with (a) the development of the rural market economy, (b) the diligent work of the peasants to achieve prosperity and hastening the advent of a comparatively well-off standard of living, and (c) the development of cultured and happy families. Their methods were:

1. Assisting the peasants in the development of commodity economy, and skillfully guiding them under the prevailing favorable circumstances toward a change of their views on child-bearing; 2. Closely integrating

family planning work with "double study, double comparison" activities, raising the economic and social status of the broad masses of women, strengthening self-initiative in conducting family planning work; 3. Launching home economics education, nurturing a new type of mothers, and developing cultured and happy families; 4. Energetically introducing social insurance, eliminating the fear of the masses that they may subsequently have regrets after implementation of family planning.

They made family planning work result in a joyful change. Party branches and governments at all levels closely integrated family planning work with the buildup in the various localities of villages with a comparatively well-off standard of living, helped the peasants develop "one village, one product" and "one village, several specific products" economies, so that there will be specialized cattle villages, milk cow villages, orchard villages, vegetable villages, water melon villages, strawberry villages, etc., having the peasants go the way of fewer children and earlier prosperity. Profound changes occurred in the mentality of the masses, and the results of family planning work gradually changes from a "contrary crop" to an "amenable crop." At present, somewhat over 1.5 million couples—almost one-fifth of all households—have on application received "one-child certificates," and somewhat over 20,000 couples voluntarily relinquished their rightful quota of a second child and decided to have only one child during their lifetime. On the one hand, rapid population growth was effectively controlled, and on the other hand it made for a much closer relationship between cadres and the masses, which in turn promoted economic development and social stability. It has become a thing of the past to consider cadres engaged in family planning work as in the saying "a biting dog that no one cares to drive away, a delegate that no one cares to elect."

Their methods have been extremely enlightening to us. Integration of family planning work with (a) development of the rural economy, (b) diligent work of peasants leading to prosperity and an early achievement of a comparatively well-off standard of living, and (c) development of cultured and happy families, is an objective demand of intensified family planning work and the road that has to be followed out of necessity. If family planning work does not draw close to economic construction, that core concern, if it does not draw close to the masses and their endeavors toward prosperity leading to a comparatively well-off standard of living, that great stimulant, if it does not draw close to the demand for good health of mother and child and happiness of family life, it will not receive serious attention by the leadership at all levels and will not be welcomed by the masses. Firmly persisting in the observance of the three integrations, effectively integrating the long-term benefits of the masses conducting family planning with the immediate benefits of it, changing from a "want me to carry out family planning" to a "me wanting to carry out family planning," which will be providing an even

broader path for family planning. Only by firmly persisting in following this road, in exploring improvements and perfections, family planning work will become a cultured, happy, and joyful undertaking.

## AGRICULTURE

### Research Institute Cadre Views Agriculture Problems

93CE0369A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 2, 20 Feb 93 pp 3-5

[Article by Ministry of Commerce Commercial Economy Research Institute's Ding Shengjun (0002 5116 0193): "Stress New Issues, Adopt New Countermeasures—Examination of Current Agricultural Issues"]

[Text] Reform and opening up have freed up and developed rural productive forces and spurred the development of the entire rural economy. But recently some problems have arisen in rural economic development.

#### I. Increases in Peasant Income Slowed Up Affecting the Realization of "Comfortable Situation"

The initial stage of rural reform was the fastest five years for increases in rural production and increases in peasant income. From 1980 through 1984, annual net per capita peasant income increased at an average annual rate of 15.10 percent. A period of agricultural fluctuation followed, but peasant income still rose. From 1985 through 1988, an average annual growth rate of 4 percent was maintained for per capita peasant income. The next few years after that, overall agriculture had bumper harvests and per capita peasant income fluctuated and increased slightly. From 1989 through 1991, the average annual increase in net per capita peasant income was only 0.7 percent. At the same time, the disparity between the income of urban residents and peasant income widened. In 1981 the ratio of the two was 1:2. In 1983-1984 it shrank to 1:1.7. Beginning in 1986, the ratio of the two again began to widen. That year it expanded to 1:1.95. In 1987 it again returned to 1:2 and in 1990 the ratio of the two expanded to 1:2.2. It should be noted that fluctuations in peasant income have affected improvements in the standard of living of the peasants and increases in agricultural investment and directly lowered peasant purchasing power, thereby leading to a slump in the market and weakening the multiyear rebound. If we do not resolve the problem of stagnation of peasant income, it could harm the favorable cycle of the national economy and the basic position of agriculture and realization of the strategic goal of a comfortable situation.

#### II. Shortages of Purchasing Funds and "IOUs" Once Again Increase

Year after year there have been inadequate agricultural product purchasing funds. But according to statistics the

budget requires more than 60 billion yuan to purchase the 1992 fall grain and by mid-November, only somewhat more than 10 billion had been effected, a shortfall approaching 50 billion yuan. The shortfall in cotton purchasing funds is equally serious. The budget requires more than 35 billion yuan in purchasing funds and the shortfall is more than 13.5 billion yuan and quite a few local supply and marketing cooperatives do not have the money to balance cotton purchases. There are many causes for the shortfall in agricultural product purchasing funds, such as an insufficient influx of state treasury funds. Nationally various types of cereals enterprise losses because of delinquent treasury appropriations, subsidies, and refunds increased dramatically. By the end of September, it had reached more than 43 billion yuan. A large amount of rural funds have flowed out and agricultural firms' capability to raise funds is weakened. According to statistics on 26 provinces and municipalities, since the beginning of the year the outflow of rural funds to urban industrial departments at the county level and higher has reached 52.4 billion yuan. Adjusted grain and cotton sales have slowed. With a large amount of funds tied up, the amount of money that is hard to reclaim after adjusted grain and cotton sales because of loan arrearages is as high as 38.45 billion yuan, an increase of 11.896 billion yuan over the previous year. The shortfall of agricultural product purchasing funds has had an unfavorable effect. Grain and cotton purchase progress has greatly fallen off. As of 10 November 1992, completion of state fixed purchases of principal agricultural products were: cereals, 54 percent; cotton, 46 percent; and edible oil, 38 percent, all lower than the same time period the previous year. Increases in IOU purchases once again especially dampens the peasants' enthusiasm and damages the peasants' interests. Quite a few peasants when they go to the doctor, send their children to school, and purchase things must use IOUs as "vouchers." What should be of greater concern is that this can endanger sustained agricultural development.

#### III. Indiscriminate and Reckless Usurpation of Land, Wasting Scarce Resources

In 1985 throughout the country, the first upsurge of nonagricultural land usurpation occurred with the area of land usurped reaching more than 15 million mu. After 1986, with implementation of the "Land Law," indiscriminate usurpation of cultivated land was curbed somewhat. But recently the "fencing movement" wave has revived and layer upon layer of development areas and tourist vacation areas have been set up. As of the end of October 1992, at the township level and above 7,800 various type development areas had been set up occupying 20 million or 30 million mu of land. What distresses people is that a large part of the "fenced in" land is idle or is speculated on and there is no construction at all. Of the land that is sold off, only 0.2 percent uses such market mechanisms as auctioning or bidding. Most of the rest are "paper projects" or "agreed upon transfers," to the point that a few people fill their own pockets and

the state loses "principal." It cannot be overlooked that, according to some regional statistics, peasant households that have abandoned their fields make up 5 percent of all local peasant households and 8 percent to 10 percent of the total area is abandoned fields. Such large abandoned areas have not appeared since the countryside implemented the system of contracted household responsibility related to output. If we do not immediately resolve this, it will inevitably lead to further spreading of abandoned fields or semiabandoned fields, causing a serious waste of scarce land resources.

#### **IV. Exorbitant Taxes and Fees Are Boundless, Peasant Burdens Heavy**

Statistical data reveal that increases in peasants' burdens are clearly greater than growth in income. In the six years from 1985 through 1991, peasant per capita income grew by 10 percent, but rural tax revenue grew at an average annual rate of 16.90 percent, per capita collective burdens increased on average by 15 percent, and peasant household direct burdens grew at an average annual rate of approximately 17.5 percent. At the same time, peasant burdens were manifold. In 1991 various types of peasant burdens made up 64.9 percent of the previous year's per capita peasant income, an increase of 6.4 percentage points over 1990. What makes peasants more dissatisfied is that the "three disorders" practice is becoming more and more chaotic and crazy. The apportionment of some regions' levies is very severe. No matter whether agricultural production is plentiful or scarce and no matter whether peasant income profits or loses, the taxes and fees apportioned must be paid in the exact amount. Several places have adopted the savings deduction method. Some peasants work hard all year and still must pay out of their savings.

#### **V. The Ecology of the Countryside Worsens, the Environmental Quality Declines Even More**

Presently rural populations exceeds 900 million and conversion of a large labor force is difficult. A large area of land has turned to sand. It has presently reached 334,000 square kilometers and is still extending. Every year it expands at the rate of 1,560 square kilometers. Nationally 60 percent of poor counties are located in the ecologically fragile belt with serious sand storms. Every year nationally 120 million mu of land or more cannot fully benefit from irrigation facilities because of a lack of water. The "three wastes" pollutions are expanding and the regions with distinct acid rain have increased from two a few years ago to four. Just as the ecologists appraise it, "There is a congenital deficiency and a postnatal imbalance. People are damaged and pollution degenerates. There is partial improvement and general worsening."

There are two viewpoints toward the various problems described above. One viewpoint believes that the new problems in the countryside are the result of weakened planning and expansion of market economy mechanisms. Another viewpoint, totally to the contrary,

believes that the old economy system has not been thoroughly abdicated and obstructs the development and establishment of the new system. Actually, the former exaggerates the negativism of the market economy and is not helpful to transitioning to the market economy system and the latter, seeking truth from facts, grasps the crux of the problem from the deep structure. China is presently at the the crossroads of the dual structure new and old systems and in the "throes" of friction. In this transition that will require a rather long time, the old system, the product economy concept, operating methods and control mechanisms still play a part everywhere and the resource allocation methods and control mechanism functions of the new system, the market economy concept, are still weak. Under these historical conditions, various contradictions occur in the agricultural and rural economies and confusion and problems are hard to avoid. So, we should focus on the essential and long-range goals of establishing a market economy system and adopt new countermeasures for new problems.

The first countermeasure: Augment social services and encourage enterprise type management. Agriculture is the foundation of the national economy. Whenever agriculture flourishes, cereals are abundant, and the market prospers, reform progresses. When the contrary is true, reform declines and it even leads to the return of the old system. But stressing "grains, cotton, and oils" alone cannot strengthen the agricultural base. There must be a new line of thinking. We must focus on big villages and the development of big agriculture. We must reject the commodity economy method of stressing agriculture and use market economy mechanisms to encourage agriculture to convert to "laying equal stress on quantity and quality" and realize "high production, excellent quality, and high efficiency." It should especially be pointed out that in strengthening agriculture's fundamental position, in addition to relying on policy, relying on science and technology, and relying on investment, we must select a proper model for agricultural development. That is agricultural social services plus enterprise style management of agricultural households. The former involves agricultural technology and economic departments taking on the separation of common functions from agriculture and providing agriculture and the peasants with professional and social services such as purchasing and selling, agricultural funds, processing, storage and transport, science and technology, credit, insurance, and information and build bridges between peasant households and the large market and large circulation. The latter will gradually convert from the natural household to agricultural enterprises with the status of independent legal persons. This new type developmental model described above with agricultural social services plus enterprise type management of agricultural households makes a breakthrough in the traditional old rural system and encourages the rural economy to make strides toward the new market economy system. Without a doubt, when a large group of peasant households

develop into a microeconomic main body in the countryside with "four selfs" capabilities, Chinese agriculture and even the rural economy will certainly be established on firm foundation with a strong inherent vitality.

The second countermeasure: Break up the financial monopoly and get the rural circulation flowing. To strengthen the agricultural foundation we must steadfastly take the rural market economy as our direction, intensify reform of the agricultural product circulation system, and establish and perfect the unified market system, including such productive elements as commodities and work, the labor force, funds, and land. All types of markets should be open, competitive, and of service and of scale. Being open means to be open in every direction, internally and externally, and clearly being characterized by the "three no's and the one straddling," "no county boundaries, not city boundaries, no provincial boundaries, and multinational." By competitive is meant that conditions must be created for equitable, fair and open market competition, and enhancing the vitality of the economy through competition. We especially should free up agricultural product prices and establish a flexible, adaptable, and efficient pricing system to regulate agricultural product sales. A healthy market system must develop diversified market mainstays. In addition to conducting organizational reform of the state-run commercial, cereal, foreign trade, and supply and sales institutions, we also need to train and support peasants as market mainstays and allow them the initiative and the freedom to establish markets, enter markets, and use markets. Diversified market mainstays will certainly break up and divide up the monopolies and encourage large-scale circulation to infuse agriculture and the rural economy with unflagging vitality.

