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EAST EUROPE

Hungarian Reforms Reported Approvingly
40050118 Shanghai SHIJIE JINGJI DAobao
in Chinese 21 Nov 88 p 4

[Article by Hou Fengjing 0186 7685 5464: "Hot Currents Boil beneath the Surface: A Report on Political Democratization in Hungary"]

[Text] The national conference of the Hungarian Communist Party convened in May decided that Hungary's effort to advance political reform should focus on developing democracy, strengthening social consultation, and pluralizing politics while maintaining one-party rule.

With no social disorder discernible anywhere in the country, no one was taken aback when a Western reporter remarked that in the last several months "hot currents have raged beneath the surface."

Greater Openness

Hungary has made expanded freedom of the press the chief prerequisite for achieving greater openness. Print and broadcast media coverage and programming clearly have been greatly liberalized, and bad news, as well as good, is now reported. Things that used to be considered state secrets are now disclosed to the entire public, and one restriction after another has fallen. Spontaneous demonstrations by the masses, leaders' incomes, all types of social problems, political scandals, and the like all are promptly reported and are known to everyone. National Assembly sessions are televised live to the entire nation, and some activities, such as meetings of the Youth League Central Committee, are completely open to the public, so that anyone who is interested may go and watch them.

Intellectual Ferment

Discussions are popular as never before among young intellectuals, who on some issues have broken with traditional ideas and strive to achieve objectivity. Many people believe that problems plaguing the road to socialist development in every country of the world, that these problems remain unresolved, that the socialism Hungary practiced after Liberation was nothing more than "Stalinism," and that the time has come to reinterpret history and to forge new paths to socialism, lest socialism slide into an even graver crisis. And many are convinced that a multi-party system must be established if Hungary is to develop. Even people like President Bruno Straub and Hungarian Communist Party Politburo members Rezso Nyers and Imre Pozsgay have openly said that more political parties should be allowed—it is just that conditions are not yet ripe.

Some of the populace is employing ever more democratic measures, including constitutionally protected demonstrations, to express opposition to some of the

things the government does. For example, large demonstrations have been held to protest building of the BOSHI-NAJIMAOLUO Dam, and many people are demanding that the issue be put to the people for a vote. And workers' strikes, protected by the Labor Law, occur incessantly.

Political Association Is the Craze

Any mass organization that does not oppose socialism, the leading role of the Communist Party and Marxist ideology and that is properly registered with the government is legal and has the right to initiate its own activities. In November, the National Assembly will adopt a law on assembly and association that will set forth more specific guidelines on these organizations and activities. Every Hungarian now believes that assembly and association are basic human rights that are protected by the constitution and do not derive from generosity of state.

The more famous of the recently established national mass organizations include the Hungarian Democratic Forum, the New March Front, the Openness Club, the Young Democratic Alliance, and the Democracy Recommendation Network. Many relatively unknown groups exist, too. Some Communist Party leaders have very close ties with these organizations. For example, Politburo member Rezso Nyers is a responsible member of the New March Front, and Imre Pozsgay, Politburo member and minister of state, is an official sponsor of the Openness Club. The authorities recognize the legality of these organizations, maintain a dialog with them, and listen to their ideas.

Observers here believe that Hungary has made major new economic and political moves since the Communist Party's national conference. Economically, Hungary is striving to transform her existing system of ownership by developing joint-stock systems so as to expand the scope of the collective economy and to give full play to the role of the private economy and is also striving to attract foreign investment and to reduce the relative importance of the state-run economy, which goals are served by the Joint Venture Law recently passed by the National Assembly. Politically, Hungary is implementing greater democracy so as to provide more leeway for economic restructuring. Hungary's motives here are as follows. First is the practical need to extricate herself from her current economic difficulties. She believes it is better courageously to forge new paths than to stick to old ones only to end up with the same domestic mess plaguing Poland and Yugoslavia. Second, inspired by the wave of reform in the Soviet Union, Hungary is exploring new approaches to "socialism." Significantly, she is piqued at the success social democratic parties throughout the world have achieved over the last several decades.

The current intellectual ferment and frenzy of political organizing certainly recall the activities of the Petofi Circle in 1956. The resemblance suggests that both

movements, recent and old, were ignited by liberation of thought. But history is not simply repeating itself here; times are different, and the resemblance does not augur similar denouement. In 1956 the broad masses of Hungarians, straightened materially and feeling oppressed, were deeply disenchanted with the dogmatic, faction-riven Lukacs regime, and the international scene was complex indeed. This is not the case today. Domestically, antagonistic contradiction is absent; internationally, a wave of reform washes over the world. Although some mass organizations may entertain extremist ideas and a handful of people may harbor evil intent, the nation as a whole, from top to bottom, is committed to the same basic objective—to seek a “better socialism.” Thus the conditions that gave rise to the upheavals of 1956 are completely absent today. So long as the Hungarian economy shows some improvement in the near future and the situation is kept under control, political democratization will surely continue to advance smoothly.

WESTERN HEMISPHERE

Latin American Debt Relief Schemes Reviewed 40050116 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 47 21 Nov 88 pp 28-29

[Article by Su Zhenxing 5685 2182 5281, director of the Latin American Research Institute, Chinese Academy of Social Sciences: “The Current State of and Prognosis for Latin American’s Foreign Debt Problem”]

[Excerpt] [Passage omitted]

The Limitations of Current Remedies

In recent years, Western creditor nations and banks have relaxed their attitudes toward and adopted more flexible and diverse approaches in dealing with the debt problems of developing countries. This is certainly a positive change and an important step toward alleviation of the Latin American debt crisis. So what are the chances that these new approaches will help resolve the crisis? Let us look at the approaches in some detail.

The Baker Plan In September 1985, U.S. Treasury Secretary James A. Baker, III proposed a 3-year plan to provide additional funds to stimulate the economic growth of 15 major debtor nations, including 10 in Latin America, where the plan aroused great interest. Secretary Baker proposed extending a total of \$29 billion, \$20 billion of which was to come from commercial banks and the remaining \$9 billion from the World Bank and the Inter-American Development Bank. However, in late 1984 the combined debt of the 15 nations included in plan totaled \$428 billion and, given current interest rates and the way indebtedness was mounting at the time, the countries’ annual interest payments during the 3 years covered by the plan probably totaled \$38 billion. So the amount the plan proposed to provide each year, less than

\$10 billion, covered only about one-quarter of the countries’ required interest payments. Thus even if fully implemented, the plan would only have been a drop in the bucket. Anyway, it miscarried because it failed to garner the requisite support of commercial banks.

Debt rescheduling. This scheme merely postpones debt that has fallen due and thus serves only to lighten, not reduce, debt burdens. And, in reality, the problem Latin America has faced since the onset of the crisis involves interest payments, not repayment of the principal, and the scheme, though postponing most of the principal, still requires interest payment. Thus advantageous world interest rates and export prices might facilitate relatively smooth resolution of the payment problem for the region as a whole under this scheme. Nevertheless, since many countries in the region depend on one or two primary products for their exports and are not very responsive to external markets, the possibility that a handful might experience another crisis cannot be ruled out.

Debt capitalization. This scheme, also known as debt-equity swap, converts debt into investment, as follows. Creditor banks sell bonds on secondary markets at a discount. Investors purchasing the bonds take them to the central banks of debtor nations and exchange them for local currency, which they then invest locally. This approach has certain advantages for creditors, debtor nations and investments alike, so Latin American countries attach great importance to and have drawn up special laws, decrees and regulations to deal with it. So far, these countries are estimated to have redeemed approximately \$10 billion of their outstanding debt in this fashion, with Mexico and Chile accounting for the bulk of the figure. Obviously, however, the scheme has hardly made a dent in the problem, and that is because it suffers numerous limitations. First, to transform debt into investment, debtor nations have to issue a corresponding amount of currency. And given their high inflation rates, there is the danger that increasing money supplies might exacerbate inflation, so the approach must be employed with utmost caution. Second, under this type of arrangement it is very important that investors also bring in some foreign currency, because local enterprises will have a very difficult time upgrading technology and equipment, improving management and increasing exports if they limit themselves to increasing investment in local currency and selling off some of their equity. Thus some nations have explicitly stipulated that a certain amount of this investment must be made in foreign currency. Third, Latin American countries and especially some conglomerates in the region are up to their ears in debt, so selling off assets would not go very far toward liquidating their debt, and leftist politicians condemn the practice of selling off national assets. For example, the AERFA Industrial Group of Mexico, which owes \$60 billion to foreigners, was able to redeem only \$10 billion of its debt when it sold off 45 percent of its outstanding stock in 1987. Fourth, the rate by which the new bonds are discounted is determined by the credit-worthiness of the debtor nation; the lower the credit

rating, the greater the discount. Thus creditor banks in effect are selling to the highest bidder when they market new bonds.

"Aztec Bonds." This past March, Mexico and Morgan Guaranty Trust Co reached the so-called "Aztec Bond" agreement. Under this agreement, Mexico is to buy \$532 million in zero-interest U.S. Treasury Bills, which she may then use as collateral to issue \$2.55 billion in new 20-year securities, which banks will buy with the old bonds, discounted 30 percent. Thus Mexico in effect is going to receive \$3.665 billion in securities in return for \$532 million in foreign exchange. Although this approach, also called "new-old bond swapping," is advantageous to debtor nations, it too is of limited use,

because these nations have too little foreign currency with which to make the requisite bond purchases, and creditor banks are not very enthusiastic about the scheme.

Other remedies are also being tried. Yet all schemes, whether in terms of their individual or combined effects, are of very limited use. Moreover, Latin American countries, as developing countries go, are considered to have better economic foundations and income levels and so are excluded from most of the debt-relief schemes developed countries have adopted. Thus for the near future there is little likelihood of any major breakthrough in Latin America's debt problem.

NATIONAL AFFAIRS, POLICY

Changing Role of Enterprise Merger

40060147 Beijing LIAOWANG [OUTLOOK] in Chinese
No 44, 31 Oct 88 pp 8-9

[Article by Gao Qinglin 7559 1987 2651: "The Wave of Enterprise Merger"]

[Text] Merger, which was viewed for a long time as a manifestation of the law of the jungle peculiar to capitalism, has, with the deepening of reform, made an imposing entrance into China's economic activities. According to the explanation of concerned departments, enterprise merger has formed a wave extending over several provinces, municipalities, and autonomous regions throughout China. Up to now, over 1,500 enterprises throughout China have been annexed in the course of competition.

Some sharp economists have pointed out that no matter how crude or imperfect today's mergers may be, they are essentially a transfer of property rights, and are a direct challenge to the vague, sluggish property rights system under the existing ownership system. Therefore, merger is closer to the final objective of our economic reform than such measures as "simplified government and relaxation of authority" and "separation of ownership from operations."

Merger—An Opportunity To Improve Overall Economic Returns

There are two reasons that enterprise merger has become fashionable throughout China. First, with the transformation of China's product economy into a commodity economy, some properly-run enterprises have shortages of capital, space, equipment, and manpower, and have no way of satisfying the ever-increasing demand for expanded reproduction, and this produces the impulse to merge with enterprises at a competitive disadvantage; second, as far as the government is concerned, merger is a practically risk-free method of getting rid of deficit-incurring enterprises at no cost. This is why merger has very quickly been accepted throughout China. Such provinces and municipalities as Sichuan, Beijing, Baoding, Wuhan, and Shijiazhuang have all established this type of compensated transfer of property rights as an important element of this year's reform, and have begun to put it into practice.

Today, we no longer stare dumbfounded at merger as a great scourge, and we no longer debate continuously over whether mergers should emerge in socialist states. Many people have soberly recognized that the phenomenon of mutual annexation among enterprises is an inevitable product of the development of a commodity economy, and that although it is accompanied in capitalist society by duplicitous methods and appears in immoral forms, it

is essentially significant for accelerating the progress of capital concentration, socialization of production, and thus the creation of conditions for development of productive forces.

At present, the following situation has emerged in China's economy. On the one hand, town and township enterprises have come to the fore as a new force, and private economy has grown out of nothing to very rapidly becoming a competitor which cannot be taken lightly; on the other hand, although state-run economy has 600 billion yuan in fixed assets and over 100,000 industrial enterprises, it has been weakened due to abuses in the system, and it lacks vitality and efficiency. According to experts' estimates, about one-third of the volume of fixed assets of state-owned enterprises is currently idle or semi-idle. At the same time, the state-run economy also lacks a movement mechanism for the rational flow of assets, resulting in a large number of deficit-incurring or small-profit enterprises using too much capital for a long period and absorbing a large amount of government subsidies. If a policy of curbing the superior and assisting the inferior is adopted, cutting out pieces of the flesh of dominant enterprises to cure the boils of inferior enterprises, the result is often that the flesh, after it is cut, rots together with the boils. In just the first 7 months of this year, there was a deficit of over 3.6 billion yuan in China's national budget from industrial enterprises, and it is very hard for enterprises with good economic returns to obtain capital to expand reproduction.

Facing the formidable challenge posed by township enterprises and the private economy, some well-operated state-run enterprises are demanding reform, through various means, of the property rights management methods of the state-owned economy, and as a result, merger among enterprises has emerged as the times require. The emergence of enterprise merger has caused the ideal model of "big fish helping little fish, and little fish helping little shrimp," whose construction had previously been attempted in enterprises, to be smashed by the ruthless market rule of survival of the fittest. This rule can be briefly explained using the well-known "Matthew Effect" from the Bible: "For whosoever hath, to him shall be given, and he shall have more abundance; but whosoever hath not, from him shall be taken even that he hath." Through merger, the assets of deficit-incurring enterprises in a fix flow to operationally superior enterprises, and this is undoubtedly an opportunity to improve China's overall economic returns. Through transfer of property rights, large amounts of idle or inefficiently utilized assets are fully utilized, and their potential usefulness may be equivalent to China's total productive capital construction investments during the period of the Sixth 5-Year Plan. If enterprises with operating deficits are eliminated through merger, the corresponding increase of China's fiscal revenue might reach 4-5 billion yuan.

Judging from practice, the results of merger are indeed quite as expected. Since Baoding City implemented

mergers, its fiscal revenue has increase 19 percent annually, and last year it completely eliminated industrial enterprise operating deficits from the budget. Since May of this year, Wuhan City has saved over 20 million yuan in assets and nearly 30 million yuan in debts and absorbed deficits. This shows that merger brings three benefits in one stroke: it redoubles the might of the annexing enterprises, gives new life to the annexed enterprises, and allows the government to save on subsidies.

Property Rights—An Unavoidable Problem for Enterprise Reform

The prerequisite for enterprise merger is clear property rights relations. However, due to the singularity and abstractness of the property rights system under the existing ownership system, the ownership of enterprise property is unclear. Investigating in detail just what an enterprise's assets are worth often results in a chaotic accounting. Moreover, it has never been clear under what category the assets of collectively-owned enterprises should be classified. All of this creates a complicated situation with respect to transferring assets at the time of merger. When there are more assets than liabilities, to whom should the annexing enterprise give the balance? And who should pay it? When assets do not offset liabilities, and the annexed enterprise has no money with which to pay, who should bear the responsibility? Therefore, mergers encountering property rights problems at the present stage often avoid and neglect whatever they can. In view of this, some are by no means mergers in the strict sense of the word.

This method of negligent accounting which is currently being adopted avoids getting entangled in those issues which no one can clarify. It does not overemphasize that the price paid by the annexing enterprise must be equal to the specific assets it receives; rather, it uses what is acceptable to both sides as the standard and puts the resolution of low-validity and invalid movement of assets ahead of all else. Boading City has often adopted this method, which is a realistic option in the initial period of merger development. However, as mergers become increasingly standardized, the clarification of property rights will ultimately become a precursor to the solution of problems. Therefore, enterprise merger supervises and accelerates the resolution of the problems of demarcation, management, and flow of property rights.

Many in economic circles believe that the various contract management systems which, beginning in 1976, have increased enterprise autonomy, reduced taxes and ceded profits, and made the "separation of ownership from operations" their basis have brought only elementary change to the enterprise operating mechanism, and have by no means touched the core of enterprise system reform. The way out for China's economy must start from the clarification of property rights and the establishment of a system for the transfer of property rights.

Judging from the various difficulties which reform is encountering at present, the property rights issue cannot be avoided if we are to establish a modern market economy system.

From the breakthrough of enterprise merger we can detect the accompanying gradual emergence, on the road of future reform, of the demarcation, management, and flow of property rights, and it may be hoped that a complete system of property rights transfer may be formed. All enterprises which are unable to make repayments or are poorly run should go bankrupt or be annexed, allowing their assets to flow to high-efficiency enterprises. Only by establishing this system can market competition truly play its role, form a social climate conducive to bringing up a generation of excellent enterprise managers, and improve investment returns. Only expanding the scope of property management can replace blind expansion of the scope of capital construction and reckless issuing of wages and bonuses.

The Market—The Method of Deepening Enterprise Merger

At present, the basic line of thought, from the government to enterprise, for gradually deepening merger is to push such factors as enterprise property rights and operational rights toward the market in one fell swoop, introduce competition into merger and, through market competition, make information flow freely, expand selection, and make transactions fair and rational. Specialists at the State Council's Development Research Center believe that the development of an enterprise property rights market can be divided into two steps.

The first step is to focus on implementation within a public ownership economy and avoid having state-owned assets flow at low prices into the hands of individuals. Emphasis is placed on the development of regional property rights markets, in order to avoid friction between the interests of different regions, and on experimenting in industrial departments with severe overlapping construction and a concentration of deficit-incurring enterprises, such as the light industry system.

The second step, after gaining experience from the above-mentioned experimentation, is to make a gradual transition to developing on a national scale a transregional, transindustrial, and trans-ownership system enterprise property rights market in which the main bodies of many ownership systems participate. Various localities are spurred to bring their own strengths into play and to dispose their assets in the best managed industries. Such tourist cities as Guilin and Xian can transfer ownership of a portion of their industrial enterprises and concentrate their earned assets on the tourism industry. Such open coastal regions as Guangdong and Fujian can transfer possession of a portion of their deficit-incurring or low-profit enterprises to other regions, converting the

opportunity to open up to the outside world and preferential policies into wealth, and attracting well-run interior enterprises to the open region to purchase enterprises.

At present, the first step in establishing a property rights market has already begun to be put into practice in some departments and regions. The Ministry of Light Industry has drawn up two documents concerning the transfer of property rights. Such cities as Wuhan and Chengdu established property rights exchange markets in succession this year. In the more than 4 months since the opening of the Wuhan enterprise merger market, over 80 enterprises have formally registered requests to annex or be annexed by other enterprises, and over 30 enterprises have formally concluded transactions. However, all of these are small collective factories or Wuhan's large deficit-incurring enterprises, and not one of them has appeared on the property rights market. This shows that state-run enterprises have not yet formed a sense of crisis. Policy considerations still allow them all to eat from the same big pot, and the department ownership still firmly binds together enterprises and leading high-level authorities.

The Role of the Government in Merger

Baoding and Wuhan, two cities which implemented merger relatively early, each have different special characteristics. The sequence of most of Wuhan's mergers is from bottom to top; that is, enterprises first hold talks among themselves, and the government supports and approves later. In Baoding, on the other hand, the majority of enterprises follow a top-to-bottom sequence; that is, the government plays the role of pushing forward and guiding mergers. According to reports from enterprises, many transfers of ownership are proposed and facilitated by mayors and city council secretaries.

How should the government's role in this be understood? Merger is the devouring of one enterprise by another enterprise in accordance with market rules. However, since the government is the representative of the owners of state-owned assets, its participation in merger activities is logical from a legal standpoint; especially at the present stage, when the level of market development is low, it is hard to ignore the government's role in acting as an intermediary, facilitating transfer of ownership, regulating the disposition of assets, and reducing recklessness. Even after the increasing standardization of merger in the future, we cannot do away with the government's participation, or with the method of merger through the government's adoption of administrative orders. The key is how the government uses its own authority to play the role of providing guidance, coordination, service, and macrocontrol; through formulating guidelines and policy guidance, it allows enterprise property rights transfer to develop in the direction of improved industrial structure and enterprise organizational structure, and in a direction conducive to the improvement of economic returns, and prevents the blind transfer of

ownership of temporarily low-profit or even deficit-incurring enterprises in newly emerging industries; it particularly prevents the occurrence of a sudden rush toward merger.

From the standpoint of the present, the hardest-to-overcome obstacle in the merger process is still the problem of the placement and remuneration of personnel of annexed enterprises. In order to reduce social repercussions and accompanying worker unemployment, China's enterprise mergers have adopted the method of directing the flow of personnel and assets to annexing enterprises. If this method is implemented between enterprises with identical ownership systems, the problems are simple, but if mergers which cut across different ownership systems are encountered, the problems become sticky, because this involves the difficult problem of different remuneration and benefits for staff and workers under different ownership systems. Some experts have proposed that if a state-run enterprise annexes a collective enterprise, a contractual appointment system may be implemented for the annexed enterprise's workers; and that, if a collective enterprise devours a state-run enterprise, they adopt the method of changing the status of the original enterprise's workers to that of staff and workers and the state-run enterprise. As to whether the merging of personnel and assets might be at the cost of damage to the efficiency of the annexing enterprise, this, too, must be considered.

Compared with bankruptcy, merger's scope of application is broader, it causes fewer repercussions, and it involves fewer "funeral arrangements" that have to be taken care of, but it is by no means a panacea. In future enterprise system reform, we should continue to look at actual circumstances and guarantee what should be guaranteed, sell what should be sold, and lease what should be leased, rather than adopt a "one-stroke" method.

