



# ***JPRS Report***

# **China**

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# China

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### Highlights of 7th NPC-CPPCC Discussions on Party Style

40050251 Beijing GUANGMING RIBAO in Chinese  
12 April 88 p 1

[Article by staff reporters Zhang Shengyou [1728 0524 0645] and Tong Huai [4547 2037]: "Sidelights of the Seventh NPC and the CPPCC"]

[Text] "Government should be honest" and "honesty maintains the lifeline of China's reform and relaxation" is one of the popular issues of discussion among the representatives and committee members at the Seventh NPC and the CPPCC. People were anxious and concerned and some straight-talking people even presented their views vigorously and appealed loudly to the public. Where is the crux of the problem?

### More and More People See That Party Style Is Incorrect and That the Problem Is Serious

In recent years, Comrade Chen Yun has said repeatedly that the issue of the style of the party in power is a major issue concerning the fate of the party. This Spring, while on an inspection of Guangdong, Comrade Zhao Ziyang also said: "If the economy is to flourish the government should be honest."

At the CPPCC-CPC group 1 discussion, when some old comrades began talking about party style and the general mood of the public their words were sharp and some were very bitter. Liu Mingjiu [0491 7686 0046], vice minister of the Ministry of Supervision, said, "The general mood of society now has reached a worrisome level. The masses say we are only swatting flies and do not dare to hit the tiger, and don't even dare swat the fly on the tiger's rump. I once handled a case, but once it was finished its behind-the-scenes backers came out and said this comrade was all right, and had made contributions to the party! It had been handled badly! He was more formidable than you, he taught you, he scolded you. If you cannot handle such a serious issue impartially, can the masses be satisfied?" Wang Zhuoru [3769 0587 1172], the former deputy director of the supply and marketing company didn't mince words: "It now seems that the higher the person's office the more truth that person has."

The statements made by some committee members at the CPPCC group 45 also were rather thought-provoking. Li Dengsong [2621 4098 1529], adviser to the Discipline Inspection Group of the China Shipbuilding Company said, "When Comrade Zhao Ziyang called for double increases and double economies, some of our departments still wined and dined visitors at guesthouses, isn't this saying you say what you will, I'll do my own thing anyway! Similarly, the Central Committee allocated quite a bit of money for the support of old, minority, border and poor areas, but the leaders of some poor areas used money to support the poor to buy themselves high-class limousines."

Wei Jianxing [1414 0256 5887], Minister of the Ministry of Supervision and a representative to the NPC hit the nail on the head, "Including some of us leaders and some leading cadres, when we start to talk about party style and the general mood of society we are dissatisfied, but when it is connected with ourselves then we slacken off. For example, when one unit was doing business with a foreigner the foreign company was in the wrong and wanted to make up our loss but when they were negotiating, the unit's leader said he didn't want compensation, but a 'Benz' car would be okay. There is another strange instance: when buying a foreigner's dairy cattle, the one in charge said he wanted to go abroad to inspect them; the other party said they did not have the funds to invite him abroad for an inspection; our side said, if you raise the price of each head of cattle, won't you have the money?"

### The People Detest Corruption

The masses of the people have for a long time detested such corruption as bureaucratism, dereliction of duty, graft and waste, using one's office for private gain, using authority for personal advantage, and bribery.

For the last few days these reporters have heard many discussions at the meeting-places of group discussions of the NPC and the CPPCC and in the places where the representatives and committee members are staying. Committee member Zhao Feng [6392 6174] said, "The general mood of society is very poor, the soul of the Chinese people has been distorted. Some old common people in Fujian say, 'Even the police and the mailmen, not to mention the mayors and regional heads are blocking us.'" At a small group in the Hunan delegation, Li Xueyuan [2621 1331 3220] said, "Everyone knows that the masses cannot buy 'Benz' cars, a family cannot run a deficit, a province doesn't dare run a deficit either. But the scale of state construction is so great and the amount of waste so high, who ought to control it?" Zhu Jinian [2612 4480 1628] interjected, "It's said that since 1982 alone, over \$5 billion has been spent importing cars, and if this money had been used to import automobile industry technology, our own cars would also begin to develop. The extravagant and wasteful style has already reached a serious stage." Huang Yimin [7806 4135 3046], Li Xiagui [2621 1115 6311] and He Zhenlin [0149 4176 5259] said, "We've been shouting about changing work style for many years, but if you don't spend money and give gifts you can't get anything done, the masses have a lot of complaints that wining and dining and extravagant waste time and again cannot be stopped."

At the Zhejiang province delegation these reporters hear Shen Shanhong [3234 0810 3163] agree, "China's existing cadre system actually is still 'winning promotion on the basis of money' which is very inefficient. In recent years some administrative organs have also run companies, increased their business functions and chased money. Thus, bureaucratism and an incorrect style have

become more serious." Li Xuechi [2621 1331 2535] of the Shandong delegation said, "Some terrible accidents have now occurred in succession, airplanes have fallen out of the sky, trains have overturned, ships have sunk in the sea, forests have burned, diseases have spread, all of which causes severe losses to the nation. So many problems continue to appear mainly because the leaders are lax and seriously neglect their duties."

PLA representatives Bi Hao [3968 4110], Cai Renshan [5591 0088 1472], Liu Youguang [0491 2589 0342], Fu Yingjie [0265 5391 2638], and Zhang Wenhua [1728 2429 5478] earnestly said, "The State Council has issued documents and orders concerning bureaucratism, waste and corruption and bribery and repeated injunctions strictly forbidding them so why can't it be resolved? We should find the basic causes and adopt decisive measures. Otherwise, talk won't count, orders won't be carried out, and it can't be prohibited and if it continues it will seriously affect the prestige of the government."

**We Must Start by Reforming the Political System,  
Form an Overarching Legislative and Supervisory  
System and Put a Stop to Corrupt Phenomena**

Zheng Lin [6774 7207], secretary of the Longyan local committee in Fujian is a representative from the old revolutionary base in western Fujian. With deep feeling, Zhen Lin said to reporters, "To put a stop to incorrect style, first we should legislate living conditions for leaders. For example, such items as housing, automobiles, and property should be clearly stipulated, laws and regulations should be formulated and violators should be investigated; second, we should supervise. The masses should carry out supervision of the cadres."

Undoubtedly, bureaucratism, overstaffing, poverty and backwardness are the hotbed for producing corruption. Wei Jianxing said it well: "If the economy does not grow, there is no way to speak of the party's basic task; if there is shortage of commodities and tight supply, taking the back door will of necessity be the style. However, economic development itself provides the material conditions for dishonesty, but socialism cannot guarantee that the government will be honest and if it does not pay attention, economic prosperity and government corruption quite possibly can appear."

How do we resolve the contradiction of both developing the economy and ensuring honesty?

Begin with reform of the political system, separate party and government, reduce agencies, implement a public employee system, strengthen supervision of public opinion—these are common ideas of many congress representatives and CPPCC committee members. Zhejiang representative Shen Zulun [3088 4371 0243] appealed, "Formulate new press laws as soon as possible, strengthen the news management system, both safeguard the democratic rights of news units and reporters and safeguard the lawful interests of those criticized then it

can better play its role of democratic oversight of public opinion." Committee member Meng Juru [1322 7263 1172], a professor at the Foreign Affairs Academy also felt, "We should establish a supervisory system of all the people, we should improve the transparency of society and in this area, the news media should play a greater role."

In summary, to make government honest and change the general mood of the public we should first of all straighten out party style. Committee member Wang Zhuoru ardently said, "We hope the responsible comrades will take the lead. High level cadres should set an example."

Critical suggestions and the rising voices of the masses are focused on expressing one hope—the hope that the Chinese ancestral land will become an "economically flourishing, governmentally honest" shining world as soon as possible.

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**Wang Ruoshui Rebutts Hu Qiaomu on Socialist  
Alienation**

40050254 Hong Kong MING PAO YUE KAN [MING  
PAO MONTHLY] in Chinese No 267, May 88 pp 17-22

[Article by Wang Ruoshui [3769 5387 3055]: "Does Alienation Exist in a Socialist Society?"]

[Text] Alienation is a popular topic in the contemporary world. There is no argument about the existence of alienation in a capitalist society. Is there alienation in a socialist society? This problem has been discussed for many years in foreign countries. Without going into opinions of Western scholars on the subject, theorists of some socialist countries, such as Yugoslavia, have answered in the positive; disagreements can be found in concrete interpretation only. In some socialist countries, such as the Soviet Union, theorists have believed at first that alienation is not a Marxist concept. There was no way for them to acknowledge the existence of alienation in socialist societies. Attitudes of most of them have changed long ago. They now cautiously admit that there remain "some remnants of alienation phenomenon" in socialist societies. It is rather rare to find anyone holding the extremist opinion, such as that of Hu Qiaomu [5170 0829 2606], of denying the possibility of applying the concept of alienation to a socialist society. In the early 1980's, when we began to suggest that there were signs of alienation in our society, there was not much debate on the subject but the situation suddenly changed. After the appearance of an article by Hu Qiaomu, all publications went to the opposite side. Although still talking about welcoming debates, severe administrative measures and organizational actions were adopted against those, such as me, who held a different opinion. For this reason, I feel more than ever that it is necessary to clarify this problem.

### **Problem of Methodology: 1. So-called Simplification**

Just as dividing the meaning of humanism into two aspects, Hu Qiaomu divides the concept of alienation into two situations: "One is theoretically and methodologically conceiving it as a fundamental conception and a basic principle; the other is to regard alienation as a concept used to describe certain specific phenomena (including phenomena occurring with certain regularities) of a given historical period." (See Concerning the Problem of Humanism and Alienation, similarly hereinafter). He believes that "the first idea must be rejected, while the application of the second idea must be strictly limited to societies of opposing classes, especially societies of capitalism."

According to the way Hu Qiaomu is saying, when young Karl Marx was writing Economic and Philosophic Manuscripts in 1844, he used alienation as a fundamental conception; therefore, "had not extricated himself from the method of Idealist philosophy: i.e. a method of starting from a certain abstract concept or abstract formula before fitting the object into this concept or formula." After Marx wrote the Outline of Feuerbach in 1845, he quickly freed himself from this method and thus created the science of Marxism. We have gone backwards when we regarded alienation as a fundamental principle and method and used it to analyze the society of socialism. In this manner, the mistaken conclusion of the existence of alienation in socialist societies is produced.

This paper is not, for the time being, to discuss the correctness of Hu Qiaomu's views with respect to the developmental process of Marx's thought. We are only going to examine his criticism of our view of the problem of existence of alienation in a socialist society to see whether his criticism can stand up. He says that our belief of the existence of alienation phenomena in a socialist society is because of the fact that we regard alienation as a principle and method, and this is what he objects to most of all. We shall, therefore, emphasize these two aspects in our rebuttal. Hu Qiaomu's criticism against our methodology includes first of all "simplification."

In his aforementioned article, he says: "The causes of the existence of various negative phenomena in our society today have different natures and levels in their many aspects. Contradictions of different natures and levels need to be resolved with different methods... If the method of concrete analysis of concrete problems is given up in order to simplify such complex phenomena into alienation in a socialist society is a pretense of having very profound content but extremely poor thinking in reality."

The author fails to say in his article whether the use of the alienation concept will definitely fall into simplification; whether simplification is produced by the concept of alienation itself. In fact, the use of the alienation

concept to generalize and explain many phenomena in socialist societies may be simplification. Then, it may also not be. It all depends upon how the concept is used. Even if someone makes the mistake of simplification it still does not indicate that the concept of alienation is not applicable to a socialist society. This is true in the case of the alienation concept, and other concepts as well. Hu Qiaomu does not recognize any negative phenomenon in a socialist society as alienation but he does call these negative phenomena contradictions. This certainly is not necessarily not simplification, even if it may not be wrong to call them contradictions. He emphasizes the point that in our society, contradictions have many characteristics and layers; therefore, he appears to have admitted the complexity of the problem. Why is it that he cannot consider that it may also contain a contradiction with the characteristic of alienation?

We maintain alienation is economic, political, and ideological. Is this not dividing into layers? In his article, Hu Qiaomu repeatedly emphasizes the complexity of the problem in our society but each time, he draws a simple conclusion from the complex condition: there is no alienation. May we ask who is doing the simplification? Is it true that the condition without alienation is more complex than the condition with alienation? In the past, we knew only analyzing major contradiction and minor contradiction, opposing contradiction and non-opposing contradiction. Now, alienation is added. Is it not a way to enrich our understanding of the dialectical method? Why should it be falling into simplification and poor thinking?

### **Problem of Methodology: 2. So-called Starting from Abstract Formulae**

Hu Qiaomu's second methodological criticism is "starting from an abstract formula." He says:

"They detach themselves from concrete historical conditions and turn alienation, a temporary form, reflecting the history of the given social relationship of capitalism, into a permanent, all inclusive abstract formula. Then, they apply it to the analysis of socialism in order to propose the problem of alienation in socialism."

The author uses in his article the terms: "given" and "temporary" to make it appear that the concept of alienation is applicable only to capitalist societies and not any other societies.<sup>1</sup> We do not agree with this statement. We think alienation has a general characteristic but we have never said it is permanent and all inclusive, neither can this conclusion be derived from our interpretation of the alienation concept. Hu Qiaomu accuses us of "attributing all difficulties, complications, defects, abuses, or even so-called defects and abuses trumped up and magnified by some comrades and in fact non-existent, in our period of socialism, to alienation of socialist society." We "misuse the concept of alienation to make it limitless and boundless." We reject this accusation.

The credit for inventing this viewpoint belongs to a professor, who in fact opposes our view. Perhaps for this reason his articles are receiving the support of the powerful.<sup>2</sup> Hu Qiaomu is aware of this matter but the object of his criticism is not that professor. His criticism is aimed at Zhou Yang [0719 2254] and myself. There is no misunderstanding about it. He said his criticism is "completely in the nature of normal attitude of comrades." I think criticism of such a viewpoint should be a normal action, just as expressing such a viewpoint is normal, but he imposes someone else's published viewpoint, which he himself once supported, on our heads before launching all-out attacks. Is this a normal way of doing things?

Whether or not alienation is permanent and all inclusive is one question; whether or not alienation exists in socialist societies is another question. Logically speaking the former is not a necessary condition of the latter; therefore, a confirmation of the latter does not confirm the former. And, the refutation of the former does not mean the refutation of the latter.<sup>3</sup> In order to explain that alienation exists in socialist societies, it is not necessary to adopt a convoluted way to prove alienation to be permanent and all inclusive before applying it to analyze socialist societies. Readers of our paper should know we started off from the realities of socialism and not from some abstract formula.

### **Problem of Methodology: 3. So-called "Mixing Socialism and Capitalism Into One"**

Hu Qiaomu also accuses us of "mixing socialism and capitalism into one." His article states: Socialism is a new social system. "When capitalism is transformed into socialism there is fundamental leap in historical development. This constitutes an extremely important historical demarcation line." Hence, whoever applies the concept of alienation to analyze socialist societies is "to mix socialism and capitalism into one" and will necessarily lead to serious distortion of the reality of our socialism."

The author of that article accuses us of "starting from an abstract formula of alienation," "and getting drowned in deriving from a hollow concept." It seems to me that his denial of the existence of alienation in socialist societies is derived from an abstract concept. From this point onward, he proceeds to write his article on such abstract concepts as "all new" and "leap." Do you admit socialism is an all new system? Do you admit there is a "leap" from capitalism to socialism? If it is "all new" and a "leap", how can there be alienation?

This question can be answered with Hu Qiaomu's own words. In another part of the same article, he said: "It is not that the same things cannot be found in societies of different social systems; therefore, a change of the social system has never caused and will never cause complete cessation and complete reconstruction of social living." This quotation comes from the third part of his article

"Why should there be propaganda and practice of socialist humanism." At this juncture, the author needs to prove a hereditary relationship between humanism of the capitalist class and socialism; therefore, he has to say this. When he gets to the fourth part of his article, he needs to prove nonexistence of alienation in socialist societies; therefore, he has to emphasize the demarcation line between capitalism and socialism. This is "starting from a certain abstract concept or abstract formula and fitting the object of discussion into this concept or formula." This is a highly subjective and willful method.

If we do not start from an abstract (abstract is also one-sided) formula, we must say that only by combining the two can it be all-around and real. Socialism is indeed new, but not entirely new to the extent that it has nothing in common with capitalism. From capitalism to socialism, there is indeed a leap, but it is not a total cessation and complete reconstruction of social living. In this manner, the question of existence of alienation in socialist societies can neither be confirmed by an abstract formula, nor refuted by an abstract formula. The question must be resolved by analyzing the reality of socialism.

Socialist society is the initial stage of communist society. It has "just been born from capitalist society; therefore, in all aspects of the economic, moral, and spiritual, it carries vestiges of the old society from which it has just emerged." (Karl Marx: Criticism of Gotha Program) It is obvious that socialism is socialism because it is a new society with "vestiges of the old society"; otherwise it would not be socialism. It would be communism. According to Marx's viewpoint the elimination of alienation is an matter to be taken care of by a communist society. Hu Qiaomu thinks if we admit alienation exists in socialist societies, we are mixing socialism with capitalism. He does not know that if he denies the existence of alienation in socialist societies, he is mixing socialism with communism.

We must not forget that our society is not like the one Marx assumed to be born from a capitalist society (hence "the transformation from capitalism to socialism" referred to by Hu Qiaomu did not occur). Ours was born of a semi-feudal, semi-colonial society. Our origins are rather lowly. We are also in an initial stage of socialism (i.e. the initial stage of the initial stage.) In socialism there is a need to develop a commodity economy. A commodity economy may produce "commodity material worship, which, just like religion of the realm of ideology, is a form of alienation. In our society, aside from the system of public ownership economy of socialism, there is also the element of private enterprise. There is also the necessity of using joint ventures with foreign countries, cooperative enterprises, and foreign investment enterprises to provide beneficial supplement to our socialist economy. For this reason, there is no Great Wall between our socialism and capitalism. Engels said it well that dialectics does not recognize hard and fast lines; (stiff and firm boundaries) "all differences will fuse in

the intermediary stage; and all opposites will interpolate by passing through a middle link." (Dialectics of Nature). Hu Qiaomu did not give a concrete analysis of these complex situations of our society. He only used a "historical demarcation line" between capitalism and socialism as the reason to deny the existence of alienation. This is truly simplification and starting from an abstract concept.

It goes without saying that alienation in a socialist society is different from that of a capitalist society, but we are here discussing the problem of existence of alienation.

#### **Problem of Principle: 1. Concerning "Temporary Inevitableness"**

In his article, Hu Qiaomu objects to using alienation as a method and he also objects to using alienation as a principle. What does he propose with respect to using it as a principle?

First he uses Marx, saying: in *Das Kapital* and other writings, Marx used the concept of alienation but "did not make alienation a general and permanent fundamental principle." Then, he quoted Marx's words: "obviously such a topsy-turvy process is not historically inevitable. It is inevitable in the development of productivity from a given historical starting point or basis. It is definitely not absolutely necessary for production; it is only temporarily necessary." (Economics Manuscript, 1857-1858) (See Complete Works of Karl Marx, Vol 46, p 361)

The above quotation is in fact unfavorable for Hu Qiaomu. Marx is actually saying that alienation is inevitable for production from a given historical starting point or basis. In so far as to say alienation is not absolute (i.e. unconditional) and permanent. What relevance is there? Historical temporary necessity is a kind of necessity. That means it is not accidental. When we speak of certain historical phenomenon to be necessary or to be in conformance with principle, we do not imply that it is necessarily absolute and permanent. Moreover, the existence of alienation in socialist societies does not need to be proven by an absolute and permanent characteristic of alienation. As a matter of fact, if alienation is not absolute and permanent, then class struggle is not absolute and permanent either. Can we thus denying class struggle to be a basic principle of history?

If we read in context, we may discover that alienation referred to by Marx here means that "the portion of social wealth that is growing greater continuously has been alienated to become the ruling power in opposition to labor." "Gigantic material power is not owned by workers; it is owned by a personalized condition of production, i.e. capital." In other words, the word "alienation" does not mean generally. It refers to alienation of labor, or a form of labor alienation. Not only that this form of alienation does not exist in socialist

societies, neither does it exist in societies prior to capitalism, including slave societies and feudal societies; but this is not to say alienation does not exist in slave and feudal societies. Otherwise how are we to interpret the fact that the alienation concept is applicable to all societies with opposing classes? This point is recognized even by Hu Qiaomu. Hence, the attempt to use the above quotation of Marx to prove the nonexistence of alienation in socialist societies is basically futile.

#### **Problem of Principle: 2. How To View Negative Phenomena**

Hu Qiaomu believes that the danger of considering alienation as a principle is serious.

"If one starts from an absolute formula of alienation and throws every kind of negative phenomena in a socialist society into this alienation formula, it would be inevitable to view these phenomena as emerging from a principle and in an opposition characteristic, being created from major activities of the socialist society itself. This way of looking at it can definitely not help us to interpret and overcome any negative phenomena existing in the socialist society, and can only bring destructive effects on the resolution of these problems and on the system of socialism itself."

Thus, he proceeds from methodological and theoretical criticism to arrive at political criticism.

Let us say it once more. We did say the phenomenon of alienation exists in all the realms of thought, politics, and economy in socialist societies, but we did not "throw all" the negative phenomena in the socialist society into alienation. His criticism; therefore, is shooting arrows without a target. Does he object to this "throwing all into"? Perhaps, might he not deny "many" or "some"? But, what he says later in his article makes such misunderstanding impossible. He says: that alienation cannot explain "any" negative phenomenon in a socialist society. The reason is that if we do so, it would become inevitable to view these phenomena "as emerging from a principle and of opposition characteristic, and being produced by announced activities of a socialist society itself."

In other words, Hu Qiaomu believes that none of the negative phenomena in a socialist society is alienation, because 1) none of them is emerging from a principle and of opposition characteristic; 2) they are not produced by announced activities of a socialist society itself.

Let us argue the first point first. Is none of the negative phenomena in a socialist society in the characteristic of opposition? In the same article, when he is listing the negative phenomena in a socialist society, he mentions: "the phenomenon of corruption including behaviors of oppressing the masses," violating the laws of the state, destroying interests of the state and the public, endangering the life, property, and right of other citizens." He

especially mentions Lin Biao, Jiang Qing, et al. whose anti-revolutionary ambition made them "proceed with large scale destruction of socialism and committed many anti-human crimes of barbarism." Can it be true that none of these contradictions is characteristic of opposition? If so, why do we need such things as criminal courts, prisons, etc.?

If none of the negative phenomena in a socialist society comes from a principle, then, they must all be accidental. Socialism should be all brightness and light, without the hint of shadows. Would that conform with the principle?

### **Problem of Principle: 3. Concerning Overcoming Alienation**

Hu Qiaomu maintains that if alienation conforms with a principle and one proposes to overcome alienation, one would be "self contradictory." He appears to talk seriously that "all principles cannot be overcome by men; what men can overcome is not principle." So, let us ask him: Is the occurrence of class society and class struggle a principle? If it is, why would communism fight for the elimination of class society and class struggle? The reason is simple. The elimination of class society and class struggle is also a principle. Class society and class struggle are produced under given historical conditions and will die under given historical conditions. Both conform with principles. Our struggle is to create conditions for their elimination.

I think in socialism alienation cannot be avoided completely because the conditions producing alienation still exist. This way of thinking does not imply that we should not adopt measures to reduce alienation phenomena and their severity. What we want to overcome is not "alienation principle"; but "alienation phenomena." Complete overcome may not be possible; but partial and limited overcome may be accomplished. For example, it should be possible to avoid such a bitter phenomenon of alienation as the "cultural revolution" completely. Having happened, it goes without saying that it should be put to an end. Of course, some definite conditions are needed to do this.

The person who has truly been self-contradictory is Hu Qiaomu himself. In another part of his article when he explains the reason for producing negative phenomena in a socialist society he says in the system of socialism, "just as in any new thing, the path of development cannot be smooth and straight; it is not possible to be perfect without blemish in all its aspects." Here, he refers to two "impossibilities." What does he mean? He appears to imply that occurrence of negative phenomena is inevitable and conforms with a principle. This implication does not prevent the author from saying that all these negative phenomena "require us to take a straight look at them and overcome," (this writer wishes to emphasize the word "overcome.") This being so, on what basis does the author criticize me?

After he finishes saying "what men can overcome is not principle," he continues:

"Or it might be said that whenever the principle of alienation is discovered, its action may be controlled by understanding this principle. This is the meaning of "overcome" they refer to. Even if this is allowed; alienation is not like water and fire which can be harmful as well as beneficial. Alienation is not a common defect or unreasonable phenomenon of the system of socialism. It is a 'disaster' bad enough to destroy the system of socialism; therefore, the superiority of socialism lies in its capacity of controlling the occurrence and development of this type of disaster. This in fact constitutes a satire."

The meaning of the above is very clear. 1) Common defects and unreasonable phenomena exist in a socialist society, but these are not alienation; 2) Only disasters sufficient to destroy the system of socialism are called alienation, but such disasters do not exist.

According to Hu Qiaomu, only by saying it his way can the superiority of socialism be truly acknowledged. Another way of saying it would be "satire" against the notion of superiority of socialism.

Let us not decide, for now, whether his interpretation of alienation is correct <sup>4</sup>. One question immediately comes to mind: Do these "disasters" sufficient to destroy the system of socialism exist at all? For example, is "the Cultural Revolution" such a disaster?

If Hu Qiaomu should answer "yes" to this question, he would have acknowledged the existence of alienation in socialism and not only denied the superiority of socialism but also admitted the responsibility of destroying the system of socialism. (He says admitting alienation will have a destructive effect on the system of socialism itself.) Thus, he must deny that "the Cultural Revolution" is a disaster sufficient to destroy socialism so that he can avoid destroying the system of socialism so as to uphold the "superiority" of socialism!

It is not easy for Hu Qiaomu to uphold his so-called "superiority," however. Few pages before the above portion of his paper, he criticizes us for using alienation to explain personality cult and "Cultural Revolution." Due to the fact that we give people a simplified caricature, "we cannot explain the causes of events, even less can we explain the reason why the party was able to set right things which have been thrown into disorder." Thus, in his mind the "superiority" of socialism with no alienation is only in its ability of successfully setting right disastrous events such as "Cultural Revolution." Is this satire according to his own logic?

We have an opposite point of view. The more we want to uphold socialism the more do we refute "Cultural Revolution." "Cultural Revolution" is a refutation of socialism and refutation of this refutation is an affirmation of socialism. "Cultural Revolution" is alienation of socialism, and its conclusion to set things right is a return to socialism.

#### **Problem of Principle: 4. Activity of the Main Body and Alienation**

Now we are ready to discuss the following problem. Is it correct to say that none of the negative phenomena is "produced by activities of the main body itself in a socialist society"?

It is natural that Hu Qiaomu wants to propose this argument. We did say that alienation is an entity opposite to itself produced from its own activities during the developmental process of the main body. After it is produced, the opposite entity turns into an external, alien force to oppose or dominate the main body itself.<sup>5</sup> Hu Qiaomu wants to deny the existence of alienation in a socialist society. Of course, he must deny this type of negative result created by the activity of the main body in a socialist society.

It is not necessary for me to answer the question. Hu Qiaomu has given it an answer in another part of his article. When he analyzes the causes of various negative phenomena in a socialist society he mentions: "Those who construct a new society should reconstruct their own subjective world while reconstructing the objective world. There are many things of which they have no experience; therefore it is difficult to avoid making mistakes."

I want to ask: Do "those who construct the new society" form the main body of the socialist society? If they do, then this main body is capable of making mistakes to produce negative phenomena in the socialist society. In this manner, once again Hu Qiaomu falls into a self-contradiction. Originally, he wants to use the above explanation to refute the existence of alienation in socialism; he does not expect that in the process he repudiates himself. Does not he criticize others for claiming negative phenomena to be "products of activities of the main body in a socialist society"? Does he not say this claim can only "bring destructive effect on the system of socialism itself"?

The political criticism of Hu Qiaomu does not end here. He states further:

"Due to the fact that these (referring to the theory and method of alienation) have fuzzy but also relatively constant anti-reality tendency and are in the abstract form to make them fit everywhere, it becomes possible to blame the system of socialism or the leadership of a socialist society for all the negative phenomena in a society. The target of opposition is thus focused on the

leaders of the party and the government. It is thus inevitable that distrust and pessimism toward socialism, communism, and the party leadership are being spread throughout the society."

This paragraph has profound implications. Someone maintains that Hu Qiaomu's article contains no political labeling of his opponent; that is good. So, please review the above very carefully. A simplification of it would in fact mean: "anti-party anti-socialism," which is the label given to the "rightist faction" in 1957.

This label would not scare anyone. It is best to debate. It would not be too late to smear me with a label when I lose the debate.

Let us clarify the following first. Does the party, which is a portion of the "main body" of a socialist society and is the "leading force of a socialist society" make a mistake? This question is avoided by Hu Qiaomu in his article. He says only that "those who construct the new society" cannot avoid making mistakes. Can he exclude the party from those who construct the new society? The party has made tremendous contributions in leadership work and should be given the credit. If it makes a mistake, can it be accused? If we should not "accuse", would it be all right to "blame" it? It is not correct to blame the party for all negative phenomena in the society. Would it be all right to change the word all to "many" or "a portion of"? If that would be all right, why does Hu Qiaomu not say so? If that would not be all right, then who is to blame? Is the "capitalist class" to be blamed for all negative phenomena, or the people to be blamed? Would that be all right? Are we to understand that the party can only be praised and cannot be criticized? Would one criticism make "opposition to party leadership"? If so, why is the line "criticism and self-criticism" written in the party constitution?

Furthermore, what does he mean by "anti-reality"? Are we to understand that all that is real is reasonable? Is it true that only positive phenomena are reality; negative phenomena are not? Is it wrong to oppose such realities as poverty, ignorance, backwardness, crime, graft, bureaucratism, using power for private gains, corruption, degeneration, etc.? Hu Qiaomu believes that some defects and shortcomings are "products of imagination and exaggeration of some comrades." This is to say that these are not reality; they are hallucinations.

Even if we do not want to exaggerate, negative phenomena in the social and political realm remain serious and they are relatively common. The people are dissatisfied and these have been mentioned many times in party documents as well. Hu Qiaomu has no way to deny these as reality; therefore, he adopts a method of calling them "residues of the old," and is afraid that others may pay too much attention to these. How many "residues" can there be? "Residual poison of feudal monopolism is the major cause of personality cult and "Cultural Revolution." Is a little bit of residue sufficient to do all these. Is

"Cultural Revolution" an expression of the "old residue"? Is this creating another hallucination? If there is fear that exaggeration of defects will cause people to lose faith, why is there no fear of people's loss of vigilance due to minimizing defects?

Not only the aforementioned negative phenomena are real, the management system of high concentration of central power, eating out of the big pot, non-separation of party and government, etc. are also real. Is it true that these realities cannot be touched? Do they need reform?

If we quote Hu Qiaomu's article, the way he uses the phrase, "anti-reality" is fuzzy but has a relatively constant conservative tendency. It is in an abstract form applicable everywhere. It is an attempt to suppress all criticism and reform of reality.

We may be said to be "anti-reality," "accusing the system of socialism," "concentrating the target of opposition on the leadership of the party and the government," or "spreading distrust and pessimism toward socialism, communism, and party leadership;" no matter. All these labels cannot suppress people's interest in and discussion of alienation theory because this theory meets the needs of reality. Regarding alienation as a theory and a method is in fact a critical and revolutionary way of thinking; it is contained in the method of historical dialectics. We are not being negative in proposing the problem of alienation under the condition of socialism; we are being positive. We are not simply assessing responsibility to proceed with accusations. We are trying to stand on a platform of Marxist philosophy to study historical experience and investigate the theory of reform. If there is no reform, it does not make any difference how the superiority of socialism is discussed in empty talks to criticize "the theory of alienation in socialism." People will not have faith in the leaders of the communist party and the cause of socialism will have no future. Written in Beijing, February 1988.

#### Footnotes

1 By the way, this does not conform with Hu Qiaomu's words in the same article concerning the applicableness of the concept of alienation to societies with opposing

classes. "Societies with opposing classes," of course, is a term more extended than that of capitalist society. It involves a much longer period of history.

2 See also my paper: Reading the Self-criticism of a Critic, in *Modern Philosophy*, No 4, 1985; also included in the book: "In Defense of Humanism."

3 As a matter of fact, Hu Qiaomu does not succeed in refuting the viewpoint of alienation being "permanent" and "all inclusive." He does not give specific arguments. He only says mockingly that "What a cheap and omnipotent science this is! People will never be able to leave alienation, just as unable to leave their own shadows under the sun." When he speaks in this manner, he does not point out the error of his opponent's view. To say a certain concept has a general characteristic is not to say it is mistaken. For example, contradiction is permanent and all inclusive; people will never be able to leave contradiction. A certain professor produced this mistaken conclusion because he viewed "contradiction" and "alienation" as synonymous and did not see alienation as a form of contradiction.

4 Not all alienation is a disaster sufficient to destroy the system of socialism, as stated by Hu Qiaomu, neither is it true that only such a disaster can be called alienation. For example, there still is religion in a socialist society and it is undoubtedly a phenomenon of alienation, but it is not a disaster, neither will it destroy the system of socialism under normal conditions. Moreover, it cannot simply be said that alienation can have only purely negative results. It will not be possible to discuss this subject in detail here, however.

5 This interpretation is not complete. Not only products of activities of humans (main body), but also these activities themselves and the life and energy of humans can turn into alien things in opposition to humans themselves. Marx called this type of condition "self-alienation."

## NATIONAL AFFAIRS, POLICY

**Contract Management in State-Owned Enterprises**  
40060265 Chongqing GAIGE [REFORM] in Chinese  
No 1, 10 Jan 88 pp 26-30

[Article by Ma Hong [7456 3163]: "On Some Issues in Contract Management of State-Owned Enterprises"]

[Text] Abstract:

*The widespread adoption of contract management, based on the principle of proper separation of proprietary and management powers in state-owned enterprises, is a major component of the effort to intensify enterprise reform. First, both in theory and in fact, the principle that proprietary and management powers in state-owned enterprises must be kept properly separated is correct. Under the principle of adherence to socialism, we should adopt whichever management pattern is most beneficial in promoting the development of productive forces. Second, if state-owned enterprises implement a separation of powers, it only changes the system of enterprise management. Giving enterprises self-determination in management cannot change the fact that enterprises are owned by the whole people. Third, implementing a separation of powers just means achieving the integration of enterprise powers, responsibilities, and profits; clarifying management authority to the fullest. As a consequence, we can gradually bring enterprises to achieve management self-determination and to accept responsibility for their own profits and losses. Fourth, the assets that state-run enterprises utilize—both assets created through the enterprises' own funds and those produced through original government investment—all belong to the whole people. This is absolutely without question. However, to make sensible use of their assets, enterprises can handle these two portions separately.*

*Because there are many patterns of contract management, the problem of non-standardization persists. Right now we should call upon practical experience to fashion guidelines for the various professions. The first issue discussed here is the issue of base contract figures. We must both guarantee the unceasing proliferation of intrinsic assets and ensure that enterprise and staff incomes increase year after year. Second comes the issue of contract deadlines. Generally speaking, five years works well. Next comes the issue of profits retained by enterprises for their own budgets. We must give further study to how they should be allocated. Finally comes the issue of the contract entity. Generally speaking, the person who contracts for a state-run enterprise is that enterprise's factory director or manager; that is, its legal representative.*

In the near future, urban reform in China will continue to focus on intensifying enterprise reform and further stimulating medium-sized and large state-run enterprises. The widespread adoption of contract management, based on the principle of proper separation of

proprietary and management powers in state-owned enterprises, is a major component of the effort to intensify enterprise reform. Here I will discuss a few ideas on contract management in state-run enterprises.

### I. On the Issue of Understanding

This issue is primarily concerned with the fact that there are still various misgivings that persist about whether a proper separation of proprietary and management powers and the implementation of contract management in state-run enterprises actually conforms to a socialist direction, and whether it will help us in future reforms.

1. Can proprietary and management powers be separated? Some people believe they can, some believe it will be difficult, and still others believe that, from the perspective of state and enterprise relationships, proprietary and management powers may be and can be separated, but from the perspective of internal enterprise relations, they must be combined. I believe that, from both theoretical and practical perspectives, the thesis that proprietary and management powers in state-run enterprises should be properly separated is correct and conforms to socialist principles. Long ago Marx said that capitalist production itself had already ensured that a kind of guided labor completely segregated from capitalist ownership was everywhere to be found. So, can this principle be used for state-run enterprises under a socialist system? Experience has affirmed that it can. Rural reforms in China have instituted the output-related system of contracted responsibility, focused on the family. This system that separates proprietary powers from management powers has already been enormously successful. All urban, state-owned industrial and commercial enterprises that have properly separated proprietary and management powers and put into effect various forms of contract management systems have also achieved notable success. And those which have not done so, even if they are vastly superior to township enterprises in equipment, technology, and other production factors, are experiencing difficulty. This illustrates the issue very well. In judging the acceptability of a management pattern, we should chiefly look at whether or not it can better promote the development of productive forces. Under the principle of adherence to socialist principles, we should adopt whichever management pattern is most beneficial in promoting the development of productive forces.

2. Will the implementation of contract management change the system of ownership by the whole people into a system of collective ownership? The facts today show that the separation of powers in state-owned enterprises is just "state ownership and enterprise management." Under these circumstances, the state essentially does not participate in affairs that fall within the sphere of an enterprise's microeconomic activities. The state has given enterprises not only simple reproductive powers, but even most extensive reproductive powers. The state

no longer invests directly in enterprises for free. Enterprises raise the funds they need for extensive reproduction primarily by relying on their own internal accumulations or by seeking bank credit. In accordance with the state's industrial policies and long-range plans, the direction of enterprise investments is determined by social demands, anticipated profit rates, and interest rates on credit. Only a small number of industries in major sectors are still operated directly by the state. As for worries over whether the implementation of contract management in state-owned enterprises will change ownership by the whole people into collective ownership, the answer is that it will not. In feudalistic societies landlords own the land and peasants rent and farm it. So long as the rent is paid, peasants may decide for themselves what to grow and how to manage their farms. In capitalistic societies, powers are also separated under many circumstances. The stockholders represent one kind of people and the managers represent another. From this it is obvious that the separation of ownership and management powers, no matter what management pattern is adopted, cannot change the character of the ownership system. This is also true for socialist state-owned enterprises. When state-owned enterprises put a separation of powers into effect it only changes the enterprise management system, enabling enterprises to exercise management autonomy so that they can gradually achieve independent accounting and begin to take sole responsibility for profits and losses. It will not and cannot change the system of ownership by the whole people.

3. Can state-owned enterprises achieve autonomous operation and take sole responsibility for profits and losses? Based on the fact that certain enterprises are now taking responsibility only for profits, some comrades believe this will be difficult to do. But the reality is different, because achieving a separation of proprietary and management powers just seeks to accomplish the integration of powers, responsibilities, and interests, giving enterprises clear management responsibilities, full management powers, and independent economic interests. Thus, they can gradually attain autonomous operation and take sole responsibility for profits and losses. The fact that many enterprises already employ contract management, and have quickly turned losses into profits, or have increased profits, verifies this point.

4. Will an enterprise ownership system emerge among those state-owned enterprises that adopt contracts? Without question, the assets that state-run enterprises utilize—both assets created through the enterprises' own funds and those produced through original government investment—all belong to the whole people. The question is, is there, after all, any difference between these two categories of assets? The experiences of Shoudu Iron and Steel Company and the No. 2 Automobile Assembly Plant verify that, although that portion of assets propagated through an enterprise's own efforts still belong to the whole people, separating the two powers is still highly significant. In the past this portion of a state-owned enterprise's assets, which it creates through applying its

own funds, depended upon state investment, but today it depends on management and accumulation within the enterprise itself. This has caused enterprises to switch from using all their ingenuity to scramble for investments, to using all their ingenuity to economize on investments, and to pay close attention to economic returns. Although assets propagated through an enterprise's own efforts still belong to the whole people, within a certain time frame, such as 5 or 10 years, profits earned with these assets can be exempted from income taxes. This practice helps to spur enterprise initiative for self-development. If we equate these assets with state investment, and do not give enterprises their proper benefits, we will dampen enterprise initiative. However, if these assets are always returned to enterprise ownership, as enterprises continue to develop themselves the assets they own will grow larger each day. Then, due to depreciation, the original start-up value of fixed assets will progressively decline. International experience affirms that this practice is more harmful than beneficial.

5. Then there is the question of a shareholding system. Is a shareholding system appropriate for socialism? In what areas can it be applied? People's views on this subject differ. A shareholding system is method of separating proprietary and management powers. In the process of economic restructuring, enterprises have developed lateral economic associations, and the resulting joint partnerships formed with pooled capital are the embryonic form of a Chinese-style socialist shareholding economy. We need to learn constantly from our experiences and perfect and improve the system. Under certain specific conditions we can institute a shareholding system, but if we demand that all enterprises put shareholding systems into effect, it will be very difficult to achieve success.

A shareholding systems is also different from a cooperative system. A cooperative enterprise issues stocks to its own staff and workers, and, by its nature, the labor force begets funds. This kind of enterprise does not issue public stock. Moreover, for the most part, upper and lower limits on buying shares are stipulated for each person, thus ensuring that no gross disparities arise when profits are distributed among the workers. This differs from the shareholding system.

6. A rental system and a contract system are not one and the same thing. Our experience in the preceding time period shows that the contract system is relatively well-suited to large and medium-sized state-owned enterprises. The differences between the two are as follows. First, the degree of change in ownership systems differs. When a contract system is instituted proprietary powers do not change; there is merely a separation between proprietary and management powers. Under a rental system, on the other hand, proprietary powers are actually temporarily ceded. However, there are some people who disagree with this view. Second, the ownership of newly acquired assets differs. Under contract management, newly acquired assets that grow out of after-tax

retained profits still belong to the whole people rather than to the contractor. But under rental management newly acquired assets generally belong in part or in whole to the leaseholder. Third, the degree of risk entailed differs. Under contract management the contractor needs only bear the limited responsibility stipulated in the contract agreement, but under rental management it is different. The leaseholder must offer guarantees and accept a substantial operating risk. That is, he must put up property as a guarantee and determine how much risk he can bear by looking at how abundant his assets are or at what other conditions work in his favor. The above differences are opinions derived from initial trial experiences. Further research is needed to test their validity.

## II. On the Issue of What Forms Contract Management Will Take

Chinese enterprises operate under various kinds of circumstances, and there are also differences between enterprises in various industries. Within a single industry, some enterprises are managed well and some are managed poorly. Development is extremely uneven. And this region will differ from that region—circumstances are extraordinarily complex. Consequently, the forms of contract management must be many and varied. We cannot just arbitrarily impose a single style.

Right now the following forms of contract management pertain:

Type 1. In the "two guarantees and one link" form of contract management, the two guarantees are that profit taxes will be paid and that capital construction and technological upgrading that the state has already approved will be carried through. If these two guarantees cannot be fulfilled, enterprises must use funds they raise themselves to make up the deficiency. The one link is the link between total wages and actual profits taxes. Still another view holds that total wages should not only be linked to profit taxes paid, but also to the multiplication of productive fixed assets.