We must emphasize the necessity and the urgency of rural financial system reform. To resolve the problem of a shortage of agricultural product purchasing funds year after year, we must intensify financial system reforms and introduce market mechanisms, especially focussing on rural areas' developing sufficient financial resources. First, we should speed up reform of rural credit institutions so that they can become mass peasant credit organizations that are truly "citizen run." Second, we can conceive of establishing Chinese cooperative banks as principal suppliers of rural funds. In addition, the state central bank should strongly support agriculture and satisfy long-term financial needs of large agricultural facilities, ecological and environmental protection, and basic research. Finally, we also should consider trial issue of special use bonds and conducting market short-term loans, such as cotton and flax purchasing bonds and grain storage bonds.

The third countermeasure: Increase peasant income and take the road to prosperity. We should increase the basic agricultural strength and resource in the hundreds of millions of peasants. And an essential measure to increase peasant enthusiasm is to constantly raise peasant income so that the broad masses of peasants can

take the prosperous road to being comfortable. Presently, the prices of most agricultural products are determined by the laws of market supply and demand and have already reached the mark or nearly so. So, there is not a lot of relying on raising agricultural product prices to protect latitudes in peasant income. Especially after China's status as a signatory to the General Agreement on Tariffs and Trade is restored, excessively high agricultural product prices could lead to unfavorable affects. So, an effective way to lead the peasants out of poverty to prosperity is to improve the distribution of rural resources and adjust the industrial structure through market mechanisms and make progress in agricultural science and technology. We should seize the present opportune moment, reasonably adjust the rural industrial structure, speed up the accomplishment of "high production, excellent quality, high efficiency" agriculture, and continue in the direction of the comprehensive development of the "planting, raising, and processing, agriculture, industry, and commerce" one, two, three industries. We especially should put a great deal of effort into science and technology to make agriculture prosper, raise the rate of output, and improve labor productivity. In this way, we can remedy the comparatively low returns on agriculture and spur the vast majority of peasants on the road to prosperity.

The fourth countermeasure: Augment macroeconomic controls and effectively protect the "three agricultures." The basic elements in the present market economy include enterprises with independence and self-initiative, a market with fair competition, and government macroeconomic controls. In converting to the market economy system, agriculture, peasants, and the countryside are in a weak position, because agriculture is a risky industry and an industry with comparatively low returns where it is difficult to avoid fluctuations. Also because Chinese agriculture's level of modernization and its intensity are rather low, it is also in a fragile position on the world market. In view of this, state protection of agriculture is imperative. This is not at all the case in the world's economically developed countries. Experience indicates that the more developed the market economy, the more necessary it is to improve the system of guarantees for major agricultural products. Beginning with China's actual situation, we urgently need to adopt the following agricultural protection measures: First, we need to improve the special reserve systems for grains and cotton. Reserves should be maintained at an appropriate volume and we must change "dead grains and dead cotton" to "living grains and living cotton," so that they can be "moved and used," and thereby effectively perform their regulatory function. Second, we need a healthy agricultural product pricing system and to implement a price protection system for agricultural products related to the national economy and the people's livelihood to insure minimum profits to the peasants. Third, we should establish a stable agricultural fund system to

guard against and resolve possible fluctuation in agricultural production. Fourth, we should establish counter-deviation sales systems, such as implementing "threshold pricing" and licensing systems, aimed at protecting China's agricultural product market. Fifth, we should formulate agricultural resources protection systems, such as implementing a Land Law and an Ecological and Environmental Protection Law, to protect scarce resources, guard against ecological pollution, and improve the production and the living environment of the countryside throughout the country. Finally, we must protect the interests of the peasants and reduce peasant burdens. Every locality should properly evaluate the financial resources of its people and not mistake being fed and clothed for being comfortably well off. In every undertaking we should act according to our capabilities and resolutely weed out redundant personnel, cut "attaining targets," reduce apportionments, and lower peasant burdens to reasonable levels, not to exceed 5 percent of that year's income. Otherwise, we will fail history and fail the people.

Comrade Xiaoping said, "What could go wrong in the 1990s could be agriculture. We must constantly be on guard against this. If we only unswervingly insist on the fundamental position of agriculture, protect the interests of the peasants, strengthen agricultural reserves, and resolutely develop the market economy system, agriculture and the rural economy certainly can prosper for a long time."

#### **Agricultural Contracts Require Legal Protection**

93CE0369B Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 2, 20 Feb 93 pp 20, 60

[Article by Hebei Provincial Rural Industry Committee Member Gu Xiaowen (6253 2556 2429): "Light Talk on Rural Contract Management"]

[Text] The various types of rural contracts mainly for land as legal contracts embodying the contract system of responsibility linked to production and linking the interests of the state, collectives, and individuals are an important part of rural economic management under the new situation. Whether they are managed well or not is directly related to the enthusiasm of the peasants' being regularly brought to play and is related to the stability of the party's rural policy.

Nationally every year approximately 30 million agreements cannot be honored and nearly 10,000 agreements are disputed. In 1991 Lingshou County, Hebei Province had 150 credit textile cases and 30 were contract disputes. Of the fifteen collective audience requests, twelve were for agricultural contract disputes, 80 percent of the collective requests for audiences. Some of these problems are caused by the fact that the provisions of the contracts are not standardized and the responsibilities and rights of the two parties are not clearly defined,

greatly affecting the levying of contract fees and agricultural taxes. In some cases the content of the contract is illegal, the main content indicators of the contract are vague and the time limits are unclear. Also it is rather common in issuing contracts for various collective productive resources, such as cultivated land, forest land, or water areas, for people to assume authority to contract or issue the contract at a cheap price. In some cases the collective or the enterprise loses money on the contract and the contract fee does not meet the interest on the loan and the depreciation fee. Some are low-priced contracts or free contracts. In some cases, although the local authorities signed the contract at the time, when there is a dispute it cannot be dealt with in accordance with regulations. In addition, grassroots cadres change frequently and it is very difficult to maintain continuity and stability. In addition to the contract itself, an underlying reason is that since the household responsibility system linked to production has been implemented in the countryside, "empty files" and "gaps" have occurred in rural economic contract management. This is mainly exhibited first in that rural economic contract regulations are not sound. The state promulgated Economic Contract Law, after all, does not have specific and detailed rules and regulations on how to conclude a contract, how to carry out the duties of a contract, and how to enjoy the powers of a contract for the broad masses of peasants in the countryside actively developing commodity production and carrying out various types of complicated tasks such as industry, commerce, drinks, services, transport, construction, and repair. Second, in management there are empty files. The departments presently participating in rural economic contract management include the Bureau of Justice Notary Office, the Industry and Commerce Bureau, the Agriculture Bureau, the courts, and the township and town governments. But once there is a dispute, the many headed administration creates wrangling over mediation and arbitration. The Industry and Commerce Bureau is only responsible for formal business license contracts. With their present strength, it is difficult for the economic courts to take on agricultural contract disputes. The Justice Bureau can only take responsibility for notarized contract disputes. And actually, a great number of agricultural contracts, especially land compensation contracts, do not need an Industry and Commerce business license and do not need to have every family's and every household's contract land notarized, forming empty files in management. Third, the contract management system is unsound. Most townships and towns have not established a contract filing system. Files are thrown all over the place. When a problem comes up, the original basis cannot be found, so it is not convenient to amend or improve it. Thus, rural contract disputes cannot be expeditiously resolved, seriously affecting the overall development of the rural collective economy. By analyzing the problems described above, we can attempt here to propose some suggestions:

First, speed up the drafting of agricultural economy contract laws and for localities not involved with the

state promulgated Economic Contract Law, work out improved supplementary functions. Agricultural contracts as the embodiment of legal contracts for the contract system of responsibility linked to production and the link in the economic interests of the state, collectives, and contractors have permeated all rural industries and to broaden the influence and strengthen the policy we must do a good job of this undertaking and we must complement it with rural contract management regulations. Regarding stipulations on the scope of rural contract management, the department in charge, principles for concluding an agreement, and contract verification, performance, amendment and abrogation, mediating and arbitrating disputes, and managing files, the state by agricultural economy contract laws should ensure that peasants can develop production and initiate normal economic activities and arouse the enthusiasm of the peasants for production.

Secondly, governments at every level should establish rural economic contract management (arbitration) organizations with responsibility for managing rural economic contracts. We should manage rural contracts at the county, township, and town levels and arbitrate them at the county and township levels. We should especially emphasize the management functions of the town level cooperative economic organizations. The main management functions at the town level are to concentrate all their power on handling the signing, verification, and honoring of the contracts and consulting on and resolving contract disputes. The functions which township and town contract management organizations are to perform are to take responsibility for publicizing and promulgating the rules and regulations regarding contracts, to direct the setting up of contracts, to handle the verification of contracts, to exam and supervise the performance of contracts, and to start contract consultation services, and to expeditiously mediate and arbitrate disputes on contracts that have already taken place. And county-level arbitration departments, in addition to the township and town functions, should also have macro-economic controls and direction along with mediating and arbitrating complicated cases.

In addition, we should soundly establish various systems of rules and regulations. The first is to establish a contract file management system. This is a fundamental task of agricultural contract management and must compile the contracts that are signed and categorize and file them. Second, we should establish a contract appraisal system to strictly guarantee quality. Third, we should establish a system of personal responsibility for each section and townships and towns should establish special function and dual function control personnel to do a good job of controlling contracts and honoring contracts, as well as doing a good job of contract authority. Fourth, we should establish inspection and supervision systems to quickly discover problems, expeditiously resolve the problems, and eliminate various types of urgent troubles.

### **Agricultural Finance Must Adapt to Market Economy**

93CE0372A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 2, 20 Feb 93 pp 21-24

[Article by Social Science Academy, Rural Development Research Institute's Sun Tanzhen (1327 3389 6966): "How Will China's Rural Finances Move Toward the Market Economy?"]

[Text] I

In the 1980s, the structure of China's rural economy changed and it developed rapidly, creating huge market demands and activity gaps for the development of rural finances. China's entrance into the General Administration of Tariffs and Trade (GATT) also will bring huge external pressures and assaults on the finance industry. As far as opening up modern finances is concerned, this all is both a challenge and a rare opportunity.

The first challenge. According to the figures issued by the State Statistical Bureau, in 1978 rural household per capita savings were only 7.05 yuan, the equivalent of only 5 percent of the net per capita income that year. By 1991 rural household per capita income had reached 271.91 yuan, the equivalent of 38 percent of that year's net per capita income. If savings are considered a financial asset, it can be clearly seen that financial assets' percentage of peasant net income has risen from year to year. Increases in rural household financial assets are a necessary result of the enhanced savings capabilities of rural households after increases in their incomes and are a necessary condition for rural areas to develop modern finances. When Western macro-economists analyze the aggregate economy, they often posit "savings = investment." But if savings are to be converted into investment, they require an effective intermediary, a financial system formed from modern financial organizations and financial markets. But the functions of China's present financial organizations are very unsound and it is very difficult for them to perform their financial accommodation function very well. In recent years when we have surveyed rural households in various localities, we often have discovered that there are several rural households with huge sums of several hundred thousand yuan in cash locked in chests in their homes. This is closely related to the comparatively backward situation of China's rural financial development.

The second challenge. The rapid development of various rural industries and the expanded scale and marketization of rural economic activity make economic contacts ever more frequent and bring the rapid extension of same region and different region financial accounting. The fact that the accounting functions of current financial organizations are weak and procedures are many and diverse, there are too many restrictions and fetters, and accounting procedures are backward, along with such factors as a narrow scope and a low level of service and

low efficiency causes quite a few rural economic mainstays to directly use cash accounting in their business dealings, making the currency circulation situation outside of banks become ever more serious. This situation increases the trading risks and the accounting costs of currency circulation for rural economic mainstays and directly leads to a shortage of short-term financial organization credit. From a macroeconomic perspective, it is a huge financial loss.