FINANCE, BANKING

Study on Structure of Government Loan Market, National Debt

40060174 Beijing *CAIMAO JINGJI [FINANCE AND ECONOMICS]* in Chinese No 10, 11 Oct 88 pp 31-34

[Article by Li Xinguo 2621 2450 0948, graduate student of the Jilin Provincial Institute of Finance and Economics: "A Positive Study of Our Government Loan Market Structure"]

[Text] Since China began to issue treasury bonds in 1981, over 55 billion yuan of government loans¹ have been issued in total. The role played by the huge amount of government loan income in balancing revenue and expenditure and supporting major construction projects should not be underestimated. However, due to the influence of traditional mechanisms, the government loan market still has problems in many areas, and the most prominent one is the serious irrationality of its

structure, which hinders the healthy development of the government loan market. This article will discuss some of my personal views on this issue.

I. The Current Structure and Problem Analysis of China's Government Loan Market

Due to a lack of long-term plans and years of rejecting market mechanisms, China's government loan system has relied completely on administrative control and been propelled by political forces, resulting in a seriously irrational structure of government loans. Main demonstrations are as follows:

A. Government loans are inadequately circulated. The biggest defect of China's government loan system is the

lack of a complete government loan market. First of all, judged from the distribution market, China's government loan distribution mechanism is a vertical administrative operation. We may say that objective and compulsive apportionment has always been the basic means of China's government loan distribution. Second, judged from the circulation market, the practice of limited decontrol of government loan circulation market cannot at all satisfy the needs of enterprises, units, and individuals in transferring treasury bonds, therefore, continuous improvement must be made.

B. The maturity period of government loans are shortened. For the convenience of analysis, we have compiled the following table on the maturity periods, interest rates, holders, scales, and returns on treasury bonds issued since 1981:

The Table of Our Government Loan Structure

Unit: 100 million yuan

Year	Category	Maturity (year)	Planned Distribution	Actual Distribution	Interest (%)		Holders				Debt balance
					Unit	Individual	Unit		Individual		
							Volume	Proportion	Volume	Proportion	
1981	Treasury bond	6-10	40	48.66	4%	4%	48.55	99.8	0.11	0.2	48.66
1982	Treasury bond	6-10	40	43.83	4%	8%	24.12	55.0	19.71	45.0	92.49
1983	Treasury bond	6-10	40	41.58	4%	8%	20.71	49.8	20.87	50.2	134.07
1984	Treasury bond	6-10	40	42.53	4%	8%	20.11	47.7	22.07	52.3	176.60
1985	Treasury bond	5	60	60.61	5%	9%	21.66	35.8	38.85	64.2	237.21
1986	Treasury bond	5	60	62.51	6%	10%					289.99
1987	Treasury bond		60								
	Major construction bond	5	55		6%	10%					431.85
	Major enterprise bond	3	45								
1988	Treasury bond	3	90		6%	10%					490.03

The above table shows that the maturity period of China's government loans is getting shorter, which can result in the following problems:

1) Government loans will be due at the same time and increase the burden of principle and interest payment. Principle and interest payment on treasury bonds alone will reach 23 billion yuan—the peak of debt retirement—by 1991, and it is very difficult for the financial department to make such a huge payment all at once. 2) The short-term debt structure can also force the Ministry

of Finance to constantly raise funds on the market to pay debts that are due, forming a vicious circle of debts. 3) Given the existence of a circulation market, short-term treasury bonds or government loans are a form of highly liquid "future currency" which can create a potential threat to the market. Those people who hold bonds that will soon mature also tend to increase consumption, thereby increasing inflationary pressures.

C. The structure of bondholders is irrational. The above table shows that government loans are held by enterprises, units, and individuals and that specialized banks

do not hold treasury bonds except for a very small amount which they bought in last year. Since most bank debts are on a short-term basis, the structure of banks' assets must maintain certain liquidity. Holding cash provides great liquidity but no profits whereas holding short-term government loans can give banks both liquidity and profits. Therefore, specialized banks should hold a certain amount of government loans. Since nonbank monetary organizations such as insurance companies have long-term debts, they can also hold a certain amount of long- or intermediate-term government loans and earn greater profits from them. China's central bank has not become a government loan holder, so it cannot regulate the finance and economy through government loan purchases and sales in open-market operations.

D. Interest rates are reversed. The normal structure of interest is the longer the maturity period, the higher the interest rate. However, the interest structure of government loans is reversed: the longer the maturity period, the lower the interest rate. As shown in the above table, the annual interest rate of China's 10-year government loans (for the purchases of individuals) is 8 percent, that of 5-year government loans is 9 percent (such as the 1985 issue to individuals), and that of 3-year government loans is 10 percent (such as this year's issue to individuals). The discount rate is also too high, 1.293 percent per month at the present. If an individual goes to the bank and cashes a treasury bond which he held for 2 years, he can get only 77.5 percent of its face value back. Such a discount rate, which prevents buyers from getting their principle back in 3 years, has seriously dampened the public's enthusiasm for buying treasury bonds.

E. Uses are unclear. Funds raised from government loan issues, namely government loan incomes, are all mixed up with the revenues of the fiscal budget and used for common purposes, thereby confusing deficit government loans with construction government loans. This is not good for the management of government loans or gradual transition to "feeding debts with debts."

Moreover, due to its limited variety, China's government loans cannot suit the multifarious composition of social funds and the various needs of investors.

II. Several Ideas on the Adjustment of Government Loan Structure

A. Readjust the mix of bondholders in accordance with the currency policy.

Government loans are the intersection of financial and currency policies. It is very hard for the central bank and commercial banks to influence the government loan market to coordinate it with the currency policy if they do not hold a certain amount of government loans. By the same token, in case of fiscal deficits, the passive and subsidiary position of the currency policy as to the

financial policy cannot be changed through such means as overdraft and loans without the means of government loans. Therefore, we must change the structure of government loan holders.

First, we should eliminate restrictions on the buying and selling of government loans by specialized banks, ease the discount policy, and enable specialized banks to join the rank of government loan holders. The advantages of specialized banks holding a certain amount of government loans are: 1) Holding a certain amount of government loans can help them increase profits. The purchases of treasury bonds are part of the capital business of specialized banks and are of the same nature as of their other loans. However, because the discount rate (1.293 percent per month) is 1.16 times higher than the interest rate of working-capital loans (0.6 percent per month) and 0.8 times higher than the interest rate of under-3-year fixed-asset loans (0.72 percent per month), buying national bonds can earn banks more profits. And issuing fixed-asset and working-capital loans cannot avoid possible losses incurred from default or bad debt, but purchasing national bonds "ensures stable yields despite drought or excessive rain" because it is secured by the credit and economic power of the state. Because of this, the low-risk and high-profit characteristics of national bonds will be extremely appealing to specialized banks, especially incorporated ones. 2) Holding national bonds is favorable to the adjustment of the capital structure of specialized banks. Given the existence of secondary national bond markets, specialized banks may sell national bonds (referring of course mainly to short-term national bonds) at anytime if they need to increase money reserves; they can increase their holdings of national bonds if they have surplus reserves. Therefore, national bond holdings give specialized banks more liquidity than loan issues would. 3) Holding national bonds by specialized banks is favorable to readjusting the money supply. If all conditions remain the same, purchasing national of bonds by specialized banks can increase money supply; and vice versa.

Second, we should break the rule that prevents the central bank from buying and enable the central bank to become a national bond holder. Holding national bonds is the common characteristic of the central banks of countries where the commodity economy is better developed. China is unlikely to be an exception if it wants to develop its commodity economy, improve macroeconomic control, and rely mainly on indirect control instead of direct control. In content, there is no difference between the central bank holding government loans and the overdraft and borrowing from the central bank by the financial department; they are only different in form. However, such a change in form is very favorable to the control of money supply by the central bank because when government loans are adopted, the initiative of purchasing is in the hands of the central bank, which can decide whether, when, and how much it should buy according to its needs. The central bank can sell after it buys and use this practice to regulate money reserves.

Therefore, compared with the means of overdraft and loans, government loans provide more liquidity. At the same time, the central bank and specialized banks holding a certain amount of government loans can lay a solid foundation for the central bank to engage in open-market operations. Open-market operations, which are more liquid than savings deposit reserves and the discount mechanism, are an excellent tool to regulate the market. China should begin such operations as soon as possible. Judged by China's actual conditions, the central bank, in particular, has to use treasury bonds as its main tool to engage in open-market operations because other securities are not comparable to treasury bonds on either scale or credibility on the security market at the present and in the near future. Because of this, the central bank must hold a certain amount of government loans in order to begin open-market operations.

After specialized banks and the central bank become holders of government loans (mainly short-term or long-term, maturing government loans), not only the amount held by units and individuals will be reduced accordingly to create potential for further commitment and purchases but the relationship between the central bank and specialized banks can also be improved to change the direct control based on planning and administrative means to indirect control based on economic means. To expand or reduce the scale of loans or money supply, the central bank no longer needs to change the indexes of planned or temporary loans to specialized banks. Instead, it can achieve the purpose of regulation at anytime and anywhere through open-market operations.

B. Extend the average maturity period of government loans and establish a balanced maturity structure. There are two ways to gradually establish a balanced maturity structure:

First, improve the structure of treasury bond issues. In the Seventh 5-year Plan period or sometime after that, we may consider issuing government loans of the following maturity periods: 1) Long-term government loans may be termed for 10, 15, and 20 years and used to absorb mainly long-term construction funds. Because the overwhelming majority of construction projects cannot recover construction funds within a short period of time and state-funded construction projects, in particular, are mostly low-profit public facilities, issuing intermediate- and short-term construction bonds, such as China's 1987 issue of "major construction bonds," will result in repeated extension of maturity periods, thus increasing expenditures for the promotion of sales. Issuing long-term government loans can prevent this problem. The financial authorities may worry that long-term government loans are not easy to sell, which is true under the old system without the secondary market. Once the secondary market is open, this worry will disappear because the secondary market has the function of changing maturities and it can change long term to short term. Moreover, long-term government loans bears higher interest which can offset losses incurred from price rises

and thereby benefit investors. 2) Intermediate-term government loans may be termed for 3, 5, and 7 years. This type of government loan have three uses: first, making up financial deficits; second, replacing maturing government loans; and third, raising construction funds. Judged from China's current condition, this type of government loan should be used mainly for the first two purposes and properly controlled to avoid worsening the existing problem of shortened maturities of government loans. 3) Short-term government loans, namely treasury bonds in the real sense, may be termed for 1, 3, and 6 months. This type should be used mainly for temporary revenue shortages because it is impossible for revenue and expenditure to be balanced at all times even during a fiscal year where revenue and expenditure are balanced. For instance, revenues are collected and spent simultaneously and in some months, income may not be able to satisfy the immediate need of expenditure. That is the time when treasury bonds should be issued to solve the problems. When there is a temporary surplus in the revenue, it may be used to redeem or buy back matured or prematured treasury bonds. By developing long-term, controlling intermediate-term, and increasing short-term treasury bonds, we can extend the average maturity period of new issues and gradually achieve a balanced structure.

Second, adjust the maturity period of government loans. China will reach the peak of government loan maturity in 1990 and 1991. We may reduce its adverse effect on the circulation of currency in two ways: 1) Buy back before maturity dates. We should buy back part of the treasury bonds issued in 1985, 1986, and 1987 and major construction and enterprise bonds issued in 1987 from the government loan market to reduce the impact of the concentrated retirement. 2) Issue replacement bonds. Replacement bonds with better terms may be issued to retire matured bonds so as to extend the maturity period of government loans in a disguised form.

C. Change the reversed situation of interest rates and improve the interest mechanism.

In a normal interest structure, maturity period and interest rate form a direct ratio. But China's current interest rates on government loans are reversed, turning the direct ratio into an inverse one. Judged from the current situation, lowering the interest rates of short-term government loans to change this situation is probably not practical because it can only hinder the promotion of sales in a society where inflation is high and enterprises and units raise funds by offering high interest rates. So the only feasible way is to raise the interest rates of long-term government loans. If the annual interest rate is raised by 2 percent, namely to 12 percent, its actual interest rate will not exceed 6 percent because inflation has been between 6 and 10 percent in recent years. This will not increase the burden of the financial department, but it will be much more attractive to investors.

D. Do away with the budget system that mixes everything up and conduct independent management of government loans.

One of the defects in China's budget management system is that government loan income is included in state revenue as ordinary income and fiscal deficits are calculated in addition to government loan income, which is absurd. Because government loan income, regardless of internal or external debts, must be returned eventually, it should not be treated as other revenues that do not need to be returned. On the other hand, since government loans are issued, the tie of "umbilical cord" between the financial department and the central bank must be resolutely severed, overdraft-incurred deficits should be changed to debt-incurred deficits, the financial department must eliminate all their deficits through the government loan market, and the central bank should make their own decisions on what amounts of government loan to purchase in accordance with their own needs. And, the government loan income of the financial department must be classified into deficit and construction government loans and placed under dual-budget management. In other words, according to the sources of income, we should put regular income in the "regular budget" and government loan income in the "investment budget" to be managed separately. Construction government loans must be used mainly to support those projects which have the ability to repay the debts and managed as loans so as to ensure that the debts are retired on time and that we gradually develop in the direction of "feeding debts with debts." Deficit government loans can be used as other revenues, but a "sinking fund" must be established for them because they cannot generate the sources of repayment like construction bonds do. After a sinking fund is established, the financial department takes out a certain sum of budget expenditure to pay into the sinking fund to be used only for the repayment of matured deficit government loans. The amount of the allocation should equal roughly the amount of principle and interest payments on the government loans. However, since the government loans issued by China in the past few years were not classified, the sinking fund established with budget revenue in the recent years should correspond to the amount of principle and interest payments on all matured government loans.

E. Improve the variety of government loans and arouse the people's enthusiasm for buying them.

In addition to government loans of different maturities mentioned above, we may also consider issuing the following types of government loans: 1) Floating-rate bonds. We do not need to hide the fact that prices have increased substantially in China in recent years and many people are seeking measures to preserve value. This is clearly proved by the fact that all gold jewelry is sold out on the Renminbi markets throughout the nation. Because of this, issuing floating-rate intermediate- or long-term national bonds to meet the needs of society will be welcomed by the public. 2) Special bonds issued

to invigorate certain economic sectors or areas or to build certain projects. For instance, we may issue bonds for energy and power construction, commercial housing construction, the development of the Hainan region, special economic zones, or the building of certain hydroelectric or nuclear power plants. Since this type of bonds has concrete uses and yields great, encouraging economic and social returns, it can arouse the enthusiasm of the people for buying them. In addition, when completed, these projects are reliable sources of repayments and therefore will not increase the state's burden of repayment. Why not do this? 3) Savings bonds. The financial department may also entrust banks to issue some savings bonds. Based on U.S. experiences, savings bonds should have two characteristics: First, they are sold at a discount. In other words, it is sold at a discount of its face value and redeemed at its face value when matured. Second, it cannot be put on the market. Namely, it cannot be transferred or circulated on the market.

Footnote

1. Government loans in a narrow sense refers to bonds issued by the state to the people, enterprises, and units within the country, namely what we usually called internal debt. Government loans in a broad sense refers to internal debt plus loans borrowed by the state financial department from foreign countries, namely external debt. Government loans in this article refers to internal debt.

On Need To Reverse Serious Financial Situation
40060173 Beijing ZHONGGUO JINRONG [CHINA FINANCE] in Chinese No 10, 4 Oct 88 pp 4-5

[Article: "Make Joint Efforts To Reverse the Serious Financial Situation as Soon as Possible"]

[Text] In a series of recent meetings, the party Central Committee and the State Council have studied ways to control currency and credit, stabilize the financial situation and check inflation, and several documents have been issued with instructions on such matters as controlling currency and credit, and strengthening management of cash reserves, account settlements, and finances. The financial situation determines financial policies and correct understanding and evaluation of the financial situation is the foundation on which rests the correct formulation and execution of policies and measures to control currency and credit. If we want to implement the spirit of the party Central Committee and State Council instructions on controlling currency and credit, have the whole nation make a concerted effort and keep in step, and have this control currency and credit within the targets ratified by the State Council, we must arrive at a consensus on just what is the current financial situation.

Why Do We Say That the Current Financial Situation Is Serious?

The current seriousness of our financial situation is well demonstrated by the excessive amount of currency that has been put into circulation and the dizzying increase in loans this year. From January to July, a total of 18.3 billion yuan of currency was put into circulation. Last year during the same period 4.4 billion yuan was taken out of circulation. Comparing similar periods this year and last, 22.7 billion yuan more was put into circulation this year. Bank loans of all kinds increased to 76.6 billion yuan this year, and 51.8 billion yuan more in loans was made this year than last year during the same period. Historically, currency is taken out of circulation between January and July and loans of all types generally fall off. But this year was not normal at all.

The serious state of our current financial situation also is due to the fact that some areas, departments, and banks are still enthusiastically putting increased amounts of currency into circulation and increasing their loans. Areas that once had rapid industrial growth want to maintain that growth, and areas where industrial growth has lagged would like to dash headlong to catch up and achieve rapid growth. In order to sustain rapid growth, some locales are displaying a kind of situation where "rapid growth guarantees the finances and the banks guarantee the rapid growth." In these places where bank deposits are few and there is no corresponding source of funds, expansion of loans is achieved by relying on outside sources for short-term borrowing and use of banking group funds. Nationwide we now have 14 provinces, autonomous regions, and municipalities directly under state jurisdiction that show increases in loans greatly exceeding increases in deposits. Looking from this year's situation, the nationwide increase in circulating currency and loans greatly exceeds the scope of economic growth and rise in commodity prices for the same period. If we don't take urgent measures and seriously increase controls, our currency issues and scale of credit this year may run away from us.

Grim Results the Serious Situation May Bring

Currency is a vehicle for commodity exchange, and funds are the chips that stand for goods and materials. The appropriate amount of currency has been put into circulation and the appropriate amount of loans have been made when overall social demand is balanced by overall social supply. The amount of currency that banks can put into circulation and the number of loans banks can make within a given period cannot depend on the needs of production speed but must depend on the overall societal supply possibilities. The large scope and rapid speed of price rises for production materials and consumer goods this year is undoubtedly due to the emergence of price reforms. However, other major reasons include an overheated economy running too fast and an overly large scale of construction which led to too much currency being put into circulation and too many

loans being made. This illustrates that the contradiction between overall social supply and demand continues to grow larger. If we follow the demands of certain regions and banks and meet high speed economic growth and rising commodity prices with increased issuance of currency and bank loans, we will bring on a vicious cycle and further exacerbate inflation.

Increased currency issues and bank loans may stimulate economic growth in the short-run, but this can't be maintained for long. At all times and in all places it has been a fact that inflation more often than not leads to inappropriate deployment of resources, an unstable economy with low results, psychological unease, currency hoarding and panic buying, increased current consumption and reduced savings deposits. Also, under conditions of inflation, unreasonable price systems cannot truly be reformed.

At present, China has already entered the phase of all-out reform. The success or failure of reforms in the economic system as a whole hinges on price reforms. At the 10th plenum of the CCPCC Politburo, it was pointed out that price reforms over the next five years are extremely important, and of particular importance are the reforms next year. Whether or not we do well in making these reforms is of considerable significance in our establishing the new order of the socialist commodity economy and in speeding up socialist modernization construction. Price reforms can only be successful if we achieve a relatively stable currency and have no inflation. If our currency and loans get out of control this year, then next year price reforms will meet with difficulty and we may even be saddled with spiraling rises in prices until finally we will return to the old price parity but at a new level. If this occurs, the reforms will have failed to reach their goals and the economy will be difficult to stabilize. Thus, strict control over currency and loans this year not only touches on whether price reforms next year will emerge successful but also whether it will give us ample room to maneuver in coming years. For this reason, the State Council issued documents containing instructions to the People's Bank of China on controlling currency and stabilizing finances which pointed out that whether the amount of currency issued is appropriate and whether finances can be kept stable are of major consequence in ensuring stable development of the national economy, promoting reforms of the economic system, and especially, successfully carrying out commodity price reform and consolidating and maintaining political unity. Government in all places and all departments of the State Council must further unite their thinking and rise to the weighty task of stabilizing the economy and intensifying reforms through control over currency and loans.

The Serious Financial Situation—Tackle It in a Comprehensive Way and Turn It Around as Soon as Possible

Currency and loans are a comprehensive reflection of overall economic activity, and control over them touches on the whole of the economy and reforms. Thus, controlling currency and loans is not the job of the banks

alone but should be the joint mission of government everywhere, the responsible departments and the enterprises. We must jointly take strong measures and tackle this in a comprehensive way. Speaking as to the economy, the primary steps to take so as to tackle the problem comprehensively are to make the appropriate slowdown in the speed of economic development and resolutely scale down basic construction. Recently, comprehensive measures for tackling currency and loan problems have been put forth in State Council instructional documents and the "Specific Regulations on Further Controlling 1988 Currency Issues and the Scale of Credit" published and distributed by the People's Bank of China.

First, we must further strengthen our concentrated management over currency and credit and get a grip on the "throttle valve" for currency and credit. The issuance of currency and the making of loans is closely connected with a balance between overall societal supply and demand. In order to maintain a macroeconomic balance, all regions, departments, and banks at all levels without exception must submit to concentrated management of currency and loans. As for the critical measures that have been and are going to be brought forth, and as for state regulations requiring a resolute halt to loans, all must act in unity and strictly enforce the orders and prohibitions. In order to ensure that the Central Bank and the specialized banks exercise their own functions and powers, the instructional documents issued by the State Council reiterate that no unit or individual may compel a bank to extend a loan or stand in the way when a bank seeks to recall a mature or overdue loan. And without approval of the head branch of the People's Bank of China, no department may, under any name, establish or covertly establish a financial organ, nor handle deposits, loans or any such business. The credit plan and currency issue plan formulated by the State this year must be strictly adopted in all locales, and the parameters may not be exceeded. These regulations should become the operational standards for government, departments and banks throughout China.

Second, all areas and all banks at all levels must strictly control the issuance of currency and the scale of loans. The currency issue plan made known by the state to all lower levels must be implemented through the responsibility system of the administrative heads, and provincial governors, chairmen of the autonomous regions and mayors should organize local banks and departments concerned to jointly study and implement this. As for the scale of loans, we should adopt methods such as combining barriers, controlling the two lines, and making monthly examinations. All banks and regions must stay within the rules unless approval is received from the units concerned. Otherwise, the head of the errant bank will be investigated.