Type 2. In the progressive profit-payment form of contract management, after enterprises pay product taxes and reproduction taxes, they pay profits to the state at a certain annually increasing rate.

Type 3. This is the profit contract and the subsidized, loss-reducing contract for enterprises making a minimal profit or incurring losses.

Type 4. In the enterprise management responsibility system, enterprises pay a 55 percent income tax on base profits, but the tax rate falls to 30 percent when base profits are exceeded.

Type 5. In this system the base figure or objective for profits to be paid to the state is agreed upon by contract and any excess profits are divided proportionally. That

is, the contract sets the base figure for profits to be paid to the state, and after the enterprise meets this payment any excess profits are divided according to a predetermined ratio.

Type 6. This is the industrial input and output contract, wherein an economic sector arranges the contract.

Type 7. This is the asset management responsibility system.

A more minute examination might reveal even more than the above seven forms of contract management. The problem is that we must conduct a practical examination and analysis of each form, see where their merits and defects lie, determine their suitable targets, and clarify what enterprises, industries, and regions are most suitable for each. When we want to popularize a form, we cannot just proclaim it to be satisfactory and not identify its defects. This would be irresponsible. Any undertaking will display some imperfections as it develops. If we wish to refine a form we must absorb the finer points of other methods and simultaneously discard whatever is not useful, thus ensuring self-improvement.

## III. On the Issue of Non-standardization in Contract Management

The forms of contract management are many and varied, but even if they were identical, the substance of contract management must differ. Thus, indeed, the issue of non-standardization persists. Right now it is difficult to standardize anything all at once. However, can we learn from experience and produce several standards that everyone can observe, thus putting contract management on a more healthy footing?

Current circumstances suggest that contracted management responsibility systems hold in common the following features: "Firmly guaranteed base figures, guaranteed payment to the state, greater retention of surplus income, and self-supply of any shortfall in income." On the basis of these characteristics, we can come up with several regulations that will apply within particular industries.

1. Contract base figures. In setting contract base figures, we must avoid two practices. One is state partiality to contract enterprises, such as lowering taxes to allow them to make a profit. The other is excessive blockage of contract enterprises, thus stifling enterprise initiative. Right now contract enterprises cannot expect the state to give them any more easy breaks. In particular, we cannot arbitrarily raise prices and thus increase the burden on consumers. Rather, we must rely on enterprises themselves to tap their own talents. We must achieve the capacity both to guarantee that state revenues will grow without interruption, and to ensure that enterprises continue to be zealous in strengthening their staying power. How can we encourage enterprises to take the initiative and tap their potentials? And another question

is what year to use in setting the base figures. There are great disadvantages to setting the figures at the level that pertains for the year the system is put into effect. Therefore, we must not use that year as the base year; rather we should use the previous year or the average of several previous years in determining the base figures. Base figures are fundamental—they can be adjusted to conform to different conditions, but they must be precise.

It is not easy to make base figures precise. Originally Shoudu Iron and Steel Company said that their profit contract would increase 6 percent per year, but later it rose 7.2 percent. The No. 2 Automobile Assembly Plant had a similar experience. It originally set its base figures too low and later increased them. These two enterprises are young and in a period of growth—they have great potential for increasing profits. Certain "mature enterprises," and especially "old enterprises," cannot expect their profits to increase progressively at such a high rate. Therefore, how we determine base figures is crucial. In addition, we cannot refuse to give enterprises benefits when they are not increasing production and income, or morale will drop. However, it is also unacceptable to give them too much. If we are to set base figures at a prudent level, we must carry out a thorough investigative study. We must not just grope about for an answer, nor can we fail to assess the situation.

2. If we are to set base figures at a prudent level, we must adopt bidding methods. Bidding presumes competition, and, through competition, contract base figures begin to approach reality and become more reasonable. Our current market is very imperfect, and it is hard to estimate accurately all at once the contract base figures for assets or the progressive annual increase in profits. In arranging contracts, we want to resolve the issue of base figures and guarantee that state assets will continue to proliferate as quickly as possible. At the same time, we must ensure that, as a result, there is some progressive increase in enterprise and worker incomes.

3. The issue of contract deadlines in the contracted management responsibility system. This has a bearing on how to avoid short-sighted enterprise actions. In the final analysis, what is the best contract time frame? Generally speaking, 5 years is best. It dovetails nicely with the state's 5-year plans. Thus, if we take 1986 as the base year, the contract would extend for 4 years, to 1990, and would then be synchronized with the state's 5-year plan. In setting up an asset management responsibility system, there is also the question of the accumulation and investment of new assets. New assets cannot be produced within a short period—they require a set time frame.

4. The issue of how to distribute profits retained by enterprises for their own budgets. Right now there are multifarious ways of handling this matter. Allocation ratios between production development funds, welfare funds, and worker incentive funds now exist in the

proportions 4:3:3, 6:2:2, 3:3:4, and so forth. Different industries and enterprises differ completely on this point, but there should be one general ratio. The proportion allocated for large-scale reproduction should generally be no less than 50 percent. Of course, the use of this fund cannot be limited only to investment in the enterprise itself, but should also include investment in lateral economic coalitions. Only in this way can we promote more reasonable enterprise organization and structure and industrial structure and avoid shortsighted actions and an upsurge in consumption on the part of enterprises. Today many enterprises use the inverse 3:7 ratio for allocating retained profits, and some do not even have a simple reproduction fund. This is extremely detrimental to production development and to continued increases in worker incomes.

The allocation of enterprise-retained profits cannot be limited to just the above three areas. We must also pay special attention to designating one portion of any surplus to make up any shortfalls. Otherwise we will do fine when we make a profit, but what will we do when we sustain losses? When a contractor's personal assets are used, but such a large risk cannot be guaranteed, the enterprise itself will assume primary responsibility. Several Beijing enterprises that have adopted contract systems have allocated 60 percent for worker bonuses, and have retained 40 percent. On the one hand, this prevents any expansion of consumption funds, and on the other hand it applies the surplus to remedy the shortfalls. That is to say, if the operating situation is unsatisfactory in the second year, the use of these reserved funds can forestall any decline in worker incomes and thus help morale. Of course, as enterprises set aside this portion, they may need to make suitable adjustments in the other three ratios discussed above. We must wait for further study to resolve this problem.

5. Who is the contract entity? As of now there are several versions: the entire body of enterprise personnel, the collective, or an individual. Generally speaking, the person who contracts for a state-run enterprise is that enterprise's factory director or manager; that is, its legal representative. This person should sign the contract on behalf of the enterprise he is representing. He must safeguard state, enterprise, and worker interests and take long-term interests into account, rather than considering only individual or short-term interests. Competent enterprises and contractors, in fact all units that implement contracts, should charge each and every worker with personal responsibility for the contract mission. Otherwise, there will be no solid support for the contract among the masses.

6. No matter what kind of contract is concerned, enterprises must gradually begin to take full responsibility for their own profits and losses. Right now some enterprises are happy to enter into a contract, but as soon as they run into adverse circumstances they seek to discontinue the

contract. As a result, they avail themselves of the advantages, but take no responsibility for anything else. As we institute the contracted management responsibility system, we must avoid this situation at all costs.

7. No matter what kind of contract is concerned, there must be a written agreement in effect, and it must be legally binding. Whatever problems arise must be handled by the state's law-enforcement organizations. No one must repudiate their responsibilities. In instituting the contracted management responsibility system, we should not involve only the two parties signing the contract. We must also invite representatives of other sectors, such as finance, taxation, banking, the State Economics Commission, the State Planning Commission, and labor, to participate. And we must also have the agreement approved by a notary before it becomes effective.

8. Guarantors and compensation are also issues that need to be resolved. Renting requires a guarantor, so should the contracted management responsibility system require one likewise? Who would act as guarantor? How would the guarantee take effect? These questions must be solved through conscientious study.

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### **JINGJI GUANLI on Levies for Contracted Enterprises**

*HK2906065388 Beijing JINGJI GUANLI in Chinese  
No 4, 1988 pp 23-25*

[Article by Lei Guanghua (7191 0342 5478), edited by Pang Shucheng (3382 6615 3397): "It Is Unreasonable To Use the Base Figure, to Calculate the Levy on Contracted Enterprises"]

In enforcing the contracted management of industrial enterprises, one of the contents of the utmost practical significance is to define and solidify the economic relations between the enterprise and the state by means of agreement. At present, when determining the financial task of making levies to the state enterprises carrying out contracting after payment of the products tax, most employ the base figure method, that is, taking as the base figure the payments or levies in a number of preceding years and adding thereon a fixed growth rate. In my opinion, this method is unworkable in theory and unreasonable in practice.

#### **I**

Between the state and the state-owned enterprise there exist three kinds of relationships: One is the relationship between the administrator of political power and the economic legal person or entity; the second is the relationship between the owner of means of production and the entrepreneur using them; and the third is the relationship between the social center of organized economy and the actual production and operation body. The

enterprise being an economic legal entity must deliver a stated amount of tribute to the state which is the administrator of political power; as the user of and dealer in means of production, it must deliver to the state a fixed amount of profits since the state is the owner of the means of production; and an actual production and management structure, earning grade-differential benefits formed by disparities in production conditions, should make deliveries of the benefits to the state which is the socio-economic organizational center.

It should be said that such an understanding is basically correct. However, in actual operation, before the reform, the method which we had employed for a long time, requiring the enterprises to deliver the whole of their realized profits to the state, led us astray. The reason for our going astray did not lie in an erroneous theoretical understanding of the relations between the state and the state-owned enterprises, but in errors in the understanding or interpretation of the whole amount of profits. In other words, people subscribed to the notion that the realized profits of each and every enterprise were formed by three composite factors, namely, tribute and taxes, profits on capital, and grade-differential benefits and that no other elements were included. Hence, the whole of the profits should be delivered to the state. But in reality, due to the differences in the extent of the subjective efforts made by the enterprises, even though the amount of capital employed and other production conditions are the same, different enterprises yield different amounts of profits. This illustrates that in the enterprises' realized profits and in some of the enterprises their workers have contributed extra efforts of form extra benefits. In the past, we did not recognize that enterprises should have relatively independent economic interests and did not recognize that relatively greater compensation should be given to extra work done and hence we enforced the method of requiring the delivery of the whole amount of the profits. As a result, this dampened the production enthusiasm of the enterprise and of the cadres and staff members and affected the development of production.

Since the reform of the urban economic structure, we have enforced in succession a series of measures such as profit retention, contracted profits, co-existence of interest and tax, and so forth. Although to a certain extent we have recognized the enterprise's right to own the benefits derived from their subjective efforts and have thus provided and added certain motive force to the development of the enterprises, all these things have still caused the reform to progress in a rather irregular manner, lacking a scientific basis. Since reliance has been placed on direct or one-to-one negotiations between the state and the enterprise and also on past experiences, frequent quarrels have occurred on the base figure and about the ratio to use. Could the appearance of these phenomena be due to our lacking a theoretical basis in determining the amount of the fund that the enterprise should deliver to the state, to the reform not yet being standardized or to the enterprises lacking a viewpoint of

the situation as a whole and disregarding the state's interests? Or, possibly all of the above may be true. But for a time people thought of only one point which was that the enterprises had disregarded the state's interests. They therefore thought that to solve this we must resort to legal measures to fix the distribution relationships between the state and the enterprise. This was one of the motives for enforcing the tax-in-lieu-of-profit measure.

The strongest point in changing profit delivery into payment of tax is that it hardens or solidifies the distribution relations between the state and the enterprise, but collecting the income tax according to the income amount and collecting the regulatory tax on the profits after payment of the income tax both have obvious irrational points. Using the three types of economic relations between the state and the enterprise to examine the collection of income tax according to graded income amounts, it is found that under only one condition can it be reasonable and that is that the gross amount of profit should be comparable and relevant to the amount of state funds used or held by the enterprise. Unfortunately, in reality many enterprises have taken up or used a large amount of the state's fixed funds but have produced little profit, whereas many enterprises, while holding or using comparatively little fixed funds of the state, have created large amounts of profits.

Under such conditions, collecting the income tax according to a graded scale of income may be likened to "whipping the speedy ox" and "cossetting the lazy ox." As for collecting the regulation tax after collection of the income tax, it is all the more a sort of experienced policy making and the crystallization of the "negotiating art."

Roughly going over the above can enable us to form the following understanding: in handling the economic relations between the state and the enterprise, we have from beginning to end been unable to find an ideal program. Sometimes we were relatively definite regarding the categories or items comprising the enterprise's delivery to the state but fell into error when interpreting the composition of profit; at times we were rather reasonable in understanding or interpreting the formation of profit but were in a state of confusion regarding the categories of items to be delivered to the state; and occasionally we lacked a clear-cut understanding of both of the above and rigidity was lacking in concrete measures. Adoption by the contracted management enterprises of the previous actual amounts of delivery as the base perpetuates, on the one hand, certain of the strong points in so doing but on the other hand maintains and enlarges the past weak points.

## II

A state-owned enterprise delivers to the state tribute and taxes, profits from asset operations, and grade-differential benefits (referring to enterprises with grade-differential benefits). All three constitute the sum total of an enterprise's deliveries to the state. Does using the base

figure method to determine the upward deliveries manifest this principle? The answer is a negative one. Over many years in the past how did the enterprises determine the amounts of their deliveries to the state? First, they were determined on the basis of the extent of the subjective efforts made by the enterprises and the more the labor input of the enterprise's workers the higher the benefits and profits and the larger the deliveries made; contrarily, the reverse was true of smaller deliveries. Second, they were determined by the environmental conditions faced by the enterprises at the time, and if the means of production market and products market faced by the enterprises were to their advantage, if the input was little but the output large, the profits would be many and larger and more deliveries would be made to the state; in the reverse case, the deliveries would be fewer and smaller. Third, at the time of the co-existence of profit delivery and tax payment and when previously the method of use of the negotiating art had been relied upon, if the enterprises were swayed by many difficulties and engaged in rather serious disputes, it was possible that the deliveries were rather small whereas in the opposite case, the deliveries could be larger. Under such conditions, fixing the delivery amounts of the contracted management enterprises on the basis of the base figure method theoretically completely separates the enterprise from the status it should have as an independent legal person or entity and an economic body while in practice recognition would be given to the series of unjust doings in the past. Hence, it may be said that the "base figure method," in comparison with the proportionate division of profits, plays only the role of hardening or solidifying the distribution relations and avoiding disputes between the state and the enterprise once every year; and in comparison with the income tax, it plays only the role of lowering the income tax rates. At present many enterprises use little of the fixed funds of the state, but, due to their having made large deliveries in the past, their deliveries in contracting based on the base figure method are still rather large; whereas those enterprises which habitually have used large amounts of the state's fixed funds, due to their relatively low base figures in the past, are still making rather small deliveries after contracting.

In addition, in actual practice the "base figure method" still has the following problems:

First, it has not taken into consideration the enterprise's assets and liabilities rate. At present there are two types of enterprises: In one, the fixed assets are wholly formed by the state's investments while in the other they are formed by loans raised by the enterprises. Following reform of the investment structure, the burden of the former category of enterprises is rather light whereas in the case of the latter now and for several years from now large amounts of funds have to be employed on principal repayment and payment of interest on the loans and therefore their burden is rather heavy. Under such conditions, the use of the base figure method to fix the amount of delivery to the upper levels may be suited to

the first category of enterprises but in the case of the latter category of enterprises, they may not be able to bear the burden.

Second, it has not taken into consideration the period of life expectancy of the main products of the enterprises. Seen from the period of life expectancy of products, there are also two kinds of enterprises. In one, their principal products enjoyed extremely flourishing sales in the past several years, the profit rate on capital was rather high and hence the upward deliveries of profits were rather large. However, for the present their main products are declining and the profit rate on capital has fallen. As for the other category of enterprise, the case is entirely different. At present their major products are still in the developing stage. In the past, the profits were scarce, the upward deliveries were rather small in amount but from now on the anticipated benefits will be much greater. Under such conditions, if the base figure method is used to fix the amount of upward delivery of earnings or profits, then it means that the two categories of enterprises are competing under unjust conditions.

Third, it has not taken into consideration the period of time required for the formation of the production capacity in different enterprises. Seen from the period of time required for the formation of the production capacity, two categories of enterprises may also be counted. One of them consists of old enterprises. Their production capacity was formed early, past profits were rather large and consequently larger deliveries were made to the state. The other category consists of enterprises newly built or being expanded or under technical transformation. Their whole production capacity has not yet been formed. As a result, in the past their profits were rather small and their deliveries likewise small. If in contracting the base figure method is used, then those enterprises using state-owned funds in new building or in expanding will obviously have a light burden. On the other hand, the burden of the old or aged enterprises will be comparatively too heavy, thus resulting in a new state of unequal fortunes.

Fourth, it has not taken into consideration the differences in the extra-business outlay of different enterprises. At present, the largest constituent portion of an enterprise's extra-business outlay is the wages welfare outlay for retired personnel. In aged enterprises, the number of retired personnel is large, and the extra-business outlay is also large. Obviously, they suffer a disadvantage if the base figure method is used to determine the amount of their deliveries to the state. In the case of the newly formed enterprises the age composition of their personnel is still rather young. Thus invisibly they are benefitted.

### III

If the contracted management responsibility system is only a transitional measure, then the use of the base figure method to determine the amount of deliveries to the upper levels may not be so questionable. This is

because in the end it will be replaced or displaced when the reform assumes a standardized form. However, at present, the central authorities have clearly mentioned that contracted management is not of a transitional nature. Presumably from now on it will continuously undergo a process of perfection. In such a case we cannot overlook the many irrational points of the base figure method as mentioned above. We must indeed go into deep research and probing to find a corresponding countermeasure.

Based on the multifold economic relations between the state and the state-run enterprises, planning of the amount of deliveries to the state of the contracted enterprises should be based principally on the large or small amount of the state-owned funds they are making use of. The delivery amounts of the contracted enterprises should comprise three parts: that is, expense for use of assets, grade-differential benefits, and tributes and taxes. The concrete measure is: 1. The industrial bureau representing the state should take account of the amount of state-owned funds used or held by the enterprise, and, based on the loan interest rates of banking facilities, calculate the expense charges for use of the funds to be paid by the enterprise concerned. Or, the state, based on the profit yield rate of funds in the entire industry or trade, fix a coefficient for the charges for use of the assets and the industrial bureau, using the coefficient and based on the amount of state-owned funds used or held by the enterprise concerned, computes the charge that the enterprise should pay for use of the assets. 2. The state may use the profit yield rate of the output value of the whole industry and trade and the differential between the enterprise's profit yield rates on output value in the two sectors of geographical grade-differential and resources grade-differential, fix the coefficient of grade-differential benefits of output value for the sectors; in turn, the industrial bureau representing the state in exercising the ownership right will use this coefficient and the anticipated output value in the contract period of the contracted enterprise and compute the grade-differential benefits the enterprise concerned should deliver to the state. 3. The existing income tax rates should be lowered. The state's financial and taxation departments, based on the principle of general equality in the burden of the state-owned and collective enterprises, fix anew the grade gaps and the tax rates and on this basis and in conjunction with the anticipated profits determine the tribute and taxes which the enterprises should deliver to the state. This method eliminates the man-made elements of raising or depressing and the inertia of past errors. It has a theoretical basis and can be easily accepted by the enterprises. It treats all the enterprises alike and manifests the principle of justice and equality. In enforcement there are still many problems needing study and solution. 1. Use of the base figure method to determine the delivery amount takes the past business conditions as the basis. Despite being unjust and unreasonable in theory, it is generally accepted by the enterprises. In fixing the base figure for delivery to the state on the basis of the economic relations between

the state-owned enterprises and the state, a portion of enterprises with especially poor business conditions not only have no profits but may also be unable to meet the delivery requirements. In my opinion, in the economic sector, ethical justice can only be subservient to efficiency. Provided that there is no value depreciation in the fixed assets of this kind of enterprises, then regardless of how poor their business operations are we cannot yield to them and in principle they must deliver the amounts that have been fixed. If their means are insufficient the only two ways are either to reduce the income of the enterprise and or the income of its staff members and workers. But in consideration of the conditions in our country, regarding those enterprises unable to deliver or pay up, some of them may become debtors to the state in which case the state will increase the amount of funds they wish to use and when and as their conditions have turned for the better the state's finance department can recoup the principal including the charges for use of the funds. 2. Using the above method to determine the delivery amount is mainly planned on the basis of the amount of capital funds used or held by the enterprise. One of its assumed preconditions is that the enterprise's fixed assets will not suffer from value depreciation. In reality, because of such factors as the investments having been made too early, scientific and technological development having progressed at a fast rate, and the vast and many changes in the markets, in a number of the enterprises the fixed assets have depreciated in value in varying degrees. Thus, to fix the delivery amount merely on the basis of the book value of the assets and the coefficient of the charges for the use and holding of the assets will impose too heavy a burden on some of the enterprises. A relatively workable solution is: in combination with tender inviting and tender making, a specialists' group and those making the tenders carry out a social assessment of the assets and on that basis determine the current actual value of the original fixed assets and proceed to determine one of the components of the enterprise's delivery amount, namely, the charges for use of the assets. 3. In the case of enterprises with transferable receipts, a large portion of the profits is formed by the irrationality in prices. This portion of receipts should be treated as grade-differential benefits and be wholly delivered to the state. But since prices have the character of changing frequently, deliveries of this kind should not be incorporated into the contractual agreement. The method of solution is to adopt and enforce a viable and flexible policy on the tax on products, tax heavily products with a high price and yielding large profits, and convert the receipts from transfers to belonging to the state. 4. The "double-track system" of prices poses large effects on the enterprises. In determining the delivery amount according to the economic relations that should exist between the state-owned enterprises and the state, there is the possibility that due to the price differences in the means of production consumed by enterprises producing the same kind of products, those enterprises which enjoy a planned supply of the means of production under the state plan invisibly increase their profits while those enterprises

not included in such provisions under the state plan relatively have less profits, this is also inequality in competition. Therefore, price control of the means of production should be given up and the law of value should be allowed to play its regulatory role.

## PROVINCIAL

### Chen Guangyi Gives Fujian Work Report

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[Work Report by Chen Guangyi at the Eighth Plenary (Enlarged) Meeting of the Fourth Fujian Provincial CPC Committee on 9 May 1988]

[Text] Comrades!

Entrusted by the Standing Committee of the Provincial Party Committee, I hereby make a work report to the Eighth Enlarged Meeting of the Fourth Fujian Provincial CPC Committee.

Reform, opening to the outside world, and construction work in this province are now in an important, developing period. In 1979, the central authorities authorized our province to implement "special policies and flexible measures" and this has given us great vitality in economic and social development. The past 9 years have laid down a good foundation for developing an export-targeted economy. When Comrade Zhao Ziyang inspected our province this January, he asked us to grasp the opportunity of world-wide structural change in industrial production to speed up development of the export-targeted economy and continue to take the lead in the course of reform and opening to the outside world. This April, the State Council gave us a written reply to our province's report on deepening reform, further opening to the outside world, and stepping up development of the export-targeted economy, and to our request for instructions. This is an important strategic move by the party Central Committee and the State Council in developing the coastal economy. Conscientiously implementing this strategic move of the central authorities will surely speed up the comprehensive economic development of this province and be conducive to promoting economic and trade cooperation with Taiwan, fulfilling the great cause of reunification of the motherland.

A leading comrade in the central authorities recently pointed out that Fujian should have a firm grip on the coming 2 to 3 years. This is a period in which the adjustment of the international industrial structure is very favorable to the development of this province. It is a crucial period for our province in experimenting with comprehensive reform. It is also the last few years of the Fourth Fujian Provincial CPC Committee. Therefore, whether this province can grasp the opportunity and step up its development during this short period or not will be a rigorous test for the Fourth Fujian Provincial CPC Committee, and party committees and governments at

all levels in this province. The current Eighth Enlarged Plenary Meeting of the Fourth Fujian Provincial CPC Committee is precisely held at this important moment. The main tasks to be discussed in this meeting are summing up and analyzing the new situation and experience since the last enlarged plenary meeting, especially since the implementation of the strategy for developing the coastal economy, seriously studying how to implement the State Council's 11 suggestions on speeding up reform and opening to the outside world in reply to our report under the guidance of the 13th CPC National Congress and the 2d Plenary Session of the 13th CPC Central Committee, further whipping up the enthusiasm of the masses, further liberating our thinking, mobilizing all forces in this province, working hard to promote prosperity for 3 years, taking greater steps in developing the export-targeted economy, and promoting the development of Fujian's economy at an appropriate pace, faster than the national average.

**First, this Province Has Made Good Progress in Implementing the Strategy for Developing the Coastal Economy, and We Are Faced with a New Situation in the Course of Reform, Opening to the Outside World, and Construction Work.**

In December 1986, the Fourth Enlarged Plenary Meeting of the Fourth Fujian Provincial CPC Committee made a decision on speeding up the pace of reform, opening to the outside world, and vigorously developing the export-targeted economy. In December last year, the work meeting of the provincial party committee further defined guiding principles, major tasks, policy measures, and goals for our struggles in 3-year and 8-year periods under the guidance of the 13th CPC National Congress. Afterwards, we took Comrade Zhao Ziyang's inspection trip to Fujian as the motive force in our work, planned a campaign to deeply and conscientiously study the documents of the 13th CPC National Congress, strove to completely understand Comrade Zhao Ziyang's instructions for this province, and implemented the guidelines of the work meeting of the provincial party committee. After the Spring Festival, the provincial party committee held an enlarged Standing Committee meeting to study the decision of the Fourth Enlarged Meeting of the Political Bureau of the CPC Central Committee and Comrade Deng Xiaoping's important written instructions on boldly implementing the strategy for developing the coastal economy. In the mean time, we held extensive discussions at various provincial level organizations and in various prefectures and cities on implementing the strategy for developing the coastal economy by "being practical and making contributions." In this way, we have mobilized the masses to implement the strategy, firmly grasped and promoted our work in a deep-going manner, and created a lively situation in which we can boldly and firmly implement our tasks.

The current favorable situations are mainly manifested in relatively adequate mobilization of the cadres and masses, and in various positive factors which have been

brought into full play. Everyone is thinking, talking, and acting the export-targeted economy. Everyone is actively exploring, innovating, and implementing. While reform measures are still under study, experiments are being proposed. At the same time, by integrating the implementation of the strategy for economic development in the coastal areas with the building of socialist spiritual civilization, commendable civilized service activities are brought to light, resulting in improved work efficiency and service quality. Every locality and department should concentrate on implementing the strategy for economic development in the coastal areas, deepening reform, combining focal reforms with whole range of supportive reforms, and working out a number of reform measures from a breakthrough in restructuring the foreign trade system to various other reforms. The policy on the investment by Taiwan compatriots, overseas Chinese, and foreign businessmen has become more preferential; and the procedures more simplified. Enterprises are gradually managed in accordance with the international practices. Enterprises begin to be contracted and transferred for business operations; they even offer shares and go public. Compensatory transfer of land titles begins to be implemented on a trial basis. The regulatory scope of foreign exchange is expanded. The market of key elements of production, especially the funds loan market, is very brisk. Scientists, technicians, and personnel in charge of management are given a freer hand in their endeavors. As reform assumes a dominant role in the entire economic activities, there begins to appear a situation in which micro-flexibility and macro-economic control promote each other, in which economic returns match the speed of progress, and in which reform and development steadily promote each other. The construction in the special zones, development zones, and processing zones are greatly accelerated. The gross industrial output value in the province from January to April has posted a 29 percent increase over same period last year. The economic growth in all of the nine prefectures and cities has been maintained at a "two-digit" rate. The economic returns are up proportionately. The industrial enterprises covered by budget have seen an increase of more than 20 percent in their profits and tax contribution. The number of deficit-ridden enterprises is reduced by 100. The village and town enterprises continue to make good progress, registering a growth of 40 percent in their gross output value. What is more gratifying is the new breakthrough in attracting foreign capital and earning foreign exchange from exports. The number of approved projects with direct foreign investment in the past 4 months is 200 percent more than that in the same period last year. The amount of foreign capital is up by nearly 10 times. Nearly 2,000 agreements have just been signed for the "three forms of import processing and compensation trade," posting a growth of 60 percent. Revenues from [gong jiao fei 1562 4945 6316] [construction fees] approximate \$10 million, posting a growth of 100 percent over same period last year. The foreign exchange earned from exports also grows by 60 percent over same period last year. Furthermore, economic development has begun to spread from

coastal to mountain areas. Both areas supplement each other with their respective advantages. A number of integrated complexes, enterprise groups, and processing zones have been established in the course of transition from scattered to relatively concentrated economic development. Investments in small amount are followed by investments in large amount; and there also begins to emerge a new situation in which Hong Kong, Taiwan, and overseas Chinese investors pool their funds and efforts together for joint development in our province.

The current economic development in our province is very gratifying. The various trends that have emerged so far will accelerate development and will converge into a mighty momentum promoting the progress of the implementation of the strategy for economic development in coastal areas. However, we must be soberly aware that it will not be an easy task to implement the strategy for economic development in coastal areas. The development of economic technologies in the world today is forging ahead and bringing about daily changes. Opportunities are transient and fleeting. Though the current situation in our province is very good and the speed of development very fast, compared with the volatility of opportunities and the development in fraternal provinces and municipalities, the situation has become very pressing. Fujian Province has a weak foundation. Particularly, its operations and management, personnel training, work efficiency, service quality, and many rules and regulations have not been adequately developed into a new mechanism which can facilitate importation of more raw materials and export of more products. Our minds are not emancipated enough; a lot of work are still subject to the restrictions of outmoded ideas and conventions. These are the major problems and areas where we fall short in the way of progress. Both the CPC Central Committee and the State Council are very concerned about, and attach great importance to, Fujian. In the past 6 months, they have successively agreed in principle and approved our province to increase the number of counties open to the outside world from 11 to 32, our opinions on doing a good job in the reception of Taiwan compatriots on family visits and tours, as well as our 11 suggestions on accelerating development of the export-targeted economy, and economic management authority equivalent to the provincial level for Xiamen City to give play to the role as a city under direct state control and with independent economic decisionmaking authority, and so forth. Those measures have created conditions for relaxing policies in this province. The party Central Committee and the State Council want us to take the lead in carrying out comprehensive experiments in promoting reform and opening to the outside world. Therefore, all our comrades should have a high sense of responsibility. We must clearly understand that if we do not firmly grasp our work we shall be lagging behind. We must work hard to catch up with the most advanced in order to fit into our position. Accordingly, we must heighten our sense of responsibility, urgency and pressure. We must strive to adapt ourselves to the competitive system, work very hard and make sure that

we will not waste any time during the 3-year period so as to accept the challenge and speed up our progress.

**Second, We Should Be Bold in Carrying Out Our Plan, Make Advances, and Fulfill the Fighting Goals During the 3-Year Period Without Wasting Any Time.**

We have put forward our fighting goals for the 3-year and 8-year periods in developing the export-targeted economy at the work meeting of the provincial party committee and in our report to Comrade Zhao Ziyang last year. Comrade Zhao Ziyang's remarks and the State Council's 11 suggestions in reply to our report have all approved our ideas. Those ideas and our fighting goals were examined and adopted at the first session of the seventh provincial people's congress. Our general goals are as follows: We shall firmly grasp our work in the coming 3 years and struggle hard for 8 years. We shall strive to realize our second phase goals 5 years ahead of schedule. In 1990, the gross national product will reach 37.2 billion yuan, national income 30.2 billion yuan, the total output value of industry and agriculture will be 42.5 billion yuan, local revenues will reach 4.5 billion yuan, and the total value of export will be more than U.S.\$1.7 billion. In 1995, we shall quadruple the figures of 1980 in gross national product, national income, total output value of industry and agriculture, total foreign exchange earned from export, and local revenues. By that time, we shall have a good foundation for the export-targeted economy, enter into a new phase in economic development, and provide a prosperous life for people in most areas. Now, we can see that those goals are in accord with the actual situation in this province, and supported by various localities and departments. As long as we exert our efforts unremittingly, we can certainly realize those goals.

In order to realize those fighting goals, the key lies in speeding up our pace in the coming 3 years. The general requirement during the 3-year period is to put reform at the center of all our undertakings, integrate economic development with reform and opening to the outside world, and develop the export-targeted economy comprehensively to lead the economic development of our province relatively quickly. The core of our work is, through reform, to form an industrial structure, market, and economic system suitable for developing the export-targeted economy to take the right track in developing that economy. Specifically, we should, guided by the objective of taking part in international exchange and competition, and importing more raw materials and exporting more goods, restructure and optimize our industry, develop industries which are labor intensive or labor and technologically intensive to lay a groundwork for the "three-supply and one-compensation" businesses [processing supplied materials, processing according to supplied patterns, assembling supplied parts; and compensatory trade]. By adopting advanced, imported technology, old enterprises should gradually become exporters. Meanwhile, we should go all out to develop competitive trades, explore new areas for development,

attach great attention to basic trades, and build a number of large basic industries providing transport services, and producing energy and raw and semifinished materials. We should actively develop a market system, create all kinds of economic ingredients, and introduce a pluralistic pattern of ownership, so that there will be a large number of collective and individual economies, and especially joint and cooperative ventures, and wholly foreign-owned enterprises. To minimize direct administrative control, we should have macroscopic regulatory measures which can arouse incentives so that a primarily market-regulated economic system can be instituted throughout Fujian, especially in the coastal areas. We should also set up a new economic mechanism by which the state regulates the market and the market guides enterprises. The indicator of a developing, export-targeted economy can be observed from: a growing export whose value will rise from 13 percent of the annual GNP to over 20 percent of the GNP; over one-third of the construction capital comes from foreign capital; a substantial portion of people's income is derived from outside investment; and the province's economy will continue to develop under the guidance of the export-targeted economy.

We should realize that, although Fujian is a coastal province, the development of its commodity economy is ladder-shaped. Such being the case, we must, while implementing the strategy of developing the coastal economy, provide different types of guidance according to the nature of different projects and proceed step by step. The Special Economic Zone [SEZ] of Xiamen, the open City of Fuzhou, and the 32 open counties in the triangular region in southern Fujian should stand in the forefront of reform and opening up and play different roles: First, they should play the leading role in production by attaining much higher economic targets, especially annual export growth, than the provincial average. Second, they should play an exemplary role in reforms for the rest of the province. This means that they should be ahead of others in carrying out various reform measures, and that they should have the courage to not be confined by the restrictions of the current system, gradually institute a new system conducive to participating in international competition and management, according to international norm. Third, they should play a coordinating role in establishing new economic ties between coastal and interior areas so that mountainous areas can develop along with the coastal ones. The Xiamen SEZ should proceed as quickly as possible in building a new framework for the socialist market economy which tallies with the commodity economic law, operating according to international norm, and compatible with the international pricing system. Xiamen should have even more open policies. It should make even greater strides in promoting industrial and agricultural production, in promoting export, and in bringing in more foreign capital, so that at least half its enterprises will become exporters within 3 years. To build Xiamen into a "showcase for material and spiritual construction," Xiamen's economic and administrative reform, and

socialist spiritual construction should proceed simultaneously. In the open City of Fuzhou, the Mawei Economic and Technical Development Zone should play a role in leading development in the vast hinterland along the Min Jiang basin. In 3 years, the development zone should have a new outlook, all large and medium-size enterprises in Fuzhou should have basically upgraded their technology, and a quarter of those which have already upgraded their technology should have become exporters. Next year, the city's total industrial and agricultural output should exceed 10 billion yuan. In 1999, output should exceed 12.5 billion yuan, and total exports should double that of 1987. Although their individual conditions are different, the 32 open counties in the triangular region in southern Fujian should, on the whole, take brave steps to opening to the outside world; develop the "three-supply and one-compensation" businesses; and set up joint and cooperative ventures and wholly foreign-owned enterprises, export-targeted township enterprises and agriculture in order to shape a pattern for trade and industrial and agricultural production. These counties should take advantage of local resources and take an important step toward developing an export-targeted economy. Offshore islands and capes should, on the basis of building facilities providing drinking water, electricity, communications, and telecommunications services, adopt flexible and preferential measures to develop trade with Taiwan, and tourism. They should encourage fellow countrymen from Taiwan and overseas Chinese to develop them and set up different types of processing and development zones there in a way appropriate to the local conditions. Meizhou Bay should be more open. It should speed up construction of oil refineries, steel works, and other key projects. Focusing on development with foreign capital, it should head for developing the bay into an international port and its adjacent areas into new industrial base. The development of Meizhou Island should be accelerated. Active efforts should be made to promote tourism and contacts between people on both sides of the Taiwan Strait. Dongshan Island should be built into a base to produce agricultural goods for export. Pingtan Island should achieve substantial progress in building a good foundation for developing export-targeted agriculture, trade with Taiwan, and processing zones with capital from Taiwan. Mountainous areas in interior Fujian should keep up with the development of an export-targeted economy in Fujian. Under the premise of not slackening agricultural and forestry production, especially of grain, they should join forces with coastal areas and take active steps to develop all forms of mountain economies in all sectors, utilizing the resources of both mountainous and coastal areas. Impoverished areas should also take advantage of their resources and manpower and cooperate with coastal areas in order to accumulate the capital needed in the development of local resources. Relying on their own efforts and the support of state policies, and taking advantage of reform, opening up, and scientific and technological development, they should undertake developmental production projects and develop commodity production, which is a way to fight poverty and

become affluent. According to the antipoverty decision by the Enlarged Third Plenary Session of the Fourth Fujian Provincial CPC Committee, people in Fujian should have their basic needs of food and clothing resolved within 3 years, and this is the last year. All localities should earnestly examine how the decision has been implemented and draw up programs for achieving even greater prosperity in the future.

What have been mentioned above are different requirements and key points. In terms of the work of developing an export-targeted economy as a whole, we must continue to earnestly implement the main objectives and measures laid down by the work conference of the provincial party committee. Currently, we must make special efforts to do a good job in these four areas: bringing in capital from Taiwan, overseas Chinese, and foreign countries; giving full scope to the role of state and township enterprises in earning foreign exchange; properly managing foreign all exchange-earning bases and export processing zones; and decontrolling the flow of scientific and technical personnel.

1. We should take positive steps to bring in capital from Taiwan, overseas Chinese, and foreign countries; and strengthen economic cooperation between Fujian and Taiwan. On utilizing foreign capital, attention should primarily be directed to encouraging direct foreign investment and developing joint ventures, cooperative ventures, and especially wholly foreign-owned enterprises. We should continue to follow the provincial party committee's requirements—"understand the overseas Chinese' sentiments, protect their interests, put their strength to use, and absorb their capital"—so as to give full scope to overseas Chinese' strengths. While we should care for overseas Chinese of the older generation, we should also attach importance to overseas Chinese of the second and third generations. While we should bring in their capital, we should also pay attention to bringing in their proficient personnel, technical expertise, and management. While we should broaden the avenues for economic cooperation and trade, we should also pay attention to cooperation between overseas Chinese and compatriots in Taiwan and Hong Kong and continue to head for the direction of promoting group development so that we can do an even better job in facilitating the three major projects of the party during the new period—projects among which economic construction is the center. Currently, there is a good trend of Taiwan compatriots coming to Fujian to make investments, and the potential in this regard is considerable. We should make best use of such a situation and give the investors proper guidance so that this trend will develop further. It should be made clear that investments made on the mainland by enterprises and compatriots from Taiwan, though they are domestic investments, should be given the same preferential treatment as foreign investment, and this preferential treatment policy, which has already been put into practice, should not be changed. Taiwan compatriots should also be encouraged to lease land in designated areas along the coast of our province to

engage in various development projects or establish export-processing zones, and the procedures for screening and approving such applications should be simplified. Taiwan businessmen should be given greater freedom of choice as to the forms and fields of their investments. They may set up sole-proprietorship, joint, or cooperative enterprises or develop the three forms of import processing [processing industries with raw materials supplied from abroad, processing industries with patterns supplied from abroad, and assembly industries with patterns supplied from abroad] and compensatory trade. They may also purchase fixed assets, shares, bonds, houses, and buildings. The percentage of their products to be sold domestically may be decided by the investors themselves as long as they can balance their foreign exchange earnings and outlays. Taiwan businessmen should be allowed to appoint their family members, relatives, or friends on the mainland as agents to operate the enterprises in which they have invested. Taiwan businessmen's investments, assets, and enterprise ownership may be inherited and transferred according to law. We should do well in dealing with the Taiwan businessmen's enterprises already established, implement the preferential policy as promised, respect their decisionmaking power, and ensure the safety of their investment. Projects established by family members of Taiwan compatriots with funds from Taiwan should be given the same preferential treatment if they are recognized as legal projects. Various methods should be used to solicit investment from Taiwan compatriots and overseas Chinese, such as encouraging the establishment of hometown development foundations in Hong Kong, giving full play to the role of associations of fellow provincials or townsmen, and organizing inspection groups for Taiwan compatriots to visit Fujian. The Hua Min Corporation and other organizations stationed abroad should make good arrangements and do good reception work so that Taiwan compatriots and overseas Chinese will be introduced to Fujian for business negotiations or investment in setting up factories. In addition, every effort should be made to gear up propaganda work through various channels to enhance mutual understanding and form a close economic link between Fujian and Taiwan.

2. We should speed up the transformation of existing enterprises and switch their operations in the direction of earning foreign exchange through promotion of exports. In developing exports to earn foreign exchange, state-owned enterprises, especially those of big and medium size, are the main forces, while the large number of village and town enterprises are their reinforcements. Currently, however, we still lack a mechanism to introduce these enterprises in the international market on a large scale. We should transform existing enterprises through the promotion of Sino-foreign joint investment and cooperation and "graft" upon them the advanced foreign technology, managerial methods, and sales networks. As for technology transfer, the methods adopted may be joint investment with foreign businessmen,

cooperation in scientific research and design, or employment of foreign experts to give guidance, to change the one-time purchase of technological know-how to a continuous introduction of advanced technology from abroad. We may also select enterprises with export potential, and solicit foreign businessmen to buy their shares or operate them on a contract or lease basis, so that they will be technologically transformed. The provincial economic commission has selected 100 big and medium-sized enterprises to be transformed with foreign funds. Local authorities may do the same by selecting enterprises in their respective areas. Meanwhile, we should take full advantage of the characteristics of village and town enterprises, such as low labor costs, flexible operations, and adaptability to the needs of foreign trade, in soliciting foreign businessmen, Taiwan compatriots, and overseas Chinese to use advanced technology and equipment to transform these enterprises, improve their operations and management, and expand the export of labor-intensive products. We should open a new way to develop our export-targeted village and town enterprises. This way should have a Fujian characteristic, marked by "small export goods, but big market" and "small commodities, but big power to earn foreign exchange." We should combine the two forces [big and medium-sized and village and town enterprises] by setting up various associations and have both of them play their roles. This is a significant way to develop the export-targeted economy.