The third challenge. The supply and demand contradiction formed by long-term rural capital is becoming ever more acute. Long-term rural capital includes social capital (such infrastructures as roads, communications, upper and lower waterways, and electricity) and industrial capital. According to domestic and foreign experience, the formation of social capital normally requires ten years or more of long-term financial support and the formation of industrial capital requires a year or more of medium long-term fund support. In the Chinese countryside, with the further development of the social economy, the requirements for the formation of long-term capital are becoming more and more vigorous, but because China's long-term financial markets are almost nonexistent, now they can only depend for their supply on various nonstandard flexible means suited to various local conditions, such as social fund collections, assistance, and contributions that are unstable and arbitrary. Moreover, transactional costs are high, far from being able to satisfy the needs of economic development for the formation of long-term capital, and the supply and demand contradiction gets ever more acute.

The fourth challenge: The assault from "entering GATT" and the opportunities for externally oriented expansion. If negotiations proceed normally, China can look forward before long to returning to GATT (abbreviated below as "entering GATT"). The eighth round of multilateral trade negotiations conducted by the General Agreement on Tariffs and Trade—the "Uruguay Round," since it began in September 1986, has entered the final stage and has given detailed specifications in the Uruguay Round Service Trade Agreement (the final draft agreement) regarding the obligations that the signatory nations should assume under financial service agreement provisions in such aspects as permission to enter the market, national treatment, transparency, most favored nation treatment, and special treatment for developing nations. Among these obligations, the few described below must be conscientiously dealt with in developing China's modern finances: 1) The financial service supplier exclusion clause excludes financial organizations that are owned or controlled by the government or mainly carry out government functions or act for government intentions as financial service suppliers. China's present financial organization system, then, is principally made up of state-run banks, insurance companies, and securities companies after "entering GATT," when engaging in international financial competition, will be forced to face serious systematic obstacles. 2) Authorization to open a business (commercial

involvement authorization): Every participant should provide other participants with financial service suppliers, establish organizations within its borders, and expand the rights of enterprises providing financial services. 3) New financial services, in addition to indicating supplying in another participant's territory, refers to financial services not provided in a specific participant's territory by any financial service provider. As to other participants' financial service providers, a participant should be permitted to provide any form of new financial service in its area. In view of the huge disparities in China's present financial industry in providing financial service products and in the form of delivery for those products that will be mentioned below, the provision obligating "new financial services" will produce strong shock waves in China's finance industry. 4) National treatment. Every participant should permit financial service vendors of other participants that have established organizations in its territory to enter the payment and accounting systems or departments run by that country's public organizations and to use the normal commercial channels to participate in official supply of funds and refinancing. Whenever a foreign financial service vendor asks to obtain credentials as a financial organization, enter any organization, securities or temporary trading market, settlement organization, or other organization or cooperative authorized by their own laws, it must receive the same treatment as domestic financial service providers. Moreover, when a country gives its own financial organizations direct or indirect special financial service privileges or benefits, the foreign vendors in its territory also should receive the same privileges or benefits. As regards the obligatory provisions described above, China, in accordance with the special treatment for developing countries, certainly can gradually lessen various restrictions that conflict with the General Agreement on Tariffs and Trade and in a certain time period and to a certain extent implement protections for China's financial industry, but the reentry into the General Agreement on Tariffs and Trade will undoubtedly produce a huge affect on China's financial industry. It will create pressure and provide motivation. Whether we can grasp the opportunity and meet the challenge and convert pressure to motivation is keyed on intensifying financial reform, broadening the opening up of the finance industry, and improving international competition.

## II

Faced with the challenges provided by the market development of the rural economy and the "entrance into GATT" and the huge opportunities that they create that were described above, the fact that China's rural financial industry seriously falls short of this situation is manifested mainly in the following few aspects:

The first shortcoming is the monopolistic short-term financial markets and the backward financial methods. From a national perspective, China still only has five national banks, including the Chinese Bank of Industry and Commerce, the Chinese Agricultural Bank and the

rural credit institutions under its leadership; also, the Bank of China, the Chinese Development Bank, and the Chinese Communications Bank, that can conduct the "true banking" finances of directly attracting savings accounts from citizens, having branches distributed throughout the country, providing accounting services to various economic mainstays, and providing loans to mainstays requiring funds. Although since reform the diversification and overlapping of the banking business described above has been promoted, the monopolistic situation in the area of production has by no means been broken up. Since the 1980's, more than 180,000 financial organizations have sprung up, and although in the use of funds the first steps have been taken in breaking up the monopolistic situation of only one bank unifying the whole country, because of such limitations as their network of branches being a bit small, and their accumulation of funds being weak, their inability to directly attract savings and settle accounts, and their inability to independently establish a treasury, they certainly do not act as effective financial competitors for various specialized banks. In the countryside, the monopolistic rural financial pattern of the Chinese Agricultural Bank and the rural credit institutions under its leadership has not changed much. One of the after effects directly created by monopolies is financial methods far behind advanced international standards. As a whole, China's banking industry is only on a par with the advanced nations before the 1950's. If we can say that there is a gap between China's industry and that of advanced nations, then there is an even greater gap between China's financial industry and that of advanced nations. A second direct aftereffect that the financial industry monopoly causes is a paucity of services, poor quality services, and low standards of service.

The second shortcoming is that the long-term financial market is almost nonexistent and there is an urgent need to develop it. According to our survey, present long-term financial activity in the Chinese countryside mainly consists in loans between relatives and friends to satisfy the house building requirements of peasant households. Here there are no modern financial organizations and no interests rates, guarantees, mortgages, or loan time limits of modern market finances to speak of. This situation undoubtedly is a huge obstacle to the formation of the long-term capital required to further develop the next step in the economy of rural society.

The third shortcoming is the feebleness of civilian financial organizations and their lack of modernization. In the Chinese countryside, thirteen years of market economic development has hastily produced a group of rudimentary civilian financial organizations operating by market economy rules. What these organizations produce to a certain extent satisfies the needs posed by different level rural financial markets and makes up for the requirement for funds to develop the rural market economy that the monopolistic financial organizations described above cannot satisfy in a timely and flexible manner. But these civilian financial organizations all have some

common weaknesses. The quality of their personnel is somewhat lacking, their funds are limited, and their financial methods are backward by domestic financial industry standards. In the present situation, it is very difficult to depend on current civilian financial organizations to meet the challenge after "entering GATT" and participate in international financial competition. Specifically, the most important civilian financial organization in the Chinese countryside—the Rural Cooperative Fund, even though it has developed by leaps and bounds, at the end of 1991 only had around 10 billion yuan in funds and still had not attained the Agriculture Banks' more than 300 billion yuan in savings accounts. In addition, they have such problems as serious administrative meddling, unsound internal rules, and administrative standards that need improvement. And such civilian financial organizations as private old-style banks and societies still are scattered about and their traditional characteristics are even stronger.

### III

Based on the situation described above, to promote the conversion of China's rural economy to a modern market economy and enhance international competitiveness, we should intensify rural financial reform in the following few respects:

1. We must determine to break up the financial monopolies, encourage and protect finance industry competition, and put forth a great effort to develop modern civilian financial organizations. Under the macroeconomic direction of state financial policy, we must develop multiple economic components and multi-level financial organizations and, drawing on advanced international experience, adopt a series of practical and feasible measures to prohibit finance industry monopolies and encourage and protect mutual competition of various types of financial organizations. Central and provincial governments should concentrate on developing a group of modern financial organizations that can participate in international competition. Because modern financial technology is highly developed and the demand for quality personnel is rather high, one practical and feasible method is to formulate a preferential policy to encourage staff from state-run financial organizations who meet certain conditions to leave their original unit or overseas students to return home to set up or lead new type financial organizations. Relevant state departments and governments at various levels should create favorable external conditions for this type of financial organization. Also by state financial control departments formulating different specific standards for modern financial organizations, we should encourage various financial organizations through competition to move up to a higher level. At the same time, we should clarify the government's function as financial policymaker and controller of financial organizations to properly separate the two. The former is primarily to coordinate the relationship between economic development

and the money supply, stabilize the value of the currency, and adjust and control the orientation of investment. The latter is primarily to direct financial organizations, develop modern financial organizations, improve their international competitiveness, and promote and protect fair competition in the finance industry.

2. Promote the formation and development of long-term financial markets. Entering the 1990's, China has initial breakthroughs in direct financing, and securities markets which were nonexistent have gradually developed, opening a new channel for raising long-term funds. In the future, there are very many areas that need to be probed and opened regarding how to direct securities market funds into the countryside.

In developing long-term rural financial markets, we should be especially concerned about the use of the insurance industry. Generally speaking, the insurance industry signs insurance agreements with a large number of consumers desirous of guarding against unforeseen accidents and, in accordance with certain standards, receives insurance premiums from the consumers and when the specified accident occurs, pays insurance money based on the agreement signed. Insurance enterprises use this method to supply financial assets to consumers, and at the same time, the insurance premiums that they receive are accumulated as ready funds to deal with accidents that occur. Under normal circumstances, they can reach a significant amount. As a result, insurance enterprises act as a mainstay supplier of industrial funds or are important members on the securities markets performing important functions. Especially life insurance, because they use modern technology they can calculate death rates extremely accurately. In addition, they normally sign exceedingly long-term agreements with consumers and their funds are rather long-term and stable. So, life insurance acts as a mainstay supplier of long-term funds and occupies an important position on long-term financial markets. State Statistical Bureau statistics reveal that Chinese domestic insurance premium receipts increased from 2.57 billion yuan in 1985 to 20.97 billion yuan in 1991, an average annual increase of 41.9 percent, and old age insurance premium receipts increased from 180 million yuan in 1987 to 3.31 billion yuan in 1991, an average annual increase of 62.5 percent. Old age insurance premium income's share of total insurance premium income also rose from 6.9 percent in 1985 to 15.8 percent in 1991. As regards old age insurance in rural society, with strong impetus from the civil administration departments in various localities, throughout the country there now are more than 800 counties (municipalities or districts) that have initiated trial rural society old age insurance and more than 7 million peasants have invested in the insurance. The situation described above reveals that the insurance industry, especially old age insurance that acts as an important source of long-term funds, has a good beginning in China and has prospects for rapid growth. The next step to focus on is how to resolve the problem of

forbidding monopolies and protecting competition and how to direct insurance funds to form long-term investment capital.

3. Promote the modernization of the finance industry and make financial technology more modern. In this respect, we need to learn from the advanced experience of the foreign finance industry as quickly as possible. In accelerating the introduction of current advanced financial technology, the following specific aspects urgently need to be resolved: (1) Establish a modern accounting system. (2) Establish a modern asset mortgage system and complete corresponding organizations. (3) Reform loan control methods. For short-term loans, we should, as much as possible, adopt the bill discount and central bank rediscount methods. For a long time, a major problem troubling China's finance industry has been that the orientation of the actual use of credit funds has been hard to control. Diversion and transfer of funds is serious. If circulating fund loans were changed to mainly bill discounts, we could, to a rather great extent, resolve this financial circle headache. (4) We should put forth a great effort to computerize the finance industry.

In sum, China is a capital-scarce developing country. The sustained stable growth of the Chinese economy to a rather large extent and for a rather long time will depend on the savings of the family sector. How to effectively mobilize family sector savings and smoothly convert them into social capital and industrial capital, and achieve the optimum distribution (among different regions, different industries, and different enterprises) of rare capital resources is a historical responsibility which the Chinese finance industry has taken on to invigorate China and cannot easily shirk.

### Survey Concludes Agriculture Should Not Be Overlooked

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[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 2, 23 Feb 93 pp 54-55

[Article by Shijiazhuang, Hebei Regional Administrative Office Economic Research Office's Ji Yuxian (4694 5148 6343): "As the Economy Ascends to a New Level, Do Not Give Agriculture the Cold Shoulder"]

[Text] Inspired by Comrade Deng Xiaoping's speeches on his southern tour, a fervor to accelerate economic development and accelerate reform and opening up has swept up and down the whole nation. In this wave, the fervor of industry and tertiary industry has been especially high. By comparison, agriculture and the rural economy has appeared rather inadequate. The main reason has been that with agriculture having the very good situation of successive bumper years, some comrades had the mistaken feeling that agriculture and the rural economy were no longer "matters of extreme urgency." They believed that agricultural development is slow and that it would be difficult to depend on agriculture to double the economy and ascend to a new level.

