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22 April 1986

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

QUARTERLY ASSESSES PRC'S ECONOMIC ROLE IN ASIAN-PACIFIC REGION

HK190930 Beijing GUOJI WENTI YANJIU in Chinese No 1, 13 Jan 86 pp 1-9

[Article by Pei Monong [5952 7817 5174]: "China's Status and Role in the Economy of the Asia-Pacific Region"--[The Asia-Pacific region is also called the western Pacific region it is parallel to the eastern Pacific region which is also called the American-Pacific region; Oceania belongs to the Southern Pacific Region; in discussing China's economic relations with the Asia-Pacific region, the eastern and southern Pacific regions enter in]--first paragraph printed in boldface]

[Text] Although China's present economic power in the Asia-Pacific region is not strong enough, it has a solid foundation and great potential and is developing rapidly. China's economic reform has promoted its economic growth and foreign trade expansion. This has enabled China to play an increasingly important role in the economic development of the Asia-Pacific region. Due to its success in economic reform, China will become a force which can stabilize the world situation. It will play a positive role in maintaining peace in the Asia-Pacific region, or even the whole world, and in establishing a new international economic order.

I.

Some figures have been presented in the World Bank's "Report on Development 1985" on China's economic status in the Asia-Pacific (Western Pacific) region. These figures can be used for reference. However, these figures were compiled in 1983, and they do not cover all countries and areas in the Asia-Pacific region (for example, China's Taiwan and the Democratic People's Republic of Korea are not covered). In spite of the fact that these figures only cover 10 countries and areas, they still reflect the basic economic situation of the region. According to these figures, China's economic power ranks second in the region, but lags far behind Japan. The GNP of Japan is \$1,062.87 billion, accounting for more than 50 percent of the GNP of the Asia-Pacific region (58.7 percent). China's GNP is only 25.8 percent that of Japan. The percentage of China's export volume in its GNP is only one-half that of Japan.

The ASEAN countries rank third, and Australia ranks fourth. The percentage of these countries' (including Hong Kong's, Taiwan's and South Korea's) foreign trade and export volumes in their GNPs is much higher than that of China. The foreign trade and export volumes of Hong Kong and Singapore are even bigger than their GNP's. The export volume of the countries and areas in the Asia-Pacific region accounts for 16.8 percent of the GNP of the entire region. This level is more or less the same as that of Japan. Generally speaking, the economic growth rate of various countries and areas in this region has greatly surpassed the average level of the world, with the exception of a handful of countries. China's economy has grown most rapidly. The entire region has a surplus of trade as a whole, but there are a very small number of countries or areas which are still suffering from [word indistinct] mentioned above, of course, do not completely reflect practical economic conditions in China. China is rich in natural and human resources. It has all kinds of resources, and is particularly rich in energy (coal, oil, natural gas, hydropower, and so on) and minerals. In 1983, the total number of enterprises throughout the country was 392,500; the amount of investment in fixed assets was 136.906 billion yuan; and the number of laborers was 460.04 million. During the next century, half of the Chinese agricultural laborers will turn to the field of nonagricultural production.

As far as the rate of development is concerned, China has always maintained a comparatively high economic growth rate. According to statistics, from 1979 to 1983, the annual growth rate of the total output value of the society was 8.2 percent. Total industrial and agricultural output value increased by 7.9 percent annually, and national income increased by 7.9 percent. During the period from 1970 to 1976, the percentage of China's export volume in the total export volume of the world dropped. However, it has grown again during the 1980's. Its export volume in 1983 accounted for 1.23 percent of the total export volume of the world. In 1980, China ranked 28th, but in 1983 it ranked 16th in regard to its export volume in the world. ("Yearbook of China's Foreign Economic Relations and Trade 1984")

According to a bulletin issued by China's Statistical Bureau, China's total social output value in 1984 increased by 13 percent over 1983. Total industrial and agricultural output value increased by 14.2 percent, and national income increased by 12 percent. Grain output reached 407.12 million tons. (Incidentally, although the cultivated area in China has been reduced, its rice output has exceeded the total rice output of rice-producing countries including India, Indonesia, Bangladesh, Thailand, Burma, and others. Its wheat output has caught up with that of the United States and the Soviet Union. Its corn output accounts for 12 percent of the total output of corn in the world, ranking second. (YANZHOU YANJIU GONGBAO [ASIAN RESEARCH BULLETIN] 28 February 1985) China's cotton output was 6.077 million tons, and tung oil output was 75,000 tons. They ranked first in the world. Raw coal output was 772 million tons, chemical fertilizer output was 14.82 million tons, and cement output was 121.08 million tons. They all ranked third in the world. Steel output was 43.37 million tons, which ranked fourth in the world. The output of crude oil was 114.53 million tons, ranking seventh in the world.