3. We should go all out to develop production bases for earning foreign exchange and take positive steps to establish export-processing zones. This is an important measure in expanding exports to earn more foreign exchange. This year, many localities have achieved results by using empty houses and old factories and workshops to develop the three forms of import processing, compensatory trade, and export-targeted village and town enterprises. Facts have proved that this is a good way to achieve quick and good results with little money. With the development of the situation, a number of export-processing and export-development zones have appeared in our coastal areas. The establishment of these zones provides foreign businessmen with an easy-to-manage "small environment" and facilitates the introduction of more foreign capital into our province. All localities where conditions permit should do their best to develop such zones. Of course, this should be done systematically. In doing this, we cannot rush blindly into mass action and should strictly ban the unauthorized use of cropland. We should adopt various fund-raising methods, and see to it that every project we start is a success. Moreover, great attention should be given to developing production bases for export goods, particularly the already designated 10 export items, including footwear, canned foods, and tea. We should try to raise the proportion of products from these production bases to about 50 percent of our total export volume by the year 1990. While building export production bases and developing highly competitive export products with distinctive features, we should strengthen processing, storing,

marketing, and other links in the export system to enhance our capability to earn more foreign exchange through exports. We should also try to increase our foreign exchange earnings from sources other than exports. The potential for earning foreign exchange from nontrade sources is as great as from trade. We should continue to develop economic and technological cooperation with foreign countries. We should undertake more overseas projects, and promote the export of equipment, building materials, and technology in the process. We should make good use of our ties with overseas Chinese to increase the export of labor services. We should further develop tourism, insurance business for foreign businesses and citizens, and other nontrade undertakings earning foreign exchange. As in the case of trade, we should institute the contract responsibility system in nontrade undertakings to arouse the initiative in all quarters to earn foreign exchange. We should establish a broad and fast international information and marketing network, which is the lifeline for enterprises trying to move into the international market. It is a question deserving our special attention in developing an export-targeted economy. We should continue to make good use of the marketing channels of our intermediaries. At the same time, we should use the favorable positions of overseas Chinese to establish a number of sales points abroad.

4. We should step up scientific, technological, and educational reform and development to provide intellectual support for the development of an export-targeted economy. Speaking at the 2d Plenary Session of the 13th CPC Central Committee, Comrade Zhao Ziyang pointed out: "Our hope for the success of the strategy of economic development for the coastal regions depends, in the final analysis, on science and technology." We must rely on scientific-technological progress and on the rise in the standards of our workers for our economic development. We must make science and technology a true pillar in the development of an export-targeted economy. In the long run, we must work out a plan as soon as possible to integrate science and technology closely with the economy. For the next 3 years, we should focus on implementing the "Three Thousand and Three Hundred" Plan put forward at last year's provincial science and technology conference and, with a view to increasing exports, promote the application of science and technology in the following three respects. First, we should set up model science and technology towns and townships through the implementation of the "Spark Program." We should mobilize scientific-technological personnel to go to the countryside to help rural enterprises apply science and technology while making flexible use of their internal mechanisms. The goal is to develop a number of high-standard export-targeted rural enterprises and agricultural bases. Second, we should actively promote the development of new generations of traditional industrial products and organize task forces to tackle scientific-technological problems. We should do a good job of digesting, absorbing, and improving imported technologies. We should increase the competitiveness of our

export products by raising their quality and grade. Third, we should judiciously and systematically develop new and high-technology industries. Our first step is to set up high-tech parks in Xiamen and Fuzhou, which will provide technological reserves for Fujian's participation in the great international economic exchange and for revitalizing its economy. We should develop a mechanism in the process of reform to link science, technology, and the economy and make them inseparable. We should develop a mechanism to enable the rational flow of trained personnel in our province and to attract talent from the rest of the country and abroad. To do so, we must give free rein to competition and market forces, and encourage colleges in Fujian to cooperate with our businesses and banking institutions. We should make special efforts to attract scientific-technological personnel from domestic colleges and research institutions to establish joint ventures in Fujian and carry out technology transfer. We should set up and develop new-type research and manufacturing entities orientated to both the domestic and international markets. We should support and promote the development of collective and private research institutions. We should encourage scientific and technological personnel to offer paid services and undertake contractual economic and technological projects for rural villages and enterprises, and for small and medium-sized urban enterprises. Education is the foundation on which qualified personnel are raised. Party committees and governments at all levels should regard education as such, and pay particular attention to its development. We should particularly encourage people in various sectors to raise money to set up new schools. We should show concern for the work and life of teachers and stabilize and strengthen their ranks. We should reform our education according to the needs of an export-targeted economy and Fujian's conditions. We should seriously promote 9-year compulsory education. We should develop vocational education and different types of technical training to train needed personnel and improve the standards of workers in the small and medium-sized enterprises, rural enterprises, and export-targeted agriculture. We should adjust the enrollment plan and departments of universities in our provinces and place more emphasis on applied science, which is urgently needed, and on disciplines required for developing an export-targeted economy.

### **Third, Putting Reform at the Center of All Our Undertakings and Using Reform To Promote Opening and Development**

The strategy of economic development for the coastal regions put forward by the CPC Central Committee is one for opening China wider to the outside world and accelerating its development. It is also a strategy for deepening reform. The development of an export-targeted economy in our province and our opening to the outside world depend, in the final analysis, on accelerating and deepening reform. The heart of our economic structural reform is to find and adopt policies and measures conducive to the development of a commodity

economy in a socialist system. The center of our political structural reform is to establish socialist democracy. The short-term primary task of our reform is to carry out supporting reform in the economic, political, scientific-technological, and educational fields in order to establish a flexible, highly efficient, and sound system, mechanism, and environment. The general goal is to develop a socialist commodity economy. To do so, we should closely follow the strategy of economic development for the coastal regions and focus on in-depth enterprise reform.

In terms of structure, we should establish a management system suitable to the processing of imported material for immediate export. To do so, we must change the old, rigid system developed in the past. Otherwise, the call for the development of an export-targeted economy will become an empty slogan. Along with the strategy of economic development for the coastal regions, the CPC Central Committee has put forward a proposal to reform the foreign trade structure. In accordance with the planning of the central authorities, Fujian has also promoted the contract system in all units engaged in foreign trade and has achieved initial success. Our missions now include broadening and supplementing the project, promoting export agent services, integrating trade with industrial and agricultural production and application of technology, and developing lateral cooperation so that our reforms can produce even better overall results. We should especially follow our plan, which has been approved by the State Council, and reform our banking operation, economic work, trade, planning, prices, fiscal affairs, personnel matters, wages, and housing system, and proceed to the reform of the management of science and technology, education, and rural affairs. During the plenary session, Comrade Wang Zhaoguo will specify the reform measures, which all localities must earnestly implement so that we can develop a framework for a planned commodity economy and bring about a virtuous cycle of economic development.

As reform of the economic structure deepens, reform of the administrative structure has become increasingly important and urgent. Without the support of administrative reform, that of the economic structure can hardly deepen, and the results which have been accomplished cannot be consolidated. Party committees at all levels must include administrative reform in their agenda and firmly, positively, and cautiously carry out all short-term reforms according to the planning of the central authorities. The provincial party committee has decided to set up an office in charge of administrative reform. Under the leadership of the provincial party committee Standing Committee, the office will handle day-to-day affairs, organize investigation and study, draw up reform plans, and oversee the implementation of these plans. While separating the party and the Government and separating Government and enterprises, attention should be directed to changing their functions in accordance with reform of the economic structure and the strategy for economic development in coastal areas. After being

separated from the Government, the party's ruling state will not change, but its ruling style will. The party committee, which holds the key to separating itself from the Government, should take the first step. In accordance with the five functions set out by the report to the 13th party congress, all local party committees must proceed with their work actively and positively. While they must oversee projects of overall importance, they must earnestly change their functions, restructure their organs, and improve their operations and methods of work. On the basis of investigation and study, the provincial party committee Standing Committee will put forward a plan as quickly as possible. To accelerate the process of administrative reform, projects considered to be feasible may be carried out first. The provincial party committee Standing Committee has already defined its functions and set operational regulations, which may serve as a reference for other cities and counties. All redundant organs should be closed down. All departments, bureaus, and offices, which should be placed under the government but are now under the party, should be turned over to the Government. Temporary organs contradicting the principle of separating the party and the Government should be closed down or merged. In future, party groups will not be established in newly-established or merged government departments. After the elimination of party groups, party organizations of government organs must, as set out in the guidelines of the 13th party congress, clearly define their functions, change all concepts and work methods which cannot keep pace with the new situation, build themselves into stronger organizations, and handle party affairs earnestly. While separating the party from the Government, the problems which must be properly handled are those concerning the way local party committees implement the directives handed down by higher party organizations and the central party committee, ensure the implementation of the instructions of higher government authorities and the State Council in their areas, and made decisions on major local issues. We should actively study the immature experiences, explore them, define responsibilities, and come up with measures and methods. We should speed up separating party and administrative organs in enterprises and institutes. By the end of this year, production and marketing enterprises should have a sound system under which their directors or managers will assume full charge, and the party organizations should have had their areas of jurisdiction. Scientific research units, schools of higher education, and institutions should speed up establishing a system under which their administrative leaders will assume full charge. Government departments must earnestly reduce their layers and staff members, simplify the administration, give lower departments more authority, strengthen their macroscopic regulatory and control functions, and improve their operational mechanisms. Organizational readjustment, which should begin with the upper departments, should be thoroughly planned and systematically carried out. Xiamen, which has been selected for experimenting administrative reform, should make a big step in this regard this year. Its organizational readjustment

should reflect the characteristics of a special economic zone, and it should gain experience in this area which other localities in Fujian can share. Fuzhou and Sanming should conduct experiments in selected counties and districts. Other cities and prefectures should also begin with initial study, make the necessary preparations, and conduct experiments when conditions permit. In principle, organs directly affiliated to the provincial government will not be restructured this year. We should strengthen socialist democracy, establish a sound system for socialist consultative dialogues, and make the handling of party and administrative affairs more visible to the people. In fact, all local authorities have accomplished a great deal of work in this area. Centers where people can liaise with leading officials, attend monthly lectures on science and technology, quarterly meetings of non-CPC personages, and all types of dialogue among the masses have become quite common. We should now improve these activities, regularizing and institutionalizing them so that they will not be formalistic, but will yield fruitful results. We should actively reform the management of cadres, gradually replace their centralized management with a system under which cadres are categorized and managed at different levels. We should study the establishment of a Chinese-style system governing public functionaries, and introduce competitive mechanism into the system to create an environment in which outstanding personnel can come to the fore. The Ministry of Personnel has selected Fujian to test the public functionary system. When the project begins, we should work in close cooperation with it, and make active efforts to expedite administrative reform in Fujian.

As far as mechanisms are concerned, we should establish an open, flexible economic mechanism, in which market regulation is the mainstay so that our operation will gradually become one in which the state regulates the market and the market guides our enterprises. The key issue is that we must nurture a socialist market, develop it, and establish and improve the mechanisms governing enterprise operations, so that all economic activities will proceed according to economic law. Fujian's performance shows that we should have sound mechanisms governing its credit service, distribution, and competition. Banking facilities must give full scope to their important role in providing overall economic regulation and control. We should raise funds through loans from specialized banks which operate like enterprises, through opening money markets, establishing regional commercial banks operated with stocks and shares, and floating bonds and shares; as well as through developing long- and short-term capital markets, enlivening lateral credit services, and establishing a system governing capital use. To enliven the circulation of supplies and commodities, we should reform the old method of distribution, have a sound central market for production means, develop all types of wholesale market, and explore futures exchanges. Guided by the market, we should improve enterprises' contract operation with supporting measures, and introduce competition into enterprises. We

should select the best people to be operators of enterprises through open bidding, hiring, election, or other methods. We should improve basic operations within our enterprises, popularize the method of operating at full capacity and setting up a "factory bank" for accounting, actively promote lateral ties among enterprises, encouraging them to enter into contractual and leasing operations with one another, act as one another's shareholders, or operate with shares, and form themselves into groups. To increase the utilization rates of assets, enterprises may sell their assets. We should gradually introduce competition in all other social sectors in order to encourage them to engage in socialist competition, so that proficient people can come to the fore, and all sectors are replete with vitality.

Moreover, we should create a good environment, suitable for foreign investment according to international business practices. The so-called environment refers to not only "hard environment" such as geographical conditions, natural resources, infrastructure, and so forth, but also "soft environment" such as laws and policies, work efficiency, service quality, and concepts and ideas. A good "soft environment" can make up for the deficiencies of "hard environment." As Comrade Ziyang pointed out recently, we must strive to improve our policies, rules and regulations, workstyle, and efficiency to adapt ourselves to the changing international market situation. In other words, it is imperative to adopt a preferential policy and, more importantly, to create an environment for its effective implementation. To this end, we should reform the outdated office work procedures and make determined efforts to overcome the undesirable workstyle of shifting responsibility onto others and putting things off indefinitely. It is necessary to revise our rules and regulations in accordance with the requirements of international practices, and rescind those that impede reform. The supervisory and inspection departments should strengthen and orient their work to the needs of reform and opening, and intensify the supervision in the course of economic invigoration. Improved human quality is the key to creating a good environment. Therefore, for some time to come in the future, it is necessary to step up provincewide education on policies and professional ethics, and conduct systematic professional training on foreign trade and legal knowledge among all workers and staff in Fujian. With a view to promoting reform and opening and protecting the people's enthusiasm in reform and opening, we should increase the publicity on reform and opening, stress its social benefit [she hui xiao guo 4357 2585 2400 2654], and go all out to publicize new achievements, experiences, faces, and practices emerging in reform and opening, thereby enabling Fujian to exert greater influence in the national life. In order to check unhealthy practices and get rid of bureaucratic attitudes, we should encourage the people to freely air their views and welcome supervision by public opinion. Newspapers, magazines, radio and TV stations, and all other mass media, as well as literary and artistic organizations should strive to create social stability and unity and positive public opinions.

As far as the width and depth of its social impact are concerned, the ongoing structural reform means a revolution to us. Therefore, we must accurately assess all kinds of complexities that may arise in the process of reform by always proceeding from reality and following the objective rules in continuously resolving contradictions in our social and economic life, especially problems during the transitional period from the old to new system. The pricing reform has been a matter of keen public concern in recent years. As an experimental reform region, Fujian should play an exemplary role in reforming the pricing system and take action to gradually straighten out prices of major commodities through improving reform measures and establishing a new system for controlling prices. It is necessary to explain to the cadres and ordinary people alike the necessity of reforming the existing pricing system, which is irrational and incompatible with the law of value. Without the reform, the development of productive forces will be obstructed and the livelihood of the masses will ultimately be affected. The pricing reform should be carried out cautiously, promptly, and systematically. In order to minimize its ideological impact on the masses, build up their capability to withstand the stress, and avoid confused ideas and wide price fluctuations, we should adopt a soft approach and carry out the reform step by step. In the course of price reform, local governments at different levels should provide meticulous guidance, strengthen supervision, and strictly forbid wanton price rises and disruptions of the market.

#### **Fourth, Maintain High Standards of the Party To Ensure and Promote Smooth Implementation of the Strategy of Economic Development for the Coastal Regions.**

Since the convocation of the 13th CPC National Congress, the Provincial Party Committee has paid keen attention to building up party organizations and supervisory and inspection departments and launched mass activities in building socialist spiritual civilization while promoting reform and opening and implementing the strategy of economic development for coastal regions. Last January, the provincial party committee called a forum of prefectural and city party secretaries and an enlarged meeting of its Standing Committee to study the guidelines of the forum of the Central Secretariat on improving party workstyle, and studied and put forward the opinions for maintaining high standards of party members and intensifying party building in the course of reform and opening. In the discipline inspection work we have further clarified the guiding principle of taking the expansion of productive forces as the basic criterion, and have gone all out to support reform and opening and sternly handle cases of violation of discipline to ensure the wholesome development of reform and opening. Supervision departments have been set up almost at all levels and have already begun their work. We have gradually oriented the work of party building to meeting the demands of new the situation arising in Fujian's reform and opening. Here are the questions that merit

food for thought by all party organizations, members, and leading cadres: Will the fighting capacity of party organizations be able to lead and unify the cadres and masses of people in taking the golden opportunity to achieve a big growth of the social productive forces within 3 years? Will party members, as the exemplary vanguards, be able to take up a new outlook and stand in the forefront of the implementation of the strategy of economic development for coastal regions? Will party member-leading cadres be able to exemplify themselves in maintaining high standards, honestly executing official duties, and setting strict demands on themselves?

The key to intensifying party building lies in correctly understanding and handling the relationship between improvement of party workstyle on one hand and reform and opening through implementing the strategy of economic development for coastal regions on the other. This is because, first of all, reform and opening requires us to correctly understand and solve problems existing in party workstyle, and a socialist commodity economy can be developed only through the economic structural reform, and socialist democracy be expanded and unhealthy practices basically stopped through the political structural reform. Second, only when we maintain high standards of party members, resolutely eliminate corrupt elements, and purify party organizations in the course of reform and opening is it possible to ensure smooth implementation of the reform and opening measures. Third, the unity between the spirit of reform and the concept of enhancing discipline requires us to integrate the education in party spirit with the institutional improvement of party organizations to raise the quality of party members and encourage them to boldly explore ways and means for reform and opening while conscientiously placing themselves under institutional supervision. Fourth, improvement of party workstyle is a protracted regular task that requires concerted efforts by all departments to adopt, under the unified leadership of the provincial party committee, comprehensive measures in education, supervision, and discipline enforcement to achieve concrete results in reform and opening. In short, reform and opening are important ways to improve party workstyle, and an improved party workstyle is the guarantee for smooth progress of reform and opening. We should improve party workstyle in the course of reform and opening and find a new way for building up the party through, not political campaign, but reform and institutional improvement of party organizations. Therefore, while intensifying party building, we should take a clear-cut stance to support reformers, go all out to encourage explorers, earnestly help those who make errors, firmly punish violators of discipline, and seriously investigate and handle frame-up cases. This is an aspect of the question.

On the other hand and regarding party committees and governments at all levels and reformers at large, during the process of reforms, opening up to the outside world, and developing the socialist commodity economy, what must they do to ensure that party and government cadres

remain honest in their duties while pursuing economic development? How do they ensure that an equally good job be done in the work for both the socialist spiritual and material civilizations? These two are extremely important issues. During the process of reforms, opening up to the outside world, and economic development, most of our party members have inherited and carried on the fine traditions and styles of the party, and have shown a very high realm of thought, spirit for doing a good job, and innovation. However there is no denying that a small number of party members, including some leading party cadres, have not been able to withstand the test of a ruling party and of reforms and opening to the outside world, and have been extravagant and wasteful, abused power, used public office for private gains, indulged in personal desire, borne resentment and carried out retaliation, and to some extent have even been involved in extortion, bribery, embezzlement, and immorality. These corrupt practices have damaged the image of the party and government, dampened the enthusiasm of people, and fostered unhealthy trends in society. In this respect, it will not work if we seriously look at the problems from past viewpoints and try to use old methods to solve them. It will also be a mistake if we treat them lightly and allow them to freely pursue their own course. In order to solve this problem and do what Comrade Ziyang advocated, that is "for the economy to prosper, party and government institutions must be honest," we must, first, rely on ideology, instruction, and institution. We must persistently instruct party members, set an example by abiding by party discipline and the country's laws, and sincerely serve the people. Second, we must strictly observe discipline, and enforce the law. Serious offenders must be brought to trial, and corrupt elements in the party must be resolutely expelled. Third, leading authorities and cadres must set an exemplary role. For leading cadres at all levels, we should draw up a three-point rule, namely, honest government, boldly shoulder responsibilities, and adhering to principles. In other words, to be a leading party cadre, one must insist on placing the interest of the party and the country first, be devoted to one's duty, be honest, and must not use public office for private gains, bend the law for bribes, or offer and accept them. One must conscientiously serve the people, and be open-hearted and aboveboard. Within one's competence, one must be bold, decisive, prepared to take risk and shoulder responsibilities, and must not be ambiguous or irresolute. Indecision and delays can adversely affect opportunities. One must also uphold the party's principles in every way, and must not seek compromise, especially on cardinal issues of right and wrong.

There is an important significance in strengthening leadership work at all levels and grassroots party organizations to ensure the smooth implementation of the economic development strategy for coastal areas. Leadership work must strictly adhere to the principles of the "four modernizations," and integrate the responsibility system for attaining certain objectives during tenure with routine inspections. To judge the performance

of a leadership and its members, we must see whether they have liberated their mind, upheld reforms and opening up to the outside world, and possessed a high degree of professionalism and sense of responsibility. We must also take into consideration the number of deeds they have done for the people, and the achievements they have accomplished during their tenure. At the same time, the leadership must also pursue self-improvement, be far-sighted, boldly use outstanding young and middle-aged cadres who have both the ability and political integrity and who have scored marked achievements in their careers, set up sound working procedures, and organize party activities to advance democracy, unity and collective actions. The year-end cadre appraisal system, determined by the provincial party committee, must be continued. The responsibility system of attaining certain objectives during tenure, implemented throughout the localities, must be annually inspected, and rewards and punishments must be clearly demarcated. A sound system for the supervision of leadership by the people and for the party to look after its own affairs must be established. Based on the requirements for the development of a commodity economy, we must formulate sound rules and regulations as well as systems for grassroots party organizations and internal party activities, correctly adjust the setup in organizations, especially in township and town enterprises, private enterprises, Sino-foreign joint ventures and contractual joint ventures, wholly foreign-owned enterprises and individual workers' associations that possessed the appropriate conditions, and carry out internal party activities on a regular basis. Grassroots party organizations must concentrate on party work and strive to do it well, properly carry out the regular party work in seven areas pointed out in the 13th CPC National Congress, and intensify ideological instructions and training for party members to enable them to become well-versed in party principles, master the knowledge for developing an export-oriented economy, and perform their assignment well.

In leading the drive for socialist modernization, our party's consistent principles are to strive to build a socialist spiritual civilization and resist the corrosive influence of decadent feudalist and capitalist ideas while carrying out reforms, opening to the outside world, and vigorously developing an export-oriented economy. It is of far-reaching strategic significance that the party Central Committee has seriously and repeatedly advanced these principles. Our basic principles are to resolutely oppose, check, or eliminate ugly social phenomena and, in accordance with the law, to ban and crack down on prostitution, obscene books and periodicals, obscene audio and videotapes, drug trafficking, gambling, and feudal superstitions throughout the process of socialist modernization. Party and government leaders at various levels should pay close attention to the work in these areas, constantly strengthen their administration, and tackle problems in a comprehensive way. Education should be conducted with a definite purpose at various levels. Particularly education on professional ethics and

social morality should be regularly carried out. It is necessary to conduct extensive activities in building civilized units and to do a good job in building self-managing mass organizations and improving the quality of members of society. Mass activities and the joint efforts of armymen and people to build a socialist spiritual civilization should continue, and such activities should be improved by exploring new ways of doing things. Necessary rules, administrative laws, management regulations, and joint pledges should be formulated or improved to regularize and institutionalize the practice of spiritual civilization. In rural areas, continued efforts should be made to change existing habits and customs, with the stress on "five promotions and five oppositions" [wu ti chang wu fan dui 0063 2251 0235 0063 0646 1417] to foster new social practice conducive to implementing the strategy for the economic development of coastal areas.

**Fifth, the Crux of the Matter in Speedily Implementing the Strategy for the Economic Development of Coastal Areas Is To Emancipate the Mind and Change Ideas.**

We are implementing the strategy for the economic development of coastal areas in the course of new structures superseding old ones. This is why we should continue to emancipate our minds and change our ideas either in carrying out reforms and opening to the outside world or in undertaking party building. We should emancipate our minds while performing our work and strive to solve ideological questions affecting the progress of our work. Earlier, we called for acting boldly and flexibly and delegating power to lower levels in implementing the strategy for the economic development of coastal areas. Judging from the current situation, we should continue to do so.

1. We should act boldly and with confidence. Comrade Deng Xiaoping has repeatedly stressed the need to emancipate the mind, to be bold in doing one's work, and to accelerate the pace of reform and opening to the outside world. This requires us to smash the trammels of old ideas and structures, to explore things, and to have the courage to practice and open paths previously unexplored. We have often stressed the need to act boldly and with confidence, but why have we not been able to do so? This is because we have yet to clearly understand this theoretically, to completely change our ideas, and to free ourselves from the trammels of "leftist" ideas and dogmas attached to socialism; we are carrying out new strategies and new tasks with old methods and according to old ideas. This is why we have not been able to act boldly and with confidence. We can perform our work boldly and confidently only when we can theoretically distinguish right from wrong and ideologically adopt a series of new ideas on the socialist commodity economy. It also should be noted that many comrades cannot act boldly and confidently because they do not have a good idea of how things stand and have yet to thoroughly grasp the party Central Committee's guidelines and policy requirements and to acquaint themselves with

changed local conditions. The party Central Committee has formulated a number of policies for Fujian, but many of our comrades have not yet thoroughly understood them, nor have they organized specialists to study such policies. They often ask for new policies while having policies in their own hands. When they get a new policy, they abandon an old one. They are just not good at blazing new trails and implementing policies effectively and flexibly and according to actual conditions. Therefore, leaders in various localities and departments should make vigorous efforts to grasp policies thoroughly and to clearly understand and implement the 11 points of view approved by the State Council. Of course, there is another reason for one's failure to act boldly and with confidence—one is obsessed with lingering fear. There is indeed a phenomenon in which quite a few people are fond of backbiting and making some "noise". Leaders should promote healthy tendencies, check unhealthy ones, and have the courage to stop such backbiting and "noise" among the cadres and masses. Reform is a test of strength between success and failure. In conducting comprehensive experiments in carrying out reforms and opening to the outside world, we cannot avoid twists and turns, nor can we avoid mistakes. A leader is brilliant not only because he knows how to mobilize the initiative of various quarters and encourage people to explore boldly but because he has the courage to bear responsibility when difficulties and setbacks occur. A reformer should be selfless and dauntless, stand upright, and vigorously overcome interference to do pioneering work. A knowledgeable man is courageous, and a selfless man is dauntless. It is necessary to promote the spirit of taking the initiative and continue forging ahead. We should not be afraid of taking a risk. We cannot wait until all conditions are ripe. We communists should press forward in the face of difficulties. By acting boldly and with confidence, it absolutely does not mean acting recklessly and according to one's subjective desire. Acting boldly and with confidence essentially means emancipating the mind, and the essence of emancipating the mind is to seek truth from facts and to do everything by proceeding from reality. Therefore, acting boldly and with confidence is the integration of emancipating the mind with seeking truth from facts.

2. It is necessary to delegate power to lower levels. This means that leading bodies and responsible departments should change their functions, streamline their administrative structures, reduce administrative levels, and delegate power to lower levels. It should be said that we have delegated some power to lower levels, but this has not been done thoroughly and effectively. In some cases, this has happened because people want stability instead of chaos; in other cases, this has happened because higher and lower levels have failed to coordinate closely with each other; in still other cases, this has happened because some people want to keep their vested interests. It should be noted that the system, which came into being according to the needs of the product economy and is characterized by overconcentration of power, has exercised control over many things it should not have

controlled and has failed to exercise effective control for a long time. As a result, offices are overstaffed, and their work efficiency is low. Therefore, conscientious efforts should be made to delegate power to lower levels. It is most important that party and government leaders and responsible department at various levels should change their traditional conception of power and be bold in delegating power to lower levels according to the needs of the overall situation to facilitate the development of productive forces. Power should be really delegated to basic units and enterprises. The power to be delegated to lower levels should include personnel power and power to handle financial and material resources and other matters. Various departments should coordinate with one another, and power, responsibility, and interests should be combined. By so doing, we will be able to fully arouse the initiative of various quarters to promote the development of production. After delegating power to lower-level units, responsible departments should step up their efforts to serve them. After delegating power to a subordinate unit, a responsible department should continue to show concern for the unit; under no circumstances must the responsible department take back the power delegated. A responsible department should believe that lower-level units can exercise their power effectively, at the same time, it should give them more macroeconomic guidance and help them exercise their power well.

3. It is necessary to be flexible. To be flexible is to invigorate the mechanism of economic operation and the factors of production and to rationally and effectively organize and distribute productive forces. People are the most active element of the productive forces. Only people can raise funds, exchange technologies, and make a deal. Therefore, being flexible essentially means letting people act in a flexible way to arouse the initiative of various quarters and to enable them to explore and practice boldly. In personnel and cadre management and in formulating policies and measures in this regard, "control" or "prevention" is often stressed. This is aimed at taking all units into consideration, protecting less advanced units, narrowing the difference between them, and reducing competition among them. As a result, cadres in such units lack vigor and vitality. There can be no economic invigoration when people have no vigor and vitality. Conceptually we should make a fundamental change—we should stress vigor and invigoration in formulating policies and measures and instituting systems. In invigorating the economy, we should combine "deregulation" and "control," get rid of the practice of eating from the same big pot, and overcome egalitarianism. We should recognize differences, promote competition, encourage people to stand out, and integrate our personal interests with the interests of invigorating the economy. We should rely on the mechanisms of labor and interests to arouse people's creative enthusiasm and their spirit of devotion to implementing the strategy for the economic development of coastal areas. We should fully tap the potentialities of all people and make the best use of their talents.

In short, we must further emancipate our thinking and change our concepts to achieve the goal of doing things boldly and flexibly and delegating more decision-making powers to the lower-level units. We must continue to shake off the yoke of the "leftist" ideas, to eliminate all feudalist concepts and the habits of small producers; and discard all outmoded views in the past that have failed to keep pace with the changing situation. The theories on the initial stage of socialism put forward by the 13th national party congress have brushed aside whatever is dogmatic and utopian for socialism, and persistently regarded the development of productive forces as something crucial in tackling all issues and the basic criterion in verifying all work. These theories are powerful weapons in emancipating our thinking and changing our concepts. We must continue to earnestly study and increase our understanding of these theories, and establish new ideas and concepts that keep abreast of the progress in modern times and suit the needs in developing socialist commodity economy.

The aforementioned are my views and report to the plenary meeting on achieving the strategy for the development of coastal economy. In order to achieve such strategy and lose no time, we must start our work now, and carry out our tasks on a solid basis and step by step. As for this year's work, the provincial party committee has already made plans. The general requirement is to continue to implement the guideline laid down by the 13th National CPC Congress; extensively carry out education on the party's basic line; emphasize the central task of economic development and the two basic points, namely, adherence to the four cardinal principles, and implementation of reform and the open policy; persistently let reform play a dominant role in overall work; and develop the two types of civilization with emphasis on achieving the strategy for the development of coastal economy. I can say that our guiding ideology, principles and policy in this connection are already well defined. It is important for the committees and governments at all levels and all provincial-level departments to formulate and improve measures according to the actual local conditions in implementing such guiding ideology, principles and policy. We must not spend our time in debating and planning at all times. We must race against time to turn all our plans and concepts into deeds.

How can we achieve all this? At a time when our tasks are extremely arduous, the party committees at all levels must make overall plans and take all factors into consideration; and pay attention to their dual task, namely the development of material civilization and spiritual civilization, and the development of an export-oriented economy and domestically oriented economy. [as published] While vigorously developing the export-oriented economy, we must not relax our efforts in doing work in other fields. While actively participating in international business exchanges and competitions and importing more raw materials and exporting more products, we must not relax our efforts in developing our domestic markets and compiling more raw materials. In opening up new sources of goods and expanding our export

businesses, we must pay attention to the needs of our domestic markets. We must pay particular attention to our efforts in handling the relations between the achievement of the strategy to develop coastal economy and the development of this year's industrial and agricultural production; and regard the fulfillment of this year's industrial and agricultural targets as an important component part in achieving the strategy for the development of the coastal economy. In carrying out industrial production, we must vigorously promote the movement to increase production, practice economy, raise revenues, and reduce expenditures with emphasis on raising economic efficiency. We must turn out more raw materials and semifinished products that are in short supply, and accelerate their shipment, while producing more goods that are readily marketable. We must continue to strengthen grain production; strictly ban the illegal use of arable land; expand areas sown to various grain crops; vigorously carry out interplanting and intercropping; and ensure that more areas are sown to grain crops. We must further increase our investments in developing grain production, and ensure the production and supply of the means of production for farming. Efforts must be made to build more base areas for nonstaple foodstuffs, link cities with the countryside, combine the efforts of peasants with those of workers, and satisfy the needs of the people in the cities.

Comrades! The above is my report on the work of the provincial party committee during the past 6 months, reflecting some of my views on achieving the strategy for the development of the coastal economy in our province. Members of the provincial party committees and those attending this meeting are welcome to offer suggestions and air their views. To quicken our pace in carrying out reform and opening to the outside world and in achieving the strategy for the development of the coastal economy is a glorious, but arduous task assigned us by history. We must rely on collective wisdom and strength, pool the wisdom of the masses, make concerted efforts, lead all the people in the province to work hard in unity to realize Fujian's magnificent goal of carrying out reform and opening to the outside world, and quicken our pace in achieving the strategy for promoting economic development in the coastal areas!

#### **Wang Zhaoguo Fujian Plenum Speech**

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18 May 88 pp 1-2, 4*

[Speech by Wang Zhaoguo at the Eighth Enlarged Plenary Session of the Fourth Fujian Provincial CPC Committee on 9 May 1988]

[Text] Comrades:

I fully agree with the report delivered by Comrade Chen Guangyi on behalf of the provincial party committee. Now, I would like to brief the plenary session on organizing and conducting a comprehensive experiment in reform and opening to the outside world.

On 4 April this year, the State Council, in a written reply, officially approved a "Request for Instructions on Deepening Reforms, Opening Wider to the Outside World, and Accelerating the Development of an Export-Targeted Economy in Fujian Province." This is a major event in the political and economic life of our province. Implementation of this document will be of great, far-reaching significance, not only in implementing the strategy of economic development for the coastal areas and accelerating the comprehensive development of Fujian's economy, but also for promoting economic and trade cooperation with Taiwan and accomplishing the great cause of reunifying the motherland.

Fujian's comprehensive experiment in reform and opening to the outside world is an important part of implementation of the economic development strategy for the coastal areas. On a proposal by Comrade Zhao Ziyang, the party Central Committee decided on this strategy. Comrade Deng Xiaoping called on us to act boldly and with confidence, quicken our pace, and never miss good opportunities. In his government work report to the First Session of the Seventh NPC, Comrade Li Peng said: We shall introduce still more open policies in Guangdong, Fujian, and Hainan Dao. We shall establish comprehensive experimental zones there for reform and opening to the outside world, so as to accumulate experiences to help us deepen reform and open wider to the outside world. This fully shows the concern and expectations of the party Central Committee and the State Council for Fujian's 28 million people. This is an historic task assigned to us, a task which marks the starting point from which to develop an export-targeted economy in our province. In 1979, the party Central Committee issued Document No. 50, which permitted our province to implement special policies and flexible measures in carrying economic activities with foreign countries. As a result, our province has entered a period in which its economy has been developing most vigorously, its contacts with other countries has been most active, and the improvement in its people's living standards has become most noticeable since the founding of the PRC. Following Comrade Deng Xiaoping's inspection of Fujian in 1984, the party Central Committee and the State Council successively approved Fuzhou as an open coastal city, the expansion of the Xiamen Special Economic Zone to the whole island where the special economic zone is located, and developing a delta area in southern Fujian as an open zone. This has made it possible for our province to quicken its pace of development. In 1986, the State Council approved the continued implementation of special policies and flexible measures in Fujian. The basic guidelines given in the State Council's recent written reply approving our request for instructions are designed for Fujian to quicken the pace of reform and opening to the outside world and to vigorously develop an export-targeted economy by importing raw and semi-finished materials and exporting finished goods. We should make full use of the policies and decisionmaking power granted by the state to speed up the economic development of the province. In the course of reform

and opening to the outside world, we should explore new ways, accumulate fresh experiences, and make a positive contribution to implementing the economic development strategy for the coastal areas.

Implementing the State Council's written reply is the current central task for governments at various levels in the province and for some time to come. We should be determined to make efforts to carefully organize people to implement this written reply. The provincial government called a meeting of its members from 18 to 20 April. Those present conscientiously studied and grasped the guidelines laid down in the written reply. By so doing, they further emancipated their minds, enhanced their understanding, and understood their task. Then, they stated their preliminary views on how to implement these guidelines. One important item on the agenda of this enlarged plenary session is to conscientiously study and implement the guidelines laid down in the State Council's written reply and to discuss and make arrangements for conducting a comprehensive experiment in reform and opening to the outside world. Comrade Chen Guangyi's report dealt with arrangements for the work in this regard, and I shall now state the following specific points of view:

#### **1. Stress the Main Points, Carry Out Coordinated Reforms, Build a New Structure suited to the Development of an Export-Targeted Economy**

The 11 points on deepening reforms, opening wider to the outside world, and speeding up the development of an export-targeted economy in Fujian Province, which were approved by the State Council in principle, are an organic whole. The general objective of reform is to quickly build and develop a market system, under which our country will coordinate closely with other countries, and so will our province with other places; to carry out coordinated reforms in banking, foreign economic relations, foreign funds, economic and trade relations with Taiwan, planning, pricing, finance, personnel, labor, wages, enterprises, rural areas, science and technology, education, real estate, and the political structure; and to gradually build a new structure suited to the development of an export-targeted economy in order to accelerate the pace of Fujian's economic development. The main contents of such reforms are:

—Financial Reform. With the development of the economy, demands for funds are growing, the contradiction between supply and demand is becoming increasingly conspicuous, and enlivening capital inflow has become a key to the province's economic development. For a province with poor financial resources like ours, it is unrealistic to rely solely on revenues for funds needed for economic development. Then, where can the funds come from? We can only get them by enlivening the circulation of funds, raising economic returns, accelerating capital turnover, and making good use of the preferential policy. The State Council has approved our province's financial reform, and this enables us to implement "separate

management" over credit funds, institute proportional administration of the volume of credit granted on fixed assets, and lift the restrictions on the volume of credit so that there will be more credits as deposits and revenues grow. At the same time, our province is given a free hand in developing and improve its capital market, develop all types of financial institutions, accelerate the pace of making financial institutions operate as an enterprises, and to increase the monetary control and regulatory powers of the people's banks in the provinces. What are the advantages of this preferential policy? Generally speaking, the policy means that, under the circumstances in which the whole nation is continuing to tighten credit, the Central Government has basically placed macrocontrol over financial business into the hands of the province to support the development of an export-targeted economy in the province, making it possible for the province to break away from the outdated restrictions on fund distribution and gradually establish a new financial system that suits the needs of developing a planned commodity economy. If we properly and flexibly implement and take full advantage of these policies, we shall be able to ensure both controls and flexibility, and raise more funds for economic development. To this end, we must further extend the channels for fund circulation, both at home and abroad, and further develop the financial market. We should place emphasis on developing transdepartmental and transregional bank loan markets and improving regional fund-circulation networks centered on major cities. We should actively develop a short-term bill market, promote commercial bill acceptance and discount business, encourage enterprises to issue stocks or bonds to directly raise funds from the market, and open stocks and bonds exchange markets in the province in a well-guided, systematic way. To expedite the development and improvement of the funds market, it is necessary to quickly open the "Fujian Enterprise Securities Grading Office," which is currently under preparation, and gradually set up authoritative and impartial credit grading organs. Fuzhou, Xiamen, and other cities should actively set up securities companies dealing exclusively in negotiable securities-related business, such as transfer and sale of securities. Currently, the job can be handled by specialized banks and other financial institutions. We should improve international settlement, expedite the process of foreign exchange collection, increase the export foreign exchange collection rate, and shorten the time needed to convert and share foreign exchange. To regulate foreign exchange in a more flexible way, Quanzhou and Putian cities should quickly set up foreign exchange regulation centers, liberalize regulation prices, enlarge the scope of regulation, and simplify the screening procedures. The Bank of China and other qualified provincial-level monetary institutions dealing in foreign exchange business should actively engage in spot and forward exchange dealings. While endeavoring to make the most of direct foreign investment, we should also try actively to obtain loans on favorable terms from foreign governments and international financial organizations and, in accordance with the needs of economic development and our ability

to pay off debts, issue bonds and debentures abroad in a planned way, and secure international commercial loans. We should reinforce overall supervision and administration of foreign debts; adhere to the principle of integrating borrowing, utilization, and repaying; and increase efficiency in the use of foreign loans. Through various forms and channels, we should transform consumption funds into construction funds, short-term funds into intermediate- or long-term ones, and use foreign capital to provide the funds needed for economic development.

The two stages of capital movement—raising and using capital—should be governed by its performance. If the performance is poor, capital movement can hardly proceed, and even a minor expansion of production—let alone a major expansion—will be adversely affected, and reinvigorating banking operations will just be an empty phrase. The reason why many of our enterprises do not want to borrow capital at relatively high interest rates is primarily because their operational performance is poor. Leading authorities and all comrades engaged in economic work in all prefectures, cities, and departments must pay greater attention to capital performance. While making efforts to attract more bank deposits and extend credits, they should rationally restructure credit operations in an effort to speed up capital turnover.

Banking organs play the main role in banking reform. If their own operations are sluggish, banking reform cannot continue. Thus, in order to enliven banking operations, specialized banks and insurance companies must speed up the process of changing their operations to resembling that of enterprises. Government authorities and departments at all levels must give banking organs the necessary autonomy and the authority to use their credit funds, set floating interest rates, using retainable profits, and hiring—as well as rewarding or punishing—employees so that banking organs, like enterprises, can operate independently, be responsible for their own profits and losses, balance their revenues and expenditures, and undertake risks according to the needs in Fujian's economic development. When all specialized banks and insurance companies are able to play their main roles, we should proceed to improve the banking system by setting up various other types of banking organs. We should introduce competition into banking enterprises. Specialized banks should be permitted to provide overlapping services, so that these banks can gradually become multifunctional commercial banks, providing all types of banking services. On the basis of the Fuxing Fiscal Company, we should speed up the establishment of regional, multifunctional, joint-stock commercial banks so that they can begin to operate in June or July. All regions and cities may organize the establishment of trust and investment organs offering services of land development, insurance, investment, and other special services. We should continue to develop municipal credit cooperatives and postal savings businesses, and encourage foreign banking organs to set up investment companies, trust companies, and leasing companies in Fujian and open investment businesses. The Fujian

People's Bank should strengthen its supervision over all banking organs in Fujian and their operations, provide them proper services and coordination, and give them the support they need to expand their business in order to expedite reforms and keep pace with economic development. The leverage role of interest rates should be fully exploited. To regulate capital supply and demand, we should permit greater floating rates for bank deposits and loans for the Xiamen Special Economic Zone, the Mawei Economic and Technical Development Zone, and areas adjacent to other provinces; and for money borrowed by municipal credit cooperatives. To discourage the irrational use of capital so that it yields greater profits, we should have double interest rates for enterprises' budgetary and nonbudgetary loans. In short, we should, through banking reform, give full scope to the role of banking services in economic development.