Actually it is precisely in agriculture and rural work where there are important problems that are not easy to evade and it is precisely these important problems that are inhibiting the the whole national economy from doubling and ascending to a new level. Based on primary data from the author's personal survey in the Shijiazhuang, Hebei region, these problems can be briefly described as follows:

(I) A new imbalance is raising its head. Presently the sustained high speed operation of the national economy, the apparent quiet arrival of a new economic overheating, and new industrial imbalance are warning signs. Take the Shijiazhuang region for example, from 1990 to 1991, bank loans increased by 20.8 percent, total fixed asset investments increased by 43.3 percent, and the whole economy grew by 10.3 percent. In that, the industrial growth rate was 14.2 percent, but the agricultural growth rate was only 3.8 percent, and the ratio of industrial growth rate to agricultural growth rate was 3.7:1. From January through July 1991, the bank loan growth rate reached 26.3 percent and the industrial growth rate reached 22.1 percent (throughout the nation during the same period it reached 19 percent) in comparison with the same period the previous year. Investments in fixed assets owned by the whole people at the county level and above increased by 150 percent (throughout the country for the same period it increased by 35.6 percent). Total retail figures for social commodities increased by 21.9 percent (throughout the nation it increased by 14.2 percent for the same period). In the first half of the year, the total economy throughout the nation grew by as much as 12 percent, creating a controversy at home and abroad over whether it was overheated.

(II) The rate of agricultural growth has slowed. From 1978 through 1985, the average rate of growth for the total value of agricultural output for the entire region was 9 percent and from 1985 through 1991, the average growth rate fell to 4.6 percent. Not only was it slower than the average annual growth rate from 1978 through 1985 by 4.4 percentage points, it was slower than the average annual growth rate from 1978 through 1991 by 2.3 percentage points.

(III) The price factor still affects peasants' enthusiasm for planting grain. In 1991 the area sown in grain throughout the region declined by 4,535.6 hectares, and although yield per unit area held steady with the previous year, total yield was down by 13.12 million kilograms. On the contrary, the area sown in cotton increased by 8,657.6 hectares, the average per hectare yield increased from 540 kilograms the previous year to 630 kilograms, and total yield increased by 11.71 million kilograms. Grains had a "double reduction" and cotton had a "double increase." It is very clear that because of cotton price rises and several localities' implementing some incentive policies, peasant enthusiasm was relatively high. On the contrary, grain results were low. In addition, "the difficulty of selling grain" affected the peasants' enthusiasm for planting grain. So, we should

not underestimate the affect of low grain prices and "selling difficulties" on enthusiasm to plant grain.

(IV) Peasant income still is growing slowly. In the past few years, agriculture has had successive bumper years, but peasant income has not grown rapidly. This is an extremely prominent problem. From 1989 through 1991, total agricultural output value increased at an average annual rate of 5.1 percent and total cotton yield had an average annual increase of 11.4 percent, but the per capita income of rural residents only increased from 581 yuan to 650 yuan. If the price factor is discounted the average annual increase is only 1.17 percent, clearly too slow and in strong contrast with agriculture's overall bumper harvests.

(V) The urban-rural disparity continues to expand. The concrete manifestations are: First, that the price scissor differential between industrial and agricultural products is once again expanding. In the early 1980's, because the state greatly raised the purchasing prices for some agricultural products and byproducts, the price scissor differential between industrial and agricultural products was gradually reduced. But in the Seventh Five-Year Plan, it again began to expand, and in recent years the rate of expansion has sped up. Second, the disparity between urban and rural resident income is once again expanding. From 1985 through 1991, the per capita wage in Shijiazhuang region units owned by the whole people increased by 911 yuan, but the per capita income of rural residents only increased by 173 yuan. The increase for the former was 5.3 times that of the latter. The annual increase of the former was 12.6 percent and the annual increase of the latter was only 5.3 percent. That of the former was 2.4 times that of the latter. The ratio of the two rose each year, and in six years it rose straight up from 1.8:1 to 2.76:1.

(VI) Peasants' burdens still continue to increase. According to the survey, in 1991 various actual burdens of peasants throughout the region totalled 227.16 million yuan, the equivalent of 7.7 percent of the previous year's net income and exceeding the state stipulated 5 percent by 54.2 percent.

(VII) Rural purchasing power has grown relatively weaker. Throughout the region, the percentage of the total region's monetary income made up by total peasant monetary income (including peasant income acquired from collective businesses, income acquired from economic associations, income from the sale of agricultural products and byproducts, net currency income from industries and handicrafts, and net income from labor) fell from 70.8 percent in 1986 to 66 percent in 1991, dropping 4.8 percentage points in five years. Peasant purchases' share of the region's open market transactions fell from 62.4 percent in 1985 to 53.6 percent in 1988, to 28.2 percent in 1991, a drop of 34.2 percentage points in six years. The annual growth rate of peasants' share of purchases went from being higher than the cities to being lower than the cities, to 1991 when peasants' purchasing

share experienced a negative growth of 31.4 percent from the previous year and the cities had a real growth of 100.8 percent.

(VIII) The disparities within the region still continue to expand. Because of natural conditions and different levels of production, rural economic development has exhibited great unevenness.

The above few points are just some actual examples from the Shijiazhuang region. I believe that these problems are not only in the Shijiazhuang region, but in Hebei Province and even the whole country, and they are rather widespread. They have become major problems placed before us that cannot be evaded. Now as we ascend to a new level and industry overheats, agriculture's voice is inadequate.

To effectively turn around the situation described above, we propose the following few suggestions: 1) We should deepen our understanding of Comrade Deng Xiaoping's speeches on his southern tour and once again correct the position of agriculture. In speeches on his southern tour, from beginning to end, Comrade Deng Xiaoping showed high esteem for the significance and the usefulness of rural reform and had high regard for the eighth plenum of the party's thirteenth Central Committee and clearly pointed out that agriculture and industry and the rural and the urban are thus mutually influential and mutually advancing. This is an extremely vivid and extremely persuasive development. Reflecting on when the eighth plenum of the thirteenth Central Committee had just been held, up and down the whole country efforts were concentrated on making agriculture great. In the first half of 1992, however, while attempting to put Deng Xiaoping's speeches on his southern tour into practice, the important concept of his speeches was not strongly emphasized, causing a decline in agriculture and the rural economy. This is in great need of being recognized and corrected. 2) I hope that the State Council and people's governments at every level through intense investigation and study of major problems such as those listed above will put into effect some practical and feasible policies and regulations, such as the Regulations for Transforming the Operating Mechanisms of Industries and Enterprises Under the Ownership of the Whole People, clearly directed at the decline of agriculture and the rural economy and resolutely implement them. 3) If governments at every level take some important actions directed at the decline of agriculture and the rural economy, it will make people truly see and feel and lead everyone in ascending to the "new level," to no longer give agriculture the cold shoulder.

#### **Report on Rural Share Cooperative Experiment, Effects**

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[Article by Li Xin (2621 9515), affiliated with the Zhoucun Zone Rural Reform Experimentation Office in

Zibo City, Shandong Province; edited by Han Jun [7281 0193]: "The Zhoucun Share-Cooperative Reform Experiment and Its Initial Effects"]

#### **[Text] I. The Basic Substance of the Reform Experiment**

The Zhoucun Zone is an experimental zone for rural reform throughout Shandong and China, which was approved by the Shandong Provincial Party Committee in June 1987 and the State Council in April 1988, and whose experimental theme is share cooperation. According to the experimental plans of the Provincial Party Committee and State Council, this reform experiment had the following six major missions: 1) to clarify enterprise property rights ownership, rationally define stock rights (shareholdings), and explore enterprise asset-management mechanisms; 2) to study the accumulation and distribution forces of share-cooperative enterprises; 3) to explore the operating forces of share-cooperative enterprises in which business management has been separated from government administration and the two jurisdictions are independent; 4) to study assets-compensation and ways of dealing with share-cooperative enterprises that sustain losses or go bankrupt, and to establish venture-interest (risk-profit) forces that achieve responsibility for both profits and losses; 5) to establish rules and regulations as examples for all types of share-cooperative enterprises; 6) and to establish a share-circulation market suited to share-cooperative enterprises, draw up share-management regulations, and establish stock-rights (holding) flow mechanisms. The experimental missions assigned to us by the State Council were for the Zone Party Committee and Government to establish an experimental-zone leading group, set up a special experimental-zone office, and begin a drastic reform experiment.

—On rationally defining shareholdings and clarifying property-rights relations. In order to delimit property relations for township and village-run collective enterprises, so as to resolve the situation of enterprise property being owned by all in name but by none in reality, we separated enterprise shareholdings into the four categories of: 1) state shares (mainly state enterprises), 2) collective shares, 3) corporate shares, and 4) individual shares. Collective shares are ones generated by original and additional investments over the years in enterprises by administrative organizations in rural communities, as well as by enterprise self-owned assets; corporate shares are from previous corporate investments in enterprises by other enterprises, as well as by mass organizations, such as research institutes and colleges and universities; and individual shares come from investments in enterprises by enterprise employees and previous investments by other natural persons in society. In addition, we separately listed the assets formed through government grants to enterprises of tax reductions and exemptions and enterprise aftertax loan repayments as state-support funds to be used completely for enterprise expanded reproduction, which were not allowed to be converted into shares or shared out to individuals. We divided share

forms into ordinary shares, preferred shares, basic shares, free shares, efficiency shares, and appreciation shares. The so-called ordinary shares are ones that fluctuate with enterprise profits, are the most common type of share, and form the basis of shareholding-enterprise assets; preferred shares are ones issued by shareholding enterprises that have preference over ordinary shares at times of distribution of dividends and division of surplus assets; so-called basic shares are the 20-30 percent of enterprise assets that are shared out to employees; free shares are ones that can be freely bought and sold; efficiency shares are ones based on enterprise efficiency, in that if factory directors and plant managers fulfill the plans set at the beginning of the year, the extra part can be calculated at a 5 percent collective dividend as efficiency shares, or vice versa be deducted from the due share bonuses of factory directors and plant managers; and appreciation shares are ones based on factory directors (managers) having fulfilled a given amount of expanded reproduction and increase of enterprise production capacity, so that they can regard a suitable percentage of the appreciation amount as their own share money, which is aimed mainly at preventing total division without regard for expanded reproduction.

As to the definition of enterprise shareholdings, we used generally the following three methods: 1) As to old enterprises, assets appraisals were based generally on the replacement value of enterprise reserve assets, with current value determined by factors such as depreciation degree and technology performance. When setting shareholdings, we generally divided the net value of enterprise assets in a "30-70" ratio into employee basic shares and rural collective shares. Moreover, we shared out employee basic shares to individuals based on factors such as employee seniority, wage rank, and job duties. In employee basic shares, individuals have only the right to returns from share bonuses, but no ownership rights, so are certainly not allowed to buy or sell, transfer, or inherit basic shares. In the distribution of enterprise basic shares, individual employees invest a corresponding venture share in the enterprise. This turns enterprises into share-cooperative enterprises. 2) As to new enterprises, we set shareholdings based on the value of assets invested by all parties, with bonus-sharing based on shares. 3) As to previous employee venture guarantees and fundraising in enterprises, we converted them into share investments, with bonus-sharing based on shares, to form share-cooperative enterprises in which enterprise employees become shareholders.

—On correctly handling the relations between accumulation and distribution, and establishing rational distribution mechanisms. In order to ensure that township and village collections did not drop once enterprises joined the share-cooperative system, aftertax profits were generally distributed in a "5:4:1" or "6:3:1" ratio after enterprises ensured payment of a pretax 10 percent social subsidy expense. That is, 50 percent (or 60 percent) went to expanded reproduction, 40 percent (or 30 percent) went to bonus-sharing

based on shares, and 10 percent became employee welfare and bonus funds. In our zone's share-cooperative enterprises, we followed the distribution principle of mostly distribution according to work supplemented by bonus-sharing based on shares. In order to handle well the relations between accumulation and distribution, we also drew up two regulations on minimum enterprise accumulation and maximum bonus-sharing based on shares, i.e., enterprise accumulation must not fall below a minimum of 50 percent of aftertax profits, and bonus-sharing based on shares must not exceed 20 percent of share-capital funds, with all overages not being allowed to be used for the current year's bonus distribution, but being regarded as previous share appreciation which, through share expansion, goes into the following year's bonus-sharing based on shares.

—On establishing operating forces within enterprises to achieve the separation of business management from government administration and the independence of the two jurisdictions. In order to ensure that enterprises became corporations with independent decisionmaking power, all share-cooperative enterprises generally set up shareholder-convention systems, which enhanced the democratic management of enterprises, and raised the awareness of and degree of participation in business management by employees. These shareholder meetings elected boards of directors, which became the enterprises' highest operational decisionmaking bodies, and changed the appointment of plant managers by rural administrative organizations to the hiring of plant managers and directors under the leadership of the boards of directors. In order to rationalize the relations between previous organs within enterprises and current bodies, we merged former enterprise employee congresses with current enterprise shareholder conventions, as well as provisional congresses with Party and CYL organizations. This streamlined administrative levels, while bringing organizational efficiency into full play, contributing to the formation of pooled forces, and speeding up enterprise growth. In order to achieve the objective of separating business management from government administration and keeping the two jurisdictions independent, we reorganized the former township-enterprise responsible departments (township economic commissions) into township-enterprise group (holding) head offices, which designated delegates to enterprise boards of directors as shareholders of collective assets, controlled the shares in enterprises of rural collective assets, and took part in enterprise operation and decisionmaking. Zhoucun now has some dozen such holding companies.