Third, we must open up new sources of funds, bring out the full potential of the funds and improve the ability to achieve self-balancing. Although the excessive issuance

of currency and loans in the first seven months of this year increased the supply pressure of currency and loans, it also illustrates that there is an enormous potential for funds and lots of room to maneuver. All regions and all banks at all levels must keep their eyes lowered and go all out to walk a path that leads to home via increased deposits, greater use of the potential of existing funds, and resolution of the supply and demand contradiction of funds. They must not count on the Central Bank or the higher level banks to give them money when they ask for it or look to outside sources to make short-term loans so as to maintain rapid growth.

Fourth, we must regulate and control loans made by the People's Bank. In order to give full play to the active role of the loans of the People's Bank in controlling the overall amounts of currency and credit and in adjusting the loan mix, we must totally disclose all our plans at once with regard to the loans of the People's Banks everywhere and, according to the requirements of the "three link ups" (namely, linking up with the scales of loans made by the specialized banks, linking up with the direction in which loans of the specialized banks are extended, and linking up with the completed situation from the mission of uncovering the potential of funds), make the issuance downwards in stages and in groups, distinguish between good and bad, pressing and nonpressing, and make reasonable arrangements and use.

In sum, we must come to a consensus, unite our action, reverse the serious financial situation, create a relaxed environment for price reforms, and strive to build the new order of the socialist commodity economy.

FOREIGN TRADE, INVESTMENT

Projects for Greater Economic Cooperation With European Community

40060145 Shanghai SHIJIE JINGJI WENHUI
[WORLD ECONOMIC FORUM] in Chinese
No 5, 5 Oct 88 pp 55-63

[Article by Jiang Sanming 5592 0005 6900 and Yu Kaixiang 0151 7030 4382: "Review and Outlook of Economic Cooperation Between China and the European Community."]

[Excerpt] [Passage omitted]

II. Basis and Problem of Developing Comprehensive, Long-Term, Steady Sino-EC Economic Cooperation

China has a sound foundation and tremendous potential for developing comprehensive, long-term, steady economic relations with the European Community. Politically, China regards Europe as an important peace-loving force. China is looking forward to a unified, strong, well-developed Europe. The EC lauds China's independent, autonomous, and peaceful foreign policy and regards China as an important factor in the peaceful and stable world. As far as promoting mutual economic

development is concerned, since the 1980's, amid industrial reorganization and the restructuring of economic policies, the EC nations have found themselves in a difficult, low-growth, high-unemployment, situation. Faced with serious economic and technological challenges from the U.S. and Japan, concurrent with its vigorous effort to organize a large, internal, unified market, the EC is also looking for and making every effort to develop external markets. China is potentially the world's large market. Reform and the opening up to the outside world have brought economic vitality to the country, and China has become increasingly attractive to the EC nations.

Based on their respective economic conditions, the EC and China can supplement each other's economy. China needs the EC's technological skills to further its construction efforts; the two should become good partners rather than competitors. The EC nations have scarce energy resources and raw materials, and China can become a steady supplier. The EC nations and China are at different levels of development. Traditional industries which had trouble getting off the ground in Europe have developed successfully in China, so the two sides can cooperate on production and help supply each other's needs. In the high-tech field, although the EC nations may be ahead of China, each side has its superiority and can learn from each other's strong points and weaknesses and help each other grow.

The EC is the world's largest trading bloc; it has substantial economic strength. China is a developing country; it needs to import foreign funds, technologies, and equipment. In the wake of better political relations between the EC and its member nations and China, although there have been obvious improvements in the bilateral economic relations which is an important part of their bilateral relationship, relative to their respective latent capacities, the bilateral economic and trade relations does not match the level of bilateral friendship and cooperation. There is much room for increasing bilateral trade and technological cooperations.

In recent years, China's huge trade deficits with the EC have become the main obstacle to expediting further development of the bilateral trade relations. The rate of increase in the EC's imports from China has slowed, but because of China's domestic economic construction needs, the EC's exports have increased fairly rapidly, especially since 1983. According to EC statistics, for each year between 1983 and 1986, China's trade deficits with the EC have been, in Eurocurrencies, 90 million, 297 million, 2.732 billion, and 2.31 billion, respectively. For the same period, China's composite export to import ratio have been 96 percent, 97 percent, 58 percent, and 64.7 percent respectively. This inevitably affects and limits China's ability to pay for its imports. Only if China can rapidly increase its exports to the EC can the imbalance in the bilateral trade be corrected, and only

then will conditions allow even more exports from the EC. Therefore, reducing China's trade deficits with the EC is the key to further developing bilateral economic relations.

China's trade deficits are concentrated in the hands of a few member nations, namely, the Federal Republic of Germany, which accounts for 73.3 percent; Italy, 14 percent; Great Britain, 7 percent; and Spain, 5.8 percent. Trade deficit or surplus with other members of the EC are minimal.

The slow rate of increase in the EC's import from China is not consistent with the growing bilateral friendship and cooperation, nor with China's thorough reforms and the policy of opening up to the outside world. Many factors prevent the EC from importing more goods from China.

On the Chinese side, it is mainly because the mix of export goods, the quality of the products, and the business style are incompatible with the needs of the EC market.

First, the poor mix of export products is the main factor limiting the export of more Chinese goods to the EC. For more than 20 years, despite a steady drop in the proportion of raw material-type commodities and some increase in the proportion of manufactured goods in the mix of export products, the principal exports are still agricultural, sideline, and native products and textile goods. This mix of export products can neither help increase China's export nor meet the needs of the changing EC market, even less correct the unbalanced bilateral trade situation. Even if these traditional raw material-type commodities continue to be highly marketable, their production is limited by natural conditions, and because of growing demand in the domestic market, competition at home and abroad for raw materials has intensified, and eventually there will not be enough for export, let alone any substantial increase in exports. Furthermore, most of these traditional commodities are low technology goods with little added value, and therefore the prices are low, and to increase the dollar value of exports, we have to increase the volume significantly. This not only is difficult but is inefficient. At the same time, the trend of the EC market's import from outside of the region over the past 20 years or so has clearly indicated a reduction in the proportion of agricultural and sideline products and primary goods and an increase, to various extents, in the proportion of machinery, equipment, energy resources, chemical, and industrial products. This means those goods which make up a declining percentage of the EC's imports are the main export goods China is still trying to, and will continue to, consolidate and develop, and those products which make up a growing percentage of the EC's imports are the products which China does not have the technology to produce and export more of, thus slowing the rate of increase in exports to the EC.

Second, the export goods are not very competitive, as manifested by their poor quality and the poor export service. On the whole, Chinese manufactured goods are of poor quality and lack quality control, and the batch products are seldom as good as the sample products. There are few choices in pattern and color; the products are old-fashioned in appearance, design, and construction, and the packaging is behind the times. They cannot satisfy the consumers' growing demand for quality, nor can they find a place in the major department stores or supermarkets. In the basically saturated European market, they have to compete with name brands and highly popular products, and often they have to be sold at low prices in discount stores, street bazaars, and flea markets. Furthermore, our sales network, promotion and advertisement, after-sale service are even weaker links, making the products even less competitive.

In addition, other problems include the failure to fulfill contracts, tardiness in responding to requests and suggestions from customers, and manufacturers' attempts to undercut each other's prices and so on. All these problems make the potential customers reluctant to handle Chinese products. In foreign trade, in order to have a bigger market share and compete successfully, one must respond quickly to market changes and capture market opportunities; yet, when foreign merchants repeatedly ask for price information, sample, or information on the nature of the products, or even express interest in buying, often they receive no response at all from our foreign trade companies.

The main problem on the EC side is the following:

The EC has implemented quotas and other protectionist restrictions against some Chinese products, erecting "walls" and closing doors. At present, practically all the products we are exporting in relatively large quantities, or products we are capable of exporting, are restricted by the EC's quotas. In recent years, although the quotas have been raised somewhat, few steps have been taken to ease the restrictions against Chinese products or extend more preferential trade terms, and therefore in essence, nothing has changed in terms of trade restrictions against China. China is among those countries with a state-run economy facing the EC's most stringent import restrictions and does not receive the same treatment as other developing countries. Although some of our exports to the EC receive the same general preferential treatment as goods from other developing countries, in terms of the scope of preferences and the quantity, we are not treated exactly the same as other Asian and Latin American developing countries. The EC on many occasions has used anti-dumping excuses and health quarantine and other administrative measures to restrict Chinese exports, making it difficult for some Chinese products to enter the EC market.

Progress has been slow in attracting enterprises in the EC nations to invest directly in China or set up enterprises here. On the Chinese side, the investment climate still

needs improvement. Although in recent years, China has promulgated and perfected rules and regulations pertaining to foreign investment in enterprises and has expanded and followed through with the preferential policy, freed up economic channels, improved management and work efficiency, offered better service to foreign businesses, and has made progress with improving the investment climate, we are still far from able to attract many foreign investors. Investment climate includes tangible and intangible conditions. The former refer mainly to the infrastructure of investments and other "hardware"; the latter refer to the legal system, culture, habits, ideologies, and other spiritual elements which affect investment. Today, we must continue to work hard to improve the tangible conditions, but it is even more urgent that we improve the intangible conditions. The foreign investors are most concerned about this. The two most serious problems are: one, we do not have a sound legal system, and often laws are ignored. Enterprises basically still cannot operate independently. Two, there is serious bureaucratic tendency, and efficiency is lacking. These have hampered normal enterprise operation and dampened the enthusiasm of foreign investors who have come to regard China as a difficult place to do business. These have adverse effects abroad. On the other hand, the EC enterprises primarily do not understand China's situation; they are unsure, and they worry that things may be difficult, or that they may not be able to make a profit, and so they tend to be too cautious and hesitate about investing in China.

III. The Way To Establish a Closer Comprehensive, Long-Term, Steady Economic Relationship

In order to promote a closer comprehensive, long-term, steady Sino-EC economic relationship, China, on the one hand, must adopt a general policy to mobilize all elements and move forward in steady steps. China must formulate near-term, mid-term, and long-term strategic programs to vigorously increase exports and expand economic-technological cooperation and financial cooperation. The EC, on the other hand, should modify its trade policies and improve substantively the preferential trade terms it is offering China.

A. Vigorously Promote Exports to the EC

The key to developing Sino-EC trade relations lies in continuous expansion of Chinese export to the EC. Only if China can increase exports can the development of Sino-EC economic relations secure a strong, reliable base. To speed up the development of exports to the EC, we must further consolidate and increase the export of traditional commodities, as permitted by China's present export capacity and in accordance with the needs of the EC, and at the same time, we must formulate mid- to long-term programs to gradually change the mix of export product step by step: we should increase the export of energy, minerals, and natural resources, and

vigorously develop and increase the export of mechanical and electrical products and thoroughly processed goods, and we must also prepare to launch the export of technology-intensive products.

First, we should consolidate and slowly expand the export of traditional commodities. In view of China's present level of production technology and economic conditions, we must continue to emphasize the export of traditional products. Products such as filature silk, rabbit hair, hog bristle, and canned mushrooms comprise more than 90 percent of the EC's imports. While we are stabilizing our market share, we should try to become more efficient. Other traditional products make up a small part of our export now; they have a lot of potential. We should build a good export goods production system and improve the quality of the products and guarantee ample supply of marketable goods. At the same time, we should process the traditional industrial goods more thoroughly, improve the packaging, and aim for the luxury, high-quality, high-price market. It is possible to increase the export of traditional products to the EC market step by step.

Second, we should develop the export of energy, mineral, and natural resource products. Primarily, we should increase the export of coal and some nonferrous metals. China has a rich deposit of coal and some nonferrous metals; we top the world in reserves and extraction, and we have tremendous export capacity. Developing the export of coal and nonferrous metals and mineral ores not only will let the underground resources help us increase export and earn more foreign exchange but will also give impetus to the development of China's energy resource industries, mining and smelting industries, and communications and transportation. In order to import a wider variety of energy resources and raw materials, the EC has shown great interest in joint efforts with China to explore coal and other resources and increase the import of nonferrous metal and rare-earth resources. Member nations are willing to give priority to joint ventures in developing energy resources. Great Britain, France, and the FRG have mined coal for several hundred years' and have rich experience in mining operations under a variety of complicated geological conditions. They have highly sophisticated mining equipment and advanced technologies, and the joint exploration efforts can quickly increase the availability of coal for export. Furthermore, the EC does not restrict or interfere with the import of coal. The market is wide open to anybody willing to compete in the free market. We should draw up a mid-term program to develop the long-term, steady, and continuous export of China's coal and certain nonferrous metals to the EC.

Furthermore, we should vigorously promote the export of mechanical and electrical products and other thoroughly processed products. In the long-run, we must modernize our mix of export goods which over-emphasizes primary goods and expedite the shift from primary to manufactured goods, and from coarsely processed to

finely processed goods. We should process and add value to raw materials and improve the product-mix by processing the goods more thoroughly. In the course of restructuring and optimizing the product-mix, we should concentrate on vigorously developing the export of mechanical and electrical products and other thoroughly processed goods.

Although China has only just begun to export its mechanical and electrical products to the EC, its processing capacity and technological capability are potential advantages. Western Europe is the world's largest mechanical and electrical products market, and demand is still growing. China should work hard to develop this market. According to EC statistics, in 1986, China's export of mechanical and electrical products to EC was worth 93.99 million units of Eurocurrency, or 2.2 percent of China's total export to the EC and 0.13 percent of the 73.6 billion units of Eurocurrency of the EC's total import of mechanical and electrical products from outside of the community. During the same period, mechanical and electrical products account for 30.7 percent of South Korea's and 36.5 percent of Taiwan's export to the EC, which account for 1.8 percent and 2.3 percent, respectively, of the EC's import of mechanical and electrical products.

This mainly is because the mechanical and electrical products from China are basically primary mechanical and electrical goods which consume much labor, material, and electricity and have little added value. In addition, the export supply is not reliable and the prices tend to be too high. We are not flexible with the way we do business; we have no after-sale service or maintenance and repair centers, and there is an acute shortage of spare and replacement parts. They pose a major problem for the customers. All these factors affect the customers' confidence in handling Chinese mechanical and electrical products. In terms of market competition, average and low-priced mechanical and electrical products face intense market competition. Although products of the EC members pose little threat, there is serious challenge from Soviet, Eastern European, South Korean, and Taiwan products. The Soviet Union and Eastern Europe use their geographic advantage and low prices to sell large quantities of mid- to low-priced products. The inherent quality and the prices of the products from South Korea and Taiwan are comparable to ours, but they pay attention to the packaging and offer better service, and as a result, their share of the EC market far exceeds ours. Mechanical and electrical products account for 64 percent of Japan's total export to the EC, and their prices are usually 20 percent higher than the Chinese products, but because of the high quality, the Japanese has a substantial market share (27.5 percent.)

We should realize that even though China faces intense competition in the EC mechanical and electrical products market, some things are in our favor. First of all, the EC's market demand for these products is still growing, and China and the EC have maintained good political

and economic relations. With a long-term strategy in the Chinese market in mind, some organizations and enterprises which have close relations with China are demanding to share the Chinese market equally with the U.S., Japan, and others and are beginning to change the way they used to do business, which was to "export everything and import nothing." They are exploring possibilities such as reciprocal trade and compensatory trade in order to import more Chinese products. Also, the appreciation of the Japanese, South Korean, and Taiwan currencies have caused them to lose their cost advantage, giving China the opportunity to develop the mechanical and electrical products market in the EC.

Besides mechanical and electrical products, other thoroughly and finely processed goods, particularly chemical products, also have a lot of potential. At present, China's chemical products consist mainly of the primary, inorganic industrial and organic industrial raw materials and medical materials for human and animal use. The EC requires all imported chemical products, except for nuclear materials and chemical weapons, and all materials for consumption or medical use be approved by the appropriate departments, but other than that, there are practically no other restrictions or quota. We should take advantage of this open market environment and expand our export. In addition, in the wake of production and technological advancements, the EC nations are producing more organic and minute industrial chemical products, and industries related to the chemical industry, such as cosmetics, consumer chemical products, and paint, have been growing rapidly in recent years, adding to the increasing demand for raw materials. Projects are good if we develop export in these areas.

In order to develop the EC mechanical and electrical goods and other thoroughly processed goods market, we must strengthen our market research, improve our product design, create new products and replace old products continuously, and improve the packaging. We must reinforce and improve the way we market our products, set up a sales network, adopt a more flexible business style, expand exports at every level, provide better after-sale service, do a better job promoting and advertising our products, strengthen pre-sale service, and change the way we send out samples and other information.

B. Expand Economic-Technological Cooperations

Developing the labor force and making technological progress are key to China's economic success or failure in the 1990's. The EC nations have a strong background in basic advanced scientific and technological research as well as in applied research in industrial and agricultural productions, transportation, communications, environmental protection, and so on. The comprehensive promotion of Sino-EC scientific and technological cooperation can pave the way for commercial and economic cooperations and is the core of economic-technological cooperation. This kind of cooperation between the EC and the Third World mainly consists of technological

cooperation and financial cooperation. These generally fall into two categories: gratuitous aid and compensated investments. "Cooperation" connotes joint operation. Sino-EC economic-technological cooperation includes both of the above categories but is of limited scope and should be expanded. We must seek more of the aid-type cooperation and at the same time actively attract more investment-type cooperation.

The EC's official grants and loans belong to the former category and include financial aid, technological assistance, and loans on favorable terms. In these areas, China has been extended the same treatment as other nonaligned, developing countries, with an annual financial aid worth 6 million in Eurocurrency units, which is on the low side. We feel that in view of China's mounting trade deficits with the EC, and based on the spirit of Article 13 of the bilateral agreement, the EC should consider extending more financial and technological assistance to the Chinese government, and the governments of the principal EC member nations in particular should consider increasing long-term loans, combination loans, technological assistance, and financial. For example, the Federal Republic of Germany has as much as 1.7 billion, in Eurocurrencies, in trade deficit [as published] with China (1986 figure). This accounts for more than 73 percent of our trade deficit with the EC, but the FRG is extending less official aid to China than to South Korea or India, although South Korea has a huge trade surplus with the FRG (176 million, in Eurocurrencies, in 1986,) and India's trade with the FRG is only half of the Sino-FRG trade volume.

Investment-type cooperation consists mainly of direct investments by enterprises of the EC member nations. It is the independent action of enterprises and is motivated by the law of profit. The EC executive committee can neither force the investors nor order them, neither interfere with nor restrict them, and although the executive committee's attitude, its encouragement and support or the opposite, can create an environment, it cannot change the momentum of enterprise investments. Whether they invest or not, and how much they want to invest, are entirely up to enterprises themselves.

China's modernization should be based on need and possibilities, and we must actively attract large scale foreign investments and absorb as much EC funds and technologies as possible. Therefore, 1. We should welcome foreign businesses' technological investments—accept their technology as their investment when setting up joint ventures. They are happy to do so, and it would be to our advantage. 2. We should continue to work hard to improve the investment climate. We must try our best to allow foreigners to operate their business in China according to international practices. While we increase moderately the use of foreign funds to set up the three kinds of partially and wholly foreign owned enterprises, we should also pay attention to managing the existing enterprises better. It is critical that we improve the management of the partially and wholly foreign-owned

enterprises already set up and solve each and every problem they are now facing, so that they can serve as good example to other investors in the Chinese "experimental farm." This task is more important, and can be more effective, than anything else. We must speed up the legislative process and formulate some major rules and regulations as soon as possible. We must put the emphasis on legal education, comply with the law, and enforce the law stringently. We must also resolve the problem of low efficiency around here. To overcome bureaucratic tendencies and be more efficient, we should encourage the related departments to work together and examine and approve projects together, and we should also deal with the issue of how to provide more and better service to foreign investors.

C. Strive To Develop Financial Cooperation

As the world economy becomes more interdependent and the international exchange rate and interest rate become more volatile, the impact of the international financial market on the economy of the nations continues to grow. The Western European Common Market financial circles which have substantial economic clout and ample funds are very much interested in China. The business activities of these financial magnates are not constrained by the laws of their country, and they can make a difference in the rise and fall of the European financial market. China should make the best use of these conditions and make our closer cooperation with the Western European financial circles an integral part of the development of Sino-European economic relations. In particular, we can take advantage of the favorable conditions in the European bond market and issue bonds in U.S. dollars, Japanese yen, and Deutsche marks, or adopt similar fund gathering methods to gather foreign exchange funds to help promote trade and investment, raise foreign exchange funds for China's modernization, and preserve and enhance the value of our money.

Thus far, we have discussed primarily the measures China should take in order to expand bilateral, mutually beneficial, economic and trade relations. For the part of the EC, the executive committee should consider fully that China is a developing nation in the midst of large-scale economic constructions, that internally we are implementing reforms and externally we have implemented a policy of opening up, especially to Europe, and in the interest of both sides, they should modify their trade policy toward China, extend to us full treatment as a developing nation, substantively improve the trade terms with China, and provide such amenities as financial and technological assistance for the sake of a broader scope of economic cooperation between enterprises on both sides.

Consolidating and expanding Sino-EC economic relations is a cause with strategic significance, great potential, and good prospects. If both sides work hard to promote and encourage it, it is certain that the comprehensive Sino-EC economic cooperation can be brought to a new height.

Loans From Japan Fund Upgrading of Jiangsu Export Industries

40060124c Beijing GUOJI SHANGBAO in Chinese
24 Nov 88 p 1

[Article by Jiang Ruinian 5592 3843 1628 and Zhang Jianxi 1728 1696 3556: "Jiangsu Uses Japanese Government 'Return of Surplus' Loans To Speed Up Technological Transformation of Export Industries"]

[Text] Foreign trade departments in Jiangsu are actively using the Japanese government's "return of surplus" loans to develop export production and earn foreign exchange. As of the end of October, agreements had been reached on 40 loan projects totaling more than \$40 million. When completed and put into production, these projects can earn \$45 million in foreign exchange through exports each year.