—Restructure the system governing foreign economic relations and trade. In its reply, the State Council has authorized Fujian greater autonomy and flexibility in using foreign capital, controlling import and export, processing supplied materials and assembling supplied parts, expanding manufacturers' export capacity, upgrading old enterprises with foreign capital, accepting foreign contracts, and exporting labor services. We should take full advantage of these policies and expand the use of foreign capital, increasing exports. On the basis of the State Council's guidelines, the provincial planning, economic, and economic and trade commissions must authorize all prefectural and municipal commissions power to examine and approve projects using foreign capital and help them do a good job in providing the necessary services in this area. Prefectural and municipal commissions should be authorized to examine and approve all projects, as long as these have nothing to do with quotas, licenses, high-volume exports exceeding 70 percent of output, infrastructural construction, and imports handled by the provincial government; or as long as their construction, production, marketing, and capital are not subjected to an overall balancing of the state and the province; and each of which requires a total investment of less than \$30 million. Other projects which should be reported to the higher authorities for the record should also be handled according to regulations. Whenever possible, relevant departments directly affiliated to the provincial government should also have examination and approval authority as prefectures and cities do. The examination and approval authority of various counties and districts should be determined by prefectural and municipal authorities. Projects requiring the provincial government's balancing regulation should be examined and approved by provincial authorities. All examination and approval procedures should be simplified. From now on, the approval of most of the certificates issued to joint ventures, cooperative enterprises, and wholly foreign-owned enterprises in Fujian should rest with prefectural and municipal economic and trade commissions. We must realize that, by releasing examination and approval authority to prefectures and cities, we have only given them greater autonomy in attracting

foreign investment; it does not mean that they have accomplished many large and good projects. Since the average investment in each joint venture, cooperative enterprise, or wholly foreign-owned enterprise in Fujian is below \$1 million, there is a great deal of work to be done in attracting more foreign investment, and we must exert even greater efforts in this regard. In addition to encouraging the establishment of new enterprises which are technology intensive, whose management is advanced, whose products are competitive on the international market, and which have the capacity for future development, we should also pay special attention to upgrading our enterprises with foreign capital, technology, and equipment. In terms of the amount of money Fujian paid for contracts during the first 3 months of this year in upgrading the existing enterprises with foreign technology and equipment, it was 44.2 percent lower than that of the same period last year. Should this situation continue, the technological upgrading and production restructuring of Fujian's industry, and its future economic development will be seriously affected. Leading authorities at all levels and all relevant departments must continue to unify their understanding and take effective measures to reverse this trend, so that the upgrading of the existing enterprises can proceed at higher speed. We must have the courage to use foreign and domestic capital in various ways for the purchase of advanced foreign technology, equipment, and management to upgrade our enterprises. We should implement the preferential policies, streamlining relations between various sectors in order to fully arouse the enterprises' initiative in improving themselves. An effective way for existing enterprises to upgrade their technology is to encourage foreign firms to invest in them directly. All prefectures, cities, and departments should be determined to choose enterprises to set up joint ventures and cooperative enterprises with foreign firms. Even though this may affect these enterprises' immediate interests, we should encourage them to do so as long as they can acquire advanced technology and management, and expand exports. While weighing the various conditions, we should bear the domestic and foreign markets in mind, think positively, and quicken the pace of upgrading our enterprises. From now on, all relevant provincial departments should make preparations to use foreign capital for large-scale infrastructural projects and for production of raw and semifinished materials; and they should assess the feasibility of these projects, organizing their implementation.

The state permits Fujian Province to make above-base-figure exports of some commodities for unified export through specialized corporations. It also issues quota and export permits for certain other export commodities. Our foreign trade companies should actively procure these commodities, seek more quotas and strive to increase exports. It is necessary to seize good opportunities in foreign countries to engage in "processing materials supplied by foreign clients, assembling parts supplied by them, processing according to buyers' samples,

and compensatory trade," and to import materials, process them, and export the end-product. It is necessary to increase entrepot trade by taking full advantage of the stipulation that goods for entrepot trade stored in bonded warehouses are not subject to the restrictions of quota and export permits. The state has given our province the power to approve the import of some commodities under unified state ordering and control. In principle, we shall also delegate to prefectures and cities the power to approve the import of these commodities if they are suitable for prefectures and cities to handle and if they are imported at prices approved by the state. It is necessary to report to higher levels immediately the commodities we need to import urgently, and at the same time, actively organize their import. In principle, those who approve enterprise technological transformation projects and any productive projects using foreign capital also have the power to approve the import of machinery equipment, instruments, meters, and other materials required by these projects. Provincial departments concerned, prefectures and cities should study relevant state provisions, and formulate procedures for "implementing them flexibly." It is necessary to take a bigger stride in promoting industry-trade associations, quickly approve operation of a number of export-targeted productive enterprises and enterprise groups, give them the power to conclude such foreign trade deals as processing materials supplied by foreign clients and to process imported materials, and turn them into export-targeted enterprises combining trade, industry, and agriculture, and integrating production, supply, and marketing. When examining applications and requests from enterprises which have export potential, we should properly give them favorable consideration in their approval process. We should help these enterprise find clients, open up markets, and train foreign trade clerks. We should encourage them to set up overseas marketing organizations. At the same time, we should use Fujian's overseas Chinese connections to set up business agents abroad. Enterprises having the necessary conditions may establish factories or firms abroad, invest in foreign countries, develop technological cooperation with foreign firms, and take a direct part in international division of labor. Our economic and trade organizations abroad should accelerate functional changes, develop themselves into operational enterprises, and promote export sales. While consolidating and developing our existing markets in Hong Kong, Macao, Japan, and Southeast Asia, we should actively open new markets and business fields in more distant countries and regions, and strive for great progress in this respect after 2 or 3 years of effort. The Chongfu Company and other organizations authorized to operate in economic and technological cooperation with foreign firms should actively contract to do foreign engineering projects and open the labor export market. It is necessary to energetically develop nongovernmental export of labor, simplify the procedures for examining and approving nongovernmental contracts, ease the restrictions on exit visas for outgoing personnel, and improve other necessary administrative matters.

Overall progress in reforming Fujian's foreign trade system is good. Some current problems, such as the outflow of the source of goods, are basically structural defects from the old system and they can be eliminated only by deepening reform. The provincial foreign economic relations and trade committee should provide more guidance and service to prefectures, cities, and foreign trade enterprises, and seriously help prefectural and city foreign trade companies improve their quality and business. It is necessary to discover new situations and solve new problems quickly, do a good job in shifting from the old to the new system, and prevent work disruptions. It is particularly necessary to pay attention to building bases, securing the source of goods, seeking clients, and preventing the loss of markets. It is necessary to actively and quickly formulate countermeasures to deal with market changes at home and abroad, harmonize the interests of all departments, ensure the production and procurement of export goods, and strive to fulfill this year's export trade plan. It is necessary to continue to pay attention to reforming foreign trade enterprises and invigorate them to meet the new situation of reform and opening to the outside world.

—Economic Relations and Trade with Taiwan. Many policies have already been drawn up for promoting economic relations and trade with Taiwan—a project which Fujian has an edge over other areas owing to the traditional geoeconomic ties with Taiwan and the relations between people in the two provinces. Now the central authorities have authorized Fujian to carry out even more preferential policies. We should thoroughly understand these policies and keep exploring new ways while doing our work. We should bravely apply the special preferential policies governing Taiwan compatriots' investment in special economic zones. Open, coastal cities such as Fuzhou, Xiamen, Zhangzhou, Quanzhou, and Putian should seize this opportunity to absorb more capital from Taiwan and use the money to establish productive, export-targeted enterprises. They should also continue to broaden the scope of investment in other production projects. Examination and approval of projects financed by Taiwan capital should be further simplified. In these cities, Taiwan businessmen should be permitted to conduct their business on state-owned land, whose ownership may be transferred to them on a compensatory basis. Preferential treatment may be given to Taiwan compatriots setting up factories in their hometowns in Fujian. To intensify the operation of absorbing more capital from Taiwan, the provincial government is ready to set up a company providing Taiwan investors consultative service. Relevant departments should speed up preparations for the establishment of all kinds of foundations and investment and trust companies in Hong Kong for ventures jointly operated by Taiwan and Hong Kong businessmen and nongovernment companies in Fujian. Utilizing the resources of Meizhou, Dongshan, and Pingtan islands, we should speed up the pace of developing these islands with Taiwan capital, technology, and management so that these islands can become prosperous places as

quickly as possible. Currently, we should speed up drawing up plans and carrying them out as quickly as possible. We should pay special attention to developing and opening up Meizhou Island. This is because Mazu [a goddess enshrined by Meizhou islanders] has special influence in Taiwan and Southeast Asia. If this job is properly done, it will be of special significance for promoting exchange of mail, trade, air and shipping services between Fujian and Taiwan. We should have a sense of urgency in handling the project of utilizing Taiwan capital and do all we can to develop the tourism resources along the theme of promoting pilgrimage to Mazu. The pressing current task is to draw up plans and other policies and measures for developing Meizhou Island, and implement each and every project one by one, making sure that they will yield results as soon as possible. The new situation in the Taiwan Strait will open broad prospects for the development of tourism in Fujian. To pave the way for developing economic relations and trade with Taiwan, tourism departments in Fujian should go all out to mobilize all positive factors and develop their business through all possible channels. We should, through applying these policies and measures flexibly and improving the investment environment, build Fujian into the most attractive place that can help Taiwan businessmen divert their capital, technology, and equipment, and set up business of processing goods for export; and this project is conducive to the great cause of national reunification. Presently we should actively study how to normalize the small-scale, nongovernmental trade with Taiwan on the sea, and how to enliven such trade through setting up markets on the land. We should have more favorable policies for encouraging other parts of the country to set up organs in various ports in Fujian to promote trade with Taiwan and provide us the goods we badly need to expand the size of the trade. The profits made from the trade shall be shared equally. To achieve better results, we should continue to expand the use of the circulating foreign exchange for promoting trade with Taiwan. Supported by strong policies, promoting economic relations and trade with Taiwan is a task of a strong political nature. While we must strengthen our leadership and foster the concept of the whole, we should be brave to blaze a trail and build a solid foundation for achieving a breakthrough in promoting economic relations and trade with Taiwan.

—Reform of the planning system. This is an important task concerning the development of an export-oriented economy. The orientation of this reform is to adhere to the requirements of a planned commodity economy to invigorate all economic sectors; develop and perfect open markets for all key elements of production; gradually bring to perfection the macrocontrol system based mainly on indirect management; and introduce an economic mechanism by which "the state regulates the market and the market guides enterprises." The planning departments must reorganize and truly shift the emphasis of planning work to readjusting production structure;

formulating production policies; making intermediate- and long-range plans and plans for geographic distribution of productive forces; comprehensively using and coordinating various means of control; and providing advice, information, supervision, and services. It is necessary to further reduce the scope of direct management in production and circulation; reduce mandatory planning; and increase guidance planning and the scope of market regulation. Improvements should also be made in planning the management of small quantities of materials and commodities that must be kept under state control so that full consideration is given to the interests of all quarters.

It is necessary to accelerate the reform of the investment system. The biggest drawback of the current investment system is that "those who make decisions get a share of profits but do not assume risks or bear responsibilities." For this reason, it is necessary to delegate to lower levels more power to examine and approve investment plans and to establish a policymaking process and a system of responsibility for investments at various levels. First, after clearly delineating the duties and responsibilities of all major parties at various levels involved in investment, it is necessary to give local governments more power to make decisions and examine and approve investment plans. In the future, funds for building major infrastructure involving more than one prefecture; funds for investment in raw and processed materials industry and for major undertakings of science, education, culture, and public health; and funds for subsidizing poor and difficult regions are to be gathered from different sources mainly by the provincial government. Ordinary productive and nonproductive projects should be arranged independently by lower-level governments in accordance with the principle of integrating financial power, working authority, and property rights. Prefectural or city authorities may approve an investment plan with total investment under 200 million yuan for any project that the prefecture or city has the ability to undertake; that creates no problem in supply, production, or marketing; and that conforms to the investment policy and regulations of the province. At the same time, lower levels should be required to bear investment responsibilities and risks so that all major parties involved in investment will exercise more self-restraint. After the power to examine and approve investment plans is delegated to lower levels, the provincial departments concerned should guide investment activities in the province with economic levers, policies, laws, information, and project plans. Next, it is necessary to raise economic returns of provincial-level investment and use economic means to manage well capital construction investment. It is necessary to compensate for the use of funds, introduce public bidding, and establish a strict responsibility system. The way to do all this is to set up a capital construction fund and establish a provincial investment company. The main task of the provincial investment company is to undertake major state and provincial construction projects and other construction projects designed to earn profits. We should strive to

steadily increase funds by using both domestic and foreign capital and through both our own and borrowed funds; by investing in both projects for development and projects for earning profits; by building infrastructure as well as profit-making projects; and by building new projects and buying into partnerships at the same time.

We should develop markets that supply all types of important production materials. We should especially speed up restructuring the material supply system and implement the measures of "eliminating the base quotas, settling uniform prices, subsidizing according to policies, developing the market, and strengthening regulation and control." Except for those required by production projects relevant to the national economy and the people's livelihood, materials and equipment, which are subject to planned distribution and are being controlled by provincial authorities, will primarily be used for regulating and controlling the market. Most of the materials and equipment needed in production and construction will be regulated by the market. The double-track system should gradually be replaced by the single-track system. After the single-track system has been adopted to control materials subject to planned distribution, we should—when enterprises have become more capable of digesting higher costs and when people have become more tolerant of higher prices—also gradually reduce the portions which are being subsidized according to policies. Since Fujian has to purchase most of its major supplies from other provinces, an accelerated transition to the single-track system is conducive to purchases. Moreover, we should speed up developing a sound market of capital, labor services, technology, and real estate so that we can speed up the establishment of a flexible and sound system that can provide indirect macroscopic control and can keep pace with the development of an export-oriented economy.

Provincial departments should continue to improve their use of foreign exchange. Quotas for controlling the use of foreign exchange were removed this year; provincial departments now only control approximately one-tenth of Fujian's total foreign exchange revenue. From now on, provincial departments will spend their foreign exchange primarily on repaying the principals and interest of foreign loans and financing major provincial construction projects. In accordance with the principle of "spending foreign exchange commensurate with the amount of foreign exchange earned," all regions and cities should seek to balance their foreign exchange expenditure, and the provincial government will neither underwrite nor approve their foreign exchange expenditures.

—Price Reform. Price reform is most important because it has a direct bearing on the success or failure of the experiments of carrying out reform and opening to the outside world. While we must restructure the irrational price system, the project must proceed in a planned and systematic manner on the basis of thorough investigation and study. Fujian is prepared to spend 5 years to

basically rationalize the prices of major commodities and production materials; improve all kinds of support measures; link prices on the domestic market with those on the international market; and establish a price system compatible with the law of commodity economic development. The short-term goals of price reform are to, according to the law of value, gradually rationalize the price of major foodstuff; readjust price relations of industrial goods; rationalize purchasing and marketing prices; and promote production, guide consumption, and regulate supply and demand through the market. While the plan Fujian has drawn up to reform the prices of major nonstaple foodstuff has been carried out satisfactorily, there are still certain factors which are destabilizing market prices, and there is still a shortage of major nonstaple foodstuff. All regions and cities should intensify investigation and study so as to solve any new problems as soon as they crop up. Meanwhile, we must seize the opportunity of price readjustment and go all out to develop production, increase supply, and step up the purchase and delivery of commodities and major production materials in short supply so as to ensure the needs of urban and rural markets and ensure normal progress of reform. On improving the system of price control, we should, in accordance with the development of market mechanisms, gradually authorize all regions and cities to set and control the prices of some commodities and set up a multilayer price control system in the province to provide guidance for different kinds of commodities. In the Xiamen Special Economic Zone, its municipal government should have the authority to control the prices of all commodities, except those whose prices are controlled by the state. We should also step up the study on the issue of decontrolling commodity prices in the triangular zone of southern Fujian.

—Financial Reform. Restructuring the system governing budget control is the focal point of financial reform. Considering Fujian's financial situation and on the basis of the 1988 fiscal plan, the central authorities have, in addition to giving Fujian a general contract under which Fujian's expenditures are independent of its revenues over a 5-year period, agreed to give Fujian an annual subsidy and a loan for circulating capital during the same period. This is the central authorities' financial support to us. The budget control system that Fujian has instituted since 1985—a system under which all regions and cities in Fujian can handle their expenditures and revenues separately, submit their revenue payments in installments, keep a percentage of the revenues should they exceed the set quotas, and enter into contracts on a graduating basis—has played a significant role in expediting economic development throughout Fujian. However, following changes in the situation, the system has become defective in many ways and must be changed and improved. The principle for the change is: We should, under the premise of "centralizing the leadership and dividing control," provide guidance according to the nature of different cases; deal with each case on its merits; continue to release fiscal and administrative authority; give contracted quotas to authorities at all

levels; and increase the visibility of the budget control system so as to arouse the incentive of governments at all levels to increase revenues and cut expenditures and make overall planning for all production and construction projects. Basically, we should do the following: After adjusting and expanding the quotas for local government revenues and expenditures, payments should be made on the basis of the 1987 final account figures. On this basis, new contracts governing the basic amounts of revenues to be submitted by the local governments and their basic expenditures will be concluded. If revenues exceed expenditures, they are required to deliver a certain portion of the surplus; but if expenditures exceed revenues, part of the deficiency will be subsidized. If revenues exceed quotas, they may retain a percentage—or all—of the surplus, or submit an amount commensurate with the increase. After the provincial government and all regions and cities enter into such a general contract, these regions and cities will also enter into subcontracts with their counties and cities. The provincial government has also adopted a preferential policy toward 17 impoverished counties and 6 other counties receiving subsidies that have pledged to shake off poverty within a certain time, as well as the Mawei Economic and Technical Development Zone and Shishizi City. Within a prescribed period, they may all retain anything which exceeds the set quotas.

The current budget reform will enable all financial departments to have relatively stable revenues and expenditures and give all localities greater autonomy and incentive in generating and accumulating wealth as well as in expending it. Following the release of fiscal authority, we should also release administrative authority. All provincial authorities should make every effort to support this project so that all powers that should be released will be released. After releasing fiscal and administrative authority, provincial departments will have limited fiscal resources. Thus, in accordance with the principle of associating fiscal and administrative authority, areas of all sizes should do their share; seek balance of payments on their own; stop drawing up budget deficits; and try not to seek financial support from the upper departments. In this regard, all regions and departments must take the whole situation into account and render their full understanding and support. Financial reform should focus on invigorating the operation of enterprises by giving them the power and benefits they deserve so that they can work more effectively in generating wealth. We must also pay great attention to the fiscal performance of townships and towns and make greater efforts to expand their financial resources. Here we must emphasize the need for tax collection. Taxes are the main source of revenues. Along with fiscal power, we should also release certain powers of reducing or exempting tax payments. We must clearly realize that while we will continue to implement preferential tax policies for the sake of economic development and reserving financial resources, tax reduction and exemption cannot go on forever. Certain objectives must be attained in the same manner as supplying water to

breed fish or raising chickens to have eggs. All regions, cities, and counties must intensify tax collection and management and reinforce the ranks of tax workers. Grassroot units may hire assistants to ensure tax resources. We must deal with the matter from all angles and collect taxes according to law. All departments must support this project and work in coordination with it so that collectible taxes will be collected.

—Personnel, Labor and Wage Reform. This is an important link throughout the entire process of economic restructuring. The reform of the personnel structure should be based on the principle of classifying cadres for administration, strengthening its macrocontrol, and enlivening its microcontrol. We must conduct further study on the functions and establishment of institutions and define the plan for increasing the number of cadres in accordance with the needs of Fujian's economic development. We must earnestly carry out and perform well the pilot projects for establishing a state civil service system. New cadres to be recruited and cadres to be transferred to state institutions this year must be examined and recruited according to the principle of equality, competition, openness, and selecting the best. We must constructively coordinate measures to deepen reform in enterprises; implement the "Enterprise Law"; restructure and enliven the management of skilled personnel; and open up the market for skilled personnel as quickly as possible. We must widen and open all channels for setting up a network to introduce intellectual resources into Fujian and establish a foreign experts and intellectual resources bank. We must set up foundations for introducing intellectual resources and, in coordination with financial assistance from the central authorities, promote undertakings to introduce talent and intellectual resources. We must intensify our instructions to cadres and improve their quality.

The course for reforming labor and wages should be opening up the labor market; gradually implementing the labor contract system; and handing over to enterprises the right to hire people and handing over to workers the right to choose jobs. The growth of total wages must be based on and float with the overall economic growth indicators in Fujian, and there must be overall control. The crux of this reform is to break the "iron rice bowl" concept for hiring in enterprises and the "eating from the same big pot" concept in wage distribution. We must delegate to lower levels the right of labor planning and the right to recruit and hire; expand the scope of the labor contract system; earnestly implement the pilot projects for reforming the fixed-job system; and gradually propagate the experience acquired. Regarding the wage system, we must comprehensively implement the method of floating total wages in relation with economic efficiency; namely, a floating wage system, management at different levels, stratified regulation and control, and independent distribution. The growth of average wages for workers and staff members must be independently decided by enterprises themselves within the context of not exceeding the growth of productivity,

profits, and taxes paid. But enterprises must also prevent the excessive growth of consumption funds, and their adverse effect on expansion and reproduction. Business units must conduct experiments in guaranteeing funds for wages. Through reform, we must gradually establish a labor and wage system that is compatible to the development of a socialist commodity economy. In coordination with this, we must also reform the social security system and establish and perfect systems concerning unemployment, retirement, medical care, and on-the-job injuries to ensure the stability of society.

—Technical Education Reform. In order to accelerate the development of an export-oriented economy, we must grasp well the integration of technical education with production and enterprises, transform technology into productive forces, and focus education on the training of skilled personnel for an export-oriented economy. We must further accelerate our pace in adopting flexible measures for scientific research institutions, scientists, and technicians; develop integrated scientific research and production entities, with scientific research institutions as the mainstay; and guide the forces of science and technology into the arena of economic development. We must go to township and town enterprises in the countryside and medium- and small-sized enterprises in the cities to carry out paid services and technical contracting. We must accelerate the expansion of technological markets and gradually implement the system of bidding for important scientific research projects to enhance the efficiency of scientific research investment. We must establish new, high-technology industrial parks that encompass science, technology, and economy in Fuzhou, Xiamen, and other areas to advance the development of new and high-technology industries in Fujian. We must earnestly expand the export of technology. Special funds for this purpose must be set up in the province as well as in prefectures and cities that meet the conditions. We must further strengthen the research and application of basic and soft sciences and draw up plans for medium- and long-term development of scientific research to ensure the coordinated development and advancement of science, technology, economy, and society and the formation of a continuous cycle.

With regard to education reform, we should seriously popularize the system of regular education characterized by separation of management at different levels so as to bring into full play the initiative of all departments concerned in running schools. Regular middle schools and secondary vocational schools should be managed by counties (cities), while township (town) governments should take care of the kindergartens, primary and junior middle schools, and adult cultural and technical education in their respective localities. Governments at all levels and units running schools may try to raise the teachers' welfare and remuneration in accordance with their financial situation. Where conditions permit, primary and middle schools may introduce, on a trial basis, a self-responsibility system for total wages, with the approval of the prefectures and cities concerned. We

should mobilize all sectors of society and individuals to raise funds for developing education and encourage Overseas Chinese as well as compatriots in Hong Kong and Macao to help this endeavor with donations. Meanwhile, the work-study program should be developed on a wide scale. The foreign exchange income earned by school-owned enterprises should be at the disposal of the schools and used to increase their self-improvement capabilities. Rural education should be further strengthened and reformed so that it will be oriented mainly toward serving local economic development. Primary and secondary vocational and technical education should be developed vigorously. Schools for such education should be expanded, and the quality of education should be raised so as to serve the purpose of developing small and medium enterprises, village and town enterprises, and those agricultural undertakings that can earn foreign exchange. Basic education should be popularized, and the 9-year compulsory education system should be put into practice step by step. In the reform of higher education, emphasis should be put on establishing an effective mechanism to meet the needs of specialists in society and giving higher education institutions full authority to run their schools. It is necessary to make good use of the State Council's special policy that allows our province to adjust the student enrollment plan for regular higher education institutions, as well as the specialized courses established in these institutions, so as to give priority to training competent workers in specialized fields and experts of applied disciplines urgently needed for the development of an export-oriented economy. In addition, we should reform the higher education institutions' internal management system and make positive efforts to implement, on a trial basis, the system of college and university presidents assuming full responsibility. While implementing the relevant state policies, laws, and regulations, we should give more authority to higher education institutions with regard to admission of students, job assignments for graduates, school management, and external academic exchange. While meeting the quality standards in fulfilling their education and scientific research tasks, higher education institutions should go all out to tap their potential, make proper arrangements for the development and application of their scientific and technological research results, and sell their technological services so as to earn income to increase their self-improvement capabilities and improve the well-being of their faculty.

—Enterprise Reform and Rural Reform: The purpose of deepening enterprise reform is to perfect and develop the operational mechanism of enterprises and to further enliven them, particularly those owned by the state. To this end, we should further develop, improve, and deepen the contracted managerial responsibility system and establish, on a trial basis, risk insurance organizations to do insurance business, handle mortgages on leases, guarantee against risks, and operate risk-remedial funds. Through earnest efforts to implement the "Enterprise Law," we should further improve the democratic system at the grass-roots level, let enterprises really have

decisionmaking power in their operations, and establish an enterprise operations mechanism whereby enterprises are responsible for their own profits and losses and can develop, restrain, and stimulate themselves. It is necessary to widely popularize the system of the plant director and manager assuming full responsibility and the system of responsibility to attain given objectives during their tenure. Vigorous efforts should be made to put into practice such managerial methods as the "full-load operational method" and "intra-plant banks." As for the three kinds of foreign-funded enterprises [Sino-foreign joint ventures, Sino-foreign cooperative enterprises, and wholly foreign-owned enterprises], we should let foreign businessmen manage them according to international practice. State-owned enterprises may also hire foreign businessmen as managers. Meanwhile, comprehensive quality control should be exercised in order to raise the quality of products and enhance their competitiveness. Further efforts should be made to optimize the enterprise organization and implement the joint stock system. It is necessary to speed up the pace in promoting the practice of leasing, transferring, and auctioning enterprises, earnestly protect the legal rights and interests of private enterprises, develop and consolidate enterprise groups, and increase the enterprises' vitality.

With regard to rural reform, we should actively popularize large-scale operations and intensive operations to raise our agricultural productivity, while making continued efforts to perfect the contract operations responsibility system based on households and with remuneration linked to output. Large-scale operations and intensive operations should be practiced to an appropriate extent not only in farming but also in afforestation, fruit tree growing, tea planting, aquaculture, poultry and stock raising, as well as village and town enterprises, so as to reduce production costs, achieve mass production, raise economic results, and enhance competitiveness. Further efforts should be made to invigorate the commodity circulation in rural areas, improve the socialized service system for agricultural production, exchange information, and explore markets so that there will be a favorable environment to support rural economic development. At present, effective measures should be taken to improve the supply of the means of agricultural production and to ensure that chemical fertilizers and diesel oil for the "three links" program [program linking grain purchase contracts with the supply of low-price chemical fertilizers and diesel oil and payment of deposits] are supplied to the peasants at the state-set prices. It is imperative to strictly prevent the departments concerned at each level from withholding a part of these materials and ban such practices as buying and selling these materials for profit and arbitrarily raising their prices. For a while, the main task in adjusting the rural production structure should be the development of village and town enterprises and those agricultural projects that can earn foreign exchange. Every effort should be made to establish an export production system that combines trade, technological development, industry, and agriculture and encompasses production, supply,

and sales with a view to turning out more varieties of "competitive" products. We should energetically introduce from foreign countries and from Taiwan advanced agricultural technology, scientific management methods, fine crop strains, and improved poultry and stock breeds so as to raise our product quality and competitiveness and develop new export products that can earn foreign exchange. Village and town enterprises should be encouraged to vigorously develop the "three forms of import processing and compensatory trade" and promote the export of labor-intensive products for the purpose of boosting their foreign-exchange earnings.

—Reform of the Real Estate System: The reform of the housing system is aimed at the commercialization of residences. Beginning this year, our province plans to take from 3 to 5 years to carry out this reform in all cities and towns of our province, batch by batch and stage by stage. This year we should conduct different trial reforms of the housing system in Nanping, Xiamen, Fuzhou, and Sanming Cities and Longhai County so as to get some experience that can be used as guidance for the reforms in different areas. All other cities and counties should conduct comprehensive investigations and studies, make assessments in a serious manner, and work out plans to actively reform the housing system.

The reform of the land utilization system is a new aspect of economic reform. The long-standing system of using land free of charge, without a time limit, and in an ineffective way has many disadvantages. For example, the state ownership of land is not reflected economically, and the revenue differential due to different classes of land goes to the land users instead of the owners. By allowing the buying and selling of the right to the use of land and opening a market for such a right, we will be able to solicit investment from outside in land exploitation, thus accelerating the process of achieving economic prosperity. Moreover, through market regulation, our land resources can be reasonably managed and utilized so that maximum benefits will be derived from the limited land resources. By so doing, we can also increase the government's revenue, thereby speeding up the improvement of the infrastructure in urban areas. We should seize opportunities to introduce, on a trial basis, the system of buying and selling the right to the use of land. Fuzhou, Xiamen, and Shishi Cities, Pingtan and Dongshan counties, and Meizhou Dao may do this ahead of others. They should act boldly and take faster steps in this experiment. In approving applications for transfer of the right to the use of land, they may give special consideration to special cases. In the course of practice, they should constantly sum up experience so as to improve their work of land management.

The reform of the political structure should be carried out in a planned and guided way in accordance with the arrangements made by the central authorities and the provincial party committee.

The aforementioned are the main contents of the wide-ranging, comprehensive experiment of reform and opening up. They have the following four characteristics: 1) They are more reform-oriented and open, involve many new subjects that need to be explored, and contain major breakthroughs; 2) they take into consideration Fujian's characteristics, strong points, and potential by giving it greater decisionmaking powers with regard to economic cooperation and trade with Taiwan; 3) they make the main points stand out and, with the focus on the central link of changing enterprises' managerial mechanism and incorporating diverse, comprehensive support reform measures, form an organic whole; 4) they integrate long and short-term goals and both the internal and external, and they outline the task of deepening reform and expanding opening up today and for some time to come. Therefore, we must earnestly study the State Council's reply in light of reality, constantly deepen our understanding in the course of practice, and flexibly implement the policies vested in us by the central authorities.

## **2. Draw Up a Unified Plan, Carry It Out in Stages, and Thoroughly Implement the Comprehensive Experiment of Reform and Opening Up**

Policy, strategy, and practice are all essential for the comprehensive experiment of reform and opening up. We must utilize our strong points, devise a scientific strategy and a unified plan, and fully utilize the policies and decisionmaking powers vested in us by the state. We should also take advantage of Fujian's geographic adjacency to Taiwan, Hong Kong, and Macao, the fact that many Chinese residing overseas are from Fujian, its easy access to information, and its abundant labor resources; make the most of both the domestic and international markets; give free rein to the role of the Xiamen Special Economic Zone (SEZ), the coastal open cities, and other areas with different degrees of openness. Efforts should be made to utilize land and water resources, complement each other's strong points, and develop an export-oriented economy.

The comprehensive experiment of reform and opening up must be carried out in stages and step by step. In addition to being mature and well thought out, reform and opening measures adopted should be positive and bold on one hand and steady and feasible on the other. The Xiamen SEZ and the open city of Fujian should accelerate their pace and take the lead in order to develop experience for the whole province. The State Council has given Xiamen provincial-level decisionmaking power. From now on, Xiamen City must closely integrate the speeding up of the comprehensive experiment of reform and opening up with the preparatory work of exercising provincial-level decisionmaking authority, break away from the restrictions of the existing structure, and develop, step by step, an export-oriented economic structure centering on market regulation. With further expansion in opening up to the outside world, the contradiction between the new policy and the old structure in Zhangzhou, Quanzhou, Putian, and

other open coastal areas will become more acute than in inland areas. It is both necessary and feasible to speed up comprehensive reform in these areas, with the stress on enlivening enterprises, utilizing more foreign capital, increasing export earnings, and implementing support measures. In implementing a new system, Shishi City must resolutely break with outdated conventions in organizational structure and clearly define the functions of a "small government" in serving "society at large." The pilot project for developing export-oriented agriculture in Dongshan County is, in fact, comprehensive reform. We must pay close attention to formulating an overall plan, earnestly execute preparatory work well within the scope of our authority, and carefully implement it. Other cities and counties must also adapt to the development of the situation and speed up the pace of reform in line with the requirements of reform and opening up.

In implementing the comprehensive experiment of reform and opening up, it is necessary to mobilize the enthusiasm and creativity of the broad masses of the people and carry out our work in a down-to-earth manner. To this end, we must do the following:

First, understand policies and firmly and efficiently implement them. The policies approved by the central authorities for implementation in various localities are correct and adequate. The various departments and localities should organize cadres to study again and again the State Council's reply to the 11-point measures, thoroughly understand the policies and measures, and creatively implement them in connection with the actual situation so that they will yield maximum benefits. The reform programs submitted by the various departments at the meeting of members of the provincial government should be earnestly revised in line with the guidelines of this enlarged plenary session. Attention should be paid to working out specific rules for implementation, put them into effect at an early date, and properly, flexibly, and thoroughly implement the policies authorized by the central authorities.

Second, we must research and study, seek truth from facts, and boldly explore. In the process of implementation, we should enhance research and study, spot problems when they crop up, and solve them. All departments and localities should act promptly to rescind or revise regulations and special policies enacted in the past that are not in line with the guidelines of the 11-point proposal or which have proved unfit for the current situation. They should be flexible, based on the situation, in implementing those policies which must be implemented. When encountering problems that existing policies fail to cover, they should be bold in exploring and trying to perfect reform measures. The comprehensive reform and the opening up experiment, in particular the implementation measures of various departments, will inevitably have an impact on old structures and systems and are bound to encounter difficulties and resistance. Therefore, in the process of implementation, we must

have a clear sense of direction, formulate effective measures, and properly map out our plans. At the same time, we should grab the key points and spare no effort to tackle important issues concerning our reform and opening up.

Third, we should improve work style and efficiency. To carry out this comprehensive reform and opening up experiment, governments at all levels must restructure organ functions, simplify procedures, and delegate authority, as well as play their roles as servant, coordinator, supervisor, and inspector. Related departments should closely coordinate and cooperate with one another, each carrying out its own duties and responsibilities in order to better serve the export-oriented economy. Governments and cadres at all levels must be honest in performing their duties, oppose extravagance and waste, and promote diligence and frugality.

Fourth, we must strengthen leadership to ensure its implementation. To implement this comprehensive reform and opening up experiment, leaders at all levels must further liberate their thought, get a firm grip on the situation and a sense of urgency, and conscientiously carry out their work. They should strengthen their coordination and inspection capabilities and give reform the dominant role in the overall work. As reform and opening up goes on and the power of the leaders at various levels increases, leaders should work to make sure their decisions are made scientifically and democratically, and be able to anticipate possible problems to avoid major mistakes. They should keep a clear mind and be capable of recognizing both achievements and existing problems. They should be able to see that our province lags behind advanced provinces, that we fall short of what the central authorities demand, and that we still cannot meet the requirements of foreign investors in the international practice. They should closely examine what these differences are and seek to solve them one by one. They should pay attention to and be able to sum up the masses' experiences and work to improve their own leadership. They should try to keep up the enthusiasm of the cadres and masses in reform and opening up and help reformers to sort out their weaknesses and mistakes in the spirit of seeking truth from facts. They should encourage them to continue to explore and forge ahead.

Fifth, we must train a group of cadres familiar with policies and trade and filled with a pioneering spirit. The shortage of personnel, in particular cadres familiar with foreign trade, has greatly hampered our province's reform and opening up process. We must give top priority to the training of cadres. All localities and departments must systematically organize on-the-job training of cadres through various channels and forms. When conditions permit, units may select and send cadres to study at higher education institutes or in foreign countries. At the same time, they should create more opportunities for cadres to acquire first-hand experience and increase their knowledge, capabilities, and work efficiency, in order to meet the needs of an export-oriented economy.

### **3. Correctly Handle the New Problems Cropping up in the Course of Practice and Promote the Smooth Progress of Reform and Opening Up**

The key to implementing the comprehensive experiment of reform and opening up lies in further emancipating our minds, changing our concepts, and unifying the thinking of the people of the whole province in line with the State Council's reply and the policy of the comprehensive experiment of reform and opening up, and in approaching new things and solving new problems with new thinking and new ideas.

First, we must pay attention to handling the relationship between reform and opening up on one hand and taking risks on the other. Reform means fundamental change of the old economic structure. There is no ready-made formula for us to copy blindly. We must take risks if we want to reform. Every reform undertaking has the chance to succeed or to fail. Subjectively, we hope that every reform measure will yield ideal results, but some aspects of the objective reality will not always be totally satisfactory. We must not delay the necessary reform because we are afraid to take risks. Implementation of the policy of "putting the two ends outside," that is, obtaining raw materials from the outside world and selling the products on international markets, will be affected by such factors as fluctuations in demand and prices on the international markets and the competitiveness of our export products. On one hand, we must be prepared to take risks, work hard to develop a mechanism suited to international market fluctuations, and increase our capacity to adapt; on the other hand, we should encourage daring exploration and risk taking, and be bold in breaking away from conventional restrictions. As regards the assorted problems that crop up in the course of reform and opening up, we should sum up experience and lessons in a timely manner in order to improve our work.

Second, we should pay attention to handling the relationship between coastal regions and inland areas. Opening up and developing an export-oriented economy are the common tasks of the whole province. Given the uneven economic development and wide gaps between different localities in our province, it is unrealistic to expect simultaneous progress. Practice has shown that the export-oriented economy is developed gradually from a low point to a high level and from key points to the whole area. Our coastal regions, where the economy is relatively developed, are in a favorable position to take advantage of the current international economic situation. We must enhance our sense of urgency and responsibility, take the lead in "putting the two ends outside" and promoting an export-oriented economy, and take part in the international cycle. Inland areas must also actively create favorable conditions, make the most of their strong points, develop an export-oriented economy, and increase export earnings; otherwise, we will bungle our chance. The coastal and inland areas should develop lateral economic cooperation in various forms and

through varied channels in accordance with the law of commodity economy and on a mutually beneficial basis. Inland products may be exported through a coastal enterprise serving as agency or after intensive processing by a coastal enterprise. Coastal enterprises engaged in processing and assembling with materials and specifications provided by foreign firms and compensation trade may expand to the inland areas to utilize the labor force, factory facilities, and other conditions there. The coastal regions may also help, financially or technically, inland areas to develop their resources and partially solve the problem of raw materials supply. All in all, the coastal regions and inland areas must, by way of making the most of their respective strong points and developing lateral cooperation, complement each other in order to achieve mutual benefits and common development. At present, localities which remain relatively poor must pay close attention to aid-the-poor work in accordance with the provincial plan.

Third, we should pay attention to the construction of the "hard environment" and intensify the construction of a "soft environment." While Fujian has made substantial headway in investing in its infrastructure—or "hard environment"—over the past several years, its "soft environment" problems—those concerning the administrative system, policies, laws, efficiency, proficient personnel, services, information, and management—have become relatively conspicuous. The problems are particularly pronounced with the economic system, which cannot keep pace with needs in opening to the outside world, as well as with efficiency, which is low, and the legal system, which is defective. Consequently, our enterprises find they are subjected to too many restrictions in terms of personnel, capital, materials, and technology, and foreign businessmen have strong resentment. If our "soft environment" construction is ineffective, it will offset the functions of the "hard environment." Thus, while continuing with the construction of the "hard environment," we should intensify the construction of the "soft environment." We should speed up restructuring the economic system, continue to educate the people about the need to respect knowledge and proficient personnel, and speed up our economic development on the basis of scientific and technological advancement. We should intensify the development of intellectual resources and the training of proficient personnel, and strive to train our cadres and workers so as to improve their proficiency. We should improve the legal environment with a sound legal system. We should especially intensify the supervision over the implementation of all economic laws and regulations relevant to foreign investment so that foreign investors' rights and interests are protected. We should improve our efficiency and earnestly amend such ills as complicated approval procedures, red tape, and "roadblocks." The provincial government has authorized the provincial leading group for coordinating foreign economic relations and trade to meet to study simplification of the approval system for foreign investment projects and to institute a system

under which examination and approval of foreign investment projects will have to go through only one procedure. Organs offering efficient, coordinated services for the establishment of joint and cooperative ventures and wholly foreign-owned enterprises will also be established. We should make great efforts to improve the coordination and management of these ventures and enterprises and provide them better consultative and other services. A reference filing system for all investment projects and clients should be established. Effective measures must be taken to stop incidents of disrespecting foreign businessmen's autonomy, or making it a regular practice of "controlling and restricting" them, or even extorting them. To have a sound "soft environment," people who abuse their authority for personal gains must be dealt with firmly.

Fourth, we should properly handle the relationship between facing outward and facing inward. Essentially, we must face outward in order to carry out the strategy for coastal areas' economic development and develop an export-oriented economy so that we do not have to compete with other parts of the country for market and raw materials. We should, however, correctly understand the policy of importing raw and semifinished materials and exporting finished goods. This policy does not mean we can totally ignore the domestic market and resources. Just as Comrade [Zhao] Ziyang said in his report to the 2d Plenary Session of the 13th CPC Central Committee: "The requirement that coastal areas should import raw and semifinished materials and export finished goods is not an absolute one, especially since this goal takes time to attain. They should still exploit the resources that the interior of China can provide. Coastal areas and China's interior should continue to expand their lateral economic ties and make active efforts to develop the resources in the interior of China." When we can combine the coastal areas' technological edge with the interior of China's abundant supply of raw and semifinished materials, and combine the export-oriented economies' export strength and the market in interior China, the outward development can in turn promote the development in interior China, thus promoting domestic consumption and exports at the same time. Presently, Fujian's export-oriented economy is still at its initial stage of development, and its foreign exchange earnings represent only 13 percent of its GNP, showing a very low dependency on exports. Thus, we must continue to fully exploit the domestic market, actively promote lateral economic ties, and expand production in order to increase supply. Meanwhile, we must, in accordance with the needs on the international market and our capacity, speed up outward development, take active part in international competition and exchange, and expand exports so that we can revitalize Fujian's economic development along the course of promoting exports.

Fifth, we should properly handle the relationship between material construction and spiritual construction. The fundamental objective of carrying out comprehensive experiments in reforms and opening up is to

develop society's productive forces, improve the people's living standard, and build a society that is materially developed. Material construction provides the material conditions and experiences for spiritual construction, and spiritual construction provides a powerful ideological guarantee with which material construction can proceed properly. Spiritual construction has a significant bearing on the success or failure of socialism. We must intensify spiritual construction, which, if successful, can heighten people's spirit, stimulate their creativeness, and expedite the process of reform and opening up. Today when coastal areas are implementing the strategy for economic development and engaged in experiments of carrying out reforms and opening to the outside world, some people worry that these areas may be susceptible to an unwholesome influence from the outside. Their worries are not totally unfounded. Our reforms and opening up have indeed given rise to many problems. Some cadres have seriously corrupted the party and social conduct by taking advantage of their authority for personal gains, and some give bribes or accept bribes. In doing business with foreign businessmen and Overseas Chinese, some people have solicited money and gifts from them, thus disgracing the country and fellow countrymen and giving people a very bad impression. Certain retrogressive and decadent practices have resurfaced, and certain things which are strictly banned even in capitalist countries have appeared in some parts of our province. We must pay great attention to all these phenomena. While we must firmly proceed with material construction by carrying out reforms, opening up, and developing the economy, we must also proceed with spiritual construction and resist the inroads of feudalistic and decadent capitalist ideology in order to create a new situation where there is economic prosperity and social stability, and where people are spiritually sound and healthy.