—On setting risk liability and establishing risk mechanisms. In order to ensure that all shareholders shared enterprises profits and risks, we stipulated that all shareholders (mainly of ordinary shares) could not sell so that, when enterprises sustained losses, all shares would share a certain percentage of such losses and,

when shares depreciated, preferred shares would only guarantee interest, while ordinary shares would not pay bonuses. When enterprises closed down or went bankrupt, debts were paid off in the following order:

1) due employee wages; 2) due taxes and surtaxes stipulated by State Council executive order; 3) bank loans and debentures; 4) preferred share capital and dividends; 5) surplus assets were shared according to percentages of ordinary shares.

—On establishing rules and regulations for doing a good job of setting up pertinent systems, in order to create a good external environment for the reform experiment. In this area, we emphasized mainly the following two points: 1) establishing sound exemplary rules for all types of share-cooperative enterprises; 2) promptly coordinating relevant policies and provisions, such as "Provisional Management Regulations for Township Share-Cooperative Enterprises," "Trial Regulations for Assets Appraisal and Conversion," "Temporary Provisions on Industrial-Commercial Examination and Approval and Registration Management of Share-Cooperative Enterprises," "Experimental Suggestions on Standardizing Share-Cooperative Enterprises," and 20 preferential policies.

—On setting up shareholding-development advisory service centers, and studying shareholding flow mechanisms. We believed that if holdings did not flow and shares were not traded, it would be impossible to bring the effects of the share-cooperative reform into full play. Thus, in order to ensure that holdings could flow, we set up the Zhoucun Zone Shareholding Development Advisory Service Center. This organ's main functions were to provide advisory services for the standardization of share-cooperative enterprises, act as an enterprise agency for floating shares, increasing shares, and raising share capital, represent relevant nonbank financial institutions in developing commissioned business, and handle pertinent procedures for shareholding companies listing approval, such as holding-registration and ownership-transfer. This organ was made up of shareholder members, now having 18 member units.

Since 1992, particularly since Comrade Deng Xiaoping delivered his southern-tour speeches, our zone's reform experiment has entered an in-depth development stage, which can be seen mostly as follows:

1) We are trying to offer more shares. In our first trial share offering for a town-run enterprise, "Zibo Steel-Rolling Mill," 500,000 yuan worth of shares were snapped up in less than two days. Then a village-run enterprise, the "Zibo Fan Factory," offered 1.5 million yuan worth of shares, a state-cooperative commercial enterprise, the "Zhoucun Department Store Limited Liability Company," offered 3 million yuan worth of shares in a 1:1.5 premium price ratio, and a circulation enterprise, the "Huazhou Commodities, Industry, and Trade Limited Liability Company," successfully offered

700,000 yuan worth of shares in a 1:2 premium price ratio. In 1992, 18 enterprises in the zone offered internal shares with a face value of 29.8 million yuan and a financing value of 39.8 million yuan, of which outside funds (mostly from Shanghai) made up 31.78 percent.

2) We are carrying out standardization-control work. In order to ensure the standardization of our zone's share-cooperative enterprises, we are acting on the general principles of "standardizing assets appraisals, turning enterprise assets into shares, turning holdings evidence into notes, and regulating enterprise systems," by inspecting and examining the standardization of some share-cooperative enterprises. This process has yielded the first batch of 12 qualified enterprises.

3) We are making all-out advances, by ensuring that our reform experiment moves from rural areas to cities, and by making a full-scale expansion from township enterprises to zone-owned industries, state-cooperative commercial enterprises, neighborhood- and school-run enterprises, research institutes, and economic entities in government institutions. From 1991 to 1992, our zone's share-cooperative enterprises grew from 811 to 1,097, with 482, or 98.6 percent, of our 489 village-run collective enterprises going to the share-cooperative system; our urban enterprises growing from 26 to 138, making up 86.7 percent of urban enterprises, including 14, or 93.3 percent, of our 15 zone-owned industries converting to the share-cooperative system; 27, or 94.6 percent, of our 28 circulation enterprises completing the conversion to the share-cooperative system; and 97, or 83.6 percent, of our 116 neighborhood- and school-run enterprises and government-institution economic entities converting to the share-cooperative system. We also set up six research institutes in share-cooperative form. So the share-cooperative system has become the dominant form of the Zhoucun Zone's economy.

Through these years of practice and exploration, the Zhoucun Zone's share-cooperative enterprises have evolved into the following five types: 1) The lateral shareholding joint-operation type. This is characterized by the organization of key production factors breaking free from regional industry and ownership limitations, unchanged property-rights ownership, share participation with production essentials, such as funds, technology, and equipment, between enterprises and among enterprises and research units and colleges, joint factory operation, bonus-sharing based on shares, and joint risk-sharing. 2) The employee shareholding joint-operation type. Its features are that enterprise employees raise funds to buy shares through the substitution of labor for capital and capital for labor, with share conversion based on labor, and bonus-sharing based on shares. 3) The property share-conversion joint-operation type. This is characterized by inventorying the assets and funds of former township and village enterprises, and converting enterprise-reserve free assets into township and village collective shares and employee labor-compensation shares (basic shares), which clarifies collective enterprise property rights ownership. Moreover,

employees use their share of labor-compensation shares as cash to buy venture shares, which forms share-cooperative enterprises. 4) The peasant shareholding cooperative type. This is characterized by one or two capable people taking the lead in joint-share factory operation based on the principles of joint labor and capital, cooperative operation, and equal bonus-sharing. 5) The plural-compound joint-operation type. Its features are enterprise employees buying shares, with lateral shareholding by outsiders, as well as a certain extent of public share offering, to form enterprises with plural units and diversified components merged into a single entity.

## II. The Initial Effects of the Reform Experiment

Our zone's years of reform practice show that the share-cooperative system is certainly an effective means of intensifying enterprise reform, converting enterprise operating forces, and speeding up enterprise growth. Our zones's real conditions show that the share-cooperative reform experiment has achieved obvious results:

1. It has raised funds to alleviate enterprise fund shortages. Of our zone's 40,000 employees, 38,822, or 94.1 percent, have become shareholders. We have raised through shares 119.4511 million yuan in funds, increasing our zone's share capital to 548 million yuan, or 6.4 times its 1986 level. Our shareholding makeup has further improved. Compared to 1991, our rural collective shares are down from 70.2 percent to 67.47 percent of all shares, our individual shares are up from 10.3 percent to 21 percent, our average employee shareholding is 2,230 yuan, and our employee and enterprise interests are more closely tied together. Employee investment in shares has opened up a flexible means of direct public financing. This helps both to convert stagnant consumption funds held by the public into production funds and to eliminate or ease enterprise fund "starvation," which speeds up enterprise growth.

2. It has strengthened enterprise attractiveness and cohesion, and enhanced business management. Investment in shares by employees or conversion of assets to shares in share-cooperative enterprises has evolved risk-profit forces combining factories, employees, and shares in which employees and enterprises prosper or fail together, thus strengthening enterprise attractiveness and cohesion, effectively solving the problem of the arbitrary "jumping of ship" by township enterprise employees, particularly technicians, eliminating the short-term job activities of some employees due to ideological instability, stabilizing the ranks of enterprise employees, improving business management, and ensuring the steady growth of enterprises.

3. It has promoted a rural-urban alliance to achieve an effective buildup of production essentials. Practice has proved that the share-cooperative system can break down urban-rural and interregional divisions, surmount departmental and ownership-system limitations, and

bring about a rational disposition of production essentials. The enterprise-organization form of the share-cooperative system has changed the unitary township-enterprise model of investment only by the townships or villages that run the township or village enterprises, thus evolving an order of plural and multi-level major investors, which helps to promote the rapid generation and development of township enterprises. In recent years, we have used the share-cooperative form to establish cooperative relations with over 400 colleges and universities, research institutes, and large- and medium-sized state enterprises throughout China, which has given a big push to the growth of share-cooperative enterprises throughout our zone.

4. It has found a link that contributes to the coexistence of diversified economic components and the tying together of all parties' interests. The share-cooperative system has helped to create a new form of enterprise organization in which public ownership is dominant and diversified economic components coexist, which is a good specific form of the coexistence of diversified economic components. The share-cooperative system can use the form of shares to clarify, specify, and individualize enterprise property-rights jurisdiction, by turning township and village collectives into shareholders, changing the economic links among enterprises to mutual corporate shareholding, and making enterprise employees both workers and managers as well as owners. This clarifies the property-rights jurisdiction of all parties, while ensuring that enterprise assets are jointly financed and profits and risks are shared, turning enterprises into communities in which all parties are concerned about profits, and effectively resolving the matter of all owning and someone generally being responsible for public property, but no one actually having particular responsibility for it. The initial results of our reform experiment show that clarifying enterprise property rights and setting enterprise property-rights jurisdiction is a key link in intensifying township enterprise reform, and a specific form of integrating the workforce with the means of production.

5. Share-cooperative enterprises can adjust distribution relations to convert enterprise operating forces from external administrative mandated forces to profit-incentive forces within enterprises. As share-cooperative enterprises practice distribution forces combining distribution according to work with bonus-sharing based on shares, this organically combines the interests of investors, managers, and workers, while making managers and employees wish to strive for and achieve profit and shareholder-interest maximization. Moreover, as share-cooperative enterprises acknowledge both distribution according to work and set percentages of bonus-sharing based on shares, and such enterprises can utilize direct public financing, this opens a way to turn consumption and short-term funds into production and long-term ones.

6. The share-cooperative system helps to standardize enterprise management actions. (a) It helps to standardize the enterprise management actions of township (town) and rural administrative organizations, achieving the separation of business management from government administration and the independence of the two jurisdictions, and changing the unlimited liability of township (town) and rural organizations into limited liability. As to distribution, it can change the arbitrary collections from enterprises by administrative organizations into bonus-sharing based on shares, turning non-standard returns of rural administrative organizations into limited returns. (b) It helps to standardize the business management actions of factory managers (directors). The share-cooperative system changes factory manager appointments to factory manager (director) hiring under the leadership of boards of directors; changes from direct management of enterprises by governments and administrative organizations to boards of directors being the highest operation-decisionmaking bodies for enterprises; changes the responsibility of factory managers (directors) to higher administrative organizations alone to liability to all shareholders; and changes from arbitrary decisionmaking by individual

factory managers (directors) to democratic decision-making and management by shareholder conferences and boards of directors. This helps to increase the transparency of township enterprise assets and efficiency, improve management, and turn enterprises into genuinely independent economic entities with operating independence, the sole responsibility for both profits and losses, and self-development and -restraint forces.

7. The reform experiment is further expanding in impact. In 1992, we received 334 visiting groups involving 5,375 individual trips from 28 provinces, municipalities, and autonomous regions throughout China. These visitors were characterized by 1) mostly leadership and policymaking personnel; 2) mainly business-management and enterprise factory managers (directors); and 3) more specialists and academics from media and theoretical circles. The Zhoucun share-cooperative reform experiment is becoming recognized by increasing numbers of localities and individuals, and is arousing a strong public response and much attention by the leadership, so is going to play a positive promotional role in the growth of China's national economy.

### Analysis of Crimes Committed by Women

93CM0251C Beijing FAZHI RIBAO in Chinese  
14 Mar 93 p 3

[Article by Yang Huairong (2799 2037 2837): "An Undeniable Social Problem"]

[Text] In criminal cases tried by a certain city's People's Court in recent years, the number of crimes committed by women is clearly on the rise. According to statistics, such crime is up 77.7 percent and 65.3 percent in recent years. Due to the special status of women in society and the family, crimes by women often have a greater impact on society and bring more misfortune to their families.

We recently investigated crimes committed by women in this city, analysis shows that crimes by women have the following key features:

1. Such criminals are characterized by "three mores": more young women, 66 percent being under 30; more rural women, making up 56 percent; and more with little education, 78 percent not having finished grade school.

2. Such crimes are of the following three major types: crimes against property are first, making up 62 percent; civil disputes rank second, at 24 percent; and crimes jeopardizing marriage and the family make up 14 percent.