Most of the export-goods producers in Jiangsu are small and medium-sized enterprises, with rather obsolete production equipment and a crying need for technological transformation. This year the province has striven to attract foreign capital in different forms and through different channels, especially the Japanese government's "return of surplus" loans, to speed up the technological transformation of enterprises. In the selection of loan projects, priority is given to "short, level, and speedy" projects which "require smaller investments, will produce quick economic results, and can repay the loans in a short period." For example, the Nantong No 1 Cotton Mill has used a loan of \$3.5 million plus a state-arranged technological transformation loan to bring in 36 modern looms and ancillary equipment from abroad to build a continuous production line for the manufacture, from spinning to weaving, of a high-quality extra-wide cotton flannel which is in demand in the international market, and the plant is expected to export 980,000 meters of it and earn \$5 million each year. The entire new production line will be housed in existing plant buildings and put into operation in June 1989. The Suzhou Silk Printing Mill is an old factory producing real printed silk, and its products are in great demand abroad. However, owing to obsolete printing equipment, the plant had quality problems in the coloring and printing process. With a "return of surplus" loan of \$1 million, the plant brought in precision printing machines. The new equipment not only has brought the printing quality up to the standard of samples provided by foreign customers, but increased silk export by 1.2 million meters each year, adding 7.2 million yuan to the plant's output value and \$2 million to its net foreign exchange earnings. To speed up utilization of the "return of surplus" loans and insure quick economic results, the Ministry of Foreign Economic Relations and Trade and Jiangsu's foreign trade departments have changed the loan application procedures. No longer are applications submitted for examination and approval at each higher level. Instead, they have reduced the links between them and other departments and foreign trade corporations concerned and got in touch directly with the enterprises.

Through visits to plants, surveys and calculations, and feasibility studies conducted together with enterprises applying for loans, problems concerning funds for ancillary equipment, capital construction, export of products, etc., are solved and loan agreements are signed on the spot. The new practice is well received by the production enterprises.

Article Defends Foreign Trade 'Agent' System
40060123a Beijing *GUOJI SHANGBAO* in Chinese
26 Nov 88 p 3

[Article by Wang Shenyuan 3769 3947 0337: "Vigorously Promote the Foreign Trade Export Agent System"]

An agent system is a practical mechanism for producing enterprises to engage in the field of foreign trade by assigning to the foreign trade agent, from top on down, tasks such as commodity export and foreign exchange collection, and financial responsibility for such a project. The foreign trade enterprise is the export agent who serves the producing enterprise, in accordance with its wishes, for a set fee.

I. Increasing the Active Role of Production Enterprises in Export Participation

According to the original procurement system, producing enterprises sold their products to exporting enterprises at prices set by the state, and once done, that was the end of it. As the result, matters such as economic benefits and the idea of exports generating foreign exchange have very little connection with producing enterprises, and they lack an active understanding of exports generating foreign exchange. After an agent system was instigated, economic benefits for the producing enterprises were calculated according to the volume of commodities they produced for generating foreign exchange. Linking the benefits for the producing enterprise and its workers directly with exports generating exchange stimulated the active role of producing enterprises in the process, as they spared no effort toward increasing export volume, and concurrently, increasing more foreign exchange.

II. Increasing Economic Benefits

According to the original procurement system, when commodities from producing enterprises were sold to export trade enterprises, the commodity prices were controlled by a state pricing policy which frequently did not allow quality pricing for a quality product. Because economic benefits received by producing enterprises did not connect with the cost of the export product, these producing enterprises did not have the initiative to improve on product delivery conditions which would help raise the value of the export product. Consequently, many export products were old, of poor quality, cheap, and delivered late. After the agent system was put into effect, the value of exports directly showed the economic benefits realized by the producing enterprises. As long as

it was economically feasible, those conditions not accepted by producing enterprises earlier—such as product variety, small orders, speedy delivery, small packaging etc., began to do well under the agent system, thereby stepping up business activity and higher prices. Under conditions set by the agent system, economic benefits realized by the producing enterprises are separated from the domestic pricing standard, and are determined by the amount of foreign exchange it can generate for the state—the more exchange for the state, the more economic benefits for the enterprise. This way, the interests of the producing enterprise and that of the state are in complete agreement.

III. Increasing the Rate of Contract Fulfillment for Exports

After the agent system was effected, the producing enterprises were directly responsible for fulfilling the export contract. If the delivery was not made on time, not only would the producing enterprise's reputation suffer, the commodity's selling price would also come down, or warehouse storage charges and interest would accumulate, which in turn would lead to a series of problems involving difficulties in capital outlay turn-around and cash flow. As a result, producing enterprises regard contract fulfillment as their own business and focus great attention to punctual delivery of goods. This is well illustrated by some facts. For example, under the agent system, a factory actively interested in the export operation and conditions at the export company will conveniently deliver the shipment before ship loading time. This happy circumstance had never taken place before under the procurement system. With respect to serious situations at present, where some factories were unable to make delivery on their export commodities, this is an obvious comparison showing that factories operating under the agent system practically all meet their contract obligations on time.

IV. Strengthening Labor and Trade Coordination

A basic condition for labor and trade cooperation is a common interest in economic benefits affecting both of them, whereas under conditions imposed by the procurement system, economic benefits for each side are in conflict. Fluctuations in procurement prices are always beneficial to one side, and detrimental to the other.

In the past, the labor and trade groups were always directing their attention toward the other's pocketbook, engaging in shrewd maneuvers that hinder joint action between them. After the agent system was put into effect, procurement pricing problems no longer existed between the two, and benefits have become entirely consistent for both. Such consistency of benefits has become an invisible glue that joins labor and trade together to become a combined force capable of demanding benefits from the international market. In the past, only the export company's representative was posted at the plant, but now a happy situation exists. A factory operating under the

agent system sends a representative to the export company practically every day for updates, and to discuss together matters such as management policy, product variety, market penetration, pricing plans, or other common interests, for the producing enterprise to have a better understanding of world markets, and be stimulated in their development externally, and toward the model.

V. Improving the Quality of Service Provided by Foreign Trade Enterprises

According to the usual approach taken by the procurement system, the producing enterprise does not question the management of the foreign trade enterprise as no profit-loss relationship exists between the two, and there is no need for further concern. As a result, the operation of the foreign trade enterprise receives no supervision and inspection from the outside. But after the agent system was instigated, the way a foreign trade enterprise handles its agent work in matters such as markets, guesthouses, proper timing of goods delivery and shipment, timely transmission of market news, etc., directly affects economic benefits for the producing enterprise. Under such conditions, the service quality of the foreign trade enterprise's agent operation is placed directly under the supervision and inspection of the producing enterprise, and is subject to its evaluation. If the producing enterprise finds the quality of service unsatisfactory, it can select another agent. Therefore, the agent system also introduces a competitive mechanism into the foreign trade operation, which should stimulate foreign trade enterprises to keep improving the quality of their agent service.

The agent system features the favorable points just discussed. At the same time, it also provides producing enterprises with problems and challenges as they face new requirements in need of solution.

Under conditions of the agent system, producing enterprises may meet cash flow and working capital problems. According to the original procurement procedure, once goods from the producing enterprise are sold to the foreign trade enterprise, the seller receives payment right away. But it is not so under the agent system. From the time the goods are prepared for export shipment to the time when foreign exchange is collected, the wait is a long one, sometimes longer than 3 months. This causes working capital and cash flow problems in the producing enterprise. This problem may be resolved through bank loans or discounts.

Furthermore, after some factories have settled their accounts, they may find that the economic benefits obtained under the agent system are not necessarily better than that under the procurement system. This is one of the great obstacles for promoting the agent system at present. But an important point to remember is that when the producing enterprise is making the comparison, it often overlooks the economic benefits derived

from their power in foreign trade management, and no value can be placed on this economic benefit. Once the producing enterprise enters the international market, it can fully explore its potential to extract benefits from the international market. Through improved delivery conditions, the export sales price of commodities can be placed above present levels. If these active factors are considered, the economic benefits obtained with the agent system are unquestionably better than those obtained with the procurement system. Actual results obtained by factories practicing the agent system attest to this very point.

Naturally, producing enterprises must assume responsibility for exporting, as well as a certain amount of risk, because the international markets are unstable, prices fluctuate, and product variety changes, not at all meager and conservative like that under the procurement system, which is safer. However, when an enterprise equipped with certain attributes dares not place itself into competition in the international market, it has no guts. Such an enterprise lacks vitality and the primary driving force behind reform.

Technology Imports To Emphasize Software *OW0612160488 Beijing XINHUA in English 0256 GMT 4 Dec 88*

[Text] Beijing, December 4 (XINHUA)—China will continue to introduce advanced technology from the world market in 1989, with emphasis on software, CHINA DAILY reported today.

Since 1979 and through the end of June, China has bought 4,200 items of pure technology and technology with necessary equipment worth 30 billion U.S. dollars, but software accounted for only 15 to 20 percent, said Li Cunren, an official of the Technology Import and Export Department under the Ministry of Foreign Economic Relations and Trade.

With concentration on the import of software, China will cut back import of hardware such as complete sets of equipment and production lines, but the plan to draw foreign technology will be carried on, Li said.

The shortage of foreign exchange that frustrates China, however, will see less import of technology than last year when China bought 581 items worth 2.98 billion U.S. dollars, he added.

China has planned to use 10 percent of its annual export earnings to import technology. But this year with a foreign trade earning put at least 35 billion U.S. dollars, the contracted import items only reached 300 for less than 3 billion U.S. dollars.

China started to import advanced technology in 1979 but for a time the import has been simply of complete sets of equipment.

Now it has developed into technical licensing, service and consultancy, production and design co-operation, Li said.

Country Sells High-Tech Spectrometers
OW0612083088 Beijing XINHUA in English
1323 GMT 3 Dec 88

[Text] Wuhan, December 3 (XINHUA)—Orders totaling four million U.S. Dollars were concluded for China's nuclear magnetic resonance spectrometers at an international tender held recently by the World Bank.

Produced by the Wuhan Physics institute of the Chinese Academy of Sciences, the spectrometers are used for measuring the molecular structure of matter. They beat out competition from Japan in cost as well as efficiency.

The Wuhan physics institute will provide 22 such spectrometers for Chinese colleges next year.

Foreign Trade, Technical Talks Conclude in Henan
HK0712115388 Beijing CEI Database in English
7 Dec 88

[Text] Zhengzhou (CEI)—At the first foreign economic and technical trade talks of Henan Province which have concluded recently, 215 million U.S. dollars of transactions were carried out, 120 million of which were export transactions and 95 million were foreign investments.

Business people from 20 countries and regions attended the talks at which the readily marketable commodities were knitting and cotton fabrics, drawnwork, carpets, casing, garlic, fluorine powder, and bauxite.

Altogether 13 projects were contracted, one in the form of compensation trade and the rest Sino-foreign joint ventures. They involved a total investment of 95 million dollars, of which 67.8 million came from foreign business people. They will be used mainly in such fields as textiles, light industry, metallurgy, electronics, and animal husbandry.

In addition, 17 letters of intent or memorandum on Sino-foreign joint ventures and cooperation were signed at the talks.

Henan Takes Measures To Rectify Trade Abuses
40060124b Beijing GUOJI SHANGBAO in Chinese
24 Nov 88 p 1

[By staff reporters Li Jian 2621 0256 and Feng Zhuowu 7458 0587 0063]

[Text] At an interview with reporters during the first Henan provincial foreign economic and technological relations and trade meeting, Li Aimin [2621 1947 3046], chairman of the Henan Provincial Foreign Economic

Relations and Trade Commission, said: While conscientiously implementing the guidelines of the central working conference and the 3d Plenary Session of the 13th CPC Central Committee, actively expanding economic relations with foreign countries, and developing trade and cooperation with various parts of the world, Henan Province has paid attention to improving the economic environment and rectifying the economic order and studied and made plans for improving the foreign trade environment, rectifying the foreign trade order, and carrying out in-depth reform of the foreign trade system. As a result, Henan's economic and trade relations with foreign countries have grown rapidly.

Henan's foreign trade system is being reformed gradually and in depth. This year, the province's entire foreign trade establishment has adopted the contract management responsibility system, breaking away from the big-pot system under which one authority made all foreign trade deals and took all profits and losses, and 22 export producers and 3 municipal and prefectural trade companies have been authorized to deal directly with foreign countries. A multilevel and multichannel new foreign trade system is being formed gradually, and exports are sharply on the increase. According to statistics, up to September this year, nine provinces and municipalities of China had increased exports by more than \$100 million. Seven of them were in coastal areas, and the remaining two were Beijing and Henan. As of the end of October, Henan's exports totaled \$685 million, fulfilling 128 percent of the state-set export target and up 19.2 percent from the same period last year. The year's export target was overfulfilled 5 months ahead of time. After increasing by \$100 million each year for 3 years running, Henan's total exports this year are expected to reach \$750 million, again up \$100 million from the previous year, the fourth time in 4 years, an unprecedented record in Henan's foreign trade history. Henan ranked 17th among China's exporting provinces in 1985, and rose to 14th place in 1987.

Li Aimin emphasized that Henan owes its success in foreign trade mainly to two things. First, Henan has accelerated and intensified the reform of the foreign trade system, while implementing and improving supporting reforms and policies. The reforms have on the one hand given more authority to the lower levels and expanded the power of prefectures and cities to make their own decisions on foreign trade, and on the other hand avoided the creation of gaps between the localities which have goods for export and the specialized foreign trade companies which have customers and markets, thus insuring vigorous and steady growth of exports as a whole. Next year, the greater part of Henan's export and foreign-exchange-earning tasks will be undertaken by the specialized foreign trade corporations, and the remainder will be contracted separately to Zhengzhou City, Luoyang and Nanyang prefectures, and a number of large and medium-sized export-producing enterprises, so that the advantages of the specialized foreign trade corporations, the cities and prefectures, and the large

and medium-sized enterprises can all be brought into full play. Second, the provincial government has decided to put all the foreign exchange earnings retained from exports exceeding the planned targets at the disposal of the provincial foreign economic relations and trade commission for regulatory purposes. This is one of the major measures that have brought about the rapid development of foreign trade. The foreign exchange retained from above-target exports is used for developing export goods production and as risk funds, which have contributed to the successful development of export products and insured the rapid growth in export foreign exchange earnings.

After delegating foreign trade management powers to the lower levels, owing to the facts that competition is not completely on equal terms, that necessary restrictive measures are still lacking, and that essential administrative work has lagged behind, Henan, as other areas, is experiencing some problems. For example, there are rushes for export goods in disregard of state export plans, forcing up prices and disrupting normal export order, and some foreign trade enterprises are approved without strictly examining their qualifications, which only aggravated the supply shortage of export goods. The provincial government is keenly aware of the problems and has studied them carefully. It is clear that economic and trade work at present should focus on improving the foreign trade environment and straightening out foreign trade order. Chairman Li Aimin said that at present attention should be concentrated on screening and consolidating the foreign trade enterprises. The foreign trade enterprises examined and approved by the provincial government should be checked and consolidated by the provincial government, and those examined and approved by the foreign trade departments should be checked and consolidated by the foreign trade departments.

Henan is a very productive province. Many business units from other provinces are coming to Henan to buy export goods, willing to pay high prices. In 1987 alone, export goods bought in Henan by other provinces totalled more than \$100 million. This year, the nationwide "silkworm cocoon war" has also spread to Henan. The provincial grain and oil import and export company helped three Henan counties produce garlic for export. At purchase time, business units of seven other provinces, in addition to Henan, came to buy garlic, pushing prices up and disrupting normal export order. For this reason concerned departments in Henan have held a meeting and decided to take measures to prevent an "export goods war" from occurring in the province. Two measures will be adopted to deal with buyers from other provinces: 1. A production support fee will be collected. Henan will tighten control over 20 major commodities and commodities in short supply, and charge buyers from other provinces a production support fee, in addition to the prices of the commodities at the time of purchase. 2. A provincial export commodities regulating

center will be established to strengthen export commodities management. Products which cannot be easily exported by Henan but can be exported by another province will be exported in growing quantities in an organized and coordinated way through the regulating center. The regulating center has now been established and has formally opened for business.

Liaoning Foreign Trade Achievements Reported
SK2112005188 Shenyang LIAONING RIBAO
in Chinese 8 Dec 88 p 1

[Excerpts] Our province has achieved marked development in opening to the outside world. During the January-October period of this year, the province realized \$3.354 billion in exports, for a 7 percent increase over the same period in 1987, and actually realized \$1.642 billion, excluding the income from exporting petroleum, for a 31.4 percent increase over the same period in 1987. The province signed contracts on 426 projects concerning the use of foreign capital and the introduction of outside technologies, which are worth \$1.26 billion. Of these contracts, 348 are on the use of foreign capital and worth \$1.147 billion, for a 1.17-fold increase over the same period in 1987, and 78 are on the introduction of outside technologies and worth \$117 million, for a 1.73-fold increase over the same period in 1987. [passage omitted]

At present, our province has had 168 wholly foreign-owned enterprises, province-foreign joint venture enterprises, and province-foreign contractual joint venture enterprises. Their annual output value reaches 430 million yuan, their profits reach 50 million yuan, and their payment of taxes reaches 250 million yuan. [passage omitted]

Results Achieved at Shaanxi International Trade Talks
OW0512044888 Beijing XINHUA in English
1535 GMT 1 Dec 88

[Text] Xian, December 1 (XINHUA)—The second round of Shaanxi trade talks on international economic and technological cooperation opened here today in Xian, capital of Shaanxi Province.

More than 150 businessmen from the United States, Japan, Britain, France, Italy, Canada, Australia, Hong Kong, Macao, and Taiwan attended the opening ceremony.

Participants at the 10-day meeting will hold trade talks concerning 350 items in the engineering, electronics, and textile industries, the meeting's organizers told reporters.

The talks will focus on technical updating of existing enterprises, they said.

Trade talks were also held last March, when the organizers started to make preparations for the present meeting. By November 20, different departments under the Shaanxi Provincial Government had held trade talks on 237 items with foreign businessmen, signed 48 contracts, and introduced foreign investment totalling 46.86 million U.S. dollars.

Shaanxi boasts more than 200 billion tons of proven reserves of coal, as well as 100 kinds of mineral resources. The province is strong in the engineering, electronics, and textile industries.

By the end of last June, the province had approved the setting up of 112 foreign-funded enterprises, and had established economic and trade relations with more than 100 countries and regions.

Shandong Makes Progress in Foreign Capital Use
HK0712115188 Beijing CEI Database in English
7 Dec 88

[Text] Jinan (CEI)—Shandong Province registered good progress in utilizing foreign capital in the first ten months of this year.

The province signed 285 contracts involving about 277 million U.S. dollars of foreign funds during the period, an increase of 14 percent over the same period of last year.

It also approved 126 foreign-invested enterprises and 146 items on processing and assembling with clients' materials, samples, and parts and compensation trade.

Total foreign investment in the 146 projects amounted to 118 million U.S. dollars, a 96 percent increase over the same 1987 period.

Foreign Investment in Shanghai Increases
OW1412114088 Shanghai City in Mandarin
2300 GMT 7 Dec 88

[Text] Shanghai has already attracted \$300 million direct foreign investment since the beginning of this year. November saw a record amount of foreign capital induced, with 36 joint ventures and cooperative projects approved.

According to a briefing, the declining trend of foreign investment over the past 2 years has been reversed. While the amount of investment has increased, investment structure has also been rationalized. Most of the projects approved since the beginning of this year involve industrial development, including such large projects as the (Yuelong) Nonferrous Metals Company, Ltd, as well as the manufacturing of such export-oriented goods as electronic parts and components, toys, and garments.

LABOR

Solving Problem of Inversion Between Mental, Physical Labor

OW2212002888 Beijing GUANGMING RIBAO
in Chinese 4 Dec 88 p 3

[Article by Wang Yuan 3769 6678 and Guo Ruiting 6753 3843 1656: "Smash Egalitarianism, Create a New Pattern—Tentatively Exploring Ways of Solving the Problem of Inversion Between Mental and Physical Labor"]

[Text] In recent years, in replacing the old system with the new and the inversion of the remuneration between mental and physical labor, the contradiction of low wages for intellectuals has been made more conspicuous. The old pattern of the state taking over everything and the state's efforts to "improve the income of the intellectuals" and give, in a stroke, simultaneous and equal benefits to the 20 million intellectuals in our country are impractical; the practice also contradicts the law of development in the commodity economy. Therefore, if we want to solve the problem of inversion between in remuneration between mental and physical labor and raise the income for intellectuals, we must break egalitarianism, adapt to the development of the reform and the commodity economy, seek new ways, and create a new pattern.

Differentiate Between Circumstances and Solve the Problem by Dividing Into Different Categories

China has more than 20 million intellectuals; about 18 million are working in the party, government organs, and state-run enterprises and institutions. In the past, the state monopolized the management of this large contingent of intellectuals. The state took care of intellectuals' wage scale, rate of wage increase, bonus, and the number of specialized technical posts. Reform, opening to the outside world, and development of the commodity economy have brought great changes to collectively-owned units. Major readjustment in and regrouping of production structure have also brought about readjustment to the personnel distribution structure. Therefore, if we want to solve the problem of inversion between remuneration for mental and physical labor, we should take into consideration of the new situation. We should formulate policies and work out measures accordingly to redress the problem. At present, with the promotion of various types of contract systems, there have been great changes in the production operation, scientific management, and economic standing in enterprises and institutions. Some units once plagued by inflexible management that lived solely off state subsidies are now injected with new vigor thanks to reform. For example, the scientific and technological research group—the Stone Group—and enterprises in Beijing's Haidian Electronics First Street, have stopped receiving handouts from the state. They are exploring new ways to earn money through undertaking scientific and technological

research. The remuneration problem and the problem of low income of intellectuals are nonexistent in these units. These changes, brought about by reform, have created conditions for breaking the old rules of "state monopoly" and "egalitarianism."