Comrades, the current meeting is an important meeting to thoroughly study and plan comprehensive experiments of carrying out reforms, opening up, and accelerating the development of an export-oriented economy. We firmly believe that, under the leadership of the party Central Committee, the State Council, and the Fujian provincial party committee, and with the joint efforts exerted by the people in the province, Fujian will certainly will see a significant development in its reform, opening up, and economic construction!

**Hebei Economic, Social Development Plan**  
*SK2306080188 Shijiazhuang HEBEI RIBAO in*  
*Chinese 30 May 88 pp 2, 3*

[Report on Hebei Provincial 1988 draft national economic and social development plan delivered by Song Shuhua, provincial vice governor and concurrently director of the provincial planning and economic commission, at the first session of the seventh provincial people's congress on 25 April]

Fellow deputies!

Entrusted by the provincial people's government, I now give a report on the fulfillment of the provincial 1987 national economic and social development plan, and its 1988 draft plan for the discussion of this session.

### I. Fulfillment of the 1987 Plan

In 1987 the people throughout the province conscientiously implemented the guidelines of the fifth session of the sixth provincial people's congress, regarded economic construction as the central task, upheld the four cardinal principles, adhered to the general policy of reform and opening up, continuously deepened the economic, scientific and technological, and educational, and educational structural reforms, and extensively and thoroughly carried out the campaign for increasing production, practicing economy, increasing revenues and reducing expenditures. All fronts throughout the province scored new achievements. The total product of society reached 102.7 billion yuan, an increase of 13.2 percent over the previous year; the total industrial and agricultural output value came to 83.21 billion yuan, an increase of 14.5 percent; GNP totaled 51.2 billion yuan, an increase of 11.4 percent; and the national income was 44.2 billion yuan, an increase of 10.9 percent. All these targets were fulfilled or overfulfilled. Fairly great progress was also achieved in science, education, culture and public health. The planned targets approved at the fifth session of the sixth provincial people's congress were basically fulfilled.

A. The agricultural structure became more rational, and the rural economy continued to develop.

In 1987, agriculture was hit by serious natural disasters. Disaster-affected areas totaled 3.828 million hectares, of which 2.751 hectares were damaged. Governments at various levels strengthened leadership over agriculture, and regarded the work to combat disasters and support the poor as a major task while exerting great efforts to deepen the rural reform, improve the dual management system, carry out farmland irrigation projects and strengthen socialized service. This not only helped reduce the losses caused by the disasters but also facilitated the entire rural economic development. The annual agricultural output value was 19.13 billion yuan, an increase of 4.3 percent over the previous year, and exceeding the planned 4-percent growth. Among the major farm products, the output of grain totaled 19.2 million tons, showing a decline from the previous year, and the output of other products registered increases. The output of cotton came to 1626,000 tons, an increase of 22.5 percent over the previous year, thus shifting the situation of decrease for 2 years in succession; the output of oil-bearing crops was 689,000 tons, an increase of 11.5 percent; that of pork, beef, and mutton 953,000 tons, an increase of 3.8 percent; that of aquatic products 179,000 tons, an increase of 15.5 percent; and that of fresh and dried fruits 2.06 million tons, an increase of 17.2 percent. The proportion of the output value of forestry, animal husbandry, sideline production and fishery in the

total agricultural output value continued to rise, increasing from 28.2 percent in the previous year to 29.4 percent. Township enterprises developed rapidly, and their output value totaled 31.67 billion yuan, 42 percent more than the previous year, and higher than the national average growth of 19 percent.

B. Industrial production continued to grow, and economic results were improved notably.

In 1987 the industrial production of the province always maintained a fairly good trend of development. Beginning earlier that year, the province paid close attention to deepening enterprise reform; exerted great efforts to popularize the contracted management responsibility system; extensively and thoroughly carried out the campaign for increasing production, practicing economy, increasing revenues and reducing expenditures; tapped production potential; and strove to improve economic results, thus scoring encouraging achievements in industrial production despite strained supplies of energy resources, raw materials, and funds. The annual industrial output value came to 64.08 billion yuan, a 17.9-percent growth over the previous year, exceeding the planned 7-percent increase. There were five characteristics in our province's industrial production last year. First, the development speed was fairly balanced and stable without a sharp rise and fall, and monthly growth rate was maintained at more than 10 percent. Second, increases were registered in the industrial enterprises of various ownership. The output value of state enterprises was 34.06 billion yuan, an increase of 12.5 percent over the previous year; that of collective enterprises 13.37 billion yuan, an increase of 17.7 percent; and that of the enterprises run by villages and the units below the village level 16.46 billion yuan, an increase of 32.1 percent. Third, light industrial production was accelerated notably. The output value showed a 19.1-percent increase over the previous year, and exceeded the 16.7-percent increase as registered in heavy industry.

Fourth, undersupplied raw materials and readily marketable consumer goods showed a fairly large increase. Of them, pig iron registered an increase of 11.6 percent, and rolled steel, sulphuric acid, caustic soda, chemical fertilizer for farm use, small tractors, knitting wool, cigarettes, color television sets, and beer all registered an increase of more than 13 percent. Fifth, economic results were improved notably, and most targets were better than the national average. As far as budgetary industrial enterprises were concerned, their output value rose by 15. percent, income from sales by 22.6 percent, profits and taxes by 25.5 percent, and profits and taxes provided by per 100 yuan of output value by 1.6 percent. The deficits of loss-making enterprises declined by 35.9 percent, the cost of comparable products grew by 4.5 percent, the per-capita productivity of the state industrial enterprises which exercised independent accounting increased by 8.3 percent, and the stable improvement rate of the quality of major products rose by 8.3 percent. The major indexes of economic results of magnitude of value

assessed by the state were all better than the national average except for the fixed amount of circulating funds, and the amount of funds tied up in manufactured goods. The year 1987 was one with the best economic results since 1980. This indicated that poor economic results in our province's industrial production began to change.

C. The scale of investment in fixed assets was brought under control, and the investment pattern continued to improve.

Conscientiously implementing the principle of ensuring key, planned and productive projects and reducing non-essential, unplanned and nonproductive ones in 1987, we took stock of a number of projects under construction, reduced a number of new and nonproductive projects, and gave manpower, material, and financial priority resources to the construction of key projects, thus controlling the scale of investment in fixed assets. In the year, the fixed asset investment made by state units totaled 8.64 billion yuan, 26.31 percent over the previous year in terms of comparable standards. Among the fixed assets investment, the investment in capital construction was 5.16 billion yuan, a 31.6-percent increase. Of the sum, the investment in local capital construction included in plans for assessment totaled 1.436 billion yuan, a figure basically kept within the state-assessed index. The investment in renewal of equipment and technical transformation was 3.05 billion yuan, a 22.5-percent increase. The proportion of the investment in capital construction which was used in productive projects grew from 60.6 percent in the previous year to 69.8 percent. Key construction projects were carried out fairly successfully. The planned construction speed requirements on 10 state key projects, 6 provincial key projects, and 25 key equipment renewal and technical transformation projects were met or exceeded. Of these projects, the No. 8 generating unit of Douhe Powerplant, the No. 3 berth of the Qinhuangdao Harbor, the Xishimen iron mine, the No. 3 generating unit of Fengrun Powerplant, and the Shijiazhuang Railway Station, which were required to be completed and commissioned in the same year, were completed or commissioned. Through capital construction and technical transformation, 5.38 billion yuan of fixed assets was newly added. Increased major production capacity included 900,000 tons of loading and unloading capacity of harbors, 241,000 kilowatts of power generating capacity, 1.5 million tons of dressed coal, 440,000 tons of coking capacity, 1.51 million tons of iron mining capacity, 20,000 tons of soda ash, 27,000 tons of chemical fertilizer, 22.6 million meters of printed and dyed cloth, 5,440 woolen spindles, 1.26 million kilovolt-ampere of transforming equipment, 528 km of power transmission lines, 22,400 lines of local telephone, and 69,000 seats for students of colleges and universities, and secondary schools. Completion and operation of these projects further increased our province's strength for sustained economic growth.

D. Revenue was increased and expenditure was reduced, and the regulating mechanisms of monetary departments were notably strengthened.

In 1987, the revenue of the province totaled 5.76 billion yuan, an increase of 12.6 percent over the previous year, and exceeding the planned target approved at the fifth session of the sixth provincial people's congress. The expenditure was 5.33 billion yuan, a decline of 0.9 percent from the previous year, and achieving a balance between revenue and expenditure. Through efforts to deepen reform, and organize and circulate funds, monetary departments further increased their ability for macro regulation and control. The year-end amount of various savings deposits of banks totaled 30.86 billion yuan, showing an increase of 6.13 billion yuan over the amount calculated at the beginning of the year, and overfulfilling the annual target by 74 percent. The year-end amount of loans was 3.92 billion yuan, 5.83 billion yuan more than the amount calculated at the beginning of the year, and accounting for 94 percent of the annual controlled target. Balancing the savings and the loans, the savings were more than 300 million yuan greater than the loans. In this way, planned macro control was realized, and development in production and construction was supported.

E. The market was brisk and new progress was made in developing foreign economic relations and trade.

Last year urban and rural markets throughout the province were brisk and the retail sales of food, clothing, daily necessities, consumer goods, and agricultural capital goods increased comprehensively. The total retail sales of commodities in society reached 27.1 billion yuan, an increase of 17.7 percent over the previous year. Of this, the retail sales of foodstuffs increased 17.3 percent, that of clothing 18.4 percent, that of daily necessities, 13.5 percent, and that of agricultural capital goods more than 25 percent. Judging from the supply of major consumer goods, meat, eggs and vegetables were in short supply. Apart from color television sets, refrigerators, some durable consumer goods, and some quality and brand-name goods whose supply did not meet demands, some daily necessities, including most popular goods of dependable quality, were well stocked and in normal supply.

In foreign trade, thanks to the fact that most foreign trade companies had implemented the managerial responsibility system for certain contract targets and carried out a series of preferential policies to encourage enterprises to create foreign exchange through exports and to use imports to promote exports, a situation which was unprecedentedly seen during last few years emerged. During the year, the total foreign export trade was valued at \$1.485 billion, an increase of 41 percent over the previous year. Of this the export of sundry goods valued at \$1.075 billion, an increase of 27.7 percent, the best historical record. The scope of utilizing foreign capital

further expanded and new progress was made in importing technology. During the year we signed contracts on using foreign capital, involving \$45.39 million, an increase of 160 percent over the previous year. We imported 142 technological items, involving a sum of \$123 million. The province as a whole approved the establishment of 112 sino-foreign joint-venture and cooperative enterprises. We also rapidly developed the tourist industry. The Qinhuangdao development zone had initiated some projects, of which some projects such as the bangdi [6721 6611] pipe project and the cotton textile plant, were completed and commissioned or were under construction.

F. New progress was made in scientific, educational, cultural, public health, and sports undertakings.

Last year the province's scientific and technological front firmly centered its work on economic construction; gave priority to grasping the two reform tasks of delegating powers to scientific research organs and scientific and technical workers, and invigorating their business; and effectively promoted the development of productive forces. About 97 percent of the 2,291 planned scientific research projects met the demands of the planned progress. Among them, 33 projects won state invention awards or technological progress awards, and 294 won the provincial scientific and technological achievement awards. The popularization and application of these scientific and technological findings helped to achieve 1.2 billion yuan of economic benefits. Of the 1,183 "spark plan" projects we conducted, 70 percent achieved a portion of their expected results, and 349 projects were appraised and accepted and helped to create 600 million yuan of economic results.

Educational undertakings continued to develop. The total number of students of ordinary higher educational schools reached 69,000 persons, an increase of 6.3 percent over the previous year, and more than 18,000 specialized personnel found jobs. We further readjusted the specialized disciplines, and newly added 23 badly needed courses, including international trade, tourism, processing of agricultural products and animal by-products, music and art. The structure of secondary education became more rational. The number of students of ordinary middle schools declined and that of various secondary vocational and technical schools increased. The number of students of secondary vocational and technical schools accounted for 39.5 percent of the total number of students in senior middle schools. We accelerated our pace in popularizing the 9-year compulsory education. The rate of entering schools of the school-age children rose to 98.7 percent. About 86 percent of counties (cities) popularized elementary education and there were some 6 million primary school students in these counties.

Public health and medical conditions further improved. By year-end, the province as a whole had 133,200 hospital beds, an increase of 8,200 over the previous

year. There were 199,700 specialized medical personnel in the province, an increase of 4,500 persons. New progress was made in rural public health and water improvement work and in preventing and curing endemic disease.

Certain achievements were made in family planning work. The broad masses of family planning workers exerted strenuous efforts. Last year we handled 2.336 million birth control cases. Some cities and counties introduced the contract system into their family planning work and conducted some valuable experiments. However, thanks to the fact that we are in a birth peak period, our province's natural population growth rate still reached 16.5 per thousand last year and by the year-end, the total population reached 57.1 million.

Remarkable achievements were scored in sports. Last year athletes of our province won 4 world championships, and broke 1 world record, 10 Asian records and 21 national records at major domestic and international games. At the sixth national games, our province's delegation ranked among the best 10 in terms of team score, entering the advanced rank of the country.

New development was achieved in culture, broadcast, film, television, press and publication. In the year, 22 television dramas totaling 76 parts were produced, 184 new films were released, 103 television transmission and relay stations were newly added, and 88 ground satellite stations were added. Provincial radio coverage was 72.5 percent, television coverage was 76.4 percent, and 1,123 kinds of magazines, books and pictures totaling 250 million copies were published.

G. The income of people in urban and rural areas continued to increase, and their living standards improved.

According to statistics, the average annual cash income of our province's staff members and workers was 1,352 yuan in 1987, increasing by 10.7 percent over the previous year. Considering the rise in the cost of living, the actual increase was 2.3 percent. The per-capita net income of peasants was 444.4 yuan, 9 percent over the previous year. Considering price rises, the actual increase was 5.2 percent. Savings of urban and rural people totaled 20.89 billion yuan, 43.1 percent greater than the year-end amount of the previous year. Work to aid the poor and provide disaster relief was strengthened at every level to help 389,000 poverty-stricken households eliminate poverty. Living conditions for urban and rural people were further improved. The per-capita living space of urban people rose from 8.04 square meters in the previous year to 8.42 square meters, and that of rural people from 14.8 to 15.6 square meters.

The above situation showed that the province scored very great achievements in production, construction, circulation, science, education, and other fields; further improved the people's living standards; and fulfilled well

the entire national economic and social development plan. In the process of fulfilling the plan, we encountered some unstable factors and problems which required urgent solution. They were:

1. Commodity prices rose too greatly. Last year the province's general retail price index was 8.3 percent higher than the previous year, exceeding the planned target of 5 percent. The prices of goods closely related to the people's lives increased. The price of meat, poultry, and eggs rose by 19.6 percent, vegetables by 19.7 percent, fresh fruits by 12.7 percent, and capital goods for agricultural use by 10.6 percent. This affected the improvement in the people's living standards, and made the actual living standards of some urban families decline. A growth in the general level of commodity prices, and in particular, the proper increases in the prices of farm and sideline products and primary industrial goods were unavoidable in the process of reforming the irrational price system. However, in addition to the outstripping of the general demand over the general supply, there were other reasons for last year's inordinately large price increases. First, in the condition of a rapidly developed rural commodity economy, we failed to use the law of value very well to correctly guide agricultural production, our policies were not stable enough, our measures were not effective, and the contradiction between supply and demand of some farm and sideline products, such as meat, poultry and eggs, was rather great because of a shortage of supply. Second, measures for macro regulation and control were not fulfilled, and state and cooperative commercial units failed to fully develop their role as a major channel, with a lack of ample supply and a low proportion of retail sales, thus being unable to keep the prices stable. Third, there was a lack of strict price control. Some state enterprises increased their prices without permission, or increased their prices in a disguised form, and effective blows to illegal business, speculation, and profiteering were lacking.

2. The foundation for agriculture was not solid enough, arable land was reduced every year, water resources became strained with each passing day, and farmland irrigation facilities were weak. Because of disasters, the output targets for grain, cotton and oil-bearing crops were not fulfilled last year. Grain output reached only 95 percent of the target, showing a decline of 450,000 tons from the previous year. The output of cotton and oil-bearing crops registered an increase over the previous year, but the cotton output reached only 93 percent of the target, and the output of oil-bearing crops reached only 92 percent of the target.

3. The supply of energy resources, raw materials and, in particular, power was strained, and the shortage of major capital goods for agricultural use was rather great. Over the past few years, our province has exerted great efforts to build power projects, but they still could not meet the needs in economic construction. According to a rough calculation, our province lacked approximately 8 billion kwh of electricity last year, nearly one-third of its power

consumption. Because of a lack of power, about 20 percent of our industrial equipment was operated under their capacity. This not only affected the economic development but also brought inconveniences to the people's lives.

4. The basic work of enterprises was weak, backward technology and backward management were not changed fundamentally, and some enterprises, with poor product quality and high consumption, lacked competitive edges. This situation was very incompatible with the development of the export-oriented economy.

The provincial government is adopting measures to solve these problems existing in the economic activities, and will solve them step by step.

## II.

Based on the central principle of further stabilizing the economy and further deepening reform, and the actual conditions of our province, the general guiding ideology and tasks for the 1988 national economic and social development are to conscientiously implement the guidelines of the 13th Party Congress and the first session of the seventh NPC; adhere to the "one central task and two basic points;" put reform in the center of all our undertakings; accelerate opening to the outside world; actively carry out the strategy for the economic development of coastal areas; launch a large-scale campaign to increase production, practice economy, increase revenues and reduce expenditures; realistically improve economic results; develop production; improve supply; control demand; stabilize prices; maintain a fairly rapid and stable growth in the national economy, and continuously improve the people's living standards.

Major targets arranged in the plan are:

A total of 89 billion yuan in industrial and agricultural output value, a 7-percent growth over the previous year, of which the agricultural output value increases by 4 percent, and industrial output value by 8 percent;

A total of 46.8 billion yuan in national income, a 6-percent;

A total of 54.5 billion yuan in GNP, a 6.5-percent increase;

A total of 31 billion yuan in the volume of commodity retail sales, a 14.4-percent increase;

To increase labor productivity by 3 percent;

To bring the natural population growth within 13 per thousand; and

To continuously increase the average actual income of urban and rural people.

Based on the above guiding ideology and targets, the specific task and major contents as arranged in the plan are:

A. We should greatly strengthen agriculture, and strive to increase the production and supply of farm and sideline products.

A stable growth in agriculture, in particular grain and cotton production, is the foundation for the stable development of the economy as a whole. This year we should strive to achieve substantial increases in the output of grain, cotton, oil-bearing crops, meat, vegetables and other products to provide more farm and sideline products to urban and rural markets, and industrial production, and to increase the commodity supply for export to earn more foreign exchange. According to the plan, the grain output is 20 million tons, an increase of 800,000 tons over the previous year; cotton output is 675,000 tons, an increase of 49,000 tons; the output of oil-bearing crops is 750,000 tons, an increase of 61,000 tons; and meat output is 1.05 million tons, an increase of 40,000 tons. To realize the above requirements and targets, and promote a comprehensive development in agricultural production, eight measures will be implemented emphatically this year for the planned management of agricultural production.

1) We shall continue to carry out and improve the policies on purchasing and marketing grain, cotton, and oilbearing crops; and ensure the supply of chemical fertilizer, diesel oil, and purchase deposits that are linked with the contracted purchase of grain. The quality standard chemical fertilizer that was imported by the province with foreign exchange earned by the localities, totaling 300,000 tons, should first be used to ensure grain production. 2) We shall strictly control the occupation of farmland, stabilize the grain and cotton growing areas, and ensure 6.67 million hectares of grain growing areas and 800,000 hectares of cotton growing areas. Meanwhile, we should pay attention to the production of vegetables; particularly, ordinary vegetables. Large and medium-sized cities should continue to carry out the major responsibility system to actually organize production and supply in a planned manner. The occupation of farmland for non-agricultural use should be controlled within 12,000 hectares. 3) Agricultural input should be increased and production conditions improved. We should adopt various methods, such as collecting funds from the state, collectives, and peasant households, to vigorously develop farmland water conservancy projects and to popularize water-saving measures principally by transmitting water through pipelines. The province's budgetary agricultural investment in 1988 is 49 percent more than that of last year. The province also allocated special funds for agricultural development by using the portion of farmland occupation funds that should be obtained by the province. Simultaneously, we should accurately select projects and conscientiously arrange funds allocated by the state to develop the plain along both sides of the Hai He valley, and the loans granted to

the province by the World Bank to strengthen the transformation of low- and middle-yield fields and the development of coastal areas, and to develop agricultural projects with capacity to create foreign exchange. 4) The system of contracted responsibility on the household basis should be further consolidated and improved with payment linked to output. In line with the demands of the production development and accordance with the principle of voluntary participation and mutual benefits, the localities where conditions permit should positively explore and implement on a trial basis the system under which production is linked with investment and the farmland scale management. 5) We should persist in the principle of paying equal attention to development and improvement, vigorously promote the development of town and township enterprises, and do a good job in making overall compensation for agricultural production. The total output value realized by the town and township enterprises in 1988 is estimated at 38 billion yuan, an increase of 20 percent over 1987. Town and township enterprises should strive to realize 40 billion yuan of output value. 6) We should continue to succeed in building base counties for production of wheat, corn, cotton, peanuts, vegetables, livestock products, and forest fruit, and in developing the export of aquatic products. 7) The popularization and application of agricultural sciences and technologies should be grasped. It is necessary to positively cultivate and popularize fine varieties of crops, perfect the system of growing and supplying seeds, popularize plastic-film covering technique and moulding cultivation technique, develop dry crops in line with local reality, and promote agricultural production gradually based on relying on technological progress. 8) We should further develop and perfect the socialized service to agriculture. We should gradually set up networks providing overall services in the technological, material supply, circulation, banking, and information fields. Meanwhile, we should continue to strengthen the work of letting all trades and professions; particularly, industry, support agricultural production; and strive to increase the production and supply of means of agricultural production, including chemical fertilizer, plastic films, farm chemicals, and diesel oil

**B.** We should positively readjust the industrial production structure and strive to increase economic results.

In 1988, the industrial front should emphasize accelerating the development of energy resource, raw material, light and textile, and town and township industries; further readjusting the industrial production structure; striving to upgrade the quality of products; and vigorously increasing the production of readily marketable products, products to support agricultural production, and products that can create foreign exchange through exports.

While tapping the potential of existing enterprises and increasing production, energy resource industry should continue to pay prominent attention to the construction

of powerplants. The power generation in 1988 is estimated at 32.21 billion kwh, an increase of 3.7 percent over 1987. We should pay primary attention to the completion and operation of a number of new generating units to increase power generating capacity by 800,000 kw. Simultaneously, we should accelerate the construction of on-going projects, such as Xingtai powerplant's No. 4 generating unit, Shalingzi powerplant, and Shijiazhuang thermal powerplant; make good preparations for the construction of the second stage of Shangan powerplant, Xingtai powerplant's No. 5 and 6 generating units, the Duohe second power station, and Qinhuangdao, Luanping, Luanhe, Yixian, Huanghua, Sanhe, Huangbizhuang, Dingqu, Hanfeng, Matou, and Hengshui powerplants; do a good job to link the construction of projects covered in the Seventh 5-Year Plan with that covered in the Eighth 5-Year Plan; and create conditions for further developing power industry. The localities where conditions permit should be positively supported to develop small hydropower stations and small thermal powerplants.

In the coal industry, we should mainly grasp the building of coal shafts of coal mines whose products are distributed under the state unified plan, develop the coal fields in Yuxian County, and improve some local collieries with guaranteed resources and production conditions. At the same time, we should save energy resources.

In the raw materials industry, we should focus our work on accelerating enterprises' technological progress, and grasp the iron, steel, chemical and building materials industries. During this year, we plan to carry out 661 technological transformation projects with a total investment of 1.365 billion yuan, an increase of 21 percent over the previous year. We should do a good job in building blast furnaces in Xuanhu and Handan steel plants, with a total volume of 1,260 cubic meters; accelerate the construction progress of the Tangshan soda plant, the Fanshan phosphorus mine, and other projects and strive to put a single unit of the equipment of Tanshan soda plant into test run by the end of the year; and attend to the raw materials and caustic soda projects, and the blast furnace project of the Tangshan Iron and Steel Company with a total volume of 1,260 cubic meters and strive to make them ready for test run by the end of the year. At the same time, we should prepare for the first phase project of the chemical base of the Shijiazhuang oil refinery. In arranging for production, we should mainly increase product varieties and improve product quality. Under the plan, we should produce 3.5 million tons of pig iron, 2.45 million tons of steel products, 2.74 million tons of coke, 8.3 million heavy boxes of plate glass, 9.88 million tons of cement, 70,000 tons of caustic soda, 20,000 tons of soda ash, and 20,000 tons of chemical fiber. If calculated in terms comparable standards, the production of these products shows an increase of varying degree over the previous year.

In the light and textile industry, under the plan, we should carry out 540 technological transformation

projects and invest 1.448 billion yuan in these projects, which is 42.3 percent of the total local technological transformation investment, an increase of 23 percent over the previous year. The major investment orientation is on guaranteeing market demands and expanding exports, increasing brand-name and competitive products, developing new products and intensifying the reprocessing of products. In the light industry, we should continue to grasp the technological transformation of some enterprises producing raw salt, ceramics for daily use, foodstuffs, cigarettes, chemical products for daily use, and industrial arts; and actively trial manufacture and develop new products in line with the needs of urban and rural markets at all levels. This year the province as a whole will strive to develop 1,500 new products at and above the prefectural and city levels. In the textile industry, we should strive to improve product quality, increase product varieties, achieve improvements, strive to expand the production of cotton yarn, grey cloth, particularly high-grade cotton knitting yarn; increase the output of chemical fiber raw materials, knitting and double knitting products; and raise the capacity to process cotton yarn and grey cloth. Meanwhile, we should actively develop textile machinery and the equipment industry, and create conditions for expanding the production capacity of cotton yarn and grey cloth. Under the plan, the 1988 light textile industrial output value should increase more than 9 percent over the previous year. The output of yarn should be 300,000 tons; that of cloth, 1.15 billion meters; that of machine-made paper and paper boards, 610,000 tons; that of cigarettes, 850,000 cartons; that of bicycles, 930,000; that of canned food, 49,500 tons; and that of beer, 300,000 tons.

In machinery, electronics, and other industries, we should focus our attention to key enterprises and products, actively organize specialized coordination and cooperation, speed up the pace of technological transformation, do a good job in digesting and absorbing imported technology, gradually raise the capacity to reprocess and intensively process export products, and strive to greatly improve the product quality and increase the product varieties and output within a short period of time.

C. We should grasp key construction and strengthen the momentum for economic development.

Under the plan, the province's 1988 investment in fixed assets of state-owned enterprises is 8.78 billion yuan. Of this, the investment in capital construction is 4.48 billion yuan, and that in technological transformation is 430 million yuan. In the investment in fixed assets, the state has initially arranged an investment of 920 million yuan for our province to carry out local capital construction projects, a decrease of 34.3 percent from the previous year's plan, and an investment of 1.631 billion yuan for conducting technological transformation, an increase of 24.4 percent. This year's investment in fixed assets is arranged according to this principle: In line with the principle of "three guarantees and three restrictions," we

should further readjust the investment structure, guarantee the construction of key projects, and strive to raise investment returns. In the investment orientation, the state investment in capital construction and technological transformation should be mainly arranged for the energy, communications and raw materials and light and textile industries. The local government's 220 million yuan of budgetary capital construction investment should be mainly used for agriculture, science, and education and be properly arranged for financial, trade, and urban infrastructure facilities and projects. Thirty-two large and medium-sized capital construction projects are arranged in our province by the state in 1988. Of this, 12 are key state construction projects, including Kailuan colliery, Huabei oilfield, Shangan powerplant, Shalingzi powerplant, Tangshan iron and steel company, Tangshan rolling stock plant, Qinhuangdao harbor, Gongsahn phosphate plant, Tangshan soda plant, Datong-Qinhuangdao railway line, Beijing-Tianjin-Tanggu highway, and Baoding paper mill. Meanwhile, the province also arranged 43 key capital construction and technological transformation projects, including Xingtai powerplant, Handan powerplant, Huabei pharmaceutical factory, Chengde steel plant, Shijiazhuang kinescope glass casing plant, Beijing-Chengde highway, Tangshan cotton textile plant, Shijiazhuang No. 6 cotton textile plant, Xushui winery, Tangshan general knitting plant, Tangshan printing and dyeing mill, and Shijiazhuang Changzheng rubber-soled shoe plant. According to plan, 25 projects and single items should be completed and put into operation by the end of this year, including Shangan powerplant's No. 1 generating unit, handan thermal powerplant's No. 9 generating unit, Qianjiaying mine, Fangezhuang mine, Huabei aluminium processing plant's aluminium foil production line, the forth wharf of Qinghuadao harbor, Shacheng-Donghuishe highway, Shanhaiguan brewery, Shijiazhuang No. 1 pharmaceutical factory, handan No. 2 ceramic tile plant, Tangshan building potter plant, Tangshan cement machinery plant, Qinhuangdao refractory material plant, and Chengde crank shaft connecting rod plant. Besides, a number of projects, including teaching facilities of some universities and colleges, hospital wards, the provincial institution of social science, libraries, museum, children's hospital, and plain water-storage floodgate culvert project, should be completed or partially completed within this year.

To ensure the construction speed of key projects and enhance the reserve strength for economic development, the province plans to adopt measures in four fields. First, further strengthen the management of the investment in capital construction projects collected by the province itself. Based on a reduction of 5 percent during last year, the scale of investment in capital construction projects collected by the province itself should be reduced by 9 percent in 1988 on the premise that from this year, the state starts to carry out the method under which key enterprises should subscribe for 50 percent of the bonds for capital construction investment that should be collected by the province itself. Therefore, the targets for

capital construction investment collected by the province this year only can be used to ensure the construction of key projects. Meanwhile, the construction of new projects should strictly be controlled, and the number of non-productive projects and general processing industrial projects should be appropriately reduced. Second, conscientiously sort out on-going projects. The projects whose construction cannot be ensured due to lack of energy resources, raw materials, or funds should be stopped or suspended. Third, collect funds for local power construction and ensure a stable source of funds for power construction. According to the method under which industrial enterprises should pay 2 fen additional charges for use of 1-kwh electricity, from this year, the province should set up the foundation for power construction where funds shall be concentratively and totally used to develop power construction projects according to a unified plan. Fourth, vigorously strengthen pre-phase preparatory projects, do a good job in keeping a number of projects reserved, positively enter the bids for construction projects organized by the state, strive to undertake the construction of increasingly more projects through public biddings, and ensure that a group of new large and medium-sized projects shall start and be completed every year. This year, the province has arranged more than 20 pre-phase construction projects, including the project for diverting Huang He water, Taolinkou reservoir, Heilonggang high-quality cotton production base covering an area of 10 million mu, overall development of coastal areas, agricultural development on Hai He valley plain, Hebei Yidong steel plant, Sijiaying iron ore, Weixian local coal railway line, Qinhuadao acrylic fibres plant, Huanghua port, and railway lines.

D. We should strengthen financial and credit management and reasonably arrange expenses.

The province's 1988 revenue task arranged by the state is 1.145 billion yuan, an increase of 6.7 percent over the figure actually realized in 1987. If calculated in terms of comparable items, the increase is 4.4 percent. The province should regard it as a task that must be fulfilled and must ensure its fulfillment. Meanwhile, another 130 million yuan of revenue is arranged for the province because there are more factors for increasing revenues this year. Thus, the province should strive to fulfill this task. To satisfactorily fulfill the revenue task and ensure the supply of funds for economic construction and various undertakings, this year, the province continues to emphasize increasing revenues and reducing expenses. First, we should continue to carry out and perfect the financial contracted method and further arouse the enthusiasm of the people at various levels to increase revenues and reduce expenses. Second, we should vigorously support production development and cultivate and pioneer new financial resources. Third, we should persist in the method of collecting taxes according to law and strengthen the management of tax revenue work. Fourth, we should reasonably readjust the expenditure structure and strive to strike a balance between revenues and expenditures.

To solve the contradictions of funds shortage and to guarantee steady development in economic construction, we should fully display the bank role in macroeconomic control, further readjust the credit structure, rationally issue credit funds, treat some production, construction and various undertakings in different ways and according to priorities, and strive to adopt rigid but flexible policies to ensure some guarantees and restrictions and the implementation of appropriate measures. Under the plan, all kinds of saving deposits should increase by 4.726 billion yuan, an increase of 15.3 percent over the year-end balance of the previous year; and all kinds of loans should increase 4.702 billion yuan, an increase of 12 percent. The amount of money in circulation is .9 billion yuan, a slight decrease from the previous year. This year's credit work should focus on the following: First, we should persist in saving more money and granting more loans, actively promote some effective methods such as popularizing the contract system among savings banks, actively absorb savings deposits, and increase the sources of funds; second, we should strive to issue all kinds of bonds and stock, and strive by all possible means to collect idle funds to support key construction projects and budgetary projects; third, we should continue to inventory and tap potential, accelerate the circulation of funds, and raise the results of utilizing funds; fourth, we should actively develop the money market, extensively carry out inter-lending loan business among banks, and expand the flow of funds; and fifth, we should fully display the functional role of credit lever, make good use of the limited amount of funds, and promote the development of industrial and agricultural production.

E. We should firmly grasp exports to earn foreign exchange, and further expand the scope of using foreign capital and importing technology.

This year, under the state assigned plan, our province should export \$867 million worth of sundry goods. Our province will arrange \$1.2 billion for this purpose, an increase of 11.7 percent over the previous year. Our province plans to earn \$1.05 billion yuan, an increase of 4.7 percent. To attain the goal of creating foreign exchange through exports, we should act in line with the principle of "assuming sole responsibility for one's own profits and losses, giving free hand in management, combining industry with foreign trade, and promoting the system whereby foreign trade cooperations can act as agents for other enterprises," comprehensively promote the responsibility system in foreign trade contract operations, and further reform the foreign trade system. Meanwhile, we should grasp the construction of export commodity bases, actively organize commodity supply, vigorously produce popular goods and key commodities, further expand the export of machinery and electronic products, and actively develop new products with development potential. Beginning this year, production enterprises that produce new products for entering the international market may have the first-year retention of foreign exchange and may be reduced or exempted from

paying income taxes. Through establishing export risk-taking funds, and carrying out production insurance business for export commodities, we should further safeguard and stabilize our province's supply of export commodities, open up and establish external sales networks, and on the basis of consolidating and developing the traditional markets in Hong Kong, Macao, Japan and South East Asia, adopt flexible trading methods; strive to open up markets in west Europe, north America, and Australia; actively expand exports to Africa, Latin America, and other countries; and increase account-keeping trade [ji zhang mao yi 6068 6348 6319 2496] with Soviet Union and east Europe. It is necessary to realistically strengthen the utilization and management of foreign exchange, guarantee the needs of increasing export production and construction to earn foreign exchange, and strictly control the use of foreign exchange for nonproductive projects. We should establish foreign exchange regulatory centers throughout the province and regulatory centers in Qinhuangdao, Tangshan and Cangzhou cities. Other prefectures and cities should also establish foreign exchange regulatory units, carry out foreign exchange regulatory and trade business, and raise the results of utilizing foreign exchange.

In using foreign exchange and importing technology, according to the arrangements, we should mainly use foreign funds and import technology to develop Qinhuangdao, Tangshan, Cangzhou, and the Bohai Bay development zone, and production enterprises, enterprises to produce export products to earn foreign exchange, enterprises to produce import substitutes, and technically advanced enterprises. Under the plan, our province will sign 32 agreements on using foreign funds involving a total investment of \$63.93 million, of which 12 agreements are concerning the establishment of sino-foreign cooperative projects each involving more than \$1 million. To realistically speed up the pace of using foreign funds and expand and scope of importing technology, first, we should strive to improve the investment environment, formulate more preferential policies, and attract more foreign firms to invest in our province, and firmly grasp the construction of Shijiazhuang custom-house and ensure its operation within this year. Second, we should actively develop "sino-foreign joint ventures, sino-foreign cooperative enterprise and wholly foreign owned enterprises," select some old enterprises with given potential to create foreign exchange through exports and a definite foundation, make public their namelist, absorb investment from foreign firms, and accelerate technological transformation in old enterprises by using the methods of developing sino-foreign joint venture and sino-foreign cooperative enterprises. Meanwhile, we should conscientiously grasp the work of indirectly using foreign capital. Third, we should make pre-phase preparations for some projects and keep the project lists in our file. This year the province has arranged 643 pre-phase projects with foreign funds.

F. We should further develop scientific, educational, cultural, public health, and sports undertakings, and actively promote the building of socialist spiritual civilization.

In 1988 our province's most important scientific and technological task is to invigorate the national economy. While continuing our efforts to deepen the reform of the scientific and technological structure and in line with the strategic ideology of speeding up the transformation of traditional industries, traditional methods and traditional products, we should continue to give priority to the light, textile, building materials and machinery industries, select key topics and tackle them with cooperative efforts, speed up enterprises' technological transformation, and promote the development of industrial and agricultural production. We should actively popularize effective scientific and technological findings that can yield quick results and actively implement the "spark plan" to develop the rural economy. Meanwhile, we should organize capable forces to carry out high-technology research and applied technology research such as microcomputers and biology, and do a good job in developing medicines, public health, environmental protection, and soft science projects. Under the plan, this year the province will develop 10 scientific and technological demonstration counties (cities), 10 advanced scientific research demonstration enterprises, and 20 regional comprehensive scientific development demonstration districts, develop technology in 20 commodity production bases, conduct 40 key scientific and technological research projects, develop 100 major new products and carry out 100 scientific and technological popularization and application projects.

Scientific development and economic invigoration depend on enhancing the quality of laborers and training a large number of qualified personnel. We should continue to attach primary importance to developing educational undertakings and strengthen the development of intellectual resources. Under the plan, we should enroll 18,200 students to ordinary higher educational schools, an increase of 2.1 percent over the previous year; 31,000 students to secondary specialized schools, an increase of 3.3 percent; and 16,500 student to higher educational institutes for adults, an increase of 6.8 percent. To accelerate the development of educational undertakings, we should first continue to implement the plan to popularize the 9-year compulsory education, improve the system of running and managing schools at lower levels, fully mobilize the enthusiasm of all levels and departments, actively develop child-care centers, and enable more children to enter nurseries. Second, we should base ourselves on local conditions to train a great number of personnel to carry out construction undertakings; actively run radio, television, and correspondence education; accelerate readjustment of secondary educational structure; strengthen vocational and technical education; and realistically end the trend of one-sidedly pursuing the rate of admission to a higher school. Third, we should check and ratify some development targets

and construction scale of some institutions of higher learning, further readjust specialized courses in line with the needs of developing economic construction, and actively support the development of some specialized courses such as the light industry, textile industry, and foreign economic relations and trade. Fourth, we should further grasp adult education, on-the-job training, and rural educational experiments. Fifth, we should strive to improve teaching conditions, and reduce financial expenditures. Under the situation in which we strive to control the investment scope, this year our province will still increase its capital construction investment in educational undertakings by 42.4 percent. Sixth, we should continue to strengthen the ideological and political work on the educational front, encourage students to extensively develop social contacts, strive to improve educational quality and train personnel to become well educated and self-disciplined citizens with lofty ideals and moral integrity.

All cultural undertakings, including literature and art, press and publication, and radio and television, are shouldering heavy responsibilities in building the socialist spiritual civilization. We should firmly center our work around economic construction; persist in the four cardinal principles; uphold the principle of reform and opening up; consider social benefits as the highest standard; resolutely consolidate and ban illegal publications; strive to raise the quality of intellectual products; use practical achievements in economic construction, reform and opening up and the masses' personal experience to conduct vivid educational on ideas, moral education and education on discipline; and boost the provincial people's great enthusiasm and creative spirit. Under the plan, we should print 1.549 billion copies of publications. The rate of television coverage should be 79.5 percent and the province's files stored in archives should increase to 3.34 million copies.

We should continue to develop public health undertakings, strengthen prevention and health protection work, improve urban and rural medical treatment and public health conditions, and increasingly cultivate more medical professionals for the rural areas. The province plans to increase 3,440 new hospital beds and have 204,700 specialized health workers. It is necessary to strictly control the population growth rate, and unswervingly attend to the family planning work, particularly, in rural areas. This year, the province should strive to control its natural population growth rate within 13 per thousand. We should further develop sports undertakings, extensively and deeply launch mass sports activities, and strive to make greater achievements. We should strengthen environmental protection work, pay attention to disseminating and implementing the "law on preventing air pollution," emphatically control air dust pollution, and comprehensively improve urban and rural environments.

G. We should make a good market arrangement, stabilize goods prices, and continue to improve the people's livelihood.

Increasing commodity supplies and keeping the market brisk and the people's livelihood stable is an important content of planned arrangement. It is estimated that this year, the province will have a comparatively big gap between the purchasing power of commodities and the volume of commodities to be supplied. The commodity structure is uneven. In particular, there are great contradictions between the supply and demand of high- and medium-grade durable consumer goods, quality chemical fertilizer, diesel oil, and plastic films. To continuously improve the people's livelihood based on production development, the total volume of retail sales of commodities is estimated at 31 billion yuan, an increase of 14.4 percent over 1987. If the factors for price hikes are included, the income of the people in both urban and rural areas should continue to increase when compared with that of last year. We must adopt the following major measures. 1) We should vigorously increase the production of readily marketable consumer goods, positively popularize the experiences gained by Chengde and Shijiazhuang Cities, stabilize vegetable growing areas, ensure the supply of grain and chemical fertilizer for vegetable growers, and conscientiously organize the production of ordinary vegetables. It is necessary to implement the policies on raising hogs and chickens, positively support specialized households, and develop large-scale production. This year, the province plans to allocate 470 million jin of grain to develop forage processing industries and support hog raising industry. 2) We should substantially strengthen the management of commodities that is related to the national economy, the people's livelihood, and the market stability situation. It is necessary to strictly enforce state regulations on the prices of grain, oil, and major industrial products for daily use. Except for the management departments defined by the state, no units are allowed to manage the major means of production, such as chemical fertilizer, diesel oil, plastic films, and farm chemicals. 3) State commercial cooperatives should bring their major roles into full play; further expand the cooperation between industry and commerce, between agriculture and commerce, between agriculture, industry, and commerce, and between different commercial enterprises; and strengthen the work of purchasing commodities from localities and other places to do a good job in organizing sources of goods; and ensure a good market supply, particularly, the supply of foodstuffs, such as meat, eggs, and vegetables, for the cities. 4) We should strengthen supervision and examination of goods prices and do a good job in market consolidation. Except for the industrial and commercial enterprises that are delegated with powers to price management with approvals, no units are allowed to arbitrarily raise goods prices. We should resolutely eliminate and punish enterprises that monopolize markets or engaged themselves in the law-breaking activities of arbitrarily raising goods prices and disrupting the market. We should strictly deal blows at the activities of speculation and profiteering, and eliminate unlicensed pedlars and fake and low-quality commodities to keep the province's urban and rural markets in good order.

meanwhile, we should apply a price lever to correctly guide consumption to make consumption be adapted to production development and the growth rate of labor productivity.