3. Criminal means and methods are of the following three types: 1. Casual crime with little premeditation ranks first, particularly in crimes against property. Most are cases of losing one's head at sight of profit, and sudden occurrences of evil thoughts. For instance, a certain Ms Huang in a rural area had a female beggar come to her house one day asking for food. But when Ms Huang found out that this female beggar had left home because of a fight with her husband, and would rather beg than go back, and saw that she was good-looking, she got the evil idea of making believe that she was introducing her to a job, but actually took her to a certain town in Nan'an County, where she sold her for 1,300 yuan, committing the crimes of kidnapping and sale of a human being. 2. Abrupt crime, involving cases of neighborhood or family disputes, in which there are struggles for victory without regard for consequences, and abrupt attacks create great misfortunes. 3. Clumsy crime, most cases occur in native localities in broad daylight with little attempt at concealment. For instance, a certain defendant named Zhou went one day to visit her friend Lin, peaked into a desk drawer, and saw gold necklaces, rings and silver bracelets worth more than 1,450 yuan, and stole them at one swoop when the owner went to the kitchen. 4. A combination of greed and cowardice.

#### The Causes of Crimes Committed by Women:

1. Vanity, comfort, and losing one's head at the sight of profit. In pursuit of fashion, ease, and comfort, with disregard for morality, social ethics, and means, by risking danger in desperation to steal, swindle, embezzle, and take bribes, and even worse to exploit and sell sex for illegal profit. For instance, a defendant named Tang met a labor contractor in a dancehall who was throwing

money around like it was dirt, leading Tang to envy and evil thoughts. One night Tang lured him to her room and incited him to "rape," for which she swindled him out of a gold ring worth 2,411 yuan and 1,310 yuan in cash, committing the crimes of extortion and blackmail. In another case, a 36-year-old accountant named Lin became envious when she saw others building private houses, so exploited her position to embezzle public funds 147 times from 1987 to 1991, amounting to more than 147,900 yuan, which she used to build a four-story villa with over 400 sq m of living space.

2. Low educational levels and backward mindsets are a key factor in crimes committed by women. Women, particularly rural ones, have few social activities and little chance for education, which leaves some of them with fixed, narrow, and suspicious ways of thinking. Very trivial matters lead to exchanges of threats, turning into enemies, and taking up of arms, which result in crimes. For instance, a certain peasant named Wang in Jiuqu Village could not get along with her husband, and suspected a certain Yuan of stirring up the trouble, so retaliated by instigating others to go to his home masked and carrying knives, to openly steal articles, such as a TV, a tape recorder, and a watch, becoming the key figure in a crime of burglary.

3. Not knowing or understanding the law, and having a poor awareness of the law, is another factor in women's crime. A certain peasant named Luo got married in 1975 and had two daughters. In 1981, she eloped with a certain Zhong, with whom she lived together openly as if they were married. In September 1983, they were sentenced for bigamy by the court. When on probation at her husband's home, Luo ran off again, found Zhong who had completed his sentence and been released, took up with him again, and had a son and a daughter. So the courts once again found her guilty of bigamy and sentenced her to jail.

4. The fact that certain grassroots organs are unsound and neglect organizational indoctrination of women, is also a major factor in women's crime. In recent years, some rural mass autonomous organizations, such as the Women's Federation, civil regulation, and public security, have been unsound with imperfect systems, so that certain family women have been left out of targets for things, such as cultural indoctrination and compulsory education. In addition, family and neighborhood disputes have not been dealt with promptly, leaving some with no resort for disputes but to recklessly take things into their own hands, which is another key factor in the rising women's crime rate.

So we believe that it is going to be very important to establish better women's work and women's grassroots organs to direct regular indoctrination under the new conditions at women's ideology, morality, and respect for law and discipline, to establish correct outlooks on life and values for the broad numbers of women, guide women to self-respect, self-improvement, and self-care, and raise women's literacy and awareness of the law.

**New KMT Secretary General Profiled**

93CM0260A Taipei TZULI WANPAO in Chinese  
14 Mar 93 p 2

[Article by Tsou Ching-wen (6760 2529 7186): "Hsu Shui-teh Has Gotten Himself Into the Inner-Party Apparatus"]

[Text] Hsu Shui-teh [6079 3055 1795], Taiwan's charge d'affaires in Japan, officially succeeded Sung Ch'u-yu [1345 2806 3842] this Saturday (13 March 1993) as Kuomintang [KMT] Secretary General. That this fortunate figure, considered by outsiders to be "pretty good in character but lacking in boldness," would be personally designated a party affairs aide by President Li Teng-hui over inner-party objections, in order to deal with the political perils within the KMT, is extremely puzzling to many. While some assess it as a "victory of the innocent over the devious," in that Hsu Shui-teh's "inaction" is going to be used to break up the storm of countercurrents within and outside of the party, Hsu Shui-teh himself notes that maintaining a "readiness to sacrifice himself at any time" portrays his firm mindset in dealing with future party affairs.

Hsu Shui-teh was born into extreme poverty, going barefoot and in short pants as the top student to give his grade school graduation speech, having to drop out of junior high three times for lack of tuition, and doing rough building and road construction work while in high school, experiencing difficult years with no certainty of either three meals a day or a roof over his head that did not leak. At public expense, he struggled daily against the currents, all the way from high school in Kaohsiung, through the Education Department at Taiwan Teachers College, to the Teaching Research Institute at Government U, passing all tests—high school, college, and 11 professions—being appointed an official, a special official, and finally yesterday becoming the first KMT Secretary General of Taiwanese nationality.

Hsu Shui-teh's father was a simple pedlar of soy milk and tofu in Kaohsiung. Hsu Shui-teh still remembers his youthful experience of getting up almost every morning at 0100 to help his father grind the beans, with father and son spelling each other off until 0400 or 0500, when Hsu Shui-teh had to first deliver the soy milk to each customer before running for the train to Kaohsiung high school. He often missed the train, so had to walk and run to school along the tracks from Tsoying. As this grinding of beans night after night left him without enough sleep, he often dozed off in class. His teacher saw, but understood, so instead of throwing the chalk at him, as was customary, he closed one eye and left him to sleep openly.

Another thing that left a deep impression on Hsu Shui-teh was the few children of doctors who carried big lunchboxes to school with large apples in them every day, which left him drooling with envy. However, as he was too poor to bring a lunch, he was forced to hide alone

outside under a tree at lunchtime every day, resting or studying to stave off his hunger.

While Secretary General Hsu did not start off too well, his wife, Yang Su-hua [2799 4790 5478], certainly did come from a prominent family. It is understood that they met as classmates. The first time Hsu Shui-teh went to the Yang home, the elder Yang personally gave him a three-hour oral examination on the Confucian Analects, only after which he consented to the match. Secretary General Hsu was married after only a three-month courtship, as he was so poor and had no time to court. He suggested to his fiancée, "how about getting married first and courting later?" Consequently, their admirable marriage has lasted for three decades now.

While poverty kept Hsu Shui-teh's youth from going smoothly, it was certainly extremely good training in paving the way for his political career. When Wang Yu-yun [3769 3768 0061] became mayor of Kaohsiung in 1973 and was looking for a needed chief secretary, then Organization Work Committee Director Li Huan [2621 2562] believed not only that Hsu had good local connections, but also that his steady and straightforward character was very well suited to the role of greasing the wheels and harmonizing relations between Mayor Wang Yu-yun and Municipal Legislative Speaker Wu Chung-ling [0702 6988 7227]. So Li Huan repeatedly supported Hsu's appointments, which paved the way for Hsu's ascent in political circles. And when Provincial President Hsieh Tung-min [6200 2639 7036] wanted Hsu to become Provincial Social Director in 1975, Mr. Chiang Chingkuo met with Hsu personally, particularly emphasizing that as Hsu came from a background of poverty, he should be able to be of particular help in that position to the poverty-stricken and needy. So it is obvious that his background was a help to his career.

Since he was appointed the KMT's highest aide, some outsiders have remarked that Hsu Shui-teh's moderateness without boldness will make it impossible for him to cope with the storms of inner-party dissent and antagonism. But Hsu Shui-teh strongly disagrees with this, giving the following clear and well-known example: When Hsu Shui-teh was mayor of Taipei, his most thorny problem was the rapid-transit project contracting. As this involved a lot of money, there was great pressure. Britain, the U.S., and France all invited him at the time to visit to discuss the possibility of their winning the bids, all of which invitations Hsu refused. When France later won the bid for the Mu-Ch'a section, the U.S. association in Taiwan protested, asking Hsu "have not your president and premier discussed with you the Taiwan-U.S. trade deficit?" To which Hsu firmly replied, "while they have mentioned it, the municipal government advisory company is a U.S. one, which did all of the planning, so that we certainly cannot be blamed for the U.S. not winning the bid!" As this left the U.S. side with nothing further that could be said, Hsu Shui-teh does not believe that he is weak or unable to take on responsibilities.

When Hsu Shui-teh was Minister of Interior, he discovered the need to streamline entry and exit procedures. He called in his departmental affairs committee report for the Entry and Exit Control Bureau to examine its entry and exit visa procedures, in order to streamline them. When the Entry and Exit Control Bureau had contacted the pertinent units and been obstructed, Hsu brought up the needed streamlining three more times in departmental affairs committee reports, finally implementing it himself. Hsu Shui-teh notes that if he had wanted to act boldly at the time, he could have publicly criticized the Entry and Exit Control Bureau, leaked the information to the media, and immediately become a bold political figure through such public reporting. But he says that he did not want to sacrifice others in the interests of his personal boldness.

Hsu Shui-teh points out with feeling that Taiwan's politics and culture have changed in recent years to impatience for quick results, with competing public demands for political figures to act "boldly," and whoever dares to "charge" boldly is considered a hero and has public support. He says that "I know countless political figures, and have discovered that the bold ones are often without stamina, being satisfied with acting boldly without inquiring about results. The public should evaluate the actual results of the decisions made by political figures who are acting boldly."

Leaving aside whether Hsu Shui-teh's ideas on "boldness" are accepted by outsiders, or whether the KMT's current chaos actually can be put into order only by boldness, the challenges facing Hsu Shui-teh are ones of exceptionally unprecedented difficulty. At the 14th KMT Congress a few months from now, President Li Teng-hui is going to be confronted with the last and most severe challenge of his term, which battle will be crucial in determining whether Mr. Li will be able to continue to maintain his dominance in the next three years. And then in the elections for county executives and mayors at

the end of 1993, if the KMT loses more than one-half of the contests, this will be a great shock to the Party. These are all heavy responsibilities that Hsu Shui-teh has been ordered to shoulder in dealing with party affairs, with the authorities' only demand being that he succeed instead of failing. Thus, transforming KMT institutions as quickly as possible, in order to pave the way for continued administration without obstruction by the ruling party, is what the current political climate is most expecting of Hsu Shui-teh.

In order to fulfill this mission, Hsu Shui-teh's first and most difficult task is going to be how to bring about party unity. His biggest advantages are his rise from the grass roots and his rich administrative credentials, along with the many party elders who contributed to his previous promotions, such as Hsieh Tung-min, Lin Yang-kang [2651 3152 3263], Li Huan, and Yu Kuo-hua [0205 0948 5478], with all of whom he has common work experience. His disadvantage is his inescapably mainstream label. But no matter how well he holds to his neutral principles in the future, all in the party know that it will be impossible for him at crucial times to act in violation of Li Teng-hui's will, which is going to be an inherent shortcoming in his attempt to establish a foundation of mutual trust.

Hsu Shui-teh believes in a "waterwheel philosophy" of conduct and government. That is, "the waterwheel is half up in the air, which is ideal, because reality and ideals are both considered, so that the waterwheel performs its function. With ideals alone and no consideration for the facts, the waterwheel could only turn in the sky and, with reality alone and no ideals, the waterwheel could neither turn or perform its function." Is this philosophy likely to be able to act as an unshakeable code of conduct to help Hsu Shui-teh through the many coming crises, so that he can smoothly surmount all difficulties? All are awaiting an answer to that question.

### Strategy, Policy on Macao-Zhuhai Economic Cooperation

93CE0375A Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 1, 20 Feb 93 pp 44-49

[Article by Cai Musheng (5591 2606 3932), affiliated with the Zhuhai branch of the PBC: "On the Strategy and Policy Involved in Macao-Zhuhai Economic Cooperation"]

[Text] Joined together as they are by land and water routes, Zhuhai and Macao have always had very close links. Since Zhuhai was made into an SEZ, a wave of reform and opening has pushed Macao-Zhuhai economic cooperation to new heights. As today's world economy is becoming further internationalized, industrialists in both Zhuhai and Macao have reached a consensus on efforts to open up international markets and take part in international market competition. Studying Macao-Zhuhai economic relations, in order to speed up development and expand cooperation, is also a prime mission of economic theorists. I am here offering my personal views on this matter.