The average annual salary of workers and staff members throughout the country was 961 yuan, an increase of 16.3 percent over 1983. After deducting the price index increase which affected living expenses, the actual salary increase was 13.2 percent. The annual income of residents in both urban and rural areas for use for living expenses was 608 yuan. After deducting the price index increase which affected living expenses, their actual income increased by 12.5 percent. Per capita income of peasants was 355.3 yuan, an increase of 14.7 percent over 1983. The savings of both urban and rural residents was 121.27 billion yuan, an increase of 36.1 percent over 1983. The per capita savings of residents in the urban areas was 320 yuan or so, whereas per capita savings in the rural areas was 50 yuan or so. During the period from 1979 to 1983, the retail volume of social commodities increased by 13 percent annually. In 1984, it increased by 17.8 percent over 1983. According to the World Bank's "Report on Development 1985," during the period from 1956-1984 (except for 1981), China's annual GNP growth rate was higher than the average growth rate for the developing countries and other Asian countries. During the same period (except for 1981), the growth rate of its per capita national income was also higher than the average growth rate of the above-mentioned countries and areas. According to figures issued by the Shanghai Statistical Bureau in August 1985, per capita income in Shanghai based on its domestic gross output value already reached \$1,124. This was close on an estimate made by the Japanese. (On 23 October 1984, Japan's SANKEI SHIMBUN published an article by Makazu Ichimura, a professor at Kyoto University. Based on the fact that Shanghai's population accounted for 1.2 percent of the population in China, that it accounted for 6.9 percent of the GNP of the whole country, and that the per capita GNP of the whole country was \$300, the article drew the conclusion that per capita income in Shanghai would be \$1,725.)

China's plan for strategic development, which covers a period of about 70 years, is divided into three stages of short-term, mid-term, and long-term planning. The objective of short-term planning, which covers the period from 1981 to 2000, is to quadruple annual industrial and agricultural output value and to attain a comfortably well-off level. The specific targets are: gross annual industrial and agricultural output value is to be increased from the 758 billion yuan of 1981 to 3,032 billion yuan in 2000, in other words, to \$1,000 billion. Per capita income will then reach about \$800.

The mid-term planning will cover the period up to 2010, the year in which the CPC will celebrate its 100th anniversary. The aim of this mid-term planning is to attain an economic level of middle-level developed countries. During the period from 2021 to 2049 (the PRC will mark its 100th anniversary in 2049), China will be built into a socialist power which is highly developed in both material and spiritual civilization, and will become a first-rate prosperous, strong, and modernized country in the world. It will be on a par with the advanced countries in the world. Of the three stages of planning, short-term planning is vital. It is a fundamental stage at which reform experiments are made, experience is accumulated, and the structural system is improved. As long as the work at this stage is carried out well, a solid foundation for future economic construction will be laid.

To accomplish the above objectives, China is implementing an economic policy of "enlivening the domestic economy and opening up to the outside world." Through reform, various national economic departments should maintain their proportionate and balanced development. Thanks to the efforts exerted over the past 5 years (starting in 1979), the proportions of agriculture, light industry, and heavy industry have been changed from the previous 27, 31.1, and 41.1 in 1978 to 33.9, 32.1, and 34.0 in 1983. China has also made great achievements in economic construction. It is expected that further progress will be made on the basis of stable, sustained, and coordinated development. After achieving substantial results in its rural economic structural reform, China is now concentrating its efforts on urban economic structural reform. Opening to the outside world is an important aspect of such reform. At present, on the basis of the development of production, China's internal market is brisk and its economic relations with foreign countries are active. China has also increased its financial revenue, improved people's living standard, and further developed its scientific, educational, and cultural undertakings. China's economic power in the Asia-Pacific region today is not yet strong enough, but its potential is great and development is rapid. It intends to participate in the economic development of the Asia-Pacific region with more materials and wealth.

II.