1. Enterprises and economically-independent units should bring themselves into the orbit of commodity economic competition. Units should create economic benefits to solve the problem of remuneration for intellectuals; they should base wage systems on the principle of distribution according to the amount of labor: people involved in complex labor should be better remunerated than people involved in simple work. The state should delegate more power to these units on distribution of remuneration and on personnel recruitment. There are presently some 8 million intellectuals working in these units. With the constant strengthening of reform it is likely that vast majority of China's intellectuals will work at these economically-independent units. Intellectuals working at these units will help raise scientific and technological levels and expedite the process of transforming scientific and technological results into production force. Intellectuals working at economically-independent units is an inevitable trend in economic development.

2. As for those units which are not yet economically-independent but have the potential to generate income, we should encourage them to actively take part in commodity economic competition, introduce market mechanisms, transform scientific and technological results into economic benefits as soon as possible, increase income, and raise remuneration for intellectuals. These units may invigorate management through adopting various contract systems such as setting the tasks, number of staff, and wage scales. We should give them autonomy in setting wages for staff members and delegate power in personnel recruitment within the scope of the contract, enabling them to solve the problem remuneration for intellectuals and the problem of egalitarianism in distribution.

3. Intellectuals are relatively concentrated in working at research institutes involving in high technology and basic science research, at public-run middle and elementary schools, at higher-level literary and art groups, and at the party and government organs. Basically, they are unable to directly generate economic benefits; they lack opportunity to create income. However, they are directly responsible for upgrading our country's level of development in science, technology, basic theory, and culture and arts; they are responsible for raising the quality of population and for the normal, stable and efficient function of the state machine. To ensure the high quality and stability of these intellectuals, we should give priority in solving their problem. We should work out separate solutions by taking into consideration the different nature of the problem when it comes to solving the problems of intellectuals working at departments and units under the state's tutelage. Intellectuals working at

the party and government organs should be integrated into the ranks of state civil servants, and their problems should be solved differently. Classification like the above will enable the effective use of limited financial means.

4. Public institutions and units like middle and elementary schools may pool funds from society, form ties with economic units, or collect tuition to shake off the tutelage of the state.

Introduce Competitive Mechanisms, and Set Remuneration According to Contribution

For quite some time, the old-system distribution method, characterized by "egalitarianism," was reflected in the distribution of remuneration among mental and physical workers and between complex and simple labor; the problem is equally serious among the intellectuals engaging in mental labor. Therefore, we should introduce competitive mechanisms into the ranks of intellectuals.

First of all, we should uncouple the concept of intellectuals from remuneration and closely link remuneration with the level of contribution; wage and income should be determined by an individual's actual contribution, making labor remuneration really reflect the objective price of the labor results. For those intellectuals who have made extraordinary contributions, we should greatly raise their salary and income according to the principle of "first-rate pay for first-rate contributions," to make more and more intellectuals get rich through creative mental work.

Next, we should establish recruitment and personnel management systems on wages and for specialized technical posts that are adapted to the reform and development of commodity economy. We should, through adopting various measures such as contracting, recruitment, preferential grouping, bidding on scientific research and technological projects, and introduce competitive mechanisms. We should create an environment of equal competition for intellectuals, let the results of competition show in their income, and make competition serve as a motivating as well as pressuring force among intellectuals.

Third, the further eroding of the mode of product economy in the course of reform will also weaken the base of egalitarianism. With the further development of socialist commodity economy, production departments will surely have greater demand for scientific and technological knowledge. When this demand grows, intellectuals can fully show their competence in such a competitive environment. They can improve their own life and their income.

Multi-Channel Approach and All-Around Coordination

The remuneration problem between mental and physical labor and the problem of the low income of intellectuals are very complex social problems. The sole reliance on one method and the state financial means are not enough to appropriately solve these problems. The solution calls for multi-channel efforts.

One of the channels is: Scientific and technological personnel, on the premise of not affecting the performance of their own jobs and on offering services to society and creating social wealth, may earn legitimate income either through working a second job in their spare time, through offering scientific and technological consultation, or through contracting scientific and technological projects. This is a good method for intellectuals to improve their life through honest labor. We should encourage and support them and give them guarantees against violation of their legitimate income.

The second channel is: We should further do a good job in the flow of personnel. We should guide intellectuals working at overstuffed units and big enterprises to work at small and medium-sized enterprises, village and town enterprises, and privately-run economic entities. Preferential policies should be worked out to encourage some specialized technicians to leave the state-run and collective-run units and become free-lancers who no longer live off "official pay."

The third channel is: We should establish scientific and technological markets, promote the commercialization of mental labor, and transform the results of scientific research into economic benefits as quickly as possible. We should effect the change in the phenomenon of the price of scientific and technological results lower than the value of technological results, raise the amount of monetary rewards for those who have achieved scientific research results, remuneration for inventors and innovators, and gradually create an environment that remunerates mental and complex work better than physical and simple work.

Solving the problem of remuneration for mental and physical labor and the problem of low income of intellectuals is a gigantic social project that requires close cooperation and common efforts both for central departments and localities. This kind of effort and cooperation, first of all, requires leaders at all levels to genuinely understand that science and technology are the first productive force, and that scientific and technological personnel are the most important factor in developing productive forces; another requirement is the establishment of a powerful coordination mechanism that will ensure harmonious coordination between superior and subordinate departments and redress the lack of cooperation and coordination between various departments.

The coordination mechanism should make party committees, governments at all levels, and relevant departments join efforts to solve the problem of remuneration for mental and physical labor. It will not take long for intellectuals to see the results of solving this problem.

Labor Productivity of State-Owned Firms During September

HK0112132588 Beijing CEI Database in English
1 Dec 88

[Text] Beijing (CEI)—Following is a chart of labor productivity of state-owned enterprises with independent accounting in September, 1988, according to CSICSC.

	unit	Sep 88	Sep 87
Industry including:	yuan/person	1623	1470
Light industry	yuan/person	2127	1913
Heavy industry	yuan/person	1366	1245

POPULATION

PEOPLE'S DAILY Reveals Population Ageing

OW0612030088 Beijing XINHUA in English
0913 GMT 2 Dec 88

[Text] Beijing, December 2 (XINHUA)—China's population is getting older every day, with 90 million people now over the age of 60—which, for comparison's sake, is roughly equivalent to half the population of Federal Germany, the PEOPLE'S DAILY reported today.

And according to a closed seminar on ageing in China, even 55 million people over the age of 65 would be equal to the entire population of Great Britain.

Experts attending the seminar called for laws guaranteeing welfare services for senior citizens to be developed in conjunction with the country's family planning program.

They stressed that regulations for the treatment of senior citizens should be initially introduced in urban areas and then spread to the countryside.

According to the seminar, the general standard of welfare services for seniors in the countryside is low and the policy of "one family, one child" has had a great effect on China's age-old tradition of elders relying on their children for support.

A new social welfare policy for senior citizens must be put into operation nationally to meet the challenge of China's ageing population, the paper said.

TRANSPORTATION

Xinjiang Now Boasts 1,700 km of Railways *HK0112115588 Beijing CEI Database in English* 1 Dec 88

[Text] Urumqi (CEI)—Now Uygur herdsmen in Korla City, in the south of the Xinjiang Uygur Autonomous Region, can take trains to the region's capital of Urumqi, 476 km away, and even as far as Beijing. "A dream has come true after six yeays of railway construction," an old herdsman said gladly.

According to statistics provided by the local government, the length of railway lines in Xinjiang has stretched to 1,700 km, 1.4 times that in 1977.

Xinjiang had only 700 km of railways by 1977 as the work was hampered by the terrain, mostly desert.

Since 1978, Chinese scientists and railway workers have overcome all kinds of difficulties and built several rail-ways in the region.

By 1984 the railway from Turpan City to Korla City, linking railway lines in both the south and north Tian-shan Mountain areas and making it easy for people to go from there to other parts of China.

Now another line, from Usu County to the Alataw Pass on the Sino-Soviet border, is underway and is expected to be completed by 1990.

"By that time," an official said, "people will not only be able to go to other parts of China but also to foreign countries by rail. The old silk road will renew its economic splendor."

PRC MEDIA ON FOREIGN ECONOMIES

Lessons From Soviets, East Europeans on Reforming Distribution System *40060161 Beijing JINGJIXUE DONGTAI [ECONOMICS DYNAMICS] in Chinese* No 11, 5 Nov 88 pp 35-37

[Article by Yang Yongzhong 2254 0737 0022: "Theory and Practice in 1980's Reform of the Distribution System of the Soviet Union and Eastern Europe"]

[Text] As the Soviet Union and East European countries entered the 80's their economic system reforms entered a state of rapid forward motion. The reforms disrupted the Soviet Union's traditional distribution pattern, making heartening strides in the theory and practice of distribution pattern reforms. Their train of thought holds great reference value for the reforms that China is currently facing.

Restructuring the Theory of Distribution

Beginning in the 1950's, under the influence of the Soviet Union's traditional style of "distribution according to labor," the Eastern European countries in turn set up their own "socialist average distribution system." Each worker obtained food, thereupon using an abstract labor concept to cover up the difference between quality and quantity. This situation seriously affected the development of workers' production enthusiasm and the raising of worker productivity. Beginning in the 1960's criticism of the old pattern gradually unfolded in each country, and by the 1980's, because of the requirements of reforms, the criticism had a tendency to cut sharply, and restructuring the theory of distribution was brought into daily life.

The Soviet economist Kulikov said: "Socialist society is, realistically speaking, a labor society. It guarantees the universality of work. However, it only offers a guarantee for diligent laborers. Departing from this principle is just a parasitical and careless labor style, feeling free to acquire is legal, but in essence, is the good soil of non-labor income." The old Soviet distribution pattern takes egalitarianism and eating from the same pot as the symbol of fair socialist distribution, and takes those phenomenon and forms that reflect differences in distribution of benefits, calling them, as a group, the "unfair phenomenon" of capitalism. It is as though if everybody has an equivalent salary, then they are exhibiting the superiority of socialism. Kulikov sharply points out, "Formalism and egalitarianism in distribution were never, in the past, the ideal of socialism, but over time they were more and more frequently referred to together with socialist fairness, which created good conditions for egalitarianism. But the fairness of socialism does not rule out differences in income treatment, including even vastly differing incomes arrived at based on the actual differences in realistic contribution of the end result of the work performed."

Our understanding of socialist labor has broken through the original boundaries, and is not only bounded by operation by the state or collectives, but has broadened into the broad realm of societal manufacturing services. The Chairman of the Soviet Sociology Association, Zhasilafusikaya [2089 2448 2139 1131 2448 0595 1246] points out, "Labor distribution principles refer not only to wages, but rather are the total of the distribution of all material benefits, social benefits, and cultural benefits. Therefore, in bringing together the principle of socialist social income and expended labor, we must use individual labor activity." Since the scope of labor distribution has been broadened into many areas of societal life, income distribution then "is not determined by the wage policies set by the central government, rather it is determined by the condition of the consumer market and the supply and demand relationship of commodities and labor." This actually is pointing out that when the state uses administrative measures, first establishing a distribution ratio is not compatible with accurately making

use of economic laws, and reasonably using the market mechanism, and is not beneficial to the continuous improvement and development of a socialist planned commodity economy system. Addressing this problem, the noted Czechoslovakian economist, Aota Xike [1159 1044 6932 0344] points out from the macro distribution system point of view: "Income distribution planning does not turn away from the market, rather it turns in the direction of the market. The elements and variables that it controls are factors that the market mechanism cannot efficiently regulate. It bolsters the market mechanism adjustments of these elements and variables."

Xike goes on to point out that using a top to bottom command distribution plan to eliminate the abuses of capitalist distribution actually does a lot of damage to socialist economic development and construction. To hold onto a socialist economy's macroeconomic proportionate coordination and its rich microeconomic vitality you must make sure that before retaining the market mechanism you implement macro income distribution planned management and adjustment. This type of macro income distribution plan, with the market mechanism as its base, exhibits the following special characteristics:

(1) Income distribution plans do not provide specific rules for production responsibilities and profit distribution. They only set income distribution ratios, like the ratio of accumulation to consumption for the whole population; the ratio of individual consumption to social consumption; individual consumption levels; the orientation for using the accumulation and the rate of growth of production.

(2) This type of planning makes positive use of market mechanisms to achieve planning requirements but does not directly control and determine all of the micro distribution activities of enterprises. Rather, from the macro perspective and from setting in advance the most important income distribution totals and individual portions, it restricts enterprise operational activities and policy.

The Latest in Distribution Principles

In the 1980's, Poland and Romania both, according to the form of law and issued regulations, made a determination about the distribution principles of the current stage of socialism. For example, the Romanian government, in decreeing the payment of compensation based on labor quantity and quality, proposed that the state, according to the regulations of national unified plan for national and social economic development, will for a set period raise the returns of all workers based on the development of the labor productivity rate and the increase in national income. At the same time they pointed out that the distribution of compensation should be based on the work responsibilities, the actual work being engaged in, and relevant regulations.

Labor compensation should definitely be tied to the enterprise's economic efficiency and the size of each worker's contribution. When the Romanian government determines each worker's compensation, they consider the actual contribution made by the worker in each of the following areas: fulfillment or overfulfillment of production responsibilities, improvement of product quality, fully utilizing the productive capabilities, promotion of skill and technology and cultural advances, raising labor productivity rates, lowering production costs, and raising investment efficiency. Soviet researchers have suggested competitive principles of wage income distribution. This uses half of wage funds as a guarantee of the workers' lowest living expenses, another half is distributed on a competitive basis. The amount that each worker can obtain is determined by their place in the competition. Observing the situation in the Soviet Union and other East European countries, we see that everyone is of the same mind about the distribution principle and about wage income and economic efficiency. However, there are many different trains of thought about manifesting this principle. These can be divided into:

1. National quota control. This type is based on the macro control theory of the traditional national economy. This theory proposes that the most important manifestation of government ownership of enterprises is in the government's right to allocate products the enterprise produces over the quota. Allocation of excess products has a direct effect on the equilibrium of the macroeconomy. If a country wants to control economic activity, it should place control of net income in the hands of the state. Hungary is presently in this situation. The state has control over approximately 90 percent of enterprise net income. Experts feel that under normal conditions, at the very least the state should control 70 percent of net income, and then the state can formulate a budget distribution.

2. Independent group distribution. This approach has been put forward by the famous Romanian economist, Professor N.N. Kangsitandingneisiku [1660 2448 0982 0002 0355 2448 1655]. After the net income realized by manufacturing units has been submitted to a distribution process, it forms a whole series of autonomous, independent forms. When distributing net income the economic unit is the partner. These partners can be divided into three types. One type is units that bring in net income, such as business units, material technology units, manufacturing enterprises, and labor departments. Another type is cultural and educational units, sanitation units, and science research units. And countries with ownership by the whole people capital managers are also a unit. When distributing net income to the various units, the distribution status of the different units is all equal. Here, the state acts as just another distribution unit in engaging in the distribution, rather than as the unified leader and distributor.

3. Tax income adjustment. Improving the country's overall plan for setting wages gives the enterprises even

greater income distribution rights. For wages exceeding expenses, they utilize a unified individual tax system. Poland's economic experts believe that in order for income distribution to be fair and to stimulate production, you must use the tax revenue lever. On the one hand, it allows workers that work harder to earn more; and, on the other hand, allows rational and fair worker income. Here, difference is the premise of fairness. There is no fairness without difference, although fairness without difference is a synonym for egalitarianism. From each person's income foundation a tax cutoff point is set, and each person must pay taxes. For those whose symbolic tax cutoff is lower than average wage or whose income exceeds average wage levels, they must pay the required taxes. The tax base is based on the income earned by taxpayers in that year, and subtracting out their savings rate or adding in expense levels.

Changes in Forms of Distribution

Using wage measures to promote the enthusiasm and creativity of the workers, fully employing the internal potential of the socialist economy, and conforming to the intensification of the economy will cause the enterprise workers to shift their concern from material benefits to the operating results of the enterprise. This is the main train of thought that has existed in the Soviet Union and Eastern Europe in the 80's as they engage in the process of reforming their distribution system. The micro foundation of distribution system reforms is the reform of the distribution system for individuals. From the 1950's to 1960's the East European countries basically all followed the Soviet's traditional distribution pattern. That pattern reduced the differences in compensation for labor, diligently working under the slogan of finally wiping out class differences, and emphasizing the goal of realizing socialist equality and making the distribution lead to egalitarianism. Under the unified direction of the state, the productivity and enthusiasm of enterprise and workers was seriously dampened and, from this, a situation was created where enterprises relied on the state and workers relied on the enterprises. From the 1960's to present, the Soviet Union and East European nations, after swallowing the bitterness of egalitarianism, have been actively promoting reforms of the individual distribution system, and realizing different types of effective distribution models. In summary, the individual distribution types in Eastern Europe are of the following types:

1. Paired individual income system. Yugoslavia, through law, has set up a system whereby the wage that a worker receives includes two different parts. One part is distributed based on the size of the worker's labor contribution, and that is a comprehensive portion sufficient to satisfy the workers' cultural, educational, health care, social welfare, disability, and retirement insurance. This portion of income is paid monthly, and the amount cannot be lower than a certain legally determined minimum income. The second portion is income distributed based on the society's financial management and operating

results, and is also distributed based on the conditions of growth of enterprise income. When implementing this distribution, it is required that the fluctuations in growth of individual income be less than the fluctuation in growth of worker productivity. This portion can only be calculated at the very end of the year. This type of distribution system links individual workers income to the overall operating results of enterprises, encouraging the enthusiasm of the workers and raising the society's economic efficiency.

2. Graded fluctuation system. Hungary has implemented this type of individual distribution system. Specifically, all of the country's workers' wages are divided into 6 grades and 24 classes. Each class has a set floating range. In the past the floating range was 30 percent. By 1983 the floating range was 60 percent. How much the worker actually takes away in wages is completely determined by their individual performance level, and the enterprise leaders and the trade union consult together to determine each worker's class and floating range. In Hungary bonuses are not given to everybody, rather they issue specialized project bonuses which are used to encourage those workers who have made outstanding contributions. The enterprise leaders are subject to "high bonus, strong punishment" under the class floating. If the enterprise runs well and economic efficiency is high, the responsible departments have the authority to give particularly outstanding enterprise managers wages 20 percent over the set class level. However, if the enterprise runs poorly and incurs losses, those responsible in the enterprise must take the responsibility. Not only will all bonuses be withheld, the basic wages will also drop by 35 percent, and for middle level cadres it will drop 20 percent. They have two years to improve performance, and if, by the end of that time they cannot turn the situation around, they will be dismissed.

3. Opening up distribution grades, implementing technical subsidies. Seeing the seriousness of egalitarianism and the problem of lowered economic efficiency, the Soviet Union pays great attention to reforms that affect individual distribution. The main methods are opening up the differences between each wage level, with worker wage levels increasing from their current grade of 6 to 8, and engineering technicians' technical grade increasing from their current level of 2 to 5. The difference in range between the high grade workers and technicians is pulled wider and wider. In pulling the grades wider apart the Soviet Union has taken workers' age subsidies and turned them into occupation skill subsidies. Subsidies are distributed according to employees' technical grade levels. The higher the technical grade level, the higher the subsidy. Grade 6 subsidies are 24 percent of the basic wage and are given to those who make outstanding achievements or who finish a job on schedule. At the highest end one could receive 50 percent of the base salary.

AGRICULTURE

Comprehensive Survey, Planned Development of Island Resources

OW0312183088 Beijing XINHUA in English
0857 GMT 3 Dec 88

[Text] Beijing, December 3 (XINHUA)—China's more than 6,500 islands are expected to be comprehensively developed in the near future.

With the approval of the State Council, the country's highest governing body, China will launch a large-scale, comprehensive survey and development study of resources on its coastal islands and surrounding waters beginning next year, XINHUA learned here today.

One of tasks of the survey will be to make an extensive investigation of the natural environment, resources and socio-economic conditions of the islands, according to National Bureau of Oceanography, one of the participating bodies in the study.

A comprehensive development program including urgent special projects for the islands is expected to be planned in conjunction with the five-year survey, he said.

According to the bureau, another major task of the survey involves creating better living conditions for the 300,000 poverty-stricken islanders.

China is a country rich in island resources. It boasts over 6,500 islands (totalling more than 80,000 square kilometers) of which more than 400 are populated.

China also has dozens of "special islands" populated only by birds, snakes, tortoises, and monkeys, which are kept as reserves for their scientific research value.

Jointly sponsored by the State Science and Technology Commission, the State Planning Commission, the National Bureau of Oceanography, the Ministry of Agriculture and the Headquarters of the General Staff of the People's Liberation Army, the survey will be a follow-up to similar studies carried out from 1980 to 1986, and is expected to provide fundamental material and data for scientific development and protection of China's vital island resources.

Sugar Shortage Examined

40060190a Beijing JINGJI CANKAO in Chinese
2 Dec 88 p 1

[Article by Correspondent Yang Like 2799 3810 4430:
"The Bitterness and Astringency of Sugar"]

[Text] Sugar is sweet, but for some people, some units, and some enterprises, it is also bitter and astringent. After being readily available for many years, all of a

sudden the supply became limited in 1988. The sensitive social issue of having to have coupons to buy sugar has suddenly stretched nerves taut.

The problem is very simple—there is a sugar shortage. It is not that the total supply of sugar is any less than formerly, but that as society's demand for sugar steadily increases, it is difficult to "insure supply." During the 1986-1987 sugar production year, China's sugar output stood at 5.27 million tons, the highest level in history, and one and one-half times above the 2.08 million ton output of the 1977-1978 production year 10 years earlier. However, Chinese sugar consumption more than doubled in 10 years.