**III. We should let reform dominate the overall situation, do our work in a down-to-earth manner, and comprehensively fulfill the 1988 plan.**

We must do a lot of work to smoothly realize the goals and tasks defined in the plan. However, the fundamental tasks are to deepen and accelerate the reform work, let reform dominate the overall situation, and conscientiously solve the contradictions and problems cropping up while advancing. The province's actual conditions show that we must emphatically grasp the following four great tasks as well as conscientiously accomplish the specific tasks defined in the plan.

A. We should focus our work on improving enterprises' operational mechanism and further deepen the economic structural reform.

In 1988 our province's economic structural reform should be focused on firmly grasping the key link of invigorating enterprises, particularly large and medium-sized enterprises and further improving enterprises' operational mechanism. First of all, we should continue to actively promote the enterprise responsibility system in contract business operations, and gradually improve, deepen and develop this system to make it more coordinated. We should continue to introduce competition into contracts, invite public biddings and select contractors through competitions. We should further improve contracts, actively promote "two guarantees and one link-up" (guarantee state financial revenues, technological transformation and increase in the value of state property, and link enterprises' total payroll with their economic performance,) raise the rate of success, and gradually establish self-regulating mechanism for enterprises. Second, we should further invigorate enterprises' internal distribution, and actively promote the piece wage rate system and fixed wage system while promoting the method of linking enterprises' total payroll with their economic performance. Within the scope of the state-stipulated total payroll and on the premise of keeping the wage scales on file, we should allow enterprises to break their existing wage scales and implement various wage distribution methods. Third, we should continue to improve the enterprise leadership system and attend to labor and personnel system reform. Our main job in this regard is to perfect the plant director responsibility system and guarantee plant director's key positions in enterprises. It is necessary to improve the relations among the party, administrative units, and workers; establish and improve the enterprise management committees; strengthen democratic management; fully display the role of workers' congresses and trade unions; and expand the experiments of invigorating the regular workers system along with the popularization of the responsibility system in contract business operations,

and achieve various kinds of the optimum labor organizations. Fourth, we should continue to promote and improve all forms of the leasing system among small state-owned enterprises and collective enterprises, and try out the method of transferring the property right of enterprises that incur losses for a long time and are on the verge of bankruptcy to other enterprises or merging them together. The stock-sharing system should be tried out among enterprise associations and cooperative enterprises. Continued efforts should be made to deepen lateral economic cooperation, develop enterprise associations that mainly produce brand-name and quality products and are supported by key enterprises, combine scientific research with production, and gradually form a group of capable enterprise associations in an effort to rationalize the organizational structure of enterprises and to promote enterprise technological progress.

To create a good external environment for enterprises, we should continue to grasp the whole range of reforms. First, we should reform the foreign trade system and do a good job in grasping delegation of powers and the contract system. It is necessary to gradually delegate foreign trade operational powers to prefectures, cities and counties with favorable conditions and some production enterprises. We should comprehensively promote the responsibility system in contracting construction projects and labor services abroad. This year the state-assigned export plans and the base figure of export tasks arranged by the province will be all contracted to provincial specialized import and export companies or to the city governments that enjoy the delegation of powers in foreign trade operations. Second, we should reform the investment system, and organize the provincial investment company. It is necessary to change the method of financial allocations and investment distributions according to regions and departments, establish the capital construction fund system, and guarantee stable sources of funds for key construction projects. We should implement the investment contract and public bidding systems in some items and projects, pay for the utilization of investment, and gradually realize a benign cycle in investment. Third, we should reform the materials system, and on the basis of strengthening overall balance in some major materials, curtail the mandatory plan in a step-by-step manner. We should apply economic means to regulate the relationship between materials supply and demands, depend on key cities, and establish and develop markets for the means of production. We should continue to promote and improve Shijiazhuang city's experience in developing markets for the means of production. Meanwhile, beginning this year, the province has implemented the individual development plans in 9 cities under the jurisdiction of prefectures. In addition, we should continue to grasp a whole range of reforms, including reforms in the banking, financial, price and commercial sectors.

To gradually realize the commercialization of houses, we should reform the housing system in a planned, step-by-step manner. Tangshan City worked out a trial plan for

reforming the housing structure last January. Shijiazhuang and Xingtai Cities made investigations and estimated calculations in the first half of this year and will strive to work out plans in the third quarter. Simultaneously, four county-level cities, including Zhuozhou, Renqiu, Xinji, and Shahe; and every county of the province's nine prefectures, and Shijiazhuang, Tangshan, and Qinhuadao Cities have been defined to conduct housing structural reform on a trial basis. They will strive to work out reform plans in the fourth quarter of this year.

B. We should organize forces to implement the strategy for relying on science and technology to rejuvenate Hebei, and continuously deepen the scientific and technological reform to enliven the scientific research institutions and relax the restrictions of the policies toward science professionals and technicians.

The key to implementing the strategy for relying on science and technology to rejuvenate Hebei hinges on correctly implementing the principle under which economic development depends on science and technology, and scientific and technological development is geared to the demands of the economic development. We should further deepen the reform work to enliven scientific research institutions and relax the restrictions of the policy toward science professionals and technicians. A mechanism where science and technology is closely linked with the economy should take shape to promote economic development. With regard to enlivening scientific research institutions, we should attend to the following tasks this year. First, we should comprehensively carry out the institution heads responsibility system. Scientific research institution heads should assume full responsibility for the institutions' professional work and administrative management. Second, we should generally carry out the contracted management system in line with the principle of separating ownership from management right, the units where conditions permit are allowed to invite contractors through public biddings. The contract system should be carried out among various layers within the scientific research institutions. Simultaneously, decision-making powers should be expanded appropriately. The leasing operation system can be carried out among scientific research institutions that have bad management, poor economic results, and fewer staff and fixed assets. Third, the practices of equalitarianism and "mess together" existing in the distribution system should resolutely be eliminated. The system of linking contracted targets with wages and bonuses should be carried out among the technological development and scientific research institutions to arouse the enthusiasm of the staff and workers of these institutions. Fourth, scientific research institutions shall enjoy tax reduction or exemption, and remit business and income taxes from technological transfer, technological consultation, technological service, and technological contract. Fixed-term product taxes and increment taxes shall be remitted from the units with new products to

manufacture. Fifth, we should vigorously develop scientific-research and production associations. On the premise of voluntary participation and mutual benefits, technological development and research institutions should be encouraged and supported to enter enterprise groups to develop the combination between scientific and technological work and the economy from initial level to advanced level, from short term to long term, and from relaxed type to closely integrated type, and to gradually establish associations for linking scientific and technological research with production.

With regard to delegating powers to science professionals and technicians, we should extensively mobilize and organize science professionals and technicians throughout the province, and invite scientific and technological forces from the places outside the province to enter the major battlefield of the province's economic construction. The contracts undertaken by science professionals and technicians should be changed from scattered and single-layered type to overall multi-layered type with various regions, trades, and industries involved so that various forms of technological and economic entities to promote technological development, technological service, and technological trade will take shape. This year, we should pay attention to the work in three fields. 1) Science professionals and technicians should be encouraged and supported to undertake, on a contracted basis, the development of fruit, cropping, and breeding industries in the rural areas; to run small or town and township enterprises on a contracted basis; and to run individual or integrated technological development and service organizations. The science professionals and technicians of talent-intensive universities, colleges, and graduate schools should be encouraged and supported to run various forms of companies, technological development and service organizations, and enterprises in the urban areas. 2) Delegating powers to science professionals and technicians should organically be linked with regional development, the construction of commodity production bases, and the implementation of the items covered in the spark plan. We should organize, in a well-planned manner, a group of science professionals and technicians to undertake these scientific and technological tasks coordinately on a contracted basis. The areas where scientific and technological tasks are assigned should be positively supported to cooperate with the technology-intensive units to form overall and long-term ties between various sciences. 3) Competition mechanism should be introduced to various technological contract activities. Science professionals and technicians should extensively be mobilized and encouraged to enter public biddings.

C. We should accelerate opening our province to the outside world, and greatly develop the export-oriented economy.

Recently, after designating Qinhuangdao as an open city, the State Council newly included the cities of Tangshan and Cangzhou and the coastal counties of Fengnan,

Luannan, Leping, Tanghai, Luanxian, Cangxian, Qingxian, Huanghua, Haixing, Changli, Funing and Lulong in the Bohai Bay open economic zone. This strategic issue concerns the overall situation of the national economic development of the entire province. To accelerate opening our province to the outside world, the most important work at present is to emancipate the mind; renew concepts; enhance the sense of opening up, the sense of urgency and the sense of historical responsibility; lose no time in organizing the strategic implementation for the economic development of coastal areas; and adopt more effective measures to expedite the construction of the Qinhuangdao-Tangshan-Cangzhou Bohai Bay open zone and enable it to be the first to join the great international economic cycle. The work in the following five areas should be emphasized this year. First, we should organize forces and replenish the contingent of specialized personnel to formulate the plan for the development of the export-oriented economy of the open zone in the first half of this year, and specifically define the guiding ideology, fighting goals, capital construction and technical transformation projects, arrangements for harbors, production bases designed for foreign trade and export, and corresponding countermeasures. Second, we should formulate as soon as possible opinions on the concrete implementation of the relevant preferential policies of the State Council and the province for the open zone, and adequately, successfully and flexibly carry out the policies of the central authorities. Third, we should make a success of the beginning, pay attention to the "six groups," increase exports and expand imports. 1) We should select an additional group of products whose export may be expanded in the near future, and work out measures and concentrate efforts to increase the export of these products and earn more foreign exchange within a fairly short period of time. 2) We should select a group of large and medium-sized enterprises which produce export goods, and grant them the power to conduct business directly with foreign countries so that enterprises can have more ability to cope with changes in the world market and earn more foreign exchange. 3) We should select a group of enterprises which have potential to earn foreign exchange through export, are provided with fairly good conditions, and need technical transformation urgently, and make their name public to foreign countries to attract foreign firms to invest in and buy stocks from them and accelerate their technical transformation. 4) We should emphatically exert efforts to successfully run a group of Chinese-foreign joint ventures and cooperative enterprises, and enterprises run exclusively with foreign investment, and actively develop the "three forms of processing and compensation trade" to expand the scope of direct foreign capital utilization. 5) We should select a group of township enterprises, and actively support them so they can gradually establish an economy of scale in the development of labor-intensive export products. 6) We should select a group of base areas producing farm and sideline products for export; improve their level, quality, and grade through efforts to improve their management and technology; and first coordinate production and

serialized development, and gradually turn them into foreign exchange-earning agricultural enterprises. Fourth, we should improve the investment climate, emphasizing construction of such infrastructural facilities as water and power supply, roads, harbors and telecommunications, and key projects. Fifth, by focusing on increasing export, producing import substitutes, and mastering and applying advanced technology, we should organize a group of enterprise groups and production associations, gradually establish a network for production cooperation and economic influence, pool their efforts to develop the export-oriented economy, carry out import and export on a large scale and put supply of raw materials and the marketing of products on the world market to meet the need in export, and facilitate our province's development of the export-oriented economy.

D. We should carry out the campaign to increase production, practice economy, increase revenues and reduce expenditures more extensively and thoroughly, with the focus on improving economic results.

Last year our province achieved notable results in the campaign. However, potential in many areas remains to be tapped. In particular, the phenomena of extravagance and waste are still very serious, the contradiction in product mix is conspicuous, and energy resources, raw materials and funds are lacking. To comprehensively fulfill this year's tasks, we should continue to intensify this campaign. With the present focus on greatly improving the economic results of production, construction, circulation, and other fields, we should pay particular attention to the following aspects. 1) We should produce more farm and sideline products, light industrial and textile products, energy, and undersupplied raw materials. In particular, we should adopt every possible means to organize the production of meat, eggs, and vegetables the supply of which are strained in the market to ensure market supply. In industrial production, while ensuring the stable and full operation of existing power generating equipment to increase power supply for industrial and agricultural production, we should particularly increase the production of 44 products that include rolled steel, cotton yarn, cloth, antibiotics, crude salt, chemical fertilizer, pesticides, and caustic soda. We should adopt resolute measures to eliminate or restrict the production of unsellable and overstocked goods. Meanwhile, we should pay close attention to production safety, and prevent serious mishaps. 2) We should further attach importance to work to stop deficits and increase profits. Concerning enterprises that earn a great amount of profits, we should enforce linking increased profits with the interests of the enterprises and their staff and workers so as to encourage enterprises to achieve new levels of profit-making. Concerning money-losing enterprises, whether industrial or commercial enterprises or architectural construction enterprises, we should actively institute the contracted management or leased management systems and map out methods of reward and punishment to encourage them to stop losing money within a

fixed period. This year the province plans to reduce the deficits of industrial enterprises by more than 15 percent and those of commercial enterprises by more than 20 percent. 3) We should strengthen enterprise management, greatly improve product quality, and reduce material consumption. We should popularize the "full-load operation method," actively launch activities designed to raise the level of enterprises, strengthen quality supervision, and improve enterprise management. In capital construction, we should act strictly according to procedures, continue to apply bid invitations and entrances and the responsibility system to the entire process of construction, strengthen management over construction, shorten construction time, reduce construction costs, and improve construction quality and investment returns. We should further perfect the method of rewarding raw material conservation, expand the scope of the reward, clearly define the standards for rewards and punishment, and strive to raise the stable quality improvement rate of the major industrial products of the province to above 80 percent, lower the stable material consumption reduction rate of major products to 70 percent, and conserve 1 million tons of standard coal. 4) We should accelerate the turnover of circulating funds and do a good job in sales to clear warehouses. All enterprises should strengthen management of circulating funds, reduce the goods in stock, reduce circulation costs, and increase the returns from fund utilization. We should continue the multifomed contract responsibility system in purchases and marketing, give rewards and punishments according to contract, and expand sales. It is planned that the income of industrial enterprises throughout the province from their sales will increase by more than 10 percent over last year, the growth of funds tied up in manufactured goods be kept within 6 percent, the amount of overstocked goods be kept within 5 percent of the total amount of goods in stock, and the commodity circulation cost be reduced by 1 percent from the previous year. 5) We should strictly enforce financial and economic discipline, and economize on various expenses. In particular, we should strictly control institutional purchases, economize on administrative expenses through all possible means, and resolutely oppose extravagance and waste. We should adopt various effective measures to score greater achievements in the campaign to increase production, practice economy, increase revenues and reduce expenditures.

Fellow deputies! Three months have elapsed in the year of 1988. Judging from the current situation, the national economic development of the entire province maintains a good trend. Summer grain is growing well and the growth of seedlings is better than last year. Industrial production increases in a sustained manner, with the January-March output value totalling 10.668 billion yuan, 17.4 percent higher than the corresponding period last year. Revenue totalled 1.488 billion yuan, 16.6 percent over the corresponding period last year, and the commodity retail sales volume reached 8.116 billion yuan, 24.4 percent over the corresponding period last year.

In general, our province's current economic situation is good. We have many favorable conditions despite the numerous difficulties on our road of advancement. As long as we unfailingly implement the guidelines of the 13th party congress and the various resolutions of the first session of the Seventh NPC, deepen reform and accelerate opening up by focusing on the central task of economic construction, actively carry out the strategy of "developing Hebei through science and technology," continue to carry forward the fine tradition of plain living, arduous struggle, and building up the country through thrift and hard work, and complete work in various fields in a down-to-earth manner, the 1988 national economic and social development plan will be fulfilled comprehensively, and the entire national economy and various social undertakings will develop in a sustained and stable manner.

### **Financial Report at Hebei Congress**

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[Report on Hebei Province's 1987 final accounts and on the draft provincial budget for 1988, delivered by Han Xizheng, director of the Hebei Provincial Financial Department, at the first session of the seventh provincial People's Congress on 25 April 1988]

[Text] Fellow deputies:

Entrusted by the provincial People's Government, I now submit a report on the province's 1987 final accounts and on the draft 1988 budget for examination by the present session.

#### **I. Final Accounts for 1987**

In 1987, under the leadership of the provincial party committee and the provincial government, the people throughout the province conscientiously implemented the guidelines of the national meeting participated in by governors of various provinces and the fifth session of the sixth provincial People's Congress; extensively launched the campaign of increasing production and practicing economy and increasing revenues and reducing expenditures; and made further efforts to deepen enterprise reform. As a result, gratifying achievements were scored in the province's share of the national economy. Industrial production went up steadily, and the vitality and economic efficiency of enterprises improved remarkably. In agriculture, despite serious natural calamities, the output of cotton and other cash crops increased over the previous year; however, the grain output dropped slightly. Urban and rural markets expanded, and purchases and sales on these markets were brisk. Based on this, the province's budget was implemented well, the task of financial revenues was overfulfilled, and expenditures on major items increased somewhat, thus promoting the development of economic

structural reform and cultural, educational, and scientific undertakings and achieving a balance between revenues and expenditures, with a small cash surplus in hand.

In the 1987 provincial budget adopted by the fifth session of the sixth provincial People's Congress, revenues were projected at 5,443,640,000 yuan. Total year-end revenues were 5,761,560,000 yuan, 105.8 percent of the budgeted figure, or a 12.6-percent increase over the previous year. Major sources of revenues were: 1) Revenues from industrial and commercial taxes amounted to 4,786,550,000 yuan, 104.8 percent of the budgeted figure, or an 11.5-percent increase over the previous year. This increase resulted primarily from the developed economy, the strengthened management of tax levies, and the start of collecting real estate tax and vehicle and vessel utilization taxes. 2) Revenues from enterprises amounted to 563,770,000 yuan, 97 percent of the budgeted figure, or a 10.7-percent increase over the previous year. The failure to fulfill the target for enterprise revenues resulted primarily from the increased purchase price of meat, eggs, and vegetables and from the 32.29 million yuan of above-quota deficits incurred by commercial enterprises. Revenues from industrial enterprises were relatively good. Revenues from industrial enterprises amounted to 677,940,000 yuan, 109.5 percent of the budgeted figure, or a 16.3-percent increase over the previous year. 3) Agricultural taxes amounted to 198,260,000 yuan, 98.7 percent of the budgeted figure, or a 7-percent increase over the previous year. 4) Revenues from pollution drainage and water resources charges amounted to 143,280,000 yuan, or 238.8 percent of the budgeted figure.

The 1987 provincial budget adopted by the fifth session of the sixth provincial People's Congress projected total expenditures at 4,280,610,000 yuan. In the course of implementation, because additional funds for special use by the central authorities were collected and special financial surplus and reserve funds from the previous year were drawn on, the expenditure target was readjusted to 6,040,360,000 yuan at the end of 1987. This change in expenditures had already been reported to the Standing Committee of the provincial People's Congress. In the present itemized final accounts, total expenditures were 5,332,790,000 yuan, fulfilling the expenditure target by 88.3 percent, or a decline of 0.9 percent from the previous year. Deducting the factors of issuing subsidized purchase prices for above-quota grain and edible oil and allocating operational expenses, the implementation of the expenditure budget generally normal. Implementation of major expenditure items were: 1) Appropriations for capital construction (the portion covered by the provincial budget) totaled 390,270,000 yuan, fulfilling the budgeted target by 84.7 percent, or a 31.2-percent increase over the previous year. 2) Allocations for tapping the potential of enterprises, for carrying out transformation projects, and for developing the three scientific and technological projects amounted to 186,280,000 yuan, fulfilling the target by 84.6 percent, or

a 42.2-percent decline from the previous year. Of this, allocations for developing the three scientific and technological projects declined by 18.6 percent from the previous year. 3) Aid to agriculture and other operational expenses for agriculture came to 410,420,000 yuan, which was 82.3 percent of the expenditure target, or a 2.2-percent increase over the previous year. 4) Operational expenses for culture, education, science, and public health services totaled 1,542,200,000 yuan, which was 96.4 percent of the expenditure target, or a 5.5-percent increase over the previous year. 5) Administrative and management expenses came to 705,830,000 yuan, which was 95.6 percent of the expenditure target, or a 5.5-percent increase over the previous year. 6) The expenditure for price subsidies came to [illegible] (?5,332,790,000) yuan. We had a year-end balance of 937.5 million yuan. Of this, we turned over 645.74 million yuan as all kinds of special funds for next year's use and 251.74 million yuan of funds for next year's energy, pollutant disposal, water resources, and capital construction projects; therefore, our province's net balance was 40.02 million yuan.

In addition, during 1987 the province collected 453.47 billion yuan for key energy and communications projects and sold 276.88 million yuan worth of state treasury bonds. These two state-assigned tasks were fulfilled in a better manner.

In 1987, in order to fulfill budget and revenue tasks, the provincial People's Government conscientiously implemented the guidelines of the national meeting of governors and adopted a series of policies and measures. People's governments at all levels and departments concerned did much and scored remarkable achievements in developing production, opening up financial resources, increasing income, reducing expenditures, advancing reform, and strengthening management.

A. We actively conducted the campaign to increase production, practice economy, increase revenues, and reduce expenditures. In line with central plans, we considered this campaign as a major matter in stabilizing the economy. In the beginning of the year, the provincial government held meetings of commissioners and mayors to make arrangements for the campaign. At mid-year, it also held meetings on several occasions to examine and supervise the work and put forward the demand of "increasing income to mend the gaps and reducing expenditures to ensure financial balance." All localities and departments formulated specific measures, organized a large group of cadres to go deeply to the grassroots levels to conduct investigations and study and to help them solve practical problems. They reported the situation to the higher authorities at regular intervals; commended the advanced; promoted the deep development of the campaign to increase production, practice economy, increase revenues, and reduce expenditures; and achieved fairly good results in this regard. In 1987 the province's budgetary industrial output value increased 15.84 percent over the previous year, sales

income increased 22.62 percent, profits and taxes increased 25.5 percent, profits and tax delivery increased 14.1 percent, deficits declined 35.91 percent, and the turnover period for working funds accelerated by 2 days. Financial revenues of 18 prefectures and cities universally increased. The province succeeded in controlling its financial expenditures and ended the situation in which the administrative expenses increased by a large margin during the past few years. Expenditures for public utilities funds dropped by 6.6 percent from the previous year. Of this, the fund for repairing facilities declined 22 percent and the fund for buying facilities declined 38 percent. The purchase volume of 18 special controlled commodities declined 16.2 percent from the previous year. Of this, sales of small cars went down by 1,141, a 33.7-percent drop.

B. We deepened reform and promoted the development of finance and the economy. By regarding the popularization of contracted management as the focus of deepening enterprise reform, in coordination with departments concerned and in line with the principles of ensuring a stable increase in the state revenues, ensuring a constant increase in enterprises' momentum, and ensuring a gradual improvement in workers' living standards, in 1987 the financial and tax departments at all levels made a conscientious appraisal of enterprises' assets, reasonably defined the basic figure and tasks of contracts, became involved in signing contracts, and conscientiously supervised the implementation of contracts. At the same time, these departments actively helped enterprises to perfect their internal operational mechanism and improve their financial management and economic accounting, thus enhancing the enterprises' vitality and improving their economic efficiency. By the end of 1987, 91.5 percent of the province's budgetary industrial enterprises and 73.7 percent of the province's large and medium-sized commercial enterprises instituted diverse forms of contracted management. According to statistics on 398 large and medium-sized industrial enterprises which implemented contracted management, the output value in 1987 increased by 18.2 percent over the previous year, sales increased by 25.7 percent, profits increased by 36 percent, and the profits handed over to higher authorities increased by 15.5 percent. Of the 36 large and medium-sized enterprises which carried out contracted management and whose annual profits and taxes were more than 10 million yuan each, profits retained increased by 40.9 percent. Of their profits retained, 69.3 percent was spent on developing production. In the course of promoting contracted management among enterprises, we introduced the contract system into financial structural reform. Provincial authorities assigned fixed quotas of revenues and expenditures to the prefectural and city authorities; prefectural and city authorities adopted measures to encourage various counties (districts) to increase revenues; and county (district) authorities adopted measures to encourage various townships and towns to increase revenues. As a result, all levels were mobilized to increase revenues and reduce expenditures.

In addition, in accordance with state stipulations, we began to levy some new categories of taxes; readjusted some tax policies; continued to turn institutions into community-oriented enterprises; and explored new ways to strengthen management of extra-budgetary funds, expand the realm of money management, and develop the financial credit service.

C. We strengthened the collection and management of tax revenues and vigorously cultivated revenue sources. Governments and financial and tax departments at all levels conscientiously implemented the guidelines of the State Council's "Decision on Enforcing Tax Laws and Discipline and Strengthening Tax Work"; cleared up illegal tax exemptions and reductions; conducted registration and examination of various types of enterprises; universally appraised the taxpayers' tax payments; continued to set up an accounting system among private business units; dispatched personnel to large and medium-sized enterprises to supervise financial work; dealt with a number cases of tax evasion and resistance and cases of beating tax collectors; and explored new ways to implement the tax target managerial responsibility system, thus further strengthening the collection and management of tax revenues. At the same time, financial departments at all levels actively supported production and vigorously cultivated financial resources. The province as a whole raised and issued 230 million yuan in circulating funds, 38 million yuan to support poor areas to develop production, 350 million yuan in tax exemptions and reductions, and 890 million yuan to help enterprises repay their loans with tax delivery or before tax delivery. As a result, production development was promoted, financial resources were expanded, and revenues increased steadily.

D. We strengthened the management of funds and raised the efficiency in utilizing funds. In line with the guidelines of the national meeting participated in by governors of various provinces, we adopted measures to further "cool the over-heatedness" and controlled the scale of investment in capital construction. We also formulated regulations to curtail administrative and operating expenses and set forth strict demands and specific assessment targets. At the same time, we appropriately increased investment in agriculture and education. In 1987 appropriations for aiding agriculture increased by 2.2 percent over the previous year and those for educational undertakings increased by 4.8 percent, thus supporting agricultural production; further improving teaching conditions; and promoting the development of cultural, educational, and public health undertakings. During the year, the province as a whole built and continued to build 61 small support reservoirs; drilled 61,219 machine pump wells; added 566,200 mu of effective irrigation land; completed 3,173 drinking water projects; solved drinking water difficulties for 849 villages, 990,000 people, and 150,000 draft animals; helped 22 counties to build grain production bases; and scored fairly good achievements in maintaining and strengthening dikes, improving alkaline land, planting trees,

improving grassland, and expanding sea- and fresh-water fish farming. In 1987 the province had 20.3 percent more postgraduate students than in the previous year; the total number of students in ordinary schools of higher education increased 6.3 percent over the previous year; and the total number of students in all kinds of secondary and specialized technical schools increased 11.3 percent. In addition, we repaired dangerous school buildings having a total floor space of 2.978 million square meters and bought a number of books and teaching materials. At year's end, we had 133.2 million hospital beds, an increase of 8,200, and built and rebuilt 7 libraries and 5 museums.

E. We strengthened financial supervision and strictly enforced financial and economic discipline. In line with the State Council's arrangements, governments at all levels conscientiously organized general inspections on taxation, financial affairs, and prices. Based on universal self-inspections, the provincial government dispatched work groups headed by department- and bureau-level cadres to go deeply to various prefectures and cities to supervise the general inspection work. All prefectures and cities attached great importance to this work and dispatched a total of 27,385 cadres, who formed 6,921 inspection groups, to check 189,000 state and collective enterprises, administrative establishments, and units and individual industrial and commercial business households. They discovered 348 million yuan of illicit money, recovered 224 million yuan, and delivered 183 million yuan to the state treasury. In addition, they publicly tried a number of typical cases whose problems were serious and vile and did a good job in strictly enforcing financial and economic discipline.

Although our province scored certain achievements in financial work in 1987, some problems still existed. Losses and waste in the production and circulation spheres remained comparatively serious; enterprises had low operational and management levels; and the potential to increase revenues and reduce expenditures was not fully tapped. After the central financial department got loans from the local governments, our province's available financial resources declined. The rise of expenditure standards and the personnel increase in administrative and business units caused a serious shortage of economic construction funds and funds for developing various social undertakings. Financial departments at all levels were in a difficult position. Although we increased agricultural and educational expenditures every year, the operational funds were not increased much, because the proportion of funds for personnel was greatly increased. We initially reformed the financial and tax structures; however, our steps in this regard were not big enough. We were still far from meeting the demands of economic development. We failed to strictly supervise financial and tax affairs. The phenomena of tax evasion; unjustified production costs; withholding revenues which should have been handed over to the state; arbitrarily issuing bonuses, subsidies, and articles; lavish spending;

extravagance; and waste remained fairly serious. These problems will be conscientiously solved in our future work.

## II. Draft Budget for 1988

In line with the principle of the central authorities on further stabilizing the economy and deepening reform and our province's plan for national economic development, we have drawn up the province's draft budget according to the following principles: We should continue to carry out the campaign "to increase production, practice economy, increase revenues, and reduce expenditures; further deepen enterprise reform; raise economic results; actively cultivate and open up financial resources; maintain a stable increase in financial revenues; persist in the principle of acting according to our financial capacity; guarantee the necessary operational expenses for personnel; continue to increase investment in agricultural, educational, and scientific undertakings; vigorously reduce public funds and all expenditures that can be curtailed; and strive to realize a balance between our province's financial revenues and expenditures. Our province's 1988 state-assigned revenue task is 6,144,880,000 yuan (including 30 percent, or 132.3 million yuan, of the energy and communications funds to be shared by our province). This is an increase of 6.7 percent over the previous year. Excluding the energy and communications funds, the actual increase is 4.4 percent in terms of comparable standards. This task has been decomposed and assigned to various localities for fulfillment without fail. Meanwhile, considering this year's actual situation in which there are many causes for increased expenditures, we again arranged to increase revenues by 130 million yuan, which will be regarded as a task we expect and should strive to fulfill. The essential breakdown for the revenue is as follows: 5,221,960,000 yuan in industrial and commercial taxes, 9.1 percent more than the previous year's total; 208.42 million yuan in agricultural taxes, 7.2 percent more than in the previous year (the taxes were reduced and exempted last year because of disasters); 478.84 million yuan from the income of enterprises, a decline of 15.1 percent from last year's total, primarily because the income of enterprises will decrease due to state's stipulation to raise the charge for every kilowatt-hour of electricity for industrial use by 0.02 yuan and its collection of urban land-use taxes and stamp taxes; 73.91 million yuan in special funds (such as sewage and water resource funds); and 29.45 million yuan from other sources.

In addition, the state also assigned our province to sell 399 million yuan of treasury bonds, and this task has been distributed.

Based on the aforementioned revenue budget, and calculated in line with the current financial system, the province's annual revenue is 6,012,580,000 yuan (excluding the energy and communications funds). Of the total, 1,771,360,000 yuan will be turned over to the central authorities. The remainder, plus the portion our

province is entitled to share, and the amount returned by the central authorities after final accounts are completed brings our province's total usable financial resources to 4,347,740,000 yuan, 7.1 percent more than the previous year in terms of comparable standards. When the 645.74 million yuan carried over from the previous year is added, this year's expenditure budget totals 4,993,480,000 yuan. In the process of carrying out this expenditure budget, the central financial authorities will continue to collect additional special funds from us, and we will adjust the budget accordingly. The essential breakdown for this year's expenditure is: 251.48 million yuan for capital construction, 41.8 percent more than the previous year's budget; 69.21 million yuan for enterprises to tap potential and carry out renovations, a decline of 2.7 percent from the previous year's budget, because the funds owned by enterprises have increased every year and some potential-tapping and renovation projects will be undertaken by enterprises as enterprises retain all the depreciation funds and increase their profit-sharing percentage; 83.6 million yuan for three scientific and technological projects and for scientific undertakings, 10.2 percent greater than the previous year's budget; 367.76 million yuan for supporting rural production and agricultural undertakings (excluding the special funds allocated from farmland use taxes), 15.9 percent more than the previous year's budget; 1,428,840,000 yuan for cultural, educational, and public health undertakings, 4.8 percent over the previous year's budget, of which education funds total 898.7 million yuan, an increase of 8.3 percent, and public health funds total 236.81 million yuan, an increase of 7.8 percent; 151.42 million yuan for pension, social welfare, and relief work, 17.5 percent over the previous year's budget; 657.78 million yuan for administration funds (including expenses by public security, procuratorial, and judicial departments), 5.9 percent over the previous year's budget; and 476.56 million yuan for subsidizing prices, an increase of 14 percent over the previous year's budget.

It should be pointed out that the contradiction between the demand and supply of funds is very conspicuous in 1988. Economic development and intensified reform have provided favorable conditions for expanding financial resources and increasing revenues; however, they have also caused reduced the revenues and increased expenditures. In line with the state's requirements and the actual situation of our province, we have paid attention to the following factors when arranging the budget.

A. We have properly increased the investment in intellectual resources to promote the development of cultural, educational, and scientific undertakings. Over the last few years, our province has greatly increased operational expenses for these undertakings. During the Sixth 5-Year Plan period, the average annual increase was 16.7 percent and grew to 19.2 percent in 1986. Last year, under the situation in which we curtailed our financial expenditures, we still saw a 5.5-percent increase in

operational expenses. This year, the budgetary expenditure for these undertakings will also show a slight increase over the previous year. Under the situation of the province's current financial difficulties, we have already exerted our utmost efforts; however, because of the great increase in the funds for personnel, we are still short of operational funds. We will make up for the shortage of funds for business development by strengthening management over expenditures, raising the results of using funds, encouraging public organizations to expand paid services, and actively increasing income.

B. We have increased agricultural investment to promote agricultural development. Over the past few years, our province has increased funds for supporting agriculture every year. In 1980 we spent 350 million yuan for this purpose and increased that sum to 410 million yuan last year. Under this year's budgetary arrangement, this sum will increase by 15.9 percent over the previous year's budget. In addition, this year we have also arranged 10 million yuan of special funds to help the poor and to support poverty-stricken areas in developing production. The local sharing of the new farmland use tax will be used as special expenses to support agriculture. We should manage well and make good use of these funds, fully display their beneficial results, induce the collectives and peasants to increase agricultural input, strengthen farmland capital construction, prevent and handle drought and disasters, and improve the basic conditions for agriculture. To mobilize the peasants' production enthusiasm, this year the state has raised the purchase price of wheat, sesame, and other agricultural products and increased expenses for price subsidies in the financial budget. This has relatively increased the peasants' income.

C. We have properly arranged expenditures for capital construction to guarantee the needs of key construction projects. During the past few years, we arranged a comparatively small amount of capital construction expenses for economic and cultural construction because of our shortage in financial resources and failed to attain the state-assigned control targets. If this situation continues for a long time, it will be detrimental to the development of our province's economy and other undertakings. To support agriculture, science, education, and the key energy and communications construction projects, this year we have arranged for the capital construction expenditure budget in line with the state control targets. Of this, the capital construction investment for agriculture, science, culture, education, and public health will be greatly increased over the previous year. We should realistically strengthen management of funds, make rational use of the funds, and guarantee that they will yield benefits.

D. We have properly increased the workers' income and improved the people's livelihood. To solve the workers' difficulties caused by price hikes, the state has adopted some necessary measures. First, since the fourth quarter

of last year, the state has raised the wages of primary- and middle-school teachers by 10 percent; second, it has appraised and offered specialized technical jobs and has relatively increased some individuals' incomes; third, beginning this year, workers and staffers of all administrative units and public organizations will receive an annual bonus equivalent to 1/2 of their monthly wages. The tax remission quotas for enterprises' bonus tax and wages regulatory tax will be properly raised. All these have been arranged in our budgets. In addition, in line with price changes, the state has also decided to ease price restrictions for meat, eggs, and vegetables and to appropriately increase subsidies for workers. These measures will enable the workers' living standards not to decline but to gradually improve along with economic development.

E. We have implemented the policy of reducing expenditures and strictly controlling expenditures. Because our province's financial resources have been very tight, in our budgetary arrangements, apart from guaranteeing necessary funds for personnel and properly increasing investment in developing agriculture and intellectual resources and other major expenses, we have appropriately curtailed all operational funds and administrative funds. Of the administrative and operational funds, we will only guarantee part of the administrative expenditures for individuals. We have curtailed public funds in line with the plan, issued control targets to all localities, and urged them to strictly grasp the targets and not to exceed them; Fellow deputies, revenue and expenditure targets projected by the 1988 budget are relatively tight. Because the development of the commodity economy and the improvement of economic efficiency involve a step-by-step process, it is impossible for us to effect a big increase in revenues all at once. Moreover, we must make more expenditures to improve agricultural production, key construction projects, intellectual investment, and people's living standards; and the expenses for operating public facilities cannot be reduced by a large margin. Therefore, this year, and even for several years to come, financial targets for all levels are and will be very tight. We should try our best to open up financial resources, strengthen financial management, control expenditures, and positively support the development of reform and various other undertakings in order to ensure the fulfillment of the 1988 budget.

### III. Striving To Fulfill the Tasks of the 1988 Provincial Budget

Fulfillment of the 1988 budget is of great significance to further stabilizing the economy and deepening reform. We will certainly implement the guidelines of the 13th party congress and the first session of the seventh NPC, Unify our thinking, enhance our confidence, and attend to various points of work in a realistic manner.

A. The major task of the 1988 budget is to continuously and profoundly launch the campaign of increasing production and practicing economy and increasing revenues

and reducing expenditures in order to ensure a steady increase in revenues. All localities and all departments should firmly foster the ideas of working arduously and building up the country through thrift and hard work; should oppose the evil trend of indulging in waste and extravagance; and should overcome the tendencies of being anxious to undertake grandiose projects, worshipping foreign things, and being jealous of others' higher incomes. Centering on raising economic efficiency and focusing on perfecting contracted management, all enterprises should strengthen their economic accounting, introduce the "full work-load method," improve their operation and management, and try every possible means of raising economic efficiency. All enterprises should also strive to increase production of readily marketable products, improve the quality of their products, lower their consumption, tap their potential, and increase their profits. This year the state demands that industrial enterprises lower the cost of comparable products by 1 percent and cut the flexible portion of their management expenses and workshop operating expenses by 10 percent. Commercial enterprises are also demanded to cut commodity circulation charges by 1 percent. At the same time, it is demanded that industrial and commercial enterprises reduce their deficits by 20 percent (ensuring a 15-percent reduction). Continued efforts should be made to curtail administration expenses and expenses for operating public facilities. All these targets should be assigned to departments, enterprises, and units level by level; and supervision should be strengthened over the implementation of these targets. With regard to those enterprises which fail to fulfill the quotas of curtailing administrative and public facilities operating expenses, the below-quota portion should be deducted from their cost when collecting income taxes from them, and their income tax should be increased accordingly. At the same time, no subsidies will be given to those administrative institutions which exceed their budgeted figure for expenditures.

B. We should deepen enterprise reform and further perfect the contracted management responsibility system. Last year the province energetically popularized the enterprise contracted management responsibility system, which played a great role in strengthening enterprises' vitality, mobilizing the initiative of managers and producers, and increasing production and revenues. This year we should firmly and unswervingly deepen this reform in line with the principles of "coordination, improvement, deepening, and development." We should earnestly summarize experiences, accelerate the popularization of contracted management, continue to bring the competition mechanism into contracts, and select contractors through open bidding and competition. We should scientifically and reasonably define the basic figure of contracts in line with the principles of "fixing basic figures of contracts, ensuring the delivery of profits to the state, retaining the above-quota profits, and being responsible for making up the below-quota profits." We should actively try out the method of managing state funds and enterprise funds in different accounts and

gradually establish enterprise risk-taking funds. We should vigorously popularize the system of settling accounts by inter-plant banks; further strengthen financial management and economic accounting; rationalize the distribution relations between different units of enterprises; enforce the evaluation, award, and punishment systems; and attend to coordinated reforms within enterprises. We should also strengthen supervision and examination over the contracted enterprises and avoid short-sighted behavior by enterprises. In addition, in order to create an external environment for enterprises to conduct open competition under the condition of taking the tax burden fairly, the state will make necessary readjustments to state enterprises' income tax and regulation tax based on summarizing the previous 2 years' experience in implementing the system of substituting taxes for delivery of profits and the system of responsibility for contract business, and will study and formulate the relevant financial and accounting systems for existing enterprise contract, leasing, and stock-sharing systems in an effort to promote the sound and smooth development of the system of responsibility for contract business operations.

C. We should further deepen financial and tax reform and mobilize the enthusiasm of all levels to increase revenues and reduce expenditures. The state has decided that beginning this year, the central financial department will change its practice of borrowing from localities into reducing the expenditure base figures and increasing the proportion of delivering tax to the state. The province has relatively readjusted the tax delivery for various prefectures and cities. This year the province will implement various forms of financial contract methods, including the "contract method of tax delivery at a progressive rate," the "fixed-quota tax delivery," and the method of "reducing subsidies every year at a progressive rate"; allow 9 cities under the jurisdiction of the prefectural governments to have their own financial plans; and delegate powers to cities and counties to manage more than 10 miscellaneous local taxes and allow them to retain the above-quota taxes. Meanwhile, the province will improve financial management between cities and counties (districts) and between counties (districts) and townships and will comprehensively promote all types of contract methods. We should implement all measures for reforming the tax system; do a good job in conducting investigations and study; quickly formulate methods to implement these measures; and guarantee the smooth implementation of some new tax categories, including the land utilization tax in cities and towns and the stamp tax. We should establish and develop financial credit; gradually improve the circulating fund system; strive to take in foreign funds, such as by applying for loans from the World Bank; actively guide the orientation of using extra-budgetary funds; continue to expand the financial sphere; invigorate funds; and support the development of economic and all other undertakings. It is necessary to actively support the coastal areas in developing an export-oriented economy and revise and supplement some rules, regulations, and

systems that do not favor this development strategy. In addition, financial and tax departments should also coordinate with departments concerned to actively reform the systems of capital construction investment, foreign trade, prices, and urban housing.