It is necessary to observe China's close economic relations with the Asia-Pacific region, or even the entire Pacific region, from the two aspects of its foreign trade and the import of foreign capital, so that we can further analyze its role in the region. Let us talk about its foreign trade first.

With the enhancement of its productive forces and the development of its production, China has made unprecedented progress in its foreign trade. According to statistics issued by customs officials, total import and export volume in 1984 was \$53.63 billion, an increase of 21.8 percent over 1983. The total export volume was \$25.96 billion, an increase of 15.3 percent over 1983. The total import volume was \$27.67 billion, an increase of 28.7 percent over 1983. (BEIJING REVIEW, 11 March 1985) The total import and export volume in 1984 was 71 percent higher than in 1980 (\$37.822 billion), with an average annual increase of 14.4 percent. Total export volume was 70 percent higher than in 1980 (\$18.272 billion), with an average annual increase of 14.2 percent. The total import volume was 71 percent higher than in 1980 (\$19.55 billion), with an average annual increase of 14.4 percent. The growth rate of China's total import and export volume in 1984 was more than 100 percent higher than the annual growth rate of world trade in the same year. The percentage of China's export volume in the export volume of the world increased to 1.4 percent in 1984 from 0.92 percent in 1980, whereas its import volume increased from 0.8 percent to 1.3 percent. In 1984, China's export volume accounted for 9.6 percent of its GNP, which surpassed the Soviet Union. It is expected that by 1990 China's percentage of foreign trade volume will increase by 2 percent in the international trade volume. (LE MONDE, 30 April 1985) After 1997, due to the fact that Hong Kong is to become its special administrative region, China's status and role in international trade will be further strengthened.

Most of China's foreign trade is carried out in the Pacific region. According to statistics compiled in 1983, China's import and export volume with the Pacific region was \$25,856,070,000, which accounted for 63.5 percent of its total foreign trade volume of \$40,727,000,000 (this figure was \$2.88 billion less than that calculated by the World Bank). China's import and export volume with the Asia-Pacific region was \$18,950,930,000, accounting for 73.3 percent of its total trade volume in the Pacific region and 46.5 percent of its total foreign trade volume. China's export volume with the Asia-Pacific region accounted for 52.6 percent of its total export volume, whereas its import volume with this region accounted for 39.2 percent of its total import volume. China's trade volume with the eastern Pacific region, that is, the American-Pacific region, was \$6,400 billion, accounting for 24.2 percent of its total volume with the Pacific region, and 15.8 percent of its total foreign trade volume. China's export volume with the American-Pacific region accounted for 8.7 percent of its total export volume, whereas its import volume accounted for 17.3 percent of its total import volume. In the Pacific region, China's main trade partners are Japan, North America, the ASEAN countries, and Hong Kong. China's total trade volume with them accounted for 56.3 percent of its total foreign trade volume. China's exports to them accounted for 58.1 percent of its total export volume, whereas its import volume accounted for 54.2 percent of its total import volume. In the Pacific region, China's trade volume with other developing countries and areas accounted for 39.9 percent of its total trade volume with the region. Its export volume accounted for 52 percent of its export volume with the Pacific region, whereas its import volume accounted for 25.2 percent of its import volume with the Pacific region. It is obvious that the percentage of China's trade volume with Third World countries and areas in the Pacific Region is higher than the percentage of its total trade volume with Third World countries in other regions (25 percent).

Other Pacific countries and areas also devote their main efforts to promoting their foreign trade in the Pacific region. For example, 40 percent of the exports of the United States and 50 percent of its imports; 55 percent of the exports of Japan and 58 percent of its imports; 33 percent of the exports of South Korea and 84 percent of its imports; 82 percent of the exports of the Philippines and 72 percent of its imports; 70 percent of the exports of Thailand and 63 percent of its imports; 65 percent of the exports of Australia and 55 percent of its imports are all conducted within the Pacific region. There proportions are more or less the same as those of China.

In 1983, China's trade volume with the Asia-Pacific region was 14 percent of the trade volume of the United States (\$134.7 billion) with the region.