More Than 1 Billion Yuan Sugar Subsidy

China's per capita consumption of sugar is approximately 6 kilograms per year. In order to provide this 6 kilograms per capita, central and local treasuries have to pay a subsidy of more than 1 billion yuan each year. This is to say that the state provides a subsidy of 0.30 yuan per kilogram of sugar consumed.

One department head in a sugar production management unit said with concern that there are many problems in the production, supply, and marketing of sugar, and it is only through reliance on a steady stream of subsidies from governments at all levels that it can, with great difficulty, be put into consumers' shopping baskets. The list of subsidies is mind boggling. There is the sugar crop procurement price premium subsidy, the sugar refinery production loss subsidy, the differential price subsidy for award sales of grain for shipment of sugar outside the province, the commercial allocation and transfer sugar subsidy, etc.

In contrast to the ever increasing subsidies, no adjustment was ever made in the price of sugar between 1964 and May 1988 for a 34 year long "miracle" of super stability.

However, behind the "miracle," a crisis lurked, including huge losses by sugar producing enterprises, inability to insure sugar production, a shrinking sugarcane and sugarbeet acreage, a decline in output, inability of sugar producing provinces and regions to bear the financial subsidies, and unwillingness to ship sugar outside of provinces.

Current year sugar prices are basically the same as prices for pork and hen's eggs. For a long time, an equal value price ratio has been maintained for an equal quantity of sugar, meat, and eggs. However, at the present time, the market price of pork has moved to approximately 3 yuan per 500 grams, and the price of eggs has also moved to approximately 2.20 yuan per 500 grams, but it can only be hoped that the price of sugar will catch up.

During May 1988, the state raised the ex-refinery price for white granulated sugar of sugarcane origin from 1,000 yuan to 1,650 yuan per ton, and the ex-refinery price for white granulated sugar of sugarbeet origin from 1,200 to 1,850 yuan per ton. However, the sugar industry's problems cannot be fundamentally solved through price adjustments.

Caught Between a Rock and a Hard Place, 500 Sugar Mills Suffer Losses

China's sugar industry has risen fairly rapidly. During the period immediately following liberation, the country had only four or five sugar mills with an annual output of somewhat more than 200,000 tons. Imports were the main source of sugar. By the 1980 cane crushing season, output stood at 3 million tons, and by the 1985 crushing season, it reached 5 million tons, with China ranking sixth among the major sugar producing countries of the world after Brazil, the USSR, Cuba, India, and the United States.

During the 8 year period from 1977 through 1985, China's sugar output increased by an average 390,000 tons each year, maintaining an approximately 10 percent per year speed of growth. However, after 1985, sugar production began to falter or even decline. Reports from authorities concerned show that apart from subsidies received from the state as a matter of policy, the sugar production industry made virtually no profit.

It takes about 10 tons of cane to produce 1 ton of granulated cane sugar at a cost of 1,300 yuan for the purchase of cane and transportation alone. When labor costs, a tax of 220 yuan per ton of sugar, and other costs are added in, the cost of producing white granulated cane sugar becomes approximately 2,000 yuan per ton. However, the ex-refinery price of white cane sugar, including taxes, is 1,650 yuan per ton. After subtracting the state subsidy, a sugar mill loses approximately 350 yuan per ton of white cane sugar produced. The same general situation applies to enterprises that produce sugar from sugarbeets.

Sugar producing industries number nearly 500, employ more than 300,000 staff members and workers, and produce an output value of 8 billion yuan. How can it be that a huge industry like this can survive only through reliance on state subsidies?

Shriveling of the Sugar Crop Is the Most Fundamental Problem

At 6 kilograms per capita, China's sugar consumption ranks low in the world. In some countries, consumption is more than 50 kilograms per capita, and the world average is 20 kilograms.

At the present time, China needs about 7.5 million tons of sugar, including sugar for industrial purposes, but national output is 5 million tons per year, so some sugar

still has to be imported. These imports alone amount to \$700 million in foreign exchange per year. China earns only slightly more than \$500 million each year in foreign exchange from the export of canned goods, the total amount not being enough to pay for sugar imports.

China is a large agricultural country, yet supplies of the sugarcane and sugarbeets necessary for the production of sugar have always been tight. During the past several years, in particular, a tremendous slide has occurred in the growing of sugar crops. In 1986, 800,000 fewer mu were planted to them than in 1985, and in 1987 another 1.5 million reduction from 1986 occurred.

Why did this decline occur? Officials concerned mince no words in explaining the reason. Returns from the growing of sugar crops have declined in comparison with other crops, so peasant interest has dropped off. Despite a certain amount of subsidization of procurement prices of sugar crops by government at all levels, the price appears too low in comparison with prices paid for other agricultural by-products, 1 kilogram of sugar crops fetching only slightly more than 0.10 yuan. "One dan of sugarcane cannot be sold for as much as 1 dan of rice straw" is a common complaint of cane growing peasants. The lure of returns from changing from the growing of cane to the growing of flowers, or from digging ponds to rear fish is much greater than returns from the growing of sugarcane. Peasants particularly stress material benefits.

Policies Needed To Solve Sugar Problem

How to solve the problem of sugar for a population of 1 billion is not something that can be lightly dismissed. China has only 1.4 mu of cultivated land per capita, an extremely limited amount. Using it to solve the food and clothing problems, as well as to solve the problem of non-staple foods including edible oil, sugar, vegetables, meat, and eggs requires overall planning that takes all factors into account, and an equitable allocation of land.

Persons concerned in the Ministry of Light Industry report that sugar production during the 1988-1989 crushing season will be somewhat better than during the last previous crushing season, gross output possibly reaching approximately 4.8 million tons, but a revival to the all-time high will be difficult. Experts believe that a fundamental turnaround in sugar industry production faces difficulties that will require the breaking of new ground in four regards as follows:

First is to genuinely bring sugar prices into line so that producers can make a profit. They recommend that sugar price restrictions be removed for all users of sugar other than private individuals, the price fluctuating with the market. The same price should be permitted for sugar of the same quality no matter whether domestically produced or imported in order to encourage sugar producing enterprises to produce, their production reducing imports.

Second is a decrease in the number of middlemen in the movement of sugar, so that producing enterprises and users can deal directly with each other for a maximum saving of money by consumers. At the present time, one-third of the price of sugar that reaches consumers hands is added by middlemen in the flow chain.

Third is the application of scientific and technical forces to help solve the low yields problem in sugar crop production. Currently, the sugarbeet yield in China is approximately 1 ton per mu, and the sugarcane yield is approximately 8 tons per mu. In Japan and Australia, by comparison, the yield is respectively 4 and 6 tons per mu. If work is done on varieties, work methods, and mechanization to bring sugar crop yields close to the international level, there is a possibility that sugar output can be doubled without increasing the growing area.

Fourth is fullest use of resources, and encouraging the development for use of new sources of sugar. Sweeteners in today's world include not only cane sugar and beet sugar but also starch sugar, and high fructose. The United States has plentiful corn at a cheap price, so high fructose syrup that uses corn as its raw material accounts for 40 percent of sugar consumption in the United States. Coca Cola, which has been termed a world class beverage, uses high fructose syrup as a sweetener. This provides a beneficial inspiration, no doubt, to China's sugar production and development.

Lack of Funds for Hog Procurement
40060190b Beijing JINGJI RIBAO in Chinese
6 Dec 88 p 2

[Article by Correspondent Liu Yingyi 0491 3379 1150: "Why There Exists Simultaneously 'Difficulty Selling Hogs' and 'Difficulty Buying Pork'"]

[Text] In quite a few cities and counties of Shaanxi Province recently, a phenomenon of "difficulty selling pigs" and "difficulty buying pork" has occurred at the same time. Peasants have complained of their inability to sell fattened hogs in inventory, and city and town residents have complained of state-owned pork shops having no pork for sale. In Xian, people report that the purchase of pork against coupons is limited.

In 1988, Shaanxi Province formulated a "10 point" preferential policy for hog production whereby the live hog procurement price (top quality) was increased from 2.30 yuan to 3.80 yuan per jin. For each hog sold, peasants could also buy one bag of urea at list price. Interest in raising hogs was very high, and by the end of the third quarter, there were 6.76 million hogs in inventory throughout the province, 10.5 percent more than during the same period in 1987, as well as 452,000 brood sows, up 18.3 percent over the same period in 1987. Hog production got out of a trough and continued to develop. However, only 2,659,000 million hogs were removed from inventory, 21.2 percent fewer than during 1987. Thus, hogs that should be removed from inventory were

not removed from inventory, and the number of fattened hogs in inventory increased greatly, giving rise to a situation of "two increases and one decrease," meaning an increase in both the number of fattened hogs in inventory and the number of brood sows, and a decrease in the number of fattened hogs removed from inventory. The peasants complain of "difficulty in selling hogs." Pork output has declined along with the reduction in the number of hogs removed from inventory. As of the end of the third quarter, Shaanxi Province's pork output stood at only 1.86 million tons, down 2.6 percent from the same period in 1987. Pork prices in country fair markets shot up so much that city and town residents could not afford it. They could only consider buying pork in state-owned shops, but most state-owned pork shops had been rented out, or were engaged in some other business. As a result, "difficulty in buying pork" appeared once again. Take, for example, the situation in Xian where the pork supply is best. There each person could buy only 500 or 750 grams per month against coupons. If more was needed, it would have to be bought at a high price in country fair markets.

During 1988, Shaanxi Province planned to purchase 443,000 hogs, but from January through November it had purchased only 285,000, or 64.3 percent of plan total. Xian City fulfilled its procurement plan rather well, but it only fulfilled 75.4 percent of it. The food company reported that the biggest problem in live hog procurement today is a large shortage of funds. Take Zhouzhi County, for example, where the purchase of 700 head daily requires 300,000 yuan. The company has only 120,000 yuan of circulating funds, and the bank will provide a loan of only 600,000 yuan, so there is a more than 5 million yuan gap. Everyday IOUs are written to buy hogs. Xian Municipal Food Company Manager Wang Fuhun [3769 4394 3352] told the correspondent that his biggest headache today is not being able to get a loan from the bank. Two months ago, Xian had only 2,000 tons of pork in storage, exceeding the warning limit. Thanks to the efforts of all staff members and workers, the amount in storage has risen again, but still not enough to meet the 7,500 ton demand. Funds are tight in the company at the present time. More than 5 million yuan is owing for the shipment of hogs, and 1.75 million yuan is needed daily for hog procurement. There is a 60 million yuan funds gap. Because of the shortage of funds, hog shipments can be made only in fits and starts, so the company buys a while then halts a while, and after halting a while, it buys a while, with the result that peasants report "difficulty selling hogs."

City and town resident complaints of "difficulty buying pork" are also a fact. Food units figure that from procurement to sale, state pork shops have to pay a subsidy of 1 yuan for every 500 kilograms of pork sold. Because of the loss from selling pork, county food company pork shops virtually no longer sell pork. They have rented the shops out to private persons, or else they deal in other wares. Because of financial difficulties, residents of Xian can buy only 750 grams of pork each

month against coupons. During 1987, the municipal food company incurred losses of 20 million yuan on the sale of 20,000 tons of pork. Since the public cannot buy pork freely, they complain of "difficulty buying pork."

Average Retail Prices for Consumer Goods
HK0212120988 Beijing CEI Database in English
2 Dec 88

[Text] Beijing (CEI)—Following is a chart of average retail prices of some consumer goods in six cities of China in September 1988 released by CSICSC:

	unit	Prices in cities (yuan)		
		Beijing	Shenyang	Shanghai
Soybean	kg	0.729	1.521	1.361
Vegetables	kg			
Pork	kg	5.697	5.540	5.379
Frozen chicken	kg	5.790	5.879	4.916
Eggs	kg	3.826	5.383	4.031
Cigaret (grade a)	case	1.150	1.180	3.067
Liquor	kg	4.800	2.800	
Beer	bottle	1.233	1.130	0.730
Milk	kg	0.840	1.080	1.235
Cotton prints	meter	1.730	1.710	1.740

	unit	Prices in cities (yuan)		
		Guangzhou	Chongqing	Xian
Soybean	kg	1.770	1.604	1.264
Vegetables	kg			
Pork	kg	9.961	5.468	5.245
Frozen chicken	kg	8.803	6.625	5.675
Eggs	kg	6.105	6.033	4.790
Cigaret (grade a)	case	3.268	1.390	0.785
Liquor	kg	2.300	2.500	3.400
Beer	bottle	1.585	1.160	1.475
Milk	kg	1.800	0.920	0.960
Cotton prints	meter	2.174	2.418	2.190

Guangdong Province To Upgrade Grain Production
OW0512082488 Beijing XINHUA in English
0737 GMT 5 Dec 88

[Text] Guangzhou, December 5 (XINHUA)—The vice-governor of Guangdong Province has predicted that his province will increase its grain production by 500,000 tons a year during the next few years, as long as it can maintain its present amount of cultivated area and increase per unit yield.

Guangdong Province, in south China, produces at least 17 million tons of grain annually, enough for the consumption of local residents.

But the province has to import 2.5 million tons of grain a year from other parts of the country as a result of the rapid development of its food processing industry and an increased demand for animal fodder.

To achieve the set goal, the province will grow potatoes, cassava, beans, maize, and fodder crops on its 1.3 million hectares of hillside land adjacent to industrial use, Vice-Governor Ling Botang told a provincial meeting on future agricultural development.

The province will also improve soil, build irrigation canals and apply more fertilizer to low-yield farmland where each hectare produces less than 7,500 kilograms of grain a year.

In this way, the output of low-yield farmland is expected to increase by 1,500 kilograms per hectare annually, he said.

More high-quality grass will be planted in the eastern and northern parts of the province to replace grain used in raising animals and poultry, Ling said.

Taking advantage of its mild winter climate, the province will grow wheat, potatoes, maize and beans in the winter slack season, the vice-governor said.

Water Supply Improved in Guangxi Province
HK0212150988 Nanning Guangxi Regional Service
in Mandarin 1100 GMT 1 Dec 88

[Excerpt] Great changes have taken place in the water supply of our region. By the end of 1987 there had been 99 waterworks in all counties and towns of our region. The capacity of water supply to cities and towns of the region has reached 1.83 million tons a day, 46 times the figure for the year just after the founding of the Guangxi Zhuang Autonomous Region.

While vigorously expanding production, governments at various levels of our region must pay adequate attention investing in water supply projects in a proportional and planned way. Especially in recent years the central government allotted more than 1 million yuan every year to solve the problem of water shortage in cities and towns of our region. This year the central government and the regional authorities added an investment of 5 million yuan in construction of waterworks in 41 county towns. These waterworks can add an extra supply of 220,000 tons of water and improve the quality of 230,000 tons of water everyday. [passage omitted]

Guangxi Increases Fruit Production
OW0512014388 Beijing XINHUA in English
1548 GMT 1 Dec 88

[Text] Nanning, December 1 (XINHUA)—South China's Guangxi Zhuang Autonomous Region now ranked fifth in fruit production in China, the PEOPLE'S DAILY reported today.

Last year, the region produced 0.94 million tons of fruit, 90 percent of which were sold out with a total output value reaching 600 million yuan, according to the paper.

Located in subtropical zone, with warm climate, abundant rainfall, and long-time sunshine, Guangxi enjoys exceptional advantages in developing fruit industry.

But because of the influence of natural economy and other factors, the region's fruit output, in the past years, fluctuated around the 10th place in the nation, the paper said.

In 1986, the regional government stipulated a series of preferential policies and measures to increase fruit production, including adding more channels to manage fruit products and letting the fruit price to fluctuate according to market demand. It also gave support to fruit industry in funds, technology, and fruit seedlings.

To avoid the struggle for lands between fruit industry and grain and sugarcane—pillar industries of Guangxi, the regional government also adopted a tax-free preferential policy for 2 to 5 years to encourage farmers to plant fruit trees on barren hills, slopes, and uncultivated lands.

As a result, 97 percent of the newly-increased 130,000 hectares of fruit trees were planted on such lands.

With the development of fruit industry, fruit processing industry in Guangxi is also greatly improved. At present, the fruit products processing factories, totalled over 100 in the region, can produce 100,000 tons of canned fruit every year, according to the paper.

Jilin Grain Achievements

40060217d Beijing JINGJI CANKAO in Chinese
31 Dec 88 p 1

[Summary] In 1988, Jilin Province produced 16.93 billion kilograms of grain; Jilin procured 9 billion kilograms of grain; the commodity rate of grain produced was 52.6 percent; per capita consumption of grain in Jilin exceeded 700 kilograms; and Jilin exported 2 billion kilograms of corn.

Record Beet Purchases Reported by Jilin

SK0612053888 Changchun Jilin Provincial Service
in Mandarin 1030 GMT 5 Dec 88

[Text] As of 28 November our province had purchased a total of 1.19 million tons of beets, an increase of 50,000 tons over the good harvest year of 1980, creating an all-time record.

'Favorable' Heilongjiang Grain Purchases

SK0212084588 Harbin Heilongjiang Provincial Service
in Mandarin 200 GMT 1 Dec 88

[Text] Since mid-November the province has purchased an average of 50,000 tons of grain every day, double the figure during the corresponding period last year. As of 28 November, the province has laid up a total of 2.539 million tons of grain. Of this, the contracted purchase task has been fulfilled by 45 percent, and the task of changing grains purchased at negotiated prices to grains purchased at parity prices has been fulfilled by 50.4 percent. In addition, 79 percent of the purchased grains was paddy rice, wheat, and soybean, thus being extremely favorable to arranging supplies for grain and edible oil markets.

Heilongjiang Grain Storage

40060217c Harbin HEILONGJIANG JINGJIBAO
in Chinese 6 Dec 88 p 1

[Summary] As of 25 November, Heilongjiang Province had put 2,425,000 tons of grain in storage.

First Futures Market To Be Set Up in Henan

OW0512100888 Beijing XINHUA in English
0237 GMT 1 Dec 88

[Text] Beijing, December 1 (XINHUA)—China's first futures market is to be launched on a trial basis in Henan Province by the end of next year, CHINA DAILY reported today.

As part of the country's effort to stabilize prices, curb inflation, and establish a new socialist commodity order, the futures market in Henan will deal with wheat and other grains excluding rice, jute, and probably cotton, the paper quoted senior researcher Chang Qing as saying.

Chang is a member of an investigative group appointed by the State Council to study the feasibility of futures markets in China.

A futures market is where contracts are transacted for future acceptance or future delivery of basic commodities, the paper said.

If the Henan market is a success, more futures markets will be opened in Jilin for corn, in Sichuan for pigs and in Guangdong and Hebei for industrial raw materials, Chang said.

Chang said the government chose Henan as a testing ground for futures markets primarily because the province is the largest production center and the most centrally located marketing center for agricultural and related products, including wheat, cotton, soybeans, and jute.

Its central location also makes transportation convenient. And last June, the Henan Provincial Government organized a group to prepare for the establishment of futures markets.

Furthermore, under the nationwide economic reforms, more farm and sideline products have come under the market system, and the number of advance contracts, which are a rudimentary form of futures trading, has increased.

But Chang said that the futures market in Henan Province will be simple compared with similar markets in Western countries. It will only be able to open prices to trading twice a week because of China's backward telecommunications system.

Chang also said regulations have to be worked out and necessary personnel trained before the Henan market is opened.

In recent years, lifting price controls on some commodities has resulted in drastic fluctuations in the prices of farm products and industrial raw materials. This has heightened producers' risks and losses.

Futures markets could help buffer producers against price changes, as those who sign futures contracts will guarantee a particular price. Moreover, futures markets will help balance supply and demand by guiding farmers in production. They will reduce blindness in production and marketing, the paper said.

NORTHEAST REGION

Liaoning's Plans To Enforce Compulsory Education Law

SK2112083888 *Shenyang LIAONING RIBAO*
in Chinese 2 Dec 88 p 2

[Text] Wang Wenyuan, vice governor of the provincial government, delivered a report on "Implementing the state 'Law on Compulsory Education' in Liaoning Province" at the sixth Standing Committee meeting of the seventh provincial people's congress on 17 November.

He said: Since the state "law on compulsory education" and the "Liaoning Provincial regulations on 9 years of compulsory education" were promulgated, the people's governments at various levels throughout the province have placed the implementation of the law on compulsory education and the enhancement of basic education on their work agenda, and have paid much attention to and strengthened leadership over the work. The departments concerned, from the city level to the provincial level, have formulated plans for popularizing the 9-year compulsory education. The targets covered in the provincial plan are as follows: Compulsory education at the middle school level should be popularized among the city proper and small towns with 40 percent of the province's population by 1993, among the city proper and small towns with 30 percent of the province's population by 1996; among the city proper and small towns with 20 percent of the province's population by 2000; and among the city proper and small towns with 10 percent of the province's population after 2000. Having basically popularized primary school compulsory education in 1985, the province presently has begun to carry out the primary school compulsory education in groups. A total of 612 middle schools or 29.5 percent of the province's total middle schools have implemented compulsory education. These schools cover 36.7 percent of the province's population. In the process of implementing compulsory education, relevant leading comrades of the people's congresses and governments at various levels disseminated information on and explained the law on compulsory education on radio, television, and in the press. Meanwhile, some city, county, and township people's governments also worked out regulations on disseminating the law on compulsory education. A large number of good examples throughout the province emerged. That is, some leading comrades positively and actively paid attention to education, the masses voluntarily donated funds to support schools, and society tapped potential to support education. To improve teaching facilities of schools carrying out compulsory education, Liaoning successively promulgated "standards for compulsory education teaching facilities and regulations on implementing compulsory education" and "(trial) basic requirements for popularizing middle school compulsory education covered in the 9-year compulsory education system." Last August, the province also transmitted to lower levels the "decision on solving problems concerning educational expenses for

primary and middle schools". Over the past few years, the teaching facilities of Liaoning's primary and middle schools have notably improved. In 1987, primary and middle schools throughout the province built more than 440,000 square meters of new schoolhouses, repaired 2.26 million square meters of schoolhouses, and changed more than 840,000 sets of desks and chairs. The number of dangerous schoolhouses dropped to 4.7 percent in 1987. A total of 270 million yuan was invested in repairing primary and middle schoolhouses. So far, 76 percent of the first group of middle schools that have implemented compulsory education have attained or basically met the requirements for carrying out compulsory education. Liaoning has adopted a series of measures to upgrade educational quality on a large scale. Except for some individual cities, most cities have reformed the recruitment system and the transition from primary to middle school and have excused primary school graduates from middle school entrance exams. Trial reforms in the educational and teaching fields have ceaselessly been improved.