#### I. The Status Quo and Trends of the Macaoeconomy

The tiny city of Macao has a history of over 400 years. While it is separated from Hong Kong by only a small body of water, it has grown slower and is somewhat less known than Hong Kong, so that not many would associate it with a glorious page in the modern history of China and even the world. The Chinese and Portuguese governments have signed a "Joint Declaration," fixing the date for Macao's return to Chinese sovereignty, as well as Macao's basic orientation of 50 years of an unchanged capitalist system. This tiny city includes the Macao Peninsula and the two small islands of Hanzi and Luhuan. The Macao Peninsula is its political and cultural center, bordering in the north on Zhuhai City's Gongbei, while the Macao islands of Hanzi and Luhuan can be seen by sea from Zhuhai's two islands of Major and Minor Hengqin. Figures released by the Macao Government for 1987 show Greater Macao as having a land area of 16.92 sq km, including the Macao Peninsula with an area of 6.05 sq km and a resident population of 500,000, Luhuan Island with an area of 7.09 sq km, and Hanzi island with an area of 3.78 sq km.

While the port of Macao had water deep enough to dock foreign oceangoing freighters 400 years ago, so was a famous Southeast Asian commercial port for a time, its port riverbed has silted up and shallowed, so that the water level is now less than 1 m deep on the west side of the Macao Peninsula, and less than 2 m at its deepest point. This leaves its channels in need of constant dredging to maintain a depth of 3.5-4.5 m, so that it can dock only passenger ships and freighters under 2,500 tons, and has lost its fine natural port conditions. Its situation changed after the Opium War, when Macao declared itself a free port in 1845, becoming for a time a transfer port monopolizing East-West trade, which standing was later replaced by Hong Kong. But since the

Second World War, particularly during the two decades since 1970, Macao's economy has grown quickly, with foreign trade playing a decisive role. Export manufacturing industries have become Macao's greatest economic pillar.

By the 1970's, as Western trade protectionism was becoming rampant, Hong Kong was running into problems opening up foreign markets, and Macao was continuing to enjoy preferential tariff treatment by Western countries, large numbers of Hong Kong merchants invested in setting up plants in Macao, putting Macao into a period of skyrocketing growth. Except for a slight drop of 1.8 percent in 1974, Macao's foreign trade turnover grew nine out of 10 years at a high rate averaging 21.3 percent a year, or more than double its rate in the 1960's. As to absolute value, once Macao's foreign trade turnover broke through the \$1 billion (Macao dollars, and similarly hereinafter) mark in 1972, it reached a high of \$4.39 billion in 1979, achieving a trade surplus of \$169 million, and reversing for the first time Macao's foreign trade history of trade deficits.

By the 1980's, Macao's industry was mostly modernized, with the textiles and garment industries leading the way to help Macao's industry give a vigorous push to foreign trade growth. Meanwhile, as Macao was pursuing a policy of industrial diversification, its foreign trade advantages were developed fully in the 1980's, writing a glorious page in Macao's economic development history. In short, Macao's industry maintained a rapid growth momentum in the 1980's, continuing to spur the rapid growth of Macao's economy, with Macao manufacturing by 1988 having 2,702 factories with 95,000 workers, accounting for about 40 percent of all Macao's jobs. Industries, such as plastics, textiles, garments, knitting, wrist watches, electronics, toys, rayon, ceramics, family property, leather, and building materials, now have a decisive standing in Macao's economy. As to its import-trade market-structure, 69 countries and regions were supplying goods to Macao by 1988, with its 1989 import-trade turnover reaching \$12.05 billion, coming mostly from Hong Kong, China, Japan, Taiwan, and the United States. Macao also had export markets in 120 countries and regions by 1989, for an export turnover of \$12.854 billion.

Macao is also vigorous in international relations. Macao per se is a free economic zone, where economic activities have a clear international flavor. Macao's historical and geographic advantages have enabled it to maintain close ties to many international organizations and win many international trade rights, interests, and preferences.

As to banking, while Macao's banking has an 80-plus-year history, it has steadily expanded in scale in the last decade, providing more diversified services, and playing an increasingly important role in Macao's economic activities. By 1989, Macao's banking made up 6 percent of Macao's GNP, forming a key economic pillar along with Macao's export manufacturing, building construction, and tourism. Macao's banking development

process began with the Portuguese Overseas Exchange Bank (called the Atlantic Bank in Chinese) setting up a branch in Macao in 1902, and starting to issue Macao dollars in 1906. Then other banking names, such as Dafeng, Yongheng, Guangdong, Hengsheng, and Nantong (Nantong has now become the Macao branch of the BOC), applied to be converted into banks. And the Indonesian-Chinese-capitalized International Bank, the Hong Kong-based Overseas Trust Bank, the British-owned Hong Kong and Shanghai Banking Corporation, the Portuguese-owned Dadong Bank, the Macao Commercial Bank, and First Portugal Bank all registered and opened for business in Macao. When Macao's Banking Oversight Office (BOO) was first set up, its work was fairly easy, as it was mostly an oversight agency for government control of the currency issue. But after Macao's Banking Law was issued in 1970, BOO became more responsible for banking control. In 1980, the Portuguese-Macao authorities announced the establishment of a financial oversight and control "issuing agency," with which BOO was merged. Meanwhile, the Portuguese-Macao authorities have reached a new agreement with the Atlantic Bank, which has rescinded its 78-year history of currency-issue rights, ended the Atlantic Bank's historic monopoly in currency issue, and reestablished Macao's monetary system.

The steady improvement in Macao's banking control has promoted Macao's banking development. While the Macao Commercial Bank had only 14 head offices and 40 branches before 1980, it had 103 head offices and branches by the end of 1990, which were equipped with widespread computerized services and ATM's to provide customers with fast, 24-hour banking services. In addition, the Macao branch of the BOC, the Dafeng Bank, and the International Bank have jointly set up a "joint-banking" service network to provide 24-hour electronic-transfer services among the four places of Hong Kong, Macao, Shenzhen, and Zhuhai. As to credit business, bank-group loan services are increasing steadily and inter-bank cooperation is expanding further. The Macao branch of the BOC, the French National Paris Bank, and the Portuguese Atlantic Bank have jointly set up the "Macao Economic Development Finance Company," which is Macao's first finance company that handles medium- and long-range investment projects. The establishment of the "Macao Notes Exchange" enables notes from Macao's many banks to be quickly exchanged and settled.

Offshore (FOB) banking services are developing vigorously, with Portugal's First Yatelan Bank having set up a branch in Macao, and the FOB services offered by the four banks of Duoda, Yasuer, Baili, and Wanyu growing much faster than their commercial banking services, which is enhancing Macao's banking capabilities in overseas fundraising and development of international business. Secondly, the opening of services, such as gold exchange, stock and bond trading, investment management, trade advise, and credit cards, is making Macao's banking services more internationalized and diversified.

## II. Macao's Position and Role in Zhuhai's Development Strategy

What will be Macao's economic and financial position and role in Zhuhai's development strategy? It needs to be affirmed that Macao's position and role in Zhuhai's overall strategy will be decisive. We should realize that as the Central Government continues to intensify its policy of reform and opening, Zhuhai's overall economic development strategy will be bound to become part of the international macroclimate, making Macao's position and role increasingly important. Zhuhai, just as Shenzhen, is one of the most forward outposts in China's overall order of opening up to the outside world, making Macao and Hong Kong China's most important bridges and windows to the world. In the process of linking up Zhuhai and Shenzhen with Macao and Hong Kong, and linking up domestic and international markets, Macao-Zhuhai relations will be a very important component.

In a dozen years of development, Zhuhai has been transformed from an economically and culturally backward small border town of mostly fishing and agriculture into a multifunctional SEZ with the six key industries of electronics, light textiles, food, building materials, pharmaceuticals, and plastic and rubber industrial chemicals, as well as multipurpose development of farming and fishery, tourism, banking, and real estate. Statistics show that Zhuhai's national economy has averaged a growth rate of 45 percent during these dozen years, which has sharply increased its overall economic might. By 1991, its gross output value had reached \$12.583 billion, up 15 times from 1979, its national income was \$3.964 billion, up 12 times from 1980, and its GVIAO [Gross Value of Industrial and Agricultural Output] was \$11 billion, up 111.2 times from 1980, including a GVIO of \$10.08 billion, up 43 times, and exports of U.S.\$690 million, up 37.8 times. Zhuhai has become an investment "hotspot" for foreign firms. Zhuhai is also a foreign port for the southern part of the Zhu Jiang (Pearl River) Delta, facing Macao and backed up by the mainland, making for transportation convenience. The Zhu Jiang Delta along with the interior and the Zhuhai SEZ are Macao's reliable and powerful backing, just as Macao is one of Zhuhai and the interior's important bridges for trade with the international market.

On the other hand, China's policy of opening up to the outside world has become a new driving force for Macao. Macao averaged high economic growth rates of 16.7 percent from 1971 to 1981 and 12.4 percent from 1985 to 1987, making it one of the places in the Asian-Pacific region with the fastest economic growth rate. The great changes that have occurred in Macao's economy have erased its former gambling-city image as the "Monte Carlo of the Orient." Macao practices free trade and an open policy, is export-oriented, and has extensive and traditional ties to Western developed nations and Latin countries. Since the Chinese and Portuguese governments signed the "Joint Declaration" on the Macao issue, Macao's prospects have brightened. As Macao

enters the transition period and the Zhuhai SEZ development strategy is applied, Macao's position and following roles will become increasingly important.

1. The window role. Macao is going to become a "second Hong Kong," with the potential to overtake and pass Asia's "four little dragons." With its export-manufacturing industrial-orientation, tourist distinctions, and constant improvement of its investment climate and product mix, Macao is achieving market diversification, striving to open up international markets and trade channels, improving its production quality and international image, and winning a name among some as a place that will become a "second Hong Kong" to join the ranks of Asia's "four little dragons." From the perspective of such economic and development trends, it is becoming an important window through which Zhuhai and the interior can observe, study, draw on, and master world economic dynamics.

2. The bridge and hub role. As an international city, Macao is China's key southern export base second only to Hong Kong, as well as a key bridge and hub with ties to the international market. A close understanding of these ties will make faster development of Zhuhai's international trade markets feasible.

3. The intermediary role. For a variety of reasons, Macao is still a tiny externally oriented international city, with management experience, cohesion, and potential growth advantages. In addition, Macao's social stability and the industrious and progressive mindset of its people, particularly its construction of a series of large projects, such as its international airport, deepwater port, and the second bridge to ? zi Island, are bringing Macao's investment advantages into fuller play and pushing Macao toward the world market, while pulling international capital into Zhuhai and the interior through the Macao transfer station, which is giving Macao an intermediary role.

4. The reference role. Macao faces Southeast Asia, particularly being affected positively by Hong Kong's prosperity on the east, having certain Western trade-policy advantages on the West, and being backed up by its native country of Mainland China, which gives it vigorous support in all areas, such as markets and resources. In recent years in particular, Macao has been able through entrepot trade to realize indirect trade and investment. And its sustainability, contingency capability, vigor, and growth rate make it a possible rival to Asia's "four little dragons." These experiences deserve referencing by Zhuhai.

### III. Issues Involved in Enhancing Macao-Zhuhai Economic Cooperation

As Macao-Zhuhai cooperation is developing under differing socioeconomic systems and historical conditions, it has respective advantages and disadvantages. In order to enhance Macao-Zhuhai economic cooperation to inject new vigor into their respective economic development, so that both places will be stronger in international

exchange and competition, joint cooperation will be necessary to deal with the following issues:

1. The form of Macao-Zhuhai economic cooperation. Views vary sharply on this matter. I believe that regional cooperation and participation in international markets will require consideration of geopolitical relations, existing relations of interdependence, and practical demands. Both parties ought to engage in full-scale cooperation in both places, naturally including areas, such as commodities, technology, banking, tourism, information, and labor markets, with Macao being able to set up shop in Zhuhai and vice versa, particularly Zhuhai banks opening in Macao, which is the only way in which both parties can truly become more competitive internationally. In light of respective current conditions, Macao-Zhuhai cooperation should now begin with simple projects, and then later develop gradually to deeper levels. Moreover, based on vigorous development of many bilateral cooperative relations, multilateral individual-project cooperation should be actively promoted. In particular, the computerized banking-service network between the two places, which sharply decreases fund-transfer time and unnecessary losses in business and trade settlements, and improves respective economic efficiency, will pave the way for future deeper levels of Macao-Zhuhai cooperation.