D. We should strengthen tax collection and management and actively organize revenues. It is necessary to continuously implement guidelines of the "decision on strictly enforcing tax law and discipline and strengthening tax revenue work," which was promulgated by the State Council last year, and strengthen management over tax collection. This year we should strive to scientifically and institutionally manage tax revenues and set norms for it, conduct experiments first, explore experience, and gradually improve and popularize the management methods. Meanwhile, effective systems and methods such as organizing the masses to cooperatively safeguard the tax system and individual industrial and commercial business households to keep accounts and establish systems, and dispatching tax personnel to large and medium-sized enterprises and villages specialized in a certain production must be further improved in an effort to realistically strengthen the basic tax collection and management work. In order to control tax resources and reduce losses, this year we should universally issue tax registration cards to taxpayers; use receipts for delivery of new goods; and realistically grasp the production, operation, accounting, and distribution activities of all taxpayers. We should further strengthen leadership over tax collection work, support the tax departments in collecting taxes in line with the law, reinforce the tax collection forces on the forefront, maintain close coordination with the grassroots tax departments, and collect all money that should be collected. We should further improve the system of responsibility for tax management by object; mobilize the enthusiasm of the broad masses of tax cadres to collect taxes in line with law; and educate them to be honest in performing their official duties, to collect taxes in a civilized way, to support reform, to serve production, and to expand tax resources in an effort to increase revenues. E. We should strengthen the supervision of financial work and strictly control expenditures. This year we must strictly control expenditures in line with the state principle of tightening up finances and credit. The control of expenditures should focus on investments in self-funded capital construction and on various administrative expenses. The scale of capital construction should be controlled within state-assigned targets; unauthorized capital construction projects should be banned; and the construction of office buildings, auditoriums, and hotels should be strictly controlled. Administrative expenses should be continuously curtailed, and the method of giving a fixed quota to administrative expenses should be further perfected. After the budget is defined, we should not make a supplementary budget rashly. This year, in conserving expenditures, we should concentrate on curtailing institutional purchases. In line with the demand of the State

Council's recent "Emergency Circular on Strictly Controlling Institutional Purchases and Curtailing Expenditures," the target of institutional purchases should be reduced by 20 percent this year from the real target of the previous year. Meanwhile, party and government organs, people's groups, PLA units, wholly individually owned and collectively run enterprises and institutions, and capital construction units should stop purchasing cars, air conditioners, video recorders, sofas, and 14 other specially controlled commodities, excluding those commodities which are directly used for production, operation, scientific research, teaching, medical treatment, and other special needs. They should stop rebuilding and expanding their houses just for decoration and beautification and should resolutely reduce the number of meetings. Recently, the provincial government has also worked out specific regulations and then called on all localities to firmly implement them, to try every possible means to curb nonproductive expenditures, and to release some money to develop economic construction and various social undertakings. We should strengthen the management of money and establish and perfect the responsibility system and the feedback system for utilization of funds in order to raise the efficiency in using funds.

Last year's tax, financial, and pricing inspection in the province revealed that many units evaded taxes, retained revenues, made fraudulent applications and claims, indulged in extravagance and waste, and wantonly issued bonuses and subsidies and that some units went so far as to abuse their powers to seek private gain and embezzle and privately divide up public funds. These problems have not only drained a large amount of revenues and caused a serious waste of expenditures, but have also hindered the smooth progress of reform and construction. In addition to paying high attention to these problems, we should adopt economic, administrative, and legal means to resolutely check these violations of law and irregularities. We should strengthen the education on the legal system among the vast number of cadres, workers, and staff members so that they will be more conscious in handling affairs according to law, in observing laws and discipline, in honestly performing their duties, and in strictly enforcing orders and prohibitions. Financial and tax departments should give full play to their functional role and strengthen regular supervision and inspection under the leadership of party and government organs. These departments should also struggle against various kinds of law violations and transgressions. We should continue to conduct tax and financial inspection. Leaders and relevant personnel responsible for any major irregularities ferreted out by this inspection should be held to account. And those units and individuals who set an example in observing financial and economic regulations should be commended and awarded in a big way.

Fellow deputies, the province's financial situation has been good since the beginning of this year. In the first quarter of the year, provincial revenues amounted to

1,488,410,000 yuan, a 16.6-percent increase over the corresponding period last year, and expenditures amounted to 861,560,000 yuan. This has created a good beginning for fulfilling the annual budget. We must continue to organize and mobilize the people throughout the province to work hard for successful accomplishment of the 1988 budget under the guidance of the spirit of the 13th party congress and the first session of the seventh NPC.

## FINANCE, BANKING

### Problems With High Consumption Spending Continue

40060281 Shijiazhuang HEBEI RIBAO in Chinese  
22 Apr 88 p 2

[Article by Liu Zhi [0491 2535] and Zhou Ruyue [6650 1172 2588]: "Crucial Reasons for the Continued Increase of Consumption Spending"]

[Text] For several years now, consumption spending in Hebei province has been swelling. This has hurt both economic construction and economic livelihood. Moreover, the disparity between supply and demand here has become more acute. Production has been restrained, and public finance has run into difficulties.

The growth rate of gross consumption funds has surpassed the growth rate of gross national income. During the years 1984, 1985, and 1986, gross consumption increased on an annual basis by 18, 23, and 14 percent respectively. During each of the same years, gross national income increased on an annual basis by 18, 23, and 10 percent respectively. The increase in household consumption levels has surpassed the increase of per capita national income. This was particularly true in 1986 when household consumption levels surpassed per capita national income by close to four percentage points. As the wages of workers experienced large increases, a greater demand for more expensive and higher-grade products was stimulated. The increase of consumption demand has outstripped social production forces.

Many reasons can account for the above problems, the major ones are as follows:

Uncontrolled wage and bonus allowances. With the 1985 enterprise wage system reforms, the states stipulated an average wage increase of 12.5 yuan, but actual wage increases amounted to over 18 yuan which has resulted in the increase of total wages. The loss of control over bonus payments is a more serious problem—there are many examples of excessive bonus allowances.

The enlarged scale of investments has also exacerbated high consumption demand. During the past several years, the scale of investment in Hebei has been expanding, especially in 1984, when total investments reached 8.7 billion yuan, representing a super high growth rate of

17 percent. In 1985 and 1986, in spite of financial and credit austerity policies, lower investments in capital construction still managed to surpass planned amounts because of price fluctuations and because returns on investments were not high. Within these several years, consumption funds increased to nearly 1.2 billion yuan.

There has also been a loss of control over peasants' consumption spending in recent years. Peasant consumption spending increased because the pace of price increases had been too fast and because pricing mismanagement allowed prices to go over allowed limits. When consumption spending allocated to non-agricultural households did not decrease as that of agricultural households increased, the total amount of social consumption spending increased enormously.

Social consumption has grown too fast. Since 1984, Hebei's social consumption and the buying power of social groups in the province have continuously increased. In 1986, consumption spending broke through the 2 billion yuan barrier, a 21 percent increase over the previous year. Continuously rising social consumption has become a direct cause of the rise in funds for consumption spending.

The main indirect cause of the rise of consumption spending is the rather obvious fact that too many departments are making policy on the allocations of funds for consumption spending. Some of these departments manage only individual facets of the problem and coordinate poorly with other departments on overall solutions. They fail to form a scientific, macromanagement system.

Consumption spending can be very inelastic—increasing easily, but decreasing with difficulty. To let it expand without control would be disadvantageous to economic construction—we have to turn the situation around. First of all, we must strengthen overall management, system planning, and policy completeness for allocating funds for consumption spending. We have to overcome the lack of planning in consumption fund allocation as well as the phenomenon of “policy made by too many departments” in order to achieve a balance between total social supply and total social demand. Secondly, we must bring wage reforms into equilibrium with macroeconomics and promote coordination of the proportionate relationships among different facets of the economy. To do this, we must strictly control the gross amount of wages paid to workers and to staff, improve the quota contract contents of wages paid in kind, and stop the reckless awarding of bonuses, subsidies, and payments in kind. Thirdly, we should strengthen control over the scale of investments in order to impel coordination of accumulation-to-consumption ratio. Fourthly, we should greatly reduce the buying power of social groups; we should prevent any wasted of government funds and should use the funds thereby saved for production and construction.

## FOREIGN TRADE, INVESTMENT

**MOFERT Authors on Foreign Trade Reform**  
*40060277 Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese*  
*No 3, 12 Mar 88 pp 35-39*

[Article by Zhang Songtao [1728 2646 3447] and Zhang Changxin [1728 7022 2450], of the Ministry of Foreign Economic Relations and Trade: “The Macroeconomic Environment and Development Procedure for China's Foreign Trade Reform”]

[Text]

### I. Elements of Macroeconomic Environment

To set the reform of the foreign trade system in motion, we must first of all have a relatively easy foreign-exchange environment. It is hard to imagine how a “radical operation” can be effected while running short of foreign exchange. Judging by the conditions of our imports and exports and foreign-exchange reserves in the past few years, we do not have enough foreign exchange in reserve as a maneuvering and regulatory means. If the reform operation is pushed too hard, problems of imbalance in foreign exchange receipts and payments and clashes and shocks that can be brought on by the process of replacing the old system with a new one will become unavoidable. Therefore, we cannot be too careful in making a major move. We should make sure that the national economic and social development plan is being steadily carried out, fully consider the foreign exchange requirements of economic development, and, on this basis, set out to reform the foreign trade system in a limited and measured way.

The coordinated and synchronized progress of the structural economic reform as a whole, particularly reforms of the price, tax, financial, and credit systems, is the basis for the reform of the foreign trade system. This objectively prevents foreign trade reform from taking the lead or going on its own. The factors obstructing unilateral foreign trade reform will offset any beneficial results it may achieve, or lead to counteractions with associated side effects. Take prices for example. The prices of our export products and the domestic prices fixed for imported goods, shaped by our distorted price structure and wrong price signals, not only give our foreign trade a “loser” image in the public's eye, but, owing to the irrational domestic price structure, directly lead to “overestimates” or “underestimates” of the normal profits of some exporters and manufacturers of export goods, which in turn lead to unreasonable transfer of profits or “equalitarianism and indiscriminate transfer of resources” between producers and exporters and between local and central financial departments. Furthermore, some manufacturers using imported raw materials do not feel the pressures of international competition, because their products are sold at home at

domestic prices, and have no incentive to seek improvement. This direct influence of domestic prices on imports and exports dampens the spontaneity and initiative of China's enterprises to take part in international exchanges and weakens their motivation for development, because they are protected by a visible or invisible umbrella, their views are short and superficial, and their energy is bottled up. This is the crux of the problem why our effort in the past 3 years to develop a system whereby foreign trade companies can act as agents for other enterprises in the export of their commodities, as the centerpiece of foreign trade reform, has not been successful.

We must maintain a rough balance between supply and demand. During the Seventh 5-Year Plan, the objective requirements of economic reform and development dictate that our foreign-exchange earnings from exports must not be allowed to drop, but should be kept growing at a certain rate. Therefore, we must create a relatively stable economic environment with supply slightly greater than demand, because it is the only way to have more goods for export, keep domestic purchase prices and export costs of goods relatively stable, insure steady and gradual progress in the reform of the foreign trade system, and guarantee continued growth in exports.

## II. Analysis of the Foreign Trade Reform Process

On the one hand, the success of foreign trade reform depends on the progress of reforms in other fields; on the other hand, it also influences and complements reforms in other fields with effects that cannot be ignored. We think that in the process of reforming the present foreign trade system, we should properly handle the following relationships.

1. The delegation of foreign trade authority to enterprises must coincide with the reform of the enterprise management system. One central task of foreign trade reform is to change the rigid old system, which is highly monopolistic with an overconcentration of power and no distinction between government and enterprises, delegate the power to make foreign trade decisions to enterprises producing export commodities, and promote cooperation between industry (agriculture and technology) and trade. In this way, the enterprises will be able to do business directly with foreign firms, combining responsibilities, powers, and interests and assuming full responsibility for their profits and losses, and the entire foreign trade system will be invigorated, spurring continuous, steady, and coordinated growth in exports and gaining advantages in international trade. An important precondition for this reform to succeed is that the enterprises must be really independent, assume full responsibility for their profits and losses, raise their own funds, take their own risks, and develop on their own. These rights and interests should be won by the best enterprises through independent and free competition on equal terms under the restrictions and guidance of state regulations and policies.

Judging by the actual conditions in China today, it is unlikely that the above-mentioned tasks can be accomplished soon. Now, the reform of our enterprise management system has only just begun; the enterprises have not yet become really independent economic entities responsible for their own profits and losses; the markets are not well-developed; and administrative interferences from different sources are still very strong. Under the circumstances, blindly delegating foreign trade powers to lower levels will not invigorate the foreign trade system, but will cause confusions. It will cause rush buying and price hiking at home, price-slashing to meet competition abroad, and ever-growing export costs. At the same time, it will also bring great difficulties to the state's macroeconomic management and control. Therefore, the delegation of foreign trade powers to lower levels must be done step by step and in a planned way. First, consideration should be given to some large and medium-sized state-owned enterprises and enterprise groups which are well-run with a fairly high technological and management standard and producing mainly high-quality export goods which are competitive in the international market. Those found up to standard should be given the authority to trade with foreign countries and compete directly in the international market. Through independent competition, these enterprises will grow on their own and serve as an example and guide for others in the field to seek technological improvement and expand exports. At the same time, enterprises which have suffered defeats in international competition should be deprived of their foreign trade rights as warranted by the actual circumstances. On this basis and depending on the progress of the economic reform as a whole, foreign trade powers should be delegated step by step to small and medium-sized enterprises until finally all such powers are delegated to the lower levels.

2. All-round implementation of the foreign trade agent system must correspond to progress in the reform of such means of economic regulation and control as the price, tax, foreign-exchange management, and interest structures.

One of the first problems to be solved in this stage of foreign trade reform is to stop foreign trade from eating out of the big central financial pot. The institution of a foreign trade agent system is no doubt a proper choice which can produce quick results. However, there are some major obstructions to the institution of an agent system.

Prices at home and abroad have long been dissociated with one another. International price signals sent to China often have to go through the distorted import pricing mechanism with negative results. For various complex reasons, domestic price signals received by foreign trade enterprises are often untrue. Thus the foreign trade enterprises have become the object squeezed between the two different price systems. Even with the institution of the agent system, they are still being squeezed. China's present price system is still

mainly a centralized state control system, under which prices are fixed by the government, and commodity prices cannot be adjusted quickly with changing production costs and supply-and-demand relations. The long-standing irrational condition of the low prices of primary products, particularly agricultural and sideline products, and the high prices of finished products, particularly industrial products, is hard to change. More important, investment in China today is made mainly not by the enterprises, but by the state. As a result, investment is slow in reacting to market prices and price signals, and the distribution of production factors and resources cannot be readjusted promptly and rationally according to changing social needs, causing losses and waste of resources. The manifestations in foreign trade and export are shortages of readily marketable goods, rising export costs, dropping economic returns from exports, and heavy burdens of unreasonable losses on manufacturers caused by exports. All this is making it very difficult to implement the foreign trade agent system.

China's present tax structure, which is composed primarily of product taxes, makes it very difficult to fully implement the system of tax rebates on export commodities. As a result, the finer an export product is processed, the lower the economic returns it will bring. This phenomenon not only hampers efforts to improve the quality of our export products, but to a very large degree limits export growth. The failure to return all the taxes levied on export goods at different levels is bound to make our products much more expensive than similar products in the international market. And, the fact that our exchange rates do not reflect the real value of the renminbi against foreign currencies and the inadequate supply of foreign exchange at home inevitably make us lose money by exporting manufactured goods. The finer the products an enterprise manufactures, the heavier its tax burden becomes, and the more money it loses on exports. It may even give up exporting. Then there is no need for an agent system.

China's present foreign-exchange management system, with centralized control of foreign-exchange earnings and distribution, also restricts the implementation of the foreign trade agent system. Under the present system, enterprises producing export goods can only get a small part of the foreign exchange earned from exports. There is also no unified nationwide foreign-exchange market. The enterprises do not have the right to freely use the foreign exchange they are allowed to retain for technological improvement, nor can they compensate for their high export costs through imports or foreign-exchange adjustments. Thus, there is a lack of interest among enterprises about import and export agents.

In view of the above, we think that conditions in China are not ripe yet for all-round implementation of the foreign trade agent system (mainly an export agent system). However, the reform of the foreign trade financial system is vitally important and extremely urgent. It has a direct bearing on the success or failure of foreign

trade reform as a whole. Therefore, while all-round implementation of the agent system is not possible, we must still find an effective way to put an end to the practice of eating out of the big central financial pot, as a transitional step in the process of reforming the foreign trade system and to lay the foundation for all-round implementation of the import and export agent system.

### III. Strategic Reform "Breakthroughs"

As the foreign trade enterprises are being reformed into business operations with full responsibility for their own profits and losses, and as reforms in the foreign trade planning, financial, and administration and management systems are being carried out step by step, we should strive to implement tax rebates on exports, promote imports through agents, set up specialized foreign trade banks, facilitate capital flows, adjust exchange rates in a reasonable manner, and further improve the administration and use of licences and quotas. All this is necessary. However, we think, to achieve the goals of the present stage of foreign trade reform and as a step in the developing reform process, strategic "breakthroughs" should be made in the following areas.

1. The system governing the distribution and use of foreign exchange should be reformed to really embody the principle of "encouraging exports and limiting imports." At present, the state spends large amounts of foreign exchange out of the central coffers each year to import large quantities of industrial raw and semifinished materials, which are then distributed through administrative channels to various departments, localities, and enterprises at prices lower than the actual import costs (state allocation and transfer prices). A part of the raw and semifinished materials is used in state-financed major construction projects, but most of them are used in the reproduction process of enterprises. Because the actual cost of some export commodities is higher than the official exchange rates, some units which use foreign exchange are actually given state price subsidies. This practice has caused many abuses. For example, government distribution of the imported raw and semifinished materials can hardly be scientific and rational, and it misses the objective of state support for the major construction projects, but becomes in fact a big pot. At the same time, it makes departments, localities, and production enterprises turn to the central government and ask for foreign exchange and imported raw and semifinished materials. As a result, large quantities of goods are kept in stock or even resold illegally for profit. The availability of foreign exchange at the lower official rates and low-priced imported raw and semifinished materials is actually an encouragement to import, which is not in the interest of helping enterprises speed up their technological improvement, increase labor productivity, and reduce production costs and raw and semifinished materials consumption, and not in the interest of reasonable saving and effective distribution of resources. The use of foreign exchange without earning it, particularly the use of export foreign exchange which is supported by

state price subsidies, is neither conducive to expanding exports by "encouraging exports and limiting imports," nor conducive to improving the country's economic efficiency as a whole, but increases the country's financial burden and to a certain extent adversely affects the sound development of the national economy. Therefore, it is imperative to put an end to this irrational practice as quickly as possible. We think that a long-range solution is to increase the proportion of foreign exchange retained by the localities and, especially, the export-production and foreign-trade enterprises, which will basically rationalize the foreign exchange distribution and use system, stimulate exports, use imports effectively, achieve a sound relationship between earning and using foreign exchange, and become an important way to "encourage exports and limit imports."

Here is what we would like to see happen. Of the total amount of foreign exchange earned from exports, the central government keeps a small part to be used mainly for imports of technology, equipment, and raw and semifinished materials required by some of the most important state-financed key construction projects and imports of large quantities of a few commodities which are of vital importance to the nation's economy and the people's livelihood, and to pay for items and commodities involved in import readjustments carried out in light of long-range national development goals and regional considerations; the local governments take another small part to invest in local projects and to finance bulk commodity imports to meet vital local requirements; and the greater part remaining is entirely at the disposal of the export-production and foreign-trade enterprises, to finance imports of technology and equipment (including training) for technological improvement and raw and semifinished materials, replacement parts, etc., needed in the process of reproduction. By using the foreign exchange retained by them, the foreign-trade enterprises will be able to further expand exports and regulate profits and losses from imports and exports. Judging by the present conditions, this reform can only be implemented by stages. Owing to the existence of two markets, international and domestic, and two price systems and the influence of the foreign trade system and the complicated factors mentioned previously, in the early stage of the reform, the bulk of the foreign exchange retained for the export-production and foreign-trade enterprises should go to the latter to pave the way for their switch toward assuming responsibility for their own profits and losses. When this stage of reform has produced results, and when a new foreign trade structure combining production with marketing and industry (agriculture and technology) with trade has taken shape, the export-production enterprises will, of course, retain more foreign exchange than the foreign-trade enterprises. The appearance of this new structure will mark China's entrance into a completely new stage of foreign trade development. The reform of the foreign exchange distribution and use system will have at least the following positive impact.

First, while guaranteeing that the foreign exchange requirements of state-financed key projects are met, it gives greater power to local governments and enterprises to make decisions on the use of foreign exchange, which can result in more scientific, rational, and less wasteful use of foreign exchange. Second, it ties the amount of foreign exchange available for use to the amount earned, thus putting an end to the irrational phenomenon of everyone eating out of the same big pot. On the one hand, it gives incentive to the production enterprises to expand exports and earn more foreign exchange, thus accelerating the growth of foreign trade and exports; on the other hand, by allowing the enterprises to control their own foreign exchange and take part in regulating the foreign-exchange market, it enables them to compare imported equipment, raw and semifinished materials, and replacement parts with similar Chinese products and make a relatively sound choice regarding cost and economic returns. At the same time, it can help rationalize the overall distribution of resources. Third, it can help the enterprises speed up their technological progress, increase labor productivity, improve product quality, export new products, and gradually bring about a benign import-export cycle. Fourth, by increasing the proportion of goods imported by the localities and enterprises, it greatly reduces the state's direct control over both imports and exports and helps on the gradual transition to indirect control. Thus it can help achieve an ideal distribution of "powers, responsibilities, and interests" among the state, markets, and enterprises in the area of foreign trade and contribute to sound national economic development. Fifth, in the early stage, by controlling larger amounts of foreign exchange, the foreign-trade enterprises will be in a better position to use their foreign exchange effectively and help bring about a balance between imports and exports by importing more and playing a role in regulating the foreign-exchange market. In this way, a solid foundation for the foreign-trade enterprises to assume full responsibility for their own profits and losses will be laid, thus solving a problem in this changing stage.

2. A nationwide, unified, open foreign-exchange regulatory market should be established. As larger proportions of foreign exchange are being retained by the localities and enterprises, the establishment of such a market becomes imperative. The foreign exchange retained by the various departments, localities, and enterprises will be free to enter the market and play a part in regulating the exchange rates. The fluctuating regulated exchange rates will be determined by total supply and demand and how they relate to each other. The scale of the foreign-exchange regulatory market, that is, the sources and amount of foreign exchange to be regulated by it, should go through a gradually developing process. In the initial stage, perhaps it should be limited to a part or all of the foreign exchange retained by the localities, departments, and enterprises. Eventually, as the market develops, the upper limit should be raised to accommodate the country's total annual foreign-exchange earnings and all the foreign-exchange-earning units. This article will limit its

discussion to the early stage of the foreign-exchange regulatory market. The regulating market plays the following major roles: First, with relatively stable official exchange rates, the market exchange rates can play the role of "shadow exchange rates," which more truthfully reflect the relationship between theoretical and actual foreign exchange rates and between supply and demand. This is better than the state fixing two sets of exchange rates. It substitutes fixed rates with fluctuating rates, and artificial and subjective assumptions with economic laws. Second, the regulating market can help improve the overall efficiency of the economy, including the efficiency in using foreign exchange. Since the regulated exchange rates fluctuate with the supply-and-demand situation, they are bound to have an impact on both export and import costs. When demand for foreign exchange is greater than supply, exchange rates go up, and imports become more costly, which discourages imports, especially expensive items, and helps make better economic sense with what has to be imported. When supply of foreign exchange is greater than demand, exchange rates go down, and export earnings also drop. This will help reduce money-losing exports and make exports more profitable as a whole. Moreover, importing enterprises, whether their foreign exchange is bought from the market or retained by themselves, will all base their import cost calculations on market exchange rates and compare the economic pros and cons between imported and domestic products, resulting in more economical and efficient use of foreign exchange. Third, The establishment of a foreign-exchange regulatory market will create favorable microeconomic conditions for invigorating the enterprises. Under the present administrative system, to import technology, equipment, raw and semifinished materials, and replacement parts needed for reproduction, enterprises have to go through unbelievable red tape and spend much time to obtain approval from government departments at every level, which seriously affects their production efficiency. Many enterprises which really need foreign exchange cannot get any, while others have plenty but do not need it. The situation is highly irrational. After the establishment of the foreign-exchange regulatory market, enterprises can buy the foreign exchange they need readily in the market to import urgently needed technology, equipment, raw and semifinished materials, and replacement parts and speed up the process of reproduction. Enterprises which have retained foreign exchange but have no immediate need for it can sell their use quotas and convert their foreign exchange into renminbi at market rates to meet production needs. It is obvious that the establishment of a foreign-exchange regulatory market can speed up production growth in two ways and create favorable conditions for enterprises to revitalize themselves.

In establishing a foreign-exchange regulatory market, it is important to strengthen management and prevent speculation. We think that China's foreign-exchange regulatory market should be placed under the control and guidance of the General Administration of Exchange

Control on behalf of the People's Bank of China (central bank), and that regulations governing its management, formulated on the basis of past experience, should be promulgated by the State Council to put its management on the basis of laws and regulations. To strengthen management of the market, emphasis should be placed on the following: First, the sources of foreign exchange to be regulated by the market must be clearly defined. It should be strictly limited to the foreign exchange retained by the various departments, localities, and enterprises. Foreign exchange from all other sources, including foreign exchange directly allocated by the central government to various departments, localities, enterprises, and key construction projects, foreign exchange from other than trade sources, and foreign exchange owned by the three kinds of partially or wholly foreign-owned enterprises will be excluded from market regulation in the initial experimental stage of the reform. This is necessary so that the total amount of foreign exchange under market regulation can be kept from getting out of hand, and if problems occur, they can be promptly solved without affecting the situation as a whole. Second, for better management, consideration may be given to setting up a national foreign-exchange regulatory center directly under the General Administration of Exchange Control, and this center will give guidance to local branches throughout the country on specific regulating procedures. Special accounts can be opened for foreign exchange under market regulation, and exchange rates can fluctuate. The total amounts of foreign exchange transactions and exchange rates are computed daily by the national regulatory center based on reports from the local branches, and the national regulatory center also sets the exchange rates and amounts to be handled by each local branch in daily feedbacks for implementation. Third, the credentials of the parties making deals should be examined carefully. Items to be examined include mainly basic information about the enterprises concerned, for example, their operations, foreign-exchange requirements, etc. This is to insure that the transfers and uses of regulated foreign exchange are in keeping with national macroeconomic policies and will produce good economic and social results. Fourth, the present procedures for the control of foreign-exchange use quotas should be abolished. After the establishment of the foreign-exchange regulatory market, units with foreign-exchange retentions must be allowed to make timely use of their foreign exchange. The present procedures for the control of foreign-exchange use quotas restricts the transfer and use of foreign exchange. It is a means of direct government control over the use of foreign exchange. The forms of distribution and control it prescribes are apt to engender bureaucratism and favoritism and become mere formalities. At the same time, it just increases levels of control, hinders the flexible use of foreign exchange, and can hardly produce any positive result in restricting and controlling imports. That's why it should be reformed. Even with the provision for additional use quotas on retained foreign exchange, it still places a stringent limit on the total amount that can be handled by the regulatory market. At

the same time, the preset use quotas are fixed quantities, whereas the foreign-exchange retentions are variables as they are determined by the volume of exports. It is difficult to reconcile the contradiction between fixed quantities and variables, and no way to achieve the goal of limiting the amount of foreign exchange under market regulation by setting use quotas. It only brings on additional links and procedures, hinders transfers, and defeats the original purpose of facilitating the use of retained foreign exchange. Therefore, the abolition of the use quotas is crucial to the success of the foreign-exchange regulatory market.

To sum up, the tentative idea of reforming the foreign trade planning and financial systems by making a breakthrough in expanding the proportions of foreign exchange retained by the various localities, departments, and enterprises and setting up a nationwide unified foreign-exchange regulatory market is intended as a transitional step to be taken in the initial stage of foreign trade reform, when reforms in other fields as yet still need coordination. This step is intended to lead the initial stage of foreign trade reform to a safe start and prepare conditions for its development in the future, thus insuring steady and continuing growth of China's foreign trade and the safe transition to a new foreign trade system.

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### **Learning From South Korea's Experience in Textile Industry Development Urged**

40060302 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
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[Article by Cheng Guangwen [4453 1639 2429]: "Textile Exports Should Go Upscale"]

[Text] South Korea's textile industry had its beginnings in the 1920's under Japanese rule. After the mid-1960's, the industry went export-oriented and grew rapidly to become a key pillar of South Korea's economy and its top foreign exchange earner. Since 1980, although the South Korean economy has shifted its focus to heavy, chemical, and machinery industries, textiles remains a crucial sector of the South Korean economy despite a decline in its position and textile exports still account for a major share of the country's exports. Since South Korea is a leading exporter and major supplier in the international textile market, studying and learning its success story in expanding exports is tremendously significant for speeding up China's textile industry and increasing its exports.

#### **1. The State of South Korean Textile Exports and Reasons For Growth**

The South Korean economy has developed largely based on the Japanese model. Since 1962 when it began its first 5-Year economic development plan, South Korea has

adhered to an economic development strategy whose cornerstone is trade and whose orientation is export. At the time developed industrialized nations in the West were undergoing a major industrial restructuring. Grasping this favorable opportunity, the South Korean government decided on an economic strategy that "places light industry ahead of heavy industry and uses the former to support the latter." Taking advantage of cheap local labor, the government gave the textile industry, a labor-intensive industry, priority in development and imported foreign capital and advanced technology and equipment on a large scale, thus enabling the industry to develop quickly and corner the major textile markets such as the U.S., Japan, and the European Community [EC], then in the midst of industrial reorganization. South Korea's textile exports began its steep climb in 1970. Valued at \$299 million that year, they reached \$6.31 billion in 1981 and \$8.7 billion in 1986, up 38 percent over 1981. In the first 10 months of 1987, exports topped \$10 billion, an increase of 36 percent over the same period a year ago, making South Korea the world's third largest textile exporter after Italy and Hong Kong.

While the textile industry has become less important in South Korea's national economy in recent years, the government does not regard it as a "sunset industry." Instead, it demands that it continue to improve and exploit its comparative advantage, particularly in export, vigorously modernize its equipment, upgrade production technology levels, and go all out to win on quality in an increasingly competitive international market. In 1981, South Korea decided to invest \$180 million during the "fifth 5-year plan" to import modern equipment and make a push for the clothing accessories industry. The "sixth 5-year economic plan," which began in 1987, also calls for accelerated development in the textile industry and sets these export goals: \$11-\$12 billion by 1990 and \$25-\$26 billion by 2000, up 255 to 269 percent over 1985, for an average annual increase rate of 8.8 percent.

The rapid growth in South Korea's textile exports can be attributed to firm government policies, which have been a powerful impetus.

1) Guided by the national policy of "building the national economy on trade," the textile industry made it its first principle to export.

South Korea follows this principle for years, doing its best to expand textile exports, and consistently holds the ratio between domestic sales and foreign exports at 4:6 and 3:7 in the spinning and weaving sectors, respectively. The clothing industry, too, makes export its top priority. South Korea's export-oriented textile industry earns a vast amount of foreign exchange for the nation each year.

2) Efforts are made to upgrade the product mix, emphasizing upscale products and the development of multiple processing.

In the early 1960's, South Korea's textile industry was still dominated by the export of fiber raw materials such as raw silk and their finished products. Only in the mid-1960's did it launch an export drive featuring semi-manufactured products such as yarn and cloth, pushing their share of the country's total textile exports to over 50 percent. In the late 1960's, the textile industry overhauled its product mix at an opportune moment and manufactured goods, including clothing, catapulted into the number one export commodity spot. Since the 1970's, clothing exports have always accounted for a commanding 60 percent of South Korea's textile exports. Of clothing exports, shuttle knit garments, with a relatively high degree of processing, in turn constitute 60 percent.

The fast growth of South Korea's textile exports is based on the dominance of clothing, shuttle-knit clothing, and chemical-fiber fabrics. China's textile export mix is just the opposite.

3) A variety of trading methods and a multi-pronged approach are used to expand exports.

South Korea lacks fiber resources and produces little cotton or wool. To develop its textile exports, the government went in for processing with materials provided or purchased materials and then re-exported them. Not only did this spur the development of the industry, but it also boosted textile exports. In the 14 years between 1973 and 1986, South Korea ran up a total surplus of \$41.7 billion in its textile trade.

As far as markets are concerned, the government's strategy is a multi-pronged one: consolidating key markets while opening up new ones. Its textile exports broke into the markets of developed industrialized nations in the West, such as Europe, the U.S., and Japan, from the start, and have consistently held a commanding market share, usually above 60 percent. While tightening its grip on these markets, in recent years it has also made a major push for new markets, targeting the Middle East, Africa, South America, and Australia, particularly the Middle East, where the country's vast project contracting business is put to work to spur textile exports into the region. Furthermore, it has been taking advantage of Hong Kong's and Japan's favorable geographical conditions to expand its entrepot trade to the Soviet Union, Eastern Europe, and China.

4) Direct government intervention to strengthen management and encourage exports.

To ensure consistency between economic returns and rate of development, the South Korean government always takes pains to strengthen macroeconomic management. In 1961, the Economic Planning Agency was set up under which was created a commerce and industry department similar to Japan's Ministry of International Trade and Industry. The agency was given broad powers

and put in charge of overall industrial production planning and trade development planning. Later the government also threw its support behind the establishment of the "South Korean Textile Industry Association." It is the association that sets minimal export prices. Any exporter exporting textiles at prices below those minimal levels would have his quota slashed by 20 percent. Together with textile manufacturers, the government also jointly funds a "textile industry modernization fund" under the Textile Industry Association. Both the fund and the association have been very active in recent years in promoting textile exports, upgrading product quality, providing market information, and organizing international exchanges and consultations.

To ensure sustained growth in textile exports, the government has taken a series of steps to stimulate exports. For instance, it sets aside a special sum each year to finance the purchase of new equipment to replace obsolete machines, gives funding support to manufacturers to help them import advanced technology and equipment, encourage off-shore investment and joint ventures, establishes export production bases and tax-protected zones, exempts clothing exports from the export tax, and offers draw-backs to exports processed with purchased materials.

## 2. The State of China's Textile Exports in Recent Years and Existing Problems

The textile industry is pivotal to China's national economy and textile products are the star in the country's export lineup. During the last 30 odd years, China's textile industry has undergone sharp changes. As far as the number of cotton spinning spindles is concerned, China ranks among the largest textile countries in the world. It also leads the world in cotton yarn output and is number four in chemical fiber production capacity. In 1985, total textile output value reached \$8.75 billion, up 49 percent over 1980, thus ushering in a new stage in textile development. Meanwhile, textile exports have also expanded rapidly. Worth \$2.56 billion in 1980, they hit \$4.1 billion in 1985, a gain of 60 percent. In those 5 years, textile exports, including silk, raked in \$21.7 billion in foreign exchange, 19 percent of all foreign exchange derived from exports for that period. At \$6.5 billion, textile exports hit another historic high in 1986, up 18.2 percent over 1985 or one-quarter of the total value of the country's exports and established itself as China's top export.

Despite gratifying achievements in its development and export expansion, China's textile industry still has a long way to go compared to that in advanced nations and regions, particularly South Korea. In 1986 China's textile exports amounted to just 75 percent of South Korea's. The development of the industry still faces many hurdles and export remains fraught with unfavorable factors, as shown mainly in the following:

First, China's textile industry rests on a rather weak foundation. There is a constant need to optimize the export mix, but the investment structure and investment policy are not up to that. For over 30 years, the investment policy has revolved around the expansion of production capacity and down-played the development of new raw materials and new varieties and the intensification of technological transformation and technological progress, such as new processes in printing, dyeing, and finishing. At present, most of our equipment and technology are equivalent to those in developed nations in the 1960's. Equipment is even more backward in the weaving, man-made fiber, wool dyeing, and finishing sectors. From 1974 to 1984, new textile equipment increased by 63 percent in South Korea, double the rate in China, which was a mere 33 percent. A low management standard and the lack of enterprises of a capacity for self-transformation and self-development also severely curb textile export expansion.

Second, for years China has ignored an important factor in international trade—quality. Thus textile exports are still stuck in the "win on quantity" mold. We export a lot, but at very low prices. Of the many varieties of textile products imported by the U.S. in 1985, for instance, Chinese exports averaged \$1.17 per square yard, while those from South Korea, Hong Kong, Japan and Italy averaged \$1.63, \$2.41, and a whopping \$5-\$6 per square yard, respectively. Chinese textile products command the lowest prices. Besides the relatively small portion of multiple processed goods, low quality and poor design are also important reasons.

Third, China's textile export mix is still quite primitive, which is extremely unfavorable to the export drive. As noted above, clothing consistently makes up about 60 percent of South Korea's total textile exports, compared to just 30 percent in China. Moreover, most of our clothing exports consist of shirts, pajamas, boiler suits, and other articles of dependable quality, while the variety of upscale products is extremely limited. Chinese clothing exports are no match for their South Korean counterparts in grade, the degree of processing, and the amount of foreign exchange earned.

### 3. Suggestions For Speeding Up China's Textile Exports

Textiles are an important traditional export commodity for China and will continue to dominate and play a key role in the country's export trade in the foreseeable future. The Seventh 5-Year Plan calls for increasing textile exports to \$9-\$10 billion by 1990, a daunting task. Faced with rising protectionism abroad and an active textile market at home, we must have a clear understanding of our weaknesses, study and learn from the success stories of nations and regions who have gone ahead of us, and work out a textile development strategy and market development strategy in light of the current state of textile production and export in the country in order to

continue to tap the strength of traditional commodities and maintain steady growth in foreign trade. I think we should zero in on the following during the Seventh 5-Year Plan:

1) Formulate a commodity development strategy and expand textile exports by following an essentially intensive approach.

Judging from the trends in international textile trade, it is the end of the road for the export model that stresses "winning on quantity." On the one hand, amid worsening trade protectionism, some nations have imposed strict restrictions on quantitative increases in textile imports. Quantitative ceilings in the form of quotas have been written into international and bilateral textile agreements between textile importing and exporting nations. On the other hand, the comparative advantage of the two domestic prerequisites for the "win on quantity" model—low wages and cheap raw materials—is gradually diminishing and will limit the extent to which China can increase its volume of textile exports. During the Seventh 5-Year Plan, therefore, we must gradually shift from the quantitative model dominated by extensive development to the high-return model dominated by intensive development, inculcate the notion of commodity internationalization, adopt a multi-pronged strategy, emphasize "winning on quality" while paying attention to both quality and quantity, make our products more competitive, and lay a solid foundation for further expansion in textile exports in the future.

2) Accelerate technological progress and improve the technology structure and equipment mix in the industry.

Western developed nations today consider textiles a "sunset industry," but still take strong measures to protect and expand production. For instance, the U.S., Japan, and the EC have invested massively in their textile industries to speed up production automation. In South Korea, while 40 percent of the industry has been automated, investments are still climbing. This poses a severe challenge to China's textile industry. It is imperative that we accelerate the pace of technological progress in the industry. Right now we should focus on the transformation of existing enterprises in light of actual industry conditions, adopt and popularize appropriate advanced technology, increase the capacity to produce popular products, and enhance our ability to develop new products and adaptability. At the same time, we should import advanced technology from abroad, apply ourselves to absorption and assimilation, develop a host of textile processing bases and enterprises that are competitive and of a high standard and have their own characteristics, and, using the final exports as a guide, analyze the production of clothing, printing and dyeing, knitting, weaving, and spinning step by step and bring about technological transformation level by level in order of priorities.

3) Optimize the textile product mix to make textile exports go upscale.

To fulfill the textile export plan in the Seventh 5-Year Plan, we must achieve the "two changes" without delay. This is the direction textile exports should follow. A piece of yarn sells for only \$350, but if we turn it into an ordinary piece of garment, it fetches \$1,500, a four-fold increase, and if we make a piece of fashion out of it, we multiply its value dozens of times. Thus product mix optimization is where the increase of China's export potential lies. In the future, we should actively develop a variety of trading methods even as we consolidate and expand our markets and increase variety and the exports of products and clothing with a high added value. In particular, we must make an effort to develop fashion exports and open up new areas. We should work hard to develop domestic linen, decorative textile, and industrial textile exports and gradually increase their share of total exports.

4) Promote the lateral associations of textile enterprises and adopt an "export-oriented" strategy.

To enable Chinese textile exports to adapt to changes in the international market, our textile industry must shift from a domestic-oriented mold to an export-oriented mold and embrace an export-oriented strategy. The textile industry nationwide, especially the eastern region which sets industry standards in equipment, technology, and management today, must concentrate on the conquest of foreign markets. The coastal region must spur development in the interior, and the development of exports should be the engine that drives advances in technology, management, and economic efficiency in the industry.

At the same time, we should vigorously nurture lateral economic associations. One method is to bring together related enterprises and expand the production of high-quality brand-name products. In the second method, urban centers, particularly old-line textile production bases along the coast, are encouraged to link up with production enterprises in the interior or neighboring areas. The third method involves the creation of integrated bodies combining scientific research, design, and production whose objective is to develop new products, new technology, and new processes. They will help enhance our capacity to develop and design new products and accelerate the conversion of scientific achievements into productive forces as soon as possible.

5) Work out a market development strategy and step up the macroeconomic management of textile exports.

According to relevant data, 6 percent to 9 percent of personal income in western developed nations is spent on textile purchases. However, Chinese textile exports to Hong Kong, Macao, Japan, North America, and Western Europe account for just 60 percent of total Chinese textile exports. This means that there is potential for

further growth in those markets. While quota restrictions are in effect in some markets, there is still considerable room for development provided we conduct market research in earnest and map out appropriate development strategies for different markets. In addition, we must assiduously open up markets in the Near and Middle East, Africa, Latin America, the Soviet Union, and Eastern Europe. We must step up advertising and broaden our influence.

After foreign trade reform went under way, more and more enterprises have entered foreign trade. Since textiles are a sensitive commodity in international trade, doing what is necessary to strengthen the macroeconomic management of textile exports will help those exports grow steadily.

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### **Policies, Measures for Expanding Technology Export Discussed**

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[Text]

#### **1. The Immense Significance of Developing Technological Export**

After World War II, particularly since the 1970's, international trade in technology has grown rapidly. By the mid-1970's, technology trade in the world had reached \$11 billion, up from \$2.5 billion in mid-1960's. According to relevant reports, technological trade worldwide already hit \$40-\$50 billion in 1985, having grown much more rapidly than merchandise trade. At present, most international technological trade, about 80 percent, occurs between developed nations. Many developing nations too take technological trade very seriously. Apart from importing advanced technology and managerial experiences from developed nations in order to speed up national economic development, they are working hard to develop their own technological exports based on their national characteristics and by capitalizing on their strengths.

As far as China is concerned, a push for technological trade will be very significant in the following ways:

1) Exporting technology is an important way to increase exports and foreign exchange.

In the 30 odd years since the People's Republic was founded, we have developed the national economy through self-reliance. In the area of international technological trade, however, we have remained essentially

an importer of advanced technology. Yet we need adequate foreign exchange to pay for advanced technology and key equipment required for national economic development and certain raw materials and necessary daily consumer goods that China is incapable of making or cannot produce in sufficient quantities at the moment. For a country like China which is in the midst of large-scale economic construction and has a relatively low level of economic development, foreign exchange shortage will remain a problem for a long time to come. Increasing foreign exchange earnings from regular merchandise trade and other non-trade sources is one way to resolve this problem. Another vital way is to expand technological exports. In the 8 years since 1980, there has been an explosion of scientific and technological achievements in China as a result of scientific and technological structural reform and rising scientific and technical standards in the nation. Major scientific and technological achievements numbered 53,768 nationwide, including 1,114 which won the national invention award and 1,761 which won the national scientific and technological progress award. In certain key technologies, such as the launching of carrier rockets, the testing of communication satellites, and microwave testing and control systems, China has reached or is approaching advanced international levels. As an ancient civilization, China boasts many unique traditional technologies not available in other countries, some of which can be exported. After the 3d Plenum of the 11th CPC Central Committee, China began exporting technology. During the Sixth 5-Year Plan, such exports remained insignificant. But the first year of the Seventh 5-Year Plan saw new achievements. According to incomplete data, China exported dozens of pieces of technology in the metallurgical, petrochemical, light, and electronic industries in 1986, with a total contract value of tens of millions of dollars. Among the major ones are blast furnace coal powder blowing technology, the technology of butadiene-styrene rubber benzene block copolymer, tire manufacturing technology and equipment, and the technology of microwave electron tube design and manufacturing. By late November 1987, the combined value of the technological export contracts China signed with foreign countries stood at \$152 million, of which almost \$100 million worth of deals were clinched in 1987.