In April, the provincial government approved and transmitted a report of the provincial Education Commission on establishing an educational supervisory and guidance system which helped initially form a system to supervise and guide elementary education and to strengthen inspection, supervision, and guidance of compulsory education. The number of primary and middle school teachers throughout Liaoning with a record of formal education that meets state requirements rose to 66.1 percent and 39.7 percent, respectively, and the number of primary and middle school teachers who are competent or basically competent in their work rose to 93 percent and 80 percent, respectively. In 1987, the numbers of school-aged children entering primary schools throughout the province, the attendance rate, the numbers of qualified graduates, and the rate of popularizing education among children between 13 and 15 years of age all increased to new levels. Thanks to the attention of the party committees, the people's congresses, the government and the CPPCC committees at the various levels, Liaoning's 9-year compulsory education has progressed and developed soundly.

Concerning the problems and difficulties in implementing compulsory education, he said: Liaoning has done much to implement the compulsory educational law and has scored certain achievements. However, there are still many problems and difficulties facing us. First, we are short of educational funds and our teaching conditions are comparatively poor. Based on a survey in May, there was a great shortage of operational funds for primary and middle schools throughout the province. Per-capita expenses for primary and middle school teachers of some localities were not guaranteed. Many schools were seriously short of public working funds. The problems were even more serious in rural areas. All this affected the normal teaching activities of schools. At present, there are still many dilapidated school buildings in primary and middle schools and there is a serious shortage of

desks and chairs for students. The double-shift system still exists in primary schools, and there are as many as 2,000 classes or so in primary schools. The size of some junior middle school classes was too big, thus resulting in an acute shortage of teaching instruments, cultural and sports equipment, and books and teaching materials in particular.

Second, teachers' wages are comparatively low and the number of teachers is unstable. At present, the wages and remuneration of some primary and middle school teachers are still fairly low. They are short of housing and their children have difficulty finding jobs. The problem of paying teachers' remuneration in arrears remains unresolved. Public medical programs for primary and middle school teachers cannot be completely implemented. Many teachers have a hard time making a living. Most are in poor health and their work enthusiasm is somewhat affected.

Third, the number of students not attending school has increased and the quality of education is comparatively low. During recent years, Liaoning's annual primary school truancy rate reached 1.5 percent and that of junior middle school students, 7.2 percent. The problem of junior middle school students not attending school frequently occurred in rural areas. In economically-prosperous areas, the main reasons given for skipping school were working or engaging in commerce; in economically-undeveloped areas, the reasons were participating in family contracted work.

The main reasons for students not attending school are: first, the idea that it is useless to study began to emerge again, and some parents and students maintained that "it is better to earn money early than to study more"; second, the families of some students have economic difficulties. They cannot afford to have their children go to school but do not want their children to serve as the family workforce; third, cadres of some township and village enterprises and parents of students have a poor understanding of the legal system, thus providing opportunities for these students to leave their schools and engage in commerce or industry; fourth, schools are short of educational funds, their conditions are poor, the means of transportation for students is inconvenient, boarding conditions for students are quite poor; fifth, there are still some problems with education. At present, the management system of having three levels to run schools has not been fully implemented, and the problem of one-sidedly pursuing the rate of admission to a higher school is quite serious in many schools, and the teachers' problem of "eating from a big pot" still remains unsolved. The poor teaching conditions and educational quality are far from meeting the requirements of implementing the compulsory educational law.

Speaking on our province's future compulsory education, he said that the provincial government decided to take the following measures:

A. Make active efforts to raise education funds. To solve the problem of education funds for primary and middle schools, the key lies in successful implementation of Document No. 60 issued by the provincial government in 1988. At a work meeting, the provincial governor and vice governors decided that the various measures put forth in Document No. 60 should be truly implemented, and the provincial government should order the provincial finance, education, and other relevant departments to inspect in a systematic manner the implementation of Document No. 60 in various localities, and submit written reports, which would then be approved and transmitted to various localities. The provincial government urged the provincial finance department, as an operational department for implementation of Document No. 60, to work out detailed regulations and hold responsibility for supervising the inspection. The 1 million yuan of education funds allocated by the provincial government to various counties this year should not be used to offset local financial deficits. We should make sure that the funds are used in primary and middle school education, and included in the fixed base figures. Effective financial supervision systems should be established to ensure that cities, counties, and townships adopt proper ways to raise education funds and use them rationally. Governments at various levels should increase primary and middle school education funds every year and guarantee "two increases." The funds saved from the construction of office buildings, auditoriums, hotels, and other projects that were under construction and suspended should be used on 9-year compulsory education. Those already built should be transferred for use in primary and middle school education if their purpose could be changed and they are suited to educational needs. Commodities purchased in violation of the state control regulation, which were confiscated as a punishment, should all be auctioned off by the provincial finance department without exception, and the funds gained from this should be used in subsidizing the education funds of poor areas. The provincial government reiterated that active efforts should be made to raise funds to pay the teachers of the schools run by local communities without delay. County and township heads should not get full pay if such teachers in their counties and townships cannot get full pay. Dangerous primary and middle school buildings should be repaired or rebuilt as soon as possible. Next year should be designated as one for solving this problem, and efforts should be concentrated on eliminating dangerous school buildings. In a locality where there are dangerous buildings in the primary and middle schools, its party and government organs are prohibited from starting any nonproductive construction projects. County and township leaders should be resolutely investigated and dealt with if they are engaged in extravagant dining and dining, construction of office buildings, auditoriums, and hotels, and are in arrears with payments to teachers in schools run by local communities, show no concern for education, and have serious problems. Meanwhile, various channels should be adopted to actively raise education funds. The principle of different

levels holding different responsibilities should be further implemented to fully arouse local enthusiasm for running schools. Forces throughout society should be extensively mobilized to donate money to support schools, and the experience of Anshan City in "developing schools cooperatively by plants and schools" should be greatly popularized so that education can truly become a cause for all of society. In view of the current shortage of implements and equipment, and books and pictures in primary and middle schools, we should organize and mobilize large and medium-sized enterprises, scientific research departments, colleges and universities, libraries, Xinhua bookstores and other relevant units and individuals to render support and donate money. We should also organize large and medium-sized enterprises to help local primary and middle schools that have dangerous buildings solve this problem. We should further help primary and middle schools carry out the work-study program, and consolidate and develop the already achieved results. Education funds should be managed and used well. Cities should concentrate on making primary and middle schools successful instead of developing higher education at random. They are prohibited from using primary and middle school education funds to develop universities subordinate to the cities. Resolute measures should be adopted to straighten out the universities and secondary specialized schools subordinate to cities, and avoid duplicate running of schools. Inspection and supervision over the use of education funds should be strengthened. The sizes, sites, and personnel of primary and middle schools should be fixed, and extra personnel should be arranged properly in line with different conditions so that education funds can be used effectively.

At present, people are greatly dissatisfied with unauthorized collection of fees by schools. This problem should be conscientiously resolved, and the collection of unreasonable fees should be resolutely stopped. Fees for services, which are collected from students and used on students, or which are collected and spent on behalf of students, should be collected on a voluntary basis without imposing uniformity, and should not be used to make profits.

B. We should make efforts to build the ranks of teacher for compulsory education. The current plan for cultivating middle school teachers should appropriately be readjusted to cultivate teachers for urgently-needed branches of learning. It is necessary to perfect the method of retaining enrollment quotas for specific areas and to retain enrollment quotas for towns and townships and for certain branches of learning to ease the strain on middle school teachers in rural areas. The governments at various levels and all of society should make concerted efforts to improve teachers' wages. We should continue to vigorously disseminate the advanced examples of respecting teachers and stressing education, mobilizing society to care for teachers and support education, and positively solve teachers' working and living problems. Meanwhile, the governments at various levels should

study and work out relevant policies and adopt necessary measures to upgrade the wages and positions of primary and middle school teachers. It is necessary to guarantee the payment of primary and middle school teachers' wages and their subsidies. The areas that fail to give cash awards and subsidies to teachers must not issue cash awards and subsidies to their office cadres.

C. We should vigorously upgrade the quality of compulsory education. At present, we should consider an important aspect of implementing compulsory education to be paying attention to the situation in which some students give up school. We should further widely publicize and implement the law on compulsory education; formulate relevant administrative laws and rules; and assign legal duties and responsibilities to governments, society, families, and schools. Through propaganda, the people should be educated to overcome their shortsighted view of only paying attention to short-term interests and the notion that study is of no use. We should devote a period of time to mobilize students who have quit schools to return and resume their studies. Efforts should be made to improve students who lag behind in their studies, to feasibly provide for the teachers and students' studies and livelihood, and to ensure that students be recruited, continue their schooling, and be well taught. The units and individuals that employ child labor and encourage students to abandon their studies should be criticized and educated. Those whose cases are serious should be punished according to law.

Teachers should persist in the principle of imparting knowledge, educating the people, being worthy of the profession; they should concentrate their energies on achieving educational and teaching reforms. Schools should consistently serve all students, comprehensively implement the state's educational principles, conscientiously correct the various wrong practices of unduly increasing the numbers of students entering schools of higher education, and implement the guidelines of the national conference on moral education in primary and middle schools.

D. We should further improve leadership in compulsory education. The key to developing compulsory education hinges on leadership. Whether or not leaders pay attention to compulsory education depends on their understanding. So far, some leading comrades in our province still fail to meet the central authorities' requirement to "attend to education as has been done in economics work." The provincial government decided that the duty to implement compulsory education must not be undertaken by the leaders in charge of educational work but should first be undertaken by provincial governors, mayors, county heads, and township heads. Every year, they should hold discussions with leaders in charge of educational work and representatives of the educational departments and teachers in their respective administration to solicit opinions and improve education. Meanwhile, government supervisory organs should be set up under the education departments at various levels

throughout the province. Personnel for supervising teaching should be appointed by the governments and be delegated with rights to comprehensively examine, supervise, and guide educational work.

The provincial people's government decided to further enhance awareness, strengthen leadership, extensively mobilize all social forces, closely rely on the vast number of education workers to pay attention to Liaoning's compulsory education, strive to reach the target of basically realizing 9 years of compulsory education, and make greater contributions to accelerating the development of the two civilizations and rejuvenating Liaoning.

NORTHWEST REGION

Qinghai Governor Reviews Tasks for 1989 *HK0512012588 Xining Qinghai Provincial Service in Mandarin 2300 GMT 4 Dec 88*

[Excerpts] On 4 December, Governor Song Ruixiang delivered a speech at the second enlarged plenary session of the seventh provincial party committee, entitled "Carry out Improvement, Rectification, Reform, and Development, and Strive to Do a Good Job in All Work Next Year." [passage omitted]

Governor Song spoke on six tasks for which efforts should be concentrated next year. These main tasks are: Strengthen the agricultural foundation and vigorously promote grain production; deepen enterprise reforms and improve economic returns; make all-round plans for speeding up exploitation of resources; stabilize the markets and control prices; increase revenue and economize expenditure and ensure a balanced budget next year; and vigorously develop science, technology, and education, and promote the development of all social undertakings.

Governor Song said: Although Qinghai's agricultural and animal husbandry situation is very good this year, it still does not match overall economic and social development. In particular, the grain contradiction is conspicuous. Since the liberation, the average area of farmland per person in the province has declined from 4.6 mu to 1.97 mu, while the proportion of the population consuming marketable grain has reached as high as 42 percent, a figure exceeded only by Beijing, Tianjin, and Shanghai. Since the amount of grain shipped in from other places is increasing every year, grain prices are rising all the time, and our finances can hardly bear this.

At present there is no relaxation in the supply-demand situation in grain throughout the whole country, and it is becoming more and difficult to find money for buying

grain. Hence, resolving the province's grain problem is now an urgent task that brooks no delay. This must attract a high degree of attention from everyone.

To ease the grain supply-demand contradiction, in the future Qinghai must carry out simultaneous efforts to open up new farmland while improving the existing farmland, vigorously grasp agricultural capital construction, further deepen the reforms, follow the path of integrating traditional agriculture with modern science and technology, seriously grasp the supply of agricultural production materials, organize projects for resolving the food and clothing problem, and strive to attain the goal of extricating people from poverty and enriching them.

On deepening enterprise reforms and improving economic returns, Song Ruixiang said that in enterprise reforms next year, efforts must be focused on separating government and enterprise functions, further perfecting the contracted management responsibility system, organizing a matching set of reforms within the enterprises, encouraging and supporting contracting, mergers, and joint operations between enterprises, and organizing pilot projects in the joint stock system.

Governor Song emphasized: The strategic idea on exploiting resources, proposed by the provincial party committee, is completely correct. It matches the strategic requirements of the country's economic development and is also the fundamental way out for changing Qinghai's economic backwardness. [passage omitted] We should focus on exploiting hydroelectricity resources and the resources around the lakes so as to develop the energy and raw materials industries. We should build a pivotal Huang He water conservancy project, establish grain and animal products bases, and develop new technology industries, light and textile industries, township and village enterprises, and tertiary industries. In this way these regions can enjoy lasting prosperity. [passage omitted]

Governor Song said: Some 70 percent of commodities in the province come from elsewhere. It is therefore rather difficult to control prices. Apart from taking steps to develop production, increase total supply, organize sources of supply inside and outside the province, increase commodity stocks, organize the supply of consumer goods, and ensure the needs of normal production and daily life, all localities and departments should at present refrain from delegating more price control jurisdiction and from expanding the range of commodities on which price controls are lifted. There is to be no change in the prices of urban residents' ration grain and oil. [passage omitted]

Malaysian Chinese Reported Entering Job Market as 'Foreign Workers'

*42050008d Selangor SIN CHEW JIT POH
in Chinese 1 Nov 88 p 24*

[Text] Although the Taiwan government has not permitted local factories to take foreign workers, yet—thanks to its acquiescence and to certain quarters' goading—some 30,000 to 40,000 Malaysian Chinese workers are estimated to have entered Taiwan's job market, a situation expected to produce a big impact on Taiwan's industries and social structure.

The Malaysian Chinese, thanks to their special physical identity, are difficult to classify as "foreign workers." Due to the shortage of skilled laborers in the country, the Taiwan authorities apparently are adopting a flexible expedient measure by tacitly allowing these workers to stay on.

A Malaysian Chinese worker frankly admitted that although he and his fellowmen hold Malaysian passports, they are willing to come and work in Taiwan where the standard of living is higher than Malaysia's and where they can earn higher wages, with some money to spare to be remitted back home.

Generally speaking, the majority of these Malaysian Chinese workers may be found in Taipei and Taoyuan counties, while the others are scattered among factories in the southern part of the island.

Almost all of them went to Taiwan on short-term tourist visas. Their trips were arranged by agents who were responsible for acquiring their clients' passports, round trip plane tickets, and jobs in Taiwan. Then, without much ado, they board the plane for Taiwan and take up an occupation there.

Judging by the current rates, the "agent" gets an introduction fee of NT\$7,000 from the Taiwan firm or factory for each Malaysian Chinese worker accepted.

1988 Legislative Council Election Analyzed
40050142 Hong Kong CHING PAO [THE MIRROR]
in Chinese No 136, 10 Nov 88 pp 12-15

[Article by Cheng Yu-shuo 6774 1342 4311, Ranking Lecturer, Department of Political Administration, Chinese University: "Evaluation and Analysis of the 1988 Legislative Council Election"]

[Text] On 22 September, Hong Kong's second Legislative Council in history was held, but it did not mark any further development of Hong Kong's system of representative government. The powers of the Legislative Council did not increase; the functional group election generated a two-seat increase; and the seats reserved for officials (10 seats) and appointed members (20 seats) continued to dominate the 56 seat Legislative Council.

Candidates did not hotly contest election to this session of the Legislative Council, only 46 people contesting 26 seats. However, since 13 people ran independently, actually there were 33 candidates contesting 13 seats. Only four functional groups had to hold an election, including the newly set up accounting and health groups. For the other groups, the incumbents ran uncontested. In running for a position in functional groups, the emphasis is on qualifications and length of service, so new members of the Legislative Council cannot easily take part in the contest. On the other hand, the opportunities for incumbents to succeed themselves is naturally fairly high.

Relatively speaking, the electoral body had no qualifications or service to speak of. Moreover, many election bodies were made up of one or more districts councils, with no close contact among the district councils. As a result, only three of 12 election bodies ran for election independently, including Chung P'ei-lin [6945 3099 2651] of Shenshuipu, and Hsieh Chih-wei [6200 1807 0251] of Kowloon City, both of whom are incumbent members of the Legislative Council. Efforts to stage a comeback by the 75 year old Tu Yeh Hsi-en [2629 5509 6932 1869] may be said to have enjoyed public support.

Under the current Legislative Council election system, only 98,000 of Hong Kong's 5.66 million residents are qualified to vote. In other words, less than 2 percent of the population is qualified to vote, of whom the 61,500 who have registered amount to probably 63 percent. However, since independent candidates were running for 13 seats, only 17,000 of the registered voters had to vote. The number who actually voted totaled 9,272 in a 54 percent turnout, 3.6 percent less than for the previous session of the Legislative Council. This turnout rate does not mean very much, because, as Table 1 shows, the voter turnout was actually decided by medical circles and health circles. Not only did these two groups fight bitterly, but they were gravely dissatisfied with the conditions of service in their professions. Not long before the election, a meeting won improvements in service conditions; consequently, they were able to maintain a fairly high overall voter turnout rate.

Table 1. Results of Legislative Council Functional Group Balloting

Group	Name	Vote Outcome	Number of Votes		Group Background/Supporters
			1	2	
Medical	Chao Hsien-kuang [2156 7359 0342], Liang Chih-hung [2733 2535 7703]	Elected	816, 1359		—, Democratic Faction
Health	Chou Mei-te [0719 5019 1795], Lin Pao-jung [2651 1405 2837], Huang Lung Hsing-ling [7806 7893 2622 3781]	Elected	2866, 1801, 609		Democratic Faction, —, Democratic Faction
Accounting	Huang K'uang-yuan [7806 0562 3292], Elected Ch'en P'u-fen [7115 2528 5358], Li Yeh Pao-p'ing [7812 5509 1405 5493]		338, 273, 83	366, 301	88 man-plan, —, —
Business 1	Wu Xiao-chen [0124 1420 6297], Mai Li-chueh [7796 3810 6030]	Elected	236, 478		88-man plan/ T'an Hui- chu [6223 1920 3796]; Independent/ Li Chu-ming [2621 2691 6900]

Table 1. Results of Legislative Council Functional Group Balloting

Group	Name	Vote Outcome	Number of Votes		Group Background/Supporters
			1	2	
Medical	Chao Hsien-kuang [2156 7359 0342], Liang Chih-hung [2733 2535 7703]	Elected	816,	1359	—, Democratic Faction
Business 2	Ho Shi-chu [0149 0013 2691]	Independently Elected			Leftist Faction
Industrial 1	Chang Chien-ch'uan [1728 7003 3123]	Independently Elected			88-man plan
Industrial 2	Ni Shao-chieh [0242 1421 0267]	Independently Elected			—
Banking	Li Kuo-pao [2621 0948 1405]	Independently Elected			—
Labor	P'eng Chen-hai [1756 7201 3189]	Independently Elected			Rightist Faction
	T'an Yao-tsung [6223 5069 1350]	Independently Elected			Leftist Faction
Social Services	Hsu Hsien-fa [6079 6343 4099]	Independently Elected			Democratic Faction
Education	Ssutu Hua [0674 1778 5478]	Independently Elected			Democratic Faction
Law	Li Chu-ming [2621 2691 6900]	Independently Elected			Democratic Faction
Engineering	Cheng Han-chun [6774 3352 6874]	Independently Elected			—

Table 2. Results of Legislative Council Electoral Body Balloting

Election District	Name	Election Results	Number of votes			Group Background/Supporters
			1	2	3	
East Hong Kong Island	Ch'en Ying-lin [7115 5391 7792], Li Ju-ta [2621 3067 1129]	Elected	21,	20		T'an Hui-chu, Democratic Faction
West Hong Kong Island	Liao Lie-k'e [1675 3525 4430], Ch'en Je-se [7115 5387 3844], Su Chou Yen-ping [5685 0719 5333 1456]	Elected	16,	16,—,	18	T'an Hui-chu, Citizen's Association, Citizen's Association
Kuant'ang	P'an Chih-hui [3382 1807 6540], Li Hua-ming [2621 5478 2494]	Elected	21,	12		T'an Hui-chu, Democratic Faction

Table 2. Results of Legislative Council Electoral Body Balloting

Election District	Name	Election Results	Number of votes			Group Background/Supporters
			1	2	3	
East Hong Kong Island	Ch'en Ying-lin [7115 5391 7792], Li Ju-ta [2621 3067 1129]	Elected	21,	20		T'an Hui-chu, Democratic Faction
Huangtah-sien	Lin Chu-cheng [2651 6880 2052], Cheng Te-chien [6774 1795 0256]	Elected	13,	16		Democratic Faction, Tan Hui-chu
South Kowloon	Wu Chien-hsin [0124 1696 2450], Tu Kuo-liu [2629 0948 9497], Hsueh Hao-jan [5641 3185 3544]	Elected	25,	30		Democratic Faction,—
East New Territories	Lai Chin-chang [6351 6930 3854], Huang Hung-fa [7806 1347 4099]	Elected	25,	30		Democratic Faction,—
West New Territories	Wen Huo-t'ai [2429 0129 3141], Tai Chan-hua [2071 1455 5478]	Elected	18,	27		Rural Affairs, Rural Affairs
South New Territories	Wen Han-chang [3306 3352 3854], Lei Sheng-lung [7191 5116 7127], Lin Wei-ch'iang [2651 0251 1730], Yang Fu-kuang [2799 4395 1639]	Elected	9, 20, 17, 23	—, 20, 20, 29	—,—, 38, 31	T'an Hui-chu, Democratic Faction, Rural Affairs, T'an Hui-chu
District Municipal Political Bureau	Chang Jen-lung [1728 0086 7893], Ts'ai Ken-p'ei [5591 2704 1014], Teng Kuo-jung [6772 0948 1369]	Elected	17, 8s, 9	19,—, 13		Rural Affairs, Rural Affairs/Democratic Faction, Rural Affairs
Municipal Political Bureau, Kowloon City, Shenshuipu	Tu Yeh Hsi-en [2629 5509 6932 1869], Hsieh Chih-wei [6200 1807 0251], Chung P'ei-lin [6945 3099 2651]	Independently Elected, Independently Elected, Independently Elected				Democratic Faction,—, T'an Hui-chu

Though voter turnout showed an apparent tiny decline, the city residents were obviously unconcerned about the election, largely because few of them were qualified to take part in the election, and since they have lost confidence in the system of representative government and the extension of democracy. Construction of the nuclear power plant at Tayawan, revision of the amended public security provisions, and the failure to achieve direct elections in 1988 all reflected the powerlessness of popular will and a gradual revival of the former traditional indifference toward politics. Consultations about the basic law during the same period were also unable to attract residents' concern; only three residents attended the discussion meeting held at Tumen. Before the Legislative Council election, 11 popularly elected district members from the west central district and the southern district conducted a public opinion survey during which approximately 1,000 residents were interviewed. The survey revealed that 93

percent of those interviewed did not know who was the Legislative Council candidate for the west Hong Kong electoral body, and 97 percent of those interviewed did not know that the incumbent member of the Legislative Council from the same district was Liao Lie-k'e [1675 3525 4430]. The quality of the work done by the broadcast media was lower than during the election for the previous session. Of course, when the residents are disinterested, the broadcast media cannot put a lot of emphasis on talking about the business it is in. Nevertheless, the broadcast media clearly did not fulfill their responsibilities in supervising candidates. It provided little in-depth reporting about the political platform and background of the candidates, and many newspaper reports covered the contest in terms used for critiquing a horse race in order to pique reader interest.