2. Macao-Zhuhai cooperation should adhere to the principles of reciprocity, mutual respect, each displaying its respective advantages, and joint development. While Zhuhai and the Zhu Jiang Delta both have large amounts of cheap labor, less costly land-use fees, rich resources, stronger S&T forces, and complete industrial systems, they lack funds and international business-marketing networks. On the other hand, Macao has these last advantages, but is small in area and short on resources, labor, industrial infrastructures, and technical forces, which limit its economic development. It is thus obvious that the economies of Macao and Zhuhai have their respective pros and cons, providing the objective conditions for mutual supplementation. Bilateral relations should bring the advantages of both places into full play, through a cooperative division of labor, in order to evolve a regional economic cooperative system combining a rear base and an overseas front. That is, it will be only the establishment of a Macao-Zhuhai economic cooperative system of mutual support and cooperation, utilization of advantages to make up shortages, and joint development that will improve both economies. In particular, there should be joint development of a "Guangzhou-Zhuhai-Macao" railway line, large-scale power plants, deepwater ports, and shipping lines. As the completion of such large-scale projects will be very beneficial to Macao-Zhuhai economic development, they must naturally be based on the principle of reciprocity.

3. Zhuhai's East-West development strategy must focus on bringing Macao's window role into full play. Zhuhai's East-West focus on development areas, such as ports, railways, expressways, power, raw-materials industries, and tourism, coincides with Macao's development

needs, leading to the possibility of enhanced cooperation in many areas. This is because Macao per se is a free-port international market with advantages in areas, such as diversified trade channels, quick access to information, skill in introducing and attracting investors, and tourism and funding. In particular, the EC has a profound influence on Macao, with Macao's exports to the EC generally ranking second or even first. In 1991, Macao exported products to the EC worth \$5.13 billion, or 38.5 percent of its exports. And Macao's trade surplus with the EC has long been in the front ranks of other countries and regions. Macao's overall trade surplus in 1991 was \$3.93 billion. Meanwhile, Macao has long enjoyed generally favorable EC tariff and quota treatment, with such Macao exports in 1991 making up 13 percent of all Macao exports to the EC. Zhuhai's East-West utilization of these advantages in East-West regional service will be a policy consideration in its East-West strategy.

4. The old order of each doing things his own way must be broken with. While Macao and Zhuhai achieved a certain amount of development through certain past large-scale project-cooperation, their strategic policy has been generally one of each doing things his own way, with particular lapses in bilateral cooperation and overall planning. As to either the mutual relations of the common benefit to Macao and Zhuhai of the building of large-scale projects, or Macao's development trends as it enters the transition period in its return to Chinese sovereignty, maintaining Macao's prosperity and striving for coordination and cooperation in Macao-Zhuhai economic and large-scale capital construction will be an unshirkable duty. The leaders of both places need to reach a consensus on this, in order to achieve deeper levels of economic cooperation. It is projected that from 1992 to the end of 1993, the EC is going to complete its unification to establish a single large market with no national-border obstacles and a free flow of commodities, personnel, and capital. What kind of a market will this single large one be for Macao? The more optimistic view is that once the EC becomes one, Macao will be faced with an EC market with a population of 320 million and annual foreign trade turnover accounting for about one-fifth of all world trade; Macao will continue to enjoy general EC preferential tariffs and quotas; Macao's manufacturers will be able to run joint ventures with EC member nations, enjoying preferential EC conditions; and if Macao's government signs an economic relations and trade cooperation agreement with the EC, there will be even greater advantages. This means that we must break with the strategic policy of each doing things his own way, and that enhancing Macao-Zhuhai cooperation on large-scale projects will involve especially crucial issues, particularly in areas, such as how Macao can build highway and railway network links through Zhuhai, and how Macao can make use of Zhuhai's fine deepwater port to jointly develop with Zhuhai a modern oceangoing shipping industry.

#### IV. Pushing Macao-Zhuhai Cooperation to New Heights

Zhuhai and Macao are now both paying great attention to economic development, which is gaining an increasingly important position in the overall Macao-Zhuhai strategy. In addition, as the world economic grouping trend intensifies and trade protectionism increases steadily, Macao and Zhuhai ought to enhance their joint cooperation in world business and trade competition, in order to advance their joint economic prosperity. I believe that they can enhance their cooperation as follows:

##### 1. Zhuhai

Zhuhai needs to fully utilize its own advantages, by making up its shortcomings and raising the level of Macao-Zhuhai economic cooperation, in order to push bilateral cooperation to new heights as follows:

A. Zhuhai's western district should take the lead in joint operation of high-tech entities that will spur economic development in the whole Macao-Zhuhai region. Macao-Zhuhai economic cooperation in recent years has remained mostly in the simple forms of "three imports, one compensation" -trade or labor-intensive industries of low technical level, which play little role in promoting the industrial upgrading of both places. Future bilateral cooperation should develop in the direction of upgrading the industrial structures of both sides. In particular, Macao and Zhuhai should make full use of the large port with natural deepwater berths that can dock 20,000-100,000-plus-ton freighters and the heavy industrial base in Zhuhai's western district; jointly develop their oceangoing shipping industries; cooperate in building a "Guangzhou-Zhuhai-Macao" railway; invest in power-station shares to alleviate the power needs of Macao-Zhuhai economic development; and become international market-oriented, by cooperating in the development of high-tech industries.

B. The Zhuhai SEZ needs to actively promote an economic-free-port policy. If the Zhuhai SEZ is to dovetail its economic operations with Macao's economy after (Macao's return to Chinese sovereignty in) "1999," it will have to further free up its thinking, by actively promoting the application of the following economic-free-port policies: 1) It must make active preparations for the establishment of more duty-free zones. In particular, Zhuhai must set up a Hengqin-Islands Duty-Free Zone. These islands have a land area of 47.5 sq km, with a shoreline of 65.5 km. As these islands have been listed by Guangdong Province as a key development zone for the 1990's, the Guangdong government should practice fully-closed control there with open lines to the outside, as well as building a bridge to link the Hengqin Islands with the city of Zhuhai on the mainland, in order to achieve open outside-line control. Goods entering the islands from other regions in China would be treated as imports. Meanwhile, a similar port should be set up where the Hengqin Islands connect with Macao, in order

to achieve open outside-line control, with agreed streamlined checking and acceptance procedures, so that all duty-free commodities can be imported after only simple checking and approval procedures and registration. This would give the duty-free zone a more open and preferential economic policy than the SEZ, enabling it to develop into a large duty-free storage zone and a multi-level high-tech base for export-manufacturing, business and trade, tourism, and externally oriented agriculture. Within this zone, foreign trading enterprises and domestic ones with foreign-trade rights should be allowed to engage in international trade, foreign and domestic enterprises should be permitted to engage in entrepot trade, warehousing enterprises should be able to set up, and service industries, such as real estate, shipping, banking, information, and commodity exhibition and marketing, should be allowed to operate. In order to realize this, senior officials and business figures from both Macao and Zhuhai should engage in mutual cooperation and joint exploration. 2) The Hengqin Islands economic-free-port pilot-project experience should then be drawn on to gradually draw up plans for an all-SEZ open-frontline and improved-secondline. 3) While continuing to practice duty-free capital goods and make active preparations for a duty-free capital-goods market, efforts should be made to attract more foreign banks and nonfinancial institutions to set up branches and agencies in Zhuhai and the duty-free zones, in order to pave the way for more widespread international-capital financing. The experience acquired through setting up and testing more duty-free zones will lay the foundation for the Zhuhai SEZ economic-free-port model.

C. Zhuhai ought to expand its cooperation with Macao. As Macao per se is a free economic zone whose economic activities carry a clear international flavor, such an economic system is necessarily guaranteed by widespread international economic relations. As Macao is equipped with these qualifications, its economic internationalization generally takes the following two forms of participation in international business and trade organizations: 1) Official membership in international organizations based on the prerequisites of intergovernmental and sovereignty status. Macao participates in such organizations in the form of participation in the Portuguese delegation, with Portugal being responsible for representing Macao's interests. Most of Macao's participation in international organizations is of this nature, which is called "indirect participation." 2) Participation in international organizations having an international nongovernmental flavor without sovereignty status as a membership qualification, which enables Macao to participate independently as an official member of these organizations. But Macao is going to have even greater autonomy after 1999, with the PRC-Portugal Joint Declaration and the Chinese Government's specific explanation of its basic Macao policy indicating that: "The Macao SAR can use the name Macao, China" in independently maintaining and developing relations with all countries, regions, and pertinent international or regional organizations in fields, such as

business, trade, banking, shipping, communications, tourism, culture, S&T, and sports, as well as in signing and fulfilling agreements." "The Macao SAR will set its own business and trade policies as a free port and independent tariff zone, maintaining and expanding business and trade relations with all countries and regions, and continuing to participate in the pertinent international organizations and trade agreements, such as the GATT and the International Textile Trade Accord."

As the PRC-Portugal Joint Declaration grants Macao great autonomy in independent development of foreign relations, the Zhuhai SEZ should make full use of Macao's special relations to engage in full cooperation. This will be one of the key factors affecting Zhuhai's success in its second or even third decade of development. While Zhuhai has achieved a certain amount of success in cooperation with Macao in the past, this was mostly nongovernmental, industrial, and scattered cooperation, which is very unsuited to the new conditions of current international economic development and the reality of the approaching "1999." Past examples tell us that the key to sustained and amicable bilateral cooperation is widespread high-level bilateral contacts. This is why I am suggesting wider bilateral contacts and intercourse between government departments, semi-official circles, or senior officials from both places, joint consultation on mutual supplementation of economic and financial systems, and the drawing up of a bilateral industrial-commercial trade agreement.

4. Zhuhai should speed up its development of an international computerized banking network with Macao. It will be essential in coming years to join Macao and Zhuhai's computerized bank clearing networks, in the interests of making Macao-Zhuhai international trade settlements more convenient. In order to achieve this, Zhuhai will have to take the following three actions: It will have to take vigorous steps to attract foreign banks to set up branches in the Zhuhai SEZ. This means that the PBC head office will have to approve as quickly as possible the establishment of more foreign bank branches in Zhuhai. Moreover, it will be necessary to appropriately devolve to and grant the Zhuhai SEZ branch of the PBC a certain amount of flexible monetary policy and sovereignty, and to establish the Zhuhai SEZ Stock Exchange as quickly as possible, as well as opening up a secondary stock market for stock trading, in order to raise Hong Kong, Macao, and international capital to make up Zhuhai's development-fund shortage. Zhuhai financial institutions must be allowed to break out of China's borders, by setting up shareholding finance companies in Macao as quickly as possible, and we must further improve the computerized bank-settlement service-network between Zhuhai and Macao, in order to shorten enroute fund time in Macao-Zhuhai trade, and improve enterprise economic efficiency.

## 2. Macao

Macao's economy achieved proud successes in the 1970's to the late 1980's. As to its future growth prospects, while Macao's economy still has great potential, it cannot dodge the issues of how to preserve its advantages, continue to bring its favorable factors and conditions into full play, internationalize its export trade, and compete in the international market. But it should also be noted that as Macao's inadequacies are a land-resource shortage and a high-tech industry gap, Macao should direct its overall economic development strategy at further developing the strategic idea of being a "forward shop backed up by Guangdong" as follows: 1) Macao must continue to develop its export market diversification advantages and roles in international organizations, such as the EC and East Asia, by taking active steps to open up export trade markets, in order to invigorate its economy. 2) In light of its own land-resource shortage,

Macao must draw active support from Zhuhai's land resources, by investing in setting up shop in Zhuhai. Macao's economy can be a great driving force in this area. There will be particular profit to Macao investment circles in linking up Zhuhai's Hengqin Islands with Macao's largest island of Luhuan, which are less than 1 km apart and near to international shipping lanes. And as Zhuhai has recently expressed an interest in pursuing completely closed control of the Hengqin Islands, with open outside lines and closed inside ones, Macao cooperation with Zhuhai, by taking an active part in the joint development of the Hengqin Islands, as well as in investing in transportation projects, such as the western-district deepwater port and railways, will further reflect the overall strategic idea of Macao's being a "forward shop backed up by Guangdong," as well as being very beneficial in promoting Macao's economic prosperity and growth and a key link in Macao's economic development.