2) By exporting technology, we can broaden international technological exchanges extensively and raise the level of science and technology in China.

In science and technology, nations interact with and stimulate one another. Countries need to exchange technology, which is a form of intellectual property, and even the most developed nations are no exception. Through reciprocal trade in which software is traded for software, China can use its unique technology or certain technology in which it excels to obtain technology which has tremendous economic significance for it but which is under export restrictions or which the other side is unwilling to provide, thus overcoming the many barriers

erected by high-tech protectionism. Also, through cooperative development and operation, it can transfer technology to the other side as well as absorb what technology it needs from it. Technological export and exchange broaden the horizon of its scientific and technological personnel, raise the level of science and technology in China, and contribute significantly to scientific and technological development in the country.

3) Technological export promotes the export of equipment, materials, and labor services.

In international trade, every country tries to integrate the export of technology with the export of plants, materials, and labor. This is because technological exports alone generate limited economic returns. Judging from the experience of certain countries, the export of a piece of technology often leads to the export of other products worth several, or even a dozen, times more than the value of the piece of technology itself. Technological export also creates favorable conditions for the export of labor. An important way in which technological export can spur the export of equipment, materials, and labor is through foreign project contracting. Since the 3d Plenum of the 11th CPC Central Committee, we have made the first breakthrough and done quite well in foreign project contracting and labor cooperation as a result of reform and the policy of opening to the outside world. According to data from the departments concerned, in the 8 years between 1979 and June 1987, China set up 70 international economic and technical cooperation companies, which have signed a total of 4,000 contracts on project contracting and labor cooperation with 104 countries and regions around the world. The combined value of the contracts was \$7.21 billion, of which \$3.98 billion worth of business has been completed, and the average annual increase rate was 80 percent. If the sale by the China Chemical Industrial Construction Corporation of tire production technology and plant to Nepal and the export by the China Technology Import Corporation of gunnysack and woven bag production technology and plant to Burundi are anything to go by, a dollar's worth of technological export triggers off almost 6 dollars' worth of export of equipment or products.

4) By participating in all manner of international fairs and exhibitions, we can learn other nations' strong points, demonstrate our technological achievements, and promote international friendship.

Guided by the CPC Central Committee's reform and open policies, the units concerned in China have actively cooperated with one another to open up international technological exchange in recent years, particularly after the CPC Central Committee issued the decision on scientific and technological structural reform. We have successively taken part in the 13th and 14th international invention and new technology fairs in Geneva; the Barclay technology exhibition in Birmingham, England; the 21st Orlando technology exhibition in the U.S.; the 35th and 36th Eureka international invention fairs in

Brussels; world expo in Sapporo, Japan; and the Tokyo Chinese technological export exhibition, among others. In addition, the pertinent organizations in China have established a long-term relationship with international technological and informational exchange institutions. Through participation in international technological exhibitions, we have demonstrated the Chinese people's talents and intelligence and China's new scientific and technical achievements, changed certain foreigners' prejudice against China, and clarified some people's confused ideas. Whenever we participate in an international invention exhibition that gives out awards, our exhibits walk away with gold medals, gold-plated medals, silver medals, and other prizes. Through these activities, we have furthered economic and technological cooperation and trade with other nations and regions in the world.

## 2. Practical Suggestions To Speed Up China's Export of Technology

### 1) There must be a change in thinking.

We must mount a major publicity campaign among the masses, particularly foreign trade workers, the scientific and technological community, and other sectors related to technological export in order to put to rest the old notion that export means simply the export of material goods. Publicity work must be based on facts and must seek to convince others with reason.

### 2) Work out a technological export development plan and strive to open up supply sources of technological products.

Departments in charge in technological export and all functional units should formulate a relatively long-term technological export development plan based on China's national economic and social development plan. They should vigorously identify and organize a variety of technological product sources as follows in light of international market demand:

a. achievements at the cutting edge of science which can be transferred overseas and are highly competitive; b. applied technology which is significant for production development in nations (especially developing nations) around the world; c. software production technology based on a highly intelligent labor force; d. traditional processes and technology unique to China.

### 3) Import to export.

Since the level of economic development in China remains quite backward at the moment, we are still importing a large percentage of technology, a situation that will remain unchanged for some time to come. But we can promote the export of technology through imports. Among other things, this means importing a piece of technology on condition that the its exporter would buy from us certain technology that it needs and

absorbing, assimilating, refashioning, and innovating on the foreign technology we have imported and exporting our own technological products.

### 4) Establish economic and technological development zones.

In deciding to further open the coastal cities in May 1984, the Chinese government noted that "these several cities may set aside areas with clearly defined boundaries as economic and technological development zones" A development zone should do more than importing advanced technology and serving the cause of scientific and technological progress by helping to transform old enterprises. It should also strive to be an important beachhead in the drive to establish an export-oriented economy in the opened coastal cities. At least one half of the output of the enterprises in a development zone should be exported.

### 5) Diversify technological exports

In international trade, we face opponents which operate under different systems and at different levels of economic development. Similarly, our technological export practices should not be totally uniform. Instead we must diversify them and operate at different levels depending on the partner in question. We must ensure that our exports not only meet specified qualitative requirements but also look original outside. That is the way to beat our competitors.

### 6) Go all out to develop foreign project contracting and labor cooperation.

China is still a novice as far as foreign project contracting and labor cooperation are concerned, but provided our policies are sound, this area looks very promising to us. The "spark plan," now under way, will set the stage for all-round scientific and technological development in China. Because of the "spark plan," even peasants can now make automobiles. (Witness the peasants in Haiding District in Beijing, who are now turning out cars.) As educational and scientific and technological levels go up generally, we must track advanced science and technology in the world, organize high-tech research and development in a targeted way in a quest for breakthroughs in certain areas, and set up high-tech industries. Meanwhile, a variety of technical industries will spring up in China's vast urban and rural areas, along with an increase in the number of personnel schooled in modern science and technology. They will be the forces backing up our effort to expand foreign project contracting and labor cooperation.

### 7) Expand scientific and technological exchange with nations (regions) around the world through a multitude of channels.

Apart from attending international invention fairs regularly, we may also organize various specialized scientific and technological exhibitions in China and invite foreign businessmen and experts to attend. In addition, we may bid for certain construction projects overseas in cooperation with foreign firms. Through these activities, we can learn others' strong points, strengthen scientific and technological exchanges between China and other countries, and upgrade the standard of Chinese technological exports.

8) Further improve the scientific and technological information network.

China has already set up a nation-wide scientific and technological information center, namely the Scientific and Technological Information Center of the Chinese Academy of Sciences, along with its many branches in certain localities. Some units in the nation (including scientific research units, mines, factories, enterprises, and institutions of higher education) have also created their own scientific and technological information departments. Be that as it may, scientific and technological information work in China remains quite backward primarily for these four reasons:

a. Scientific and technological information work in China is seriously fragmented. Mindful only of their own interests, many units keep scientific and technological information away from one another.

b. Since China has not set up a sound scientific and technological information network overseas, it has limited access to information.

c. Backward means of transmitting scientific and technological information and the absence of modern data transmission and processing equipment.

d. Satisfied with the status quo, certain scientific and technological departments and workers are complacent and have no interest in learning others' advanced experiences.

With modern science and technology advancing by leaps and bounds, the life cycle of many technological products is also being shortened. Only by keeping abreast of the trends in world technology in a timely way and turning out new technical products continuously can we come out on top in the fiercely competitive international market. We must therefore take effective measures to further improve our scientific and technological information network and make scientific and technological information work modern and scientific.

### 3. Basic Principles and Policies For Accelerating the Export of Technology

1) Strengthen state management of technological export, combining macroeconomic control with microeconomic invigoration.

Technological export is a complex piece of work and an important policy issue. The State Council's decision to put it under the centralized management of the Ministry of Foreign Economic Relations and Trade [MOFERT] and the State Science and Technology Commission is totally necessary.

Technological export involves many sectors, localities, enterprises, and even individuals. In technological export, we must step up macroeconomic control by the state and mobilize the initiative of all parties. Macroeconomic control in the absence of initiative from the other parties will be useless. On the other hand, without macroeconomic centralized management, everybody will still be doing things his own way and bickering with one another even if initiative is mobilized all around, causing losses to the state. In certain scientific research areas in China, there is unnecessary overlapping and fragmentation, wasting human, material, and financial resources.

We should classify technological exports and decide which agency should handle them depending on the nature of the export concerned and its importance to the national economy and people's livelihood.

a. There should be an export ban on state-of-the-art technology critical to the national economy and people's livelihood and unique to China.

b. State-of-the-art technology that has been mastered by a handful of nations in the world may be transferred on a restricted basis, depending on the country to which it is to be transferred.

c. We should encourage the export of certain types of civilian technology which are China's specialties and are in widespread demand around the world (eg., some computer software technology, small hydropower plant technology, and technology pertaining to the design, manufacturing, and application of small farm machinery).

d. We should vigorously increase the export of technology and equipment for which there is a heavy international demand and which we have plenty of. (For instance, since we now have 40 color TV assembly lines producing 8 million color TV sets each year, there is much room for growth in color TV exports.)

The export of Categories a and b should be under the centralized management and operation of MOFERT and the State Science and Technology Commission. As for the export of Categories c and d, it may be handled by individual sectors, localities, and enterprises concerned on their own within the framework of a uniform policy and centralized planning and under the guidance of the principle of presenting a united front to the world.

2) Establish technological export associations to promote and coordinate technological export work.

Such associations should be semi-official organizations drawing members from among units across the nation that are related to export in the field of technology concerned. (Examples include the Electronic Industry Technological Export Association, Machinery Industry Technological Export Association, Optical Industry Technological Export Association, Building Industry Technological Export Association, Agricultural Technology Technological Export Association, and Chemical Industry Technological Export Association.) A technological export association conducts information exchange and consultation work pertaining to technological export, on the one hand, and coordinates the export work of units related to its industry, on the other. A mass organization and a professional organization, the technological export association should be instrumental in raising the standard of technological exports and increasing them in a planned way.

3) Tighten up security.

We must achieve confidentiality in technological export and prevent state secrets and other important technical secrets from being leaked. In consultation with other pertinent units, the MOFERT and the State Science and Technology Commission must devise a practical and feasible security system. Technological export contracts must include a conditional security provision to be observed strictly by both sides. The broad ranks of foreign trade workers and scientific and technological personnel should be educated in technology transfer-related security.

4) Formulate and perfect legislation on technological export and trade. To protect patents on technological inventions, exclusive trademark rights, and copyrights, some capitalist nations concluded a number of conventions, treaties, and agreements more than 100 years ago. Over time and as circumstances changed, some of those conventions, treaties, and agreements have been amended several times and remain valid in certain areas. Thus understanding international conventions, agreements and treaties on the protection of invention rights and writing and amplifying our own technological export legislation are immensely important to promoting the nation's technological export.

5) Standardizing exported technology.

The standardization of exported technology is vital to expanding China's technological exports. This is because: a) Standardization is the technical link in promoting the international division of labor and facilitating production cooperation. To ensure that the international division of labor and production cooperation can proceed smoothly, there must be a high degree of coordination in technical and production activities between countries taking part in the division of labor and cooperation. Only by setting appropriate standards can we effectively integrate enterprises and specialized production sectors that transcend national boundaries

and all production links and make different products complement one another. b) The standardization of measuring units is an important means of developing international trade.

Apart from meeting internationally recognized technical standards, we must familiarize ourselves with the technical laws and regulations of importing nations. Technical laws and regulations usually cover the following areas: a) occupational safety; b) environmental protection; c) energy and raw material efficiency; d) sanitation and health; e) traffic regulations; and f) radio jamming.

Furthermore, there are laws and regulations issued by specific departments, such as aviation, shipping, railroad, and nuclear power stations. Technical laws and regulations abound in the U.S., the Federal Republic of Germany, and Japan. If we understand them and try our best to steer clear of them in our exports, that should greatly help our export drive.

6) Integrate technology with industry (agriculture) and trade.

Technological export is a highly technical as well as an important policy issue. Thus we must follow the principle of integrating the three sectors—science and technology, industrial (or agricultural) production, and foreign trade. Learning from foreign experience, we can establish an export corporation or company bringing together the scientific and technological research unit, industrial (agricultural) production department, and foreign trade sector, and reap the advantages of unity. That should prove highly useful in promoting technological export. Different fields in science and technology may establish their own export corporations or companies. At present, some fields at the cutting edge of technology, including nuclear energy, electronics, the machinery industry, and certain light industrial sectors, have all set up integrated export production systems combining scientific research with production and sales and marketing. In the future, to upgrade the level of exported technology and its products and enhance our capacity to export and earn foreign exchange, we must carry the principle of integration to even more technological export sectors.

7) Implement the principle of military-civilian integration and make the most of the war industry in technological export.

Since the 1950's, China has established many enterprises in the defense industry and gone in for "three-front" construction, investing a total of 200 billion yuan in order to defend itself from foreign aggression and threat. It has moved large numbers of scientific and technical personnel from the coastal areas to support "three-front" construction and imported from abroad some relatively advanced technology and equipment. In general, the level of technology and equipment in the military sector is higher than its civilian counterpart. Military scientific research institutions and production enterprises also

boast a host of scientists and technical personnel of a fairly high caliber. To tap the potential of these sectors, we should apply the principle of military-civilian integration to certain military research and production units. That way they can both satisfy the needs of defense and do their part for national economic development and technological export promotion.

8) Adopt policies to mobilize the enthusiasm of enterprises for exporting technology.

Administrative and management departments concerned at the state and local levels should adopt a policy of encouragement toward units authorized to engage in technological export provided they adhere to the four cardinal principles. Under such a policy, the units would enjoy the right to read data on the latest domestic and foreign technical inventions, be provided with the necessary material conditions and intermediate testing sites in the process of testing their inventions, be exempt from paying tariffs and other taxes on technology cleared for export, and be given preferential treatment in obtaining energy, materials, and transportation. Entry and departure formalities would also be simplified for their personnel involved in technological export. In short, the rigid economic system and the over-centralized political system must be changed.

9) Correctly handle the relations between the state, the collective, and the individual.

How to correctly reconcile the interests of the three parties—the state, the collective, and the individual—in technological export is a crucial policy issue. If their relationship is handled properly, that would help the development and expansion of technological export, while a mishandled relationship would become a barrier to technological export. Technology derives from practical experience and natural scientific principles. Since China is a socialist state, public ownership of the means of production is the basic form of economy in China. While a handful of technical inventions belong to the individual economy (eg., technology owned by individuals and secret recipes handed down from generation to generation,) the bulk of new technology and new inventions all come about in the state or collective economy. Many units and workers rely on the material and spiritual conditions provided by the state or their collective for technical innovation. Therefore, the benefits of scientific and technological invention belong first and foremost to the state or collective economy. Of course, workers in state or collective units who have made important contributions to scientific and technological inventions should be rewarded materially and spiritually, depending on the magnitude of their contributions. Similarly, there should be a reward system in technological export based on the principle that the state should get the most, the collective, a moderate amount, and the individual, the least, depending on the amount of foreign exchange earned. The leadership concerned should work

out detailed implementation rules to reward technological export. Collectives and individuals with major contributions to technological invention and export should be generously rewarded to mobilize their initiative.

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### **Allowing Domestic Enterprises To Enter World Markets**

40060294 *Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese*  
No 4, 12 Apr 88 pp 27-28

[Article by Zhou Jianming [0719 1696 2494] and Chen Jianxun [7115 1696 8113] of the Shanghai Academy of Social Sciences Institute of Economic Research: "Open the Door For Enterprises To Enter World Markets"]

[Excerpts] China's socialist economy is currently at the planned commodity economy stage. This closed circle, national developmental model originally followed exactly the transformations of similar developmental export-oriented models. Viewed from the standpoint of Chinese economic development, there are two aspects to these transformations. The first is opening to the outside world, drawing in foreign capital, advanced technology, foreign debts, etc. The second aspect is opening foreign markets to our domestic enterprises. This will allow these enterprises to enter the international marketplace, fulfill the various requirements for economic development, and take advantage of opportunities. The emphasis of this article will be to elaborate on what is included in the latter aspect.

We know that permitting enterprises to enter international markets is not simply to expand exports, earn foreign exchange, and resolve our foreign exchange shortage. It has many uses. Enterprises can be directly affected by changes in international markets, can react promptly to the actions of these markets, and adjust their own management to seize the advantages these markets offer. Enterprises can often obtain samples from visitors, be furnished with technology, and accelerate the process of disseminating technology. Enterprises directly enter the environment of international competition, can speedily revise the attitudes and methods prevalent in domestic management practices, approach the world's level of advancement, and improve the quality of enterprise management. Enterprises can choose from both domestic and international resources, thereby more economically obtaining the key elements which go into making a product, and so obtain greater economic benefits. In general, it would raise the quality of enterprises, improve the environment for development, and thereby give greater vitality and impetus to the development of the overall national economy. It is worth noting that the benefits gained from allowing enterprises to enter international markets cannot always be used as a direct measure of value or increase in foreign exchange. The

benefits are indirect and long range. It is precisely for this reason that people often overlook the importance of letting enterprises enter the international markets.

When viewed from the angle of economic changes abroad, the comprehension and practice of our present policy of opening to the world seems very much like limping on an injured leg. We have placed our emphasis on opening up China to the outside world, but have neglected the aspect of opening up world markets for our own enterprises. It is true that there has been some progress in recent years in the export system, such as increasing the number of units which have the authority to trade abroad, including permission for a very small number of large-scale enterprises to engage directly in the export agent system abroad, etc. But basically there are still the remnants of the original purchasing system. In developing exports and reforming the system, the emphasis has been upon supplying goods and assuring greater centralization under the conditions of the existing purchasing system; it has not been upon establishing the conditions and system which would permit enterprises to enter international markets. At the same time that we are opening to the outside, we are still running our domestic enterprises by the same methods as before, as if we were closing and locking the nation.

China's exports are basically carried out in a purchasing system. Under the conditions of that purchasing system, production enterprises have no way of engaging directly in international markets, therefore they are cut off from international market information. We conducted a survey of the situation of 545 exporting production enterprises in Shanghai and 155 such enterprises in Jiangsu. The results showed that of the enterprises surveyed, 71.6 percent of the Shanghai enterprises and 49.6 percent of the Jiangsu enterprises had been supplied with over 50 percent of their international market information by foreign trade departments. However, since the principle mission of foreign trade enterprises is marketing rather than production, they are chiefly concerned with market conditions (who they should sell to, and at what price); little attention is given to the international market supply (what and how much is being produced elsewhere, and at what production cost). At the same time, when they do give this some attention, the foreign trade enterprises' lack of technical understanding prevents them from reacting promptly and making precise judgments concerning changes in the international market supply. Further, because foreign trade enterprises have goals which differ from those of production enterprises, the information that they do obtain is sometimes not necessarily transmitted completely to production enterprises. This inevitably brings about a lack of understanding of international markets on the part of exporting production enterprises.

75.9 percent of the Jiangsu and 69.3 percent of the Shanghai enterprises did not know their own plants' export prices. 72.9 percent of the Jiangsu enterprises and 78 percent of the Shanghai enterprises had no knowledge

of the technology used by foreign producers of the same type of products as their own; 90.4 percent of the Jiangsu, and 87.5 percent of the Shanghai enterprises, did not know the international market price of the same class of products as their own; 95.3 percent of the Jiangsu enterprises, and 90.6 percent of those in Shanghai, did not know the quantity of production on the international market of products similar to their own. 95.3 percent of the Jiangsu, and 92.2 percent of the Shanghai enterprises, did not know what portion of the international market was occupied by their own plants' output; and 80.8 percent of the Jiangsu enterprises, and 87.6 percent of those in Shanghai were unaware of changes in the international market demand. These enterprises' lack of clarity concerning international markets illustrates that the export purchasing system not only is the cause of production enterprises lacking the means of entering international competition, but also the reason they derive none of the indirect, long-term benefits of economic exports.

In dealing with this situation, it is worthwhile for us to reflect that, now that we have put forward opening to the outside as a basic national policy, opening up domestic and international markets, and utilizing two types of resources, who is going to open up international markets and make use of the international resources? Earlier specialized foreign trade corporations are fairly limited in what they can make use of. This is because a foreign trade company is just a commercial organization, and in addition to the restrictions placed on them by the current system, they are further limited by their budget allocations. When opportunities were presented by the international marketplace, the corporations could not carry out a comprehensive policy from production to sales. This is even worse if since they are not engaged in production, they cannot clearly distinguish international market opportunities. Moreover, there is a limited number of foreign trade enterprises. So if they want to start out on a major undertaking, one so big that the Chinese economy is intimately linked to that of the world, they are indeed in a position of trying to do their best under the most difficult conditions. Only when there are millions of enterprises operating in relation to the international economy, will they be the main force for opening up the international marketplace and utilizing international resources. After they have entered international markets, they can react comprehensively, from production to sales, to the opportunities presented by international markets; they can make the most economical selections of domestic and international resources; and, they can receive all of the indirect benefits of foreign trade. At the same time, these millions of enterprises in the international markets, not only will make for keener reactions, but also dispersal of risks.

Permitting enterprises to enter international markets will fundamentally reform China's economic system by making the enterprises true managers of commodities, and by converting our centralized management system

into an indirectly regulated system. Permitting enterprises to enter the international markets will mean that the guiding thought behind Chinese economic development will move forward in the occurrence of change, especially in foreign trade, from exporting to importing, and will make exporting the fulcrum of our national economic development. From exporting foreign exchange as a means of payment, China will change to an equal emphasis on receiving foreign exchange as a means of payment and obtaining the indirect benefits.

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### **Hinterland Response to Coastal Development Strategy**

40060287 Xian SHAANXI RIBAO in Chinese  
13 Apr 88 p 3

[Article by Yuan Zhengzhong [5913 2973 0022]: "Xian's Response to Coastal Development Strategy"]

[Text] The strategy of coastal development proposed by General Secretary Zhao Ziyang will have a tremendous and far-reaching effect in terms of promoting economic development in the coastal areas, and will spur on development of China's central and western regions, indeed of the national economy as a whole.

Just what effects will the coastal development strategy have on the hinterland?

A. Coastal development will create an export-oriented economy involving large-scale imports and exports, and provide an outlet for domestic raw materials and markets. This will reduce competition and friction with economic development in the hinterland, and provide a conduit for contact between the hinterland and the international economy. As a result, the hinterland should enjoy a fairly favorable economic environment, which will bring development opportunities, and create conditions for accelerating industrialization and bringing prosperity as quickly as possible.

This is the primary effect the coastal development strategy will have on hinterland development, and it should be noted that this is a positive effect. We must lose no time and spare no effort to participate in the domestic markets resulting from the export-oriented economy set up in the coastal areas. As far as we are concerned, the domestic markets are expanding rather than contracting. At the same time, we still have the opportunity and the means to develop high technology products with direct access to the international market. This is beneficial to our township and town enterprises as well as to the large state-run enterprises; both have a fine opportunity to fully utilize the market environment.

B. International economic upheaval could bring risks and crises to the coastal area, and these in turn could result in the hinterland taking a beating. This is an effect we cannot ignore. Specifically, we could witness the following:

1. If the coastal area opts for large-scale importing while exporting little, and relies on dumping its goods and technology in the hinterland, the hinterland's markets will contract; if the coastal area imports little while exporting on a grand scale, not only will people compete to exploit the hinterland's raw materials, but prices could rise as well.

2. There are two major requirements for the coastal areas to participate in the initial stage of the great international circle. One is significant capital requirements, which could draw capital funds (including foreign exchange) away from the hinterland; the second is substantial requirements in terms of qualified personnel, which could create a large-scale talent drain from the hinterland. These requirements put great pressures on us.

Another effect which likewise cannot be ignored is that after the coastal area organizes an export-oriented economy, there will be a rapid increase in its actual economic strength and level of prosperity. As a result, the discrepancy with the hinterland could be further exacerbated, which is bound to intensify the hinterland's social aspirations. This would make it more difficult to conduct ideological and political work aimed at the cadre and masses in the interior.

Implementation of the coastal development strategy will provide us in Xian with excellent opportunities to reform, open to the outside, and develop. At the same time, it could also bring shock and pressure. Consequently, we must devise an appropriate development strategy, objectives for which to strive, and an implementation plan which will appeal to people throughout the city, and especially to our entrepreneurs. We must change pressure to impetus and potential to actual strength, conform to the general trend of China's development, and surge ahead. What remains in our favor are the "three great strengths." As long as we unremittingly tap the potential of defense industry enterprises to develop civilian products, and develop the potential of science and technology and international tourism, while at the same time we seize the opportunity to develop rural enterprises more rapidly through realistically promoting the steady development of agriculture, we can create a completely new set of circumstances.

What measures, then, should Xian employ?

a. Invigorate the state-run enterprises, and exploit the role of the large and mid-sized state-run enterprises as a main force. A significant proportion of enterprises in Xian are large and mid-sized state-run enterprises, and they occupy a prominent position. Statistics show that

large and mid-sized state-run enterprises account for 60-plus percent of the city's gross value of industrial output, and they account for more than [number illegible] percent of both the initial value and net value of city-wide fixed capital. Consequently, enlivening the enterprises, in particular the large and mid-sized state-run enterprises, could do wonders for reform and economic development in Xian. We must grant the enterprises genuine independence to implement the system of contract management responsibility as a means to effect breakthroughs. They must also be free to introduce competition, and act on their own in matters of personnel hiring and firing, wage distribution, lateral ties, and product development. We should "wean" the large and mid-sized state-run enterprises as quickly as possible, put them at the mercy of the marketplace, and require them to survive and develop in a competitive environment.

b. Capitalize on the role of the township and town enterprises as a new force. Administratively, the advantage of rural enterprises is that they assume sole responsibility for profits and losses, rather than having "the iron rice bowl" or the "big rice bowl." What they produce goes immediately into the market economy, and is not constrained by the planned economy. They directly participate in market competition, from raw materials purchases to product sales, and since the rural enterprises are more competitive than state-run enterprises and can be more sparsely distributed, they are extremely vigorous. They have another strength as well, which is low labor costs. I observed several rural enterprises in Sunan; the equipment and technology employed were on a par with China's mid-sized and small state-run enterprises, the staff and workers did not require housing to be provided by the enterprises, and after their shifts they returned home on bicycles to cultivate their land and engage in sideline industry. Therefore, when the rural enterprises of the coastal area are thrust into the international marketplace, they will hold their own along with the state-run enterprises; the state is banking on this. Similarly, we are counting on the same from Xian's rural enterprises.

c. Appeal to science and technology circles to initiate industry, and turn Xian's scientific and technological strengths into an important pillar for developing an export-oriented economy. Xian has abundant scientific and technological assets, and boasts a number of universities, and research academies and institutes. We should note that in recent years they have scored definite successes in publicizing and utilizing inventions, creations, and the results of scientific research. But we are far from realizing their potential. This says that the degree to which we have transformed our ideological concepts, the degree to which policy restrictions have been relaxed, and the quality of our work cannot keep abreast of the requirements of developing circumstances, nor have we really made scientific and technological advances the motive force for economic development. The science and technology people still lack a sense of

urgency or sense of crisis in meeting the new challenge, and we still have not fully mobilized and organized them to accept the challenge. Neither are we too sure about how to combine technology with economics to enhance, develop, and establish (that is, to enhance the transformation of traditional industry, develop rural enterprises, and establish new technology and high technology industries). This is worth pondering. Because we often find it difficult at present to link up high technology with low productive forces, now is the time to appeal to science and technology circles to initiate industry. Surmounting this obstacle, and exploiting the new approach of developing new technology and high technology industries will transform science and technology into productive forces in the quickest manner possible. Beijing's "Stone Group" and "Electronics Street" serve as examples for us. We also must employ a most-favored policy to promote the people-run high technology industries to appear soon in Xian, encourage and support the bravery and spirit of exploration of the pioneers, who "dared to be first," and make the tide of "science and technology circles initiating industry" roll on.

d. Conscientiously increase management expertise. We should acknowledge that inferior management is one of our major weaknesses. Our primary administrative and management problems are unwieldy organization with numerous offices, much bureaucratic wrangling, lax and inefficient discipline, many loopholes in the absence of regulations, and a failure to abide by those which are in force. The major problems of enterprise management are inadequate return and low labor productivity, expressed as wasted time—low work efficiency; wasted materials—high unit costs; wasted manpower—low labor load; wasted facilities and equipment—low utilization rate; wasted value—low quality. Our greatest losses at present are in low labor costs being offset by inferior management, which prevents our product costs from dropping. If this situation does not change, we will not be able to develop the domestic markets, or squeeze into the international marketplace.

e. Take development of the information industry seriously. We must transform the present situation where information derives from only a few organizations, devote major efforts to developing information management in order to provide accurate and sensitive information and consultative services for the state-run, collective, individual, and privately-operated enterprises, accelerate the rhythm of economic activity, and make information more pervasive throughout society.

f. Restructure the foreign trade system, implement a system of assuming sole responsibility for profits and losses, open up management, coordinate industry and trade, and pursue an agent system. Developing foreign trade in the hinterland cities is more difficult than in the coastal cities, which means we must adapt to the rhythms of international economic activity all the more. We must be more acutely attuned to the pulse of international market change, and establish strong concepts of

time and efficiency. We must react quickly, act in harmony, and develop the courage to compete. We must lift restrictions on the foreign exchange market, and support large enterprises to interact directly with the outside world. We must appropriately restructure the financial system, and convert foreign exchange more quickly. We also must appropriately restructure the export examination and approval system and gradually do the following: develop foreign trade, and export goods as required; solicit foreign commerce, and import goods as required.

g. Actively create the conditions required to make Xian one of the hinterland's select cities in opening to the outside. Continue to improve the investment climate, go all out to attract foreign capital, and develop the three

types of foreign invested enterprises. We must simplify project examination and approval procedures, increase work efficiency, and enable foreign entrepreneurs to come to Xian and manage enterprises in accordance with international convention.

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## AGRICULTURE

**1987 Water Conservancy Investment**  
40060341 Beijing ZHONGGUO SHULI [CHINA  
WATER CONSERVANCY] in Chinese  
No 4, 15 Apr 88 p 28

[Text]

Place	unit: 100 million yuan				
	1980 Investment	1986 Investment	1987 Investment	1987/1980 (%)	1987/1986 (%)
Total	27.07	22.87	27.24	101	119
Affiliated Projects	4.50	6.04	7.93	176	131
Beijing	0.21	0.29	0.20	95	69
Tianjin	0.36	0.22	0.19	53	86
Hebei	1.30	0.37	0.48	37	130
Shanxi	1.21	0.53	0.48	40	91
Nei Monggol	0.45	0.27	0.28	62	104
Liaoning	0.74	1.52	1.91	258	126
Jilin	0.65	0.56	0.55	85	98
Heilongjiang	0.85	0.47	0.67	79	143
Shanghai	0.28	0.15	0.14	50	93
Jiangsu	1.30	0.36	0.37	28	103
Zhejiang	0.79	0.48	0.60	76	125
Anhui	0.59	0.62	1.12	190	181
Fujian	0.56	0.78	0.82	146	105
Jiangxi	0.51	0.55	1.16	227	211
Shandong	1.20	1.36	0.42	35	31
Henan	0.90	0.66	0.70	78	106
Hubei	1.28	0.90	1.14	89	127
Hunan	1.07	0.52	0.72	67	138
Guangdong	0.85	0.60	0.92	108	153
Guangxi	0.63	0.35	0.39	62	111
Sichuan	2.10	1.09	1.36	65	125
Guizhou	0.59	0.57	0.65	110	114
Yunnan	0.80	0.46	0.42	53	91
Tibet	0.07	—	—	—	—
Shaanxi	0.98	0.32	0.41	42	128
Gansu	1.03	1.38	1.53	149	111
Qinghai	0.25	0.26	0.31	124	119
Ningxia	0.34	0.39	0.25	74	64
Xinjiang	0.68	0.80	1.12	165	140

**Genetic Analysis of Oil, Amino Acid Content in Shelled Seeds of Upland Cotton Hybrids**

40110021 Tianjin ZUOWU XUEBAO [ACTA AGRONOMICA SINICA] in Chinese No 1, Mar 88 p 6

[English abstract of article by Ji Daofan [1323 6670 5672] and Zhu Jun [2612 6511] of Department of Agronomy, Zhejiang Agricultural University]

[Abstract] The oil and amino acid content in seed kernels of four parents and their  $F_1$  hybrids in upland cotton (*Gossypium hirsutum* L.) were studied by diallel analysis. Heterosis and genetic effects of these traits were analysed, and correlation coefficients among some seed traits were also estimated. There were positive heterosis (4.75%) for oil content and negative heterosis (-3.60%) for total amino acid content in seed kernel. These two traits had larger dominance variances ( $H_1$ ,  $H_2$ ) than their additive variances (D). It is suggested that they are controlled by dominance genes, and the dominance genes of oil content show positive effects, and that of total amino acid content show negative effects. There was highly significant correlation between oil content in seed kernel and kernel percentage ( $r=0.678^{**}$ ). The correlation coefficients between total amino acid content in

seed kernel, seed index ( $r=0.504^*$ ), and kernel index ( $r=0.447^*$ ) were significant too. Heterosis and genetic parameters of all amino acids, excluding methionine, were similar to those of total amino acid content.

**Genetic Difference of Linseed Quantitative Characters, Breeding Application**

40110022 Wuhan ZHONGGUO YOUILLAO [OIL CROPS OF CHINA] in Chinese No 1, 20 Mar 88 p 24

[English abstract of article by Yang Wanrong [2799 8001 2837] and Bo Tianyue [5631 1131 1471] of the Institute of Crop in Very-cold Region Shanxi Provincial Academy of Agricultural Science]

[Text] The genetic difference of linseed quantitative characters was studied through 23 linseed varieties. After analysing main components of varieties, 9 varieties with good comprehensive characters were selected. Through determining of genetic distance and cluster analysis 24 fine cross combinations were proposed primarily. That showed some varieties with good comprehensive characters had slight genetic differences and close parental relationship, thus, they shouldn't be crossed with each other.

**Analysis of Poor Motivation in College Students**  
40050253 Shanghai SHEHUI KEXUE [SOCIAL  
SCIENCES] in Chinese No 3, 15 Mar 88 pp 45-47

[Article by Yang Deguang [2799 1795 1684] of Shanghai Municipal Institute of Higher Education: "An Analysis of Poor Motivation of College Students and a Study of Counter Strategy"]

[Excerpts] At present, a portion of all college students are not sufficiently motivated. This fact has become a problem of extreme concern for leaders and instructors of all ranks in the colleges, as well as the worry and anxiety of parents and society. A survey of 10 institutes of higher education, taken in the first half of 1986, indicates that the learning motivation of about 55 percent of the students is deficient. This paper presents an analysis of the causes of some of these students.

**1. A Lacking Sense of Social Responsibility:** Many students' purpose of coming to college is not correct. They view college as "the stepladder to raise one's own worth and position." They have no concern for grasping true knowledge and skill to meet the needs of society. They have concern for their individual future and believe if they can muddle through to graduation their own wish may become reality; therefore, it is impossible for them to have a strong and sustained motivation to learn. Some students do not have a sense of social responsibility. Aside from the problem of ideological awakening, there is also a problem of character. A great majority of today's college students grew up in a narrow and enclosed environment of the school and have very little social contact. They have no social understanding. They are not aware of society's requirements for knowledge or personnel and neither do they see the function of knowledge in social development.

**2. A Sense of Peace and No Worry:** After passing the admissions examination, the tension is relaxed in some students. They believe in today's China, "respect for knowledge, respect for talent" is a policy deeply imbedded in the hearts of the people; therefore, there is no more worry for the future. A feeling of "peace and no worry" is thus established. Since the liberation, in our country's educational system, the policy of providing food, lodging, medical care, guaranteed graduation, and guaranteed jobs has always been the practice. There is no competition, no pressure, and no fear of crisis. This security causes some students not to be concerned with their own ability and to question their own competence in their future new jobs. They are not willing to put in much effort to learn or to compete.

**3. A Hunger for Information:** Modern science and technology is developing very fast causing an information explosion and the rapid expansion of knowledge. Newspapers and magazines have reported this "knowledge explosion" and that "knowledge learned now will be outdated in 5 years." This is somewhat an exaggeration, but the original intention is to alert people to cultivate

and develop an ability to absorb new knowledge and pay attention to knowledge renewal. Some students give it a one-sided interpretation to mean "there is no need to learn anything well; in 5 years one must learn all over anyway." Hence, they pay no attention to learn textbook knowledge but they do emphasize the general aspect of knowledge. They want to learn everything and see everything. They have a one-sided "hunger for information." There are also some students who like to show off the vastness of one's own knowledge before fellow students and let go specialized learning, either to satisfy one individual curiosity or just to be fashionable.

**4. Supremacy of Ability:** Some students cannot understand correctly the relationship between knowledge and ability. They believe in a modern society, winning depends mainly on ability. When there is no ability, the door will not open, personal relationships cannot be properly handled, and good jobs cannot be landed in the future. Some students say, "job arrangements in the future after graduation do not depend upon the record of learning; they depend upon connections and personal relationship." They, therefore, enthusiastically devote themselves to social activities to develop the ability of socializing. Not a few students regard "dancing, the game of go, tennis, and guitar" to be the "4 required subjects." The fashion is to talk of love; learning is of lesser importance.

**5. Not Learning What One Loves:** Survey says about 15 to 20 percent of college students are not interested in their field of specialty. They do not love what they learn. When they register for college, the aspiration written in the application is for the purpose of getting admitted, or to please parents, relatives, friends, or teachers. After attending college for awhile, they are unable to love their field of specialty. Others never find the desire to learn. They either are very depressed but muddle through until graduation; or they may work just enough to pass in order to devote their time and energy to some other specialty they love. They will wait until they graduate before changing into a suitable job for further advancement.

**6. Future Prospects Uncertain:** In China, the practice has always been assigning college graduates to jobs according to a plan. The students do not know the jobs they will have until just before graduation. Some students worry that what they learn may not be useful in their assigned jobs. Some students even say: "I do not know what good I may bring to the state or myself by studying hard now. I should not take it too seriously." In a word, they feel their future is unpredictable; therefore, they cannot be positive in their specialty and they lack motivation."

**7. Learning Felt To Be Useless:** Due to the fact that our country is in the initial stage of socialism, the system of distribution and the commodity price structure are far from complete and satisfactory. Many intellectuals have less income than individuals with very low education

levels. This unreasonable situation has a great psychological impact on some college students. Thus, some students pay attention to credentials but not to knowledge. They want a diploma but not high learning. There are also a few students willing to resign from college to operate individual household enterprises in order to make a lot of money.

**8. Teaching Method Too Old:** For some students, their being not enthusiastic and having no motivation to learn are induced by the outmoded method of teaching. Some instructors still follow the textbooks when they come to class. They pour it down and demand the students to remember it all. Some textbooks are the same as those used in the fifties and sixties, containing very old knowledge, far distant from the developments of a modernized society. Some students say, "With this type of teaching material and methods it would be much better to read

books by oneself." The positive attitude toward learning is thus impaired to cause them to look for answers from Western philosophy and newspapers. Furthermore, the demands made by the teachers on the students are not very strict and class discipline is lax. The study and examination standards are brought down and the teachers hardly have any contact with the students. These conditions cause some students to slacken their efforts to learn.

In summation, the lack of motivation in some college students is related to subjective and objective factors. There are elements of the school and the society; problems of thought and education, as well as problems of learning style and teaching style.

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**Locales Reported Placing Demands, 'Unjustified Levies' on Military**

40050229A Beijing JINGJI RIBAO in Chinese  
19 Apr 88 p 1

[By staff commentator: "Think of Our Military With Earnest Concern"]

[Text] In early March, several newspapers at different times published a circular by the General Office of the State Council reiterating the order to definitely stop imposing certain unjustified levies on the military. Over a month has passed, but according to reports, some localities and departments are still demanding money and materials from the military in various disguised forms.

Why the practice was not stopped despite an order to do so is a matter that gives cause to think. If the stoppage of unjustified levies on the military were merely a matter of small amounts of money, such requests could indeed be dealt with on the merits of the cases involved. But it is absolutely necessary that there is accurate understanding of the spirit and essence of the State Council circular, and that importance be attached to putting a stop to unjustified levies on the military, a matter that will enhance the concept of national defense and the respect, solicitude, and support for our military among all people.

If local administrations suffer from financial stringency, the military, too, does not have adequate funds. During the last few years, various branches of industry increased their expenditure to varying degrees, but military expenditures were never increased. At a per capita ratio, our military expenditures are less than that of even a medium or small country. Without considering updating weapons and equipment, or improving living conditions of our military personnel, but merely obtaining funds needed for food at standard levels for military cadres and servicemen, up to 30 percent of our troops are left to their own devices.

To lighten the state's financial burden, our armed forces implemented Chairman Deng Xiaoping's directive: defer to the overall situation, don't complain about difficulties, don't hold out your hand to the state for even one more penny. Many units of the army are even today still housed in thatched shacks and cave dwellings. Cadres and servicemen in our coastal defenses live under

even worse conditions. To burden them continuously with various irregular social obligations amounts to asking someone to do what he cannot possibly do, and to disregard the overall national defense situation.

There are limits to fund allocations for the military, and there are limits to what they can earn in production activities. If no thought is given to these two limitations, if you would skim off a little here and allow someone else to take away a little there, it is bound to adversely affect the national defense establishment and may even weaken national defense strength. Without a powerful army and without an adequate force, no one could reliably ensure our economic construction, and the Chinese people would not be able to ever enjoy a state of lasting well-being. Always be mindful of this formula.

Supporting the army and comforting servicemen is an excellent tradition of ours. In the past, we used to send our army, the sons of our own people, gifts of military shoes, and they had our love as if they were kinsfolk, facts we can never forget. Today, the scene and conditions have changed, but we must not lose the glorious tradition of warm love for our very own soldiers and of giving support to our military. Support for the army and giving preferential treatment to families of revolutionary armymen and martyrs, and to conduct construction in both the military as well as the civilian sector, manifests the inseparable link that exists between the military and the people in the new situation. To interpret this inseparable link as a one-sided material relationship for frequent demands of one thing or the other, means abandoning a glorious tradition of ours.

As a matter of fact, the military at all times sympathize with and support the localities where they are stationed. They often say: "This place where we are stationed is not well off, the troops stationed here have a responsibility." From "diverting the waters of the Luan river to Tianjin" to "fighting the conflagration in the Daxingan Mountains," from supporting the key construction projects of the state to helping economically backward regions in their struggle from poverty to prosperity, everywhere it was the sweat of the military that has been flowing profusely. Their spirit of unselfish giving and self-sacrifice has everyone's respect, and we must in all sincerity call out to them a loud: thank you! And what is to be after that "thank you"? We must all the same think of our military with earnest concern.

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