Residents were most concerned during the election with statements from the "democratic faction." There is no

denying that the "democratic faction" was foiled in this election. The "democratic faction's" ranking representatives Li Chu-ming [2621 2691 6900], Ssutu Hua [0674 1778 5478], and Hsu Hsien-fa [6079 6343 4099] ran for election independently, while the independently running P'eng Chen-hai [1756 7201 3189], and Tu Yeh Hsi-en generally supported the positions of the "democratic faction"; however, Ch'en Chi-ch'iang [7115 3444 1730], who spoke out on behalf of, and who was sympathetic toward the "democratic faction," withdrew from candidacy. In the electoral body election, incumbents Li Ju-ta [2621 3067 1129], Lin Chu-ch'eng [2651 6830 2052], and Lei Sheng-lung [7191 5116 7127] dropped out of the race, and Lai Chin-chang [6351 6930 3854], Li Hua-ming [2621 5478 2494], and Ts'ai Ken-p'ei [5591 0948 1014] were also defeated. Nevertheless, one must remember that one-third of the district delegates on the electoral body are government appointees. According to the rules of the Hong Kong stock market, any company entering the market that controls more than 35 percent of the shares has to offer to purchase the whole lot. Looked at from this angle, one can see the control that the Hong Kong government exercises over the electoral body. The ability of the "democratic faction's" candidates to win quite a few votes, even when it was unable to prevail over the appointed members, the "conservative faction," and the pro-China delegates, reflected the "democratic faction's" winning of quite a few seats during the one-man one-vote district council election of March 1988. Had all the district council seats been filled through election, the outcome of this electoral body election would have been vastly different.

In the electoral body election, the "democratic faction" also considered cooperation with other political forces. In the western district of Hong Kong island, the "democratic faction" successfully blocked the succession in office of Liao Lie-k'e, who had the support of T'an Hui-chu [6223 1920 3796]. In both the eastern and western election districts, and in the district municipal government bureau in the New Territories, various "democratic faction" district delegates also entered into a cabal with rural forces. This method not only did not win victory, but hurt the "democratic faction's" image as well. Ssutu Hua said openly that some of the young "democratic faction" members were unprincipled, and that exchanging votes was unethical behavior, and Li Chu-ming also acknowledged that the "democratic faction" was not sufficiently united during this election.

Among the functional groups, the victories of Liang Chih-hung representing medical circles, and Chou Mei-te representing health added new power to the "democratic faction." The victory of Mai Li-chueh of the Hong Kong General Chamber of Commerce, representing business, was a fairly severe blow to the "conservative faction's" T'an Hui-chu and the "88 man Industrial and Commercial Professional Consultative Committee." Mai Li-chueh cannot be said to be a part of the "democratic faction." His huge victory mostly reflects the dislike of many business people for having a

person of too high a political posture who is pro-China representing their interests in the Legislative Council. They seem to want to maintain the traditional low posture in upholding the interests of the business world. Wu Hsiao-chen's pre-election attack on Chungtzu [0022 6327] Enterprises seemingly showed understanding of the aforementioned tendency. Many observers feel that T'an Hui-chu and the rural forces were the big winners of this Legislative Council election. Eight of the 12 Legislative Council members generated by the electoral body that T'an Hui-chu espouses are members and friends of his Lichinhui [0536 6651 2585]. T'an Hui-chu's election contest tactics, her collusive political methods, and her hard work are obvious to all. However, she frequently supported one or more candidates in the same election district, and all of her supporters came from the electoral body; hence, the greatest test for the Lichinhui and for the "democratic faction" as well will come in 1991. During the next 3 years, as incumbent members, her supporters will naturally hold an advantage in making preparations. Actually, T'an Hui-chu's greatest problem is her inability to win the absolute confidence of either the British in Hong Kong, or of Beijing. Rural power in the Legislative Council is represented by the five seats held by Tai Chan-hua [2071 1455 5478], Lin Wei-chiang [2651 0251 1730], Hsueh Hao-jan [5641 3185 3544], Chang Jen-lung [1728 0086 7893], and Liu Huang-fa [0491 4106 4099], plus Huang Hung-fa's [7806 1347 4099] herculean support, which is sufficient to maintain the rural influence. The rural forces have a long election tradition, plenty of money, and after having removed dissension and cultivated some second generation professionals, it remains a decisive political force. However, except for rural matters about which they are interested because they affect them directly, this group usually holds a conservative and murky position. The 1991 direct election will be crucial in determining whether they can avoid being a "flash in the pan."

One thing worth noting in this election is that each of the conservative forces was rather able to "laugh off old enmities." T'an Hui-chu and Li P'eng-fei linked hands to support Ch'en Ying-lin [7115 5391 7792] and Cheng Te-chien [6774 1795 0256]. In the south Kowloon electoral body, T'an Hui-chu and Kuan Lien-hao [7070 1670 6275] seemed to have eradicated their former antagonism. The rural forces also actively won allies in all quarters. This trend appeared under ordinary circumstances, so in the future, all elections for public office can be easily turned into a contest between the "democratic faction" and the "conservative faction." The supplemental election for seats in the northeastern district of Ch'uanwan following the Legislative Council election in which the "democratic faction" vigorously supported the challenge of Lo Chin-cheng [5012 6855 2052] of the Hong Kong Democratic People's Livelihood Hsiehchin-hui [0588 6651 2585] [sic] against Yang Fu-kuang [2799 4395 1639] is an obvious example. During the direct election of 1991, the "democratic faction" will fairly easily consult with candidates, but whether the "conservative faction" will be able to cooperate remains to be

seen. However, since a split is virtually tantamount to defeat, opportunities should not be few for the conservatives in all factions to cooperate and work in harmony. If this happens, then contention within both factions will be more evident and party politics will become a reality.

During the present Legislative Council election, the pro-China district members adopted a fairly low posture; however, during the past 2 or 3 years, the pro-China local organizations have developed markedly, and they scored certain achievements during the district council elections of March 1988. Inasmuch as these local organizations have better sources of funds than similar organizations, they make a substantial contribution to district recreational and athletic activities, and this is precisely the area that "democratic faction" district organizations overlook. It is predicted that during the 1990's the pro-China district organizations will show their further influence, and be a decisive force in direct elections.

Expectations are that there will not be too many changes in the situation during the new session of the Legislative Council. Though the "democratic faction" suffered setbacks in winning more seats, the "democratic faction" has always been a minority faction whose style of operation will continue to emphasize use of the broadcast media to influence public opinion in order to bring pressure on the Hong Kong government. One unexpected gain for the "democratic faction" was serious damage to the electoral body concept and operations in the eyes of the citizenry. Election of the electoral body obviously depends on individual contacts and encourages an exchange of interests. Inasmuch as most residents are not voters, candidates need not try to win residents' support and need not make an accounting to the residents. Consequently, most candidates have no clear political platform, and some even refuse to take part in media-arranged programs for the expression of political views and debate. It is believed that the aforementioned abuse is also difficult to avoid in the election of administrative officials and some members of legislative agencies to electoral bodies. However, the recent revival of popular indifference to politics has placed under a cloud the future development of both the democratic political system and the "democratic faction."

Generally speaking, the political position of the Hong Kong government appointed members of the Legislative Council is conservative; however, they are fairly young, and they are also influential in various important policy fields. Consequently, all the appointees believe they have better ability to explain Hong Kong government policies to the residents and to speak in defense of Hong Kong government policies. Since the government has firm control over the majority in the Legislative Council, it can make use of people among the appointed delegates including some who are close to the "democratic faction" to get support for its neutral position. However, since it is facing a gradual reduction in the number of appointed delegates (according to the Joint Sino-British announcement and the basic law, by 1997 all legislative

organization seats are to be elected), the Hong Kong government must do all that is possible to use its present authority to bring along a pro-British elite in the political forum in order to maintain its political influence after 1997. Members of the Legislative Council who are now appointed will have to maintain their own political careers in the future, and they will have to act to put out lines using various election methods to retain their seats in legislative agencies.

From this perspective, debates during the coming session of the Legislative Council will be fiery, but whether they will be able to continue to evoke concern from the residents is an unknown quantity. The presiding member of the Legislative Council, Li P'eng-fei [2621 7720 7378] has openly encouraged industry and business to take part in government, and has said that party politics are unavoidable. His recent words and manner have also demonstrated that he is not inclined to seek "consensus politics" in the Legislative Council. The verbal warfare within the Legislative Council is a necessary process in the development of representative government. It serves the intrinsically constructive purpose of allowing members of "opposition factions" to call the government into question, and to evoke concern and discussion within society. Whether it will give rise to "confrontational politics" depends largely on whether serious splits and conflicts of interest exist in the society. "Confrontational politics" is not something that minority members can provoke; neither can members of "opposition factions" long be in opposition simply for the sake of being in opposition. In order to maintain the electorate's support, they must make a genuine contribution to society.

The intense controversies and the "consensus politics" within the Legislative Council are ultimately reflected in society, meaning that all political forces are struggling to expand their organizations in order to meet the challenges of the direct election of 1991. The point of convergence for the three "democratic faction" organizations, the T'ai-p'ingshan Society, and the Hong Kong Democratic People's Livelihood Hsiehchinhui have held profound discussions in recent years on the "party organization" issue, but it is difficult to make major achievements within a short period of time. The "Hong Kong Economic Research Center" run by Li P'eng-fei and Chang Chien-ch'uan [1728 7003 3123] of the Lichinhui and the "Industrial and Business Circles Professional Consultative Committee" tends to be more active.

Changes in the Hong Kong government's position are very deserving of attention. Its position in the July 1984 green book on representative government was rather enlightened in that it called for the establishment of a system of government "rooted in Hong Kong," but that would simultaneously be "more able to be fairly directly responsible to the people of Hong Kong." After China issued a warning at the end of 1985 against "not operating by the book," the Hong Kong government has expressed strict neutrality in the development of the

political system, allowing the residents themselves to chose. The veto in early 1988 of the "1988 direct election" and the presence among the appointed members in the present session of the Legislative Council of many hardcore elements of the 80-man "Industrial and Business Circles Professional Consultative Committee" shows the evenhandedness of the British in the development of a system of government.

Will China acquiesce in a change from opposition to the development of partisan politics, or even actively support pro-China political forces? This is a matter that will concern all parties. From the standpoint of the ordinary resident, the most crucial element will be the second draft of the basic law due for publication early in 1989. If China is really able to make revisions in matters about which Hong Kong society is most concerned and about which there is a full consensus, such as relations between the central government and the special administrative zone government, an independent judiciary, and basic law interpretation rights, residents' confidence in Hong Kong as well as willingness to take part in politics can be sustained. Otherwise, most residents will lose interest in politics, and those who can will think actively about emigrating.

Election Procedures Following Hong Kong Retrocession
40050141 Hong Kong MING PAO in Chinese
6 Dec 88 p 32

[Article by Hsu Shih-hsiung 1776 2508 7160, Member, Basic Law Advisory Committee: "How I See the 'Mainstream Proposal'"]

[Text] **Basic Structure of "Mainstream Proposal" Acceptable**

The Drafting Committee Special Group on the Political System recently held a meeting in Guangzhou at which a "mainstream proposal" was put forward. The basic structure of this proposal is acceptable inasmuch as it is basically consistent with the several principles proposed by the Advisory Committee for the coordination of political proposals, and it also satisfies the principal wishes of a majority of political proposal advocates. However, in addition to the two reasons given above, I believe there are several reasons for accepting this proposal as follows:

1) This proposal, presented in the form of a "timetable," insures that the Hong Kong political system can proceed step by step toward democracy in an orderly fashion, and it enables everyone to see clearly that democracy is by no means something that is desirable yet unattainable, but rather is a concretely attainable goal.

2) This proposal provides a settled climate for the development of the Hong Kong political system, insuring stability in which Hong Kong can prosper and make a smooth transition.

3) This proposal avoids radical methods so that there will be no dramatic changes in Hong Kong society, and no need to bear too great an impact or pressures, or to face uncertainties within a short period of time. Such a steady method better insures development of Hong Kong's overall interests.

4) This proposal introduces some realistic and workable democratic concepts and methods, including provisions for the Hong Kong electorate to cast ballots at a certain stage to decide whether all citizens should elect administrative officials, and whether a change should be made whereby all members of the "Legislative Council" are elected. If the NPC affirms and passes this proposal, it will not only insure a high degree of autonomy for Hong Kong, but will also be a pioneering undertaking and an achievement of historical proportions for development of Chinese politics that holds extraordinarily far-reaching influence.

5) This proposal considers the interests of all levels. As a result, no major conflicts or antagonisms are likely to occur between the Hong Kong political superstructure and the grassroots level.

6) This plan provides convenience for the dovetailing of political systems around 1997, and creates superb conditions for full cooperation between China and the United Kingdom.

Nevertheless, my one regret is that this proposal lacks recommendations for the use of a "general election body" to elect some members of the "Legislative Council." I regret this because it will greatly prevent many capable people from taking part in government through election activities. I hope that the Draft Committee will conscientiously be able to take this under advisement once again.

The pertinent structure for the future political system has been largely built. Apart from the above proposal relating to a "general election body" for the election of some members of the "Legislative Council," all that remains to be resolved are some details and side issues. However, these issues also very much deserve the serious consideration of the Drafting Committee as, for example, the issue of whether strictures on relations between administrative officers and the "Legislative Council" have been well handled; whether the two restrict any action, making coordination impossible and causing difficulties in operation; whether increase in the number of members of the "Legislative Council" elected by popular vote to 50 percent during the third "Legislative Council" session has spurred the premature emergence of political parties, and whether this is definitely beneficial for Hong Kong; and should there be a nominating body for the nomination of administrative officials, so forth and so on.

Finally, let me raise two problems here while I am at it. The first pertains to the casting of ballots by all the people, and the second pertains to the attitude that should be maintained with regard to the "mainstream proposal."

Recently, some bodies have noted a "call to the Drafting Committee to allow all the people of Hong Kong to vote on the basic law during the period of consultation in order to decide the political program to be adopted in the future" (a TA KUNG PAO report of 25 November 1988.) I believe such an action is illegal inasmuch as it will ultimately be the NPC that approves the decision on the political system in the basic law. If the content of the basic law is decided by the people of Hong Kong in a general election, not only have the people of Hong Kong no right to make such a decision, but it is also not a legal procedure. To go back a step, should the NPC permit the people of Hong Kong to do this (Note: the Drafting Committee does not have this power), that too would have to be voted on by all qualified citizens throughout China inasmuch as the basic law applies to the whole country.

The present method proposed in the "Mainstream Proposal" changes, whereby the people of Hong Kong will be able to decide in a general election, to be made in electing administrative officials and the "Legislative Council" until after the basic law has been passed by the NPC in 1990 and before the special zone government can do this. Without NPC approval, the special zone will have no authority to hold a general election.

Since we now have such a brand new political system plan, we should further study, discuss, and make suggestions about this plan in a reasonable way from this new basis, and we should not resort to extreme, preemptory, politically deficient, or irresponsible methods or actions to oppose the "Mainstream Proposal," because to do so would be completely unconstructive, and might convey a feeling of unreasonably causing trouble.

Treat the "Mainstream Proposal" Reasonably

Ever since the "Mainstream Proposal" was proposed, numerous irrational expressions of opinion on it have appeared in the newspapers. Continued irrational and emotional discussion of the "Mainstream Proposal" is not only not the least bit constructive, but also becomes entangled with side issues, and departs from the main topic. As an example, the present fairly intense controversy about direct election or indirect election is somewhat beside the main point, and veers toward side issues. I feel that either an indirect method or a one-man one-vote general election of administrative officials is fine during the period immediately following the founding of a special zone, and only by treating the issue with a rational attitude will it be possible to reach a consensus of substantive significance.

The "Mainstream Proposal" recommends that during the initial period following the founding of a special zone that adoption of an indirect method of electing administrative officials seems preferable in many ways to the one-man one-vote method of electing officials. This is because, during the initial period following the founding of a special zone, the following problems will have to be considered:

1) During the period immediately following the founding of a special zone, in addition to its regular administrative work, the government will also have to handle many problems remaining after the handing-over of sovereignty. If, during this same period, it also has to engage in a large scale, one-man one-vote, general election campaign, that will make it difficult for the special zone government to settle down and get on the right track.

2) I believe that everyone will agree that during the initial period after the founding of a special zone, maintenance of the special zone's political stability is of greatest importance. The indirect election method is certainly better able than the one-man one-vote method to insure Hong Kong's political stability. This is because the political impact of an indirect election is less than that of a one-man one-vote general election. In addition, the imponderables in an indirect election are fewer than in a one-man one-vote general election. Therefore, there are more advantages and fewer disadvantages from an indirect election than from a one-man one-vote general election.

3) I believe that no one desires too much political confrontation and power struggles during the period immediately following founding of the special zone, but a one-man one-vote general election of administrative officers would inevitably produce confrontational politics and a political power struggle.

4) China has already made clear that the founding of the first special zone government is China's affair, and I believe that the specific methods employed will be those contained in the "Mainstream Proposals" for bringing into being the first special zone government. This method calls for administrative officers to be either indirectly elected or decided upon through consultations. Therefore, in terms of continuity and a smooth transition, the indirect method would likewise be more satisfactory for the second election as well. As to whether it should be during the second or the third election that the entire electorate casts ballots to decide whether a change should be made in the subsequent way in which administrative officials are elected, I really feel that it does not make a great deal of difference. This is because if it is not until the third election when the whole electorate votes, it will mean a delay of only 5 years. Five years pass in the twinkling of an eye, and amount to nothing!

Nevertheless, in light of the "Mainstream Proposal" arrangements, I can see why the Draft Committee Special Group on Political Affairs plans to wait until the third election before the whole electorate votes to decide on the method of subsequent election of administrative officials. It seems that this is in order to coordinate with the election of the "Legislative Council," inasmuch as 50 percent of the locally elected members of the "Legislative Council" are to be elected during the third election. Thus, from this stage forward, the character of the "Legislative Council" will change fundamentally, which is to say this will be a stage of change from quantity to quality. If during the third election, a one-man one-vote general election of administrative officials is held, this will have a rather tremendous impact on Hong Kong, e.g., the society will find hard to bear.

In addition, one reason that people find hard to accept for the indirect method of electing administrative officials during the period immediately following founding of the special zone is that it will deprive many Hong Kong residents of their right to vote for administrative officials. We must look at this matter in a rational way. Everyone knows very well that we in Hong Kong have

lived under colonial rule for a long time. In this environment, the residents of Hong Kong have never had opportunity to elect their leaders, nor have they had such a right inasmuch as the governor was not elected by the people of Hong Kong in a one-man one-vote election, but was appointed by the United Kingdom. Nevertheless, it seems that the people of Hong Kong have never fought about or grieved about not having this election right in the way they are now doing. The reason is very simple. It is because we in Hong Kong are very realistic. We knew that to do so would have accomplished nothing, so we accepted reality and went on bearing it.

The situation today is different, of course. After 1997, we will be citizens of the special zone, and naturally citizens should have the right to elect administrative officials. However, for the sake of political stability in the special zone, we voluntarily "sacrifice our lesser self in order to help achieve our higher self," temporarily giving up some of our rights during the initial period following founding of the special zone (just 10-odd years). Is it possible that we cannot also do this? Can we not also make such a tiny sacrifice? Do we not also have such a little broad-mindedness and dignity?

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BEVERLY FARRADAY
5285 PORT ROYAL RD
SPRINGFIELD, VA

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