According to figures compiled in 1983, China's heavy industrial products for export accounted for 43.0 percent of its export commodities, light industrial products accounted for 41.1 percent, and agricultural and sideline products accounted for 15.9 percent. According to "Standard International Trade Classifications," primary products accounted for 46.2 percent (foodstuffs, 14.5 percent; beverages and tobaccos, 0.5 percent; nonedible raw materials, 9.5 percent; mineral fuel, 21.2 percent; and animal, vegetable oil, fat and wax, 0.5 percent); and industrial goods accounted for 53.8 percent (including chemical goods and relevant products, finished products classified according to raw materials, and other heavy industrial products including machinery,

communications facilities, and others, 22.0 percent; and light industrial and textile products, 31.8 percent). ("Yearbook of China's Foreign Economic Relations and Trade 1984")

With regard to commodities which China imported in the same year, the means of production accounted for 78.7 percent (including mechanical equipment, 17.6 percent; and production raw materials, industrial materials, and raw materials for agricultural production, 61.1 percent); and the means of subsistence accounted for 21.3 percent. According to "Standard International Classifications," primary products accounted for 29.3 percent (including foodstuffs, 15.3 percent; beverages and tobaccos, 0.1 percent; nonedible raw materials, 12.7 percent; mineral fuel, 0.8 percent; and animal, vegetable oil, fat, and wax 0.4 percent); and industrial products accounted for 70.7 percent (including chemical goods and relevant products, 14.6 percent, finished products classified according to raw materials, 28.7 percent, and machinery and communications facilities, 19.9 percent, that is, heavy industrial and chemical products, 63.2 percent; and light and textile products, 7.5 percent). ("Yearbook of China's Foreign Economic Relations and Trade 1984")

Due to the fact that China has mainly imported the means of production from developed countries and exported primary products to them, China frequently shows trade deficits in its trade with these countries. However, China has a favorable balance in its trade with other Third World countries because it exports industrial products and primary products to them (the mix of China's import and export commodities is similar to that of the United States), and mainly imports primary products from them.

The mix of China's commodities for foreign trade is always changing. Such changes have been particularly marked since economic structural reform. For example, due to the increase of the output of grain and cotton, China has enhanced its capacity of exporting grain and cotton (as estimated by the International Wheat Council [IWC], China's export of grain in 1985 would be a record high of 5 million tons, an increase of 200 percent over 1984 (see special report issued by the IWC, 24 March 1985). According to an estimation made by the U.S. Department of Agriculture, by 1990 China will become a food-exporting country, because there is "extraordinary growth" in China's agriculture. During the period from 1985 to 1989, China will accumulate surplus grain in the amount of 205,000,000 tons. (see "Agriculture Abroad" published by the U.S. Department of Agriculture, 22 March 1985) In the meantime, China will reduce its import of grain and cotton. In the near future, China's export of grain will exceed its import of grain. Due to the increase in the output of durable consumer goods and acoustic products manufactured by China, and the enhancement of their quality, the import of these products has been reduced, whereas their export has increased. The general trends in the changes of the commodity mix are: the proportion of primary products is gradually decreasing (53.5 percent in 1978), whereas the proportion of industrial goods will gradually increase (46 percent in 1978).

As far as individual countries are concerned, China's crude oil and oil products export to Japan has always ranked first since 1974. In 1984, crude oil and oil products valued at \$2.785 billion were exported to Japan, accounting for 52 percent in the total export volume with Japan. Grain, edible oils, and foodstuffs accounted for 12.6 percent, textile products accounted for 10 percent, local products and livestock products accounted for 8.2 percent, and coal accounted for 3.2 percent.

China has mainly imported the following goods from Japan; steel products, chemical industrial materials, complete sets of equipment, television sets and acoustic products, automobiles, chemical fertilizers, and ships. In 1984, the proportions of the import of the above products were respectively estimated at: 36.6 percent, 6.6 percent, 5.8 percent, 5.2 percent, 2.6 percent, 2.4 percent, and 2.3 percent. These products accounted for 59 percent of the total import volume with Japan. The main problem in Sino-Japanese trade is that China's trade deficits have continuously increased, adding up (from 1972-84) to \$9.347 billion. This reflects to a great extent that there are still many unreasonable restrictions imposed on the export of China's commodities to the Japanese market.

China has mainly exported textile products and crude oil (2 million tons in 1984) to the United States. China has imported from the United States a large quantity of agricultural products, raw materials such as timber and others, and chemical products. The percentage of technical products such as machines, electrical equipment, instruments, and others has also gradually increased. The main problem in Sino-American bilateral trade is that protectionism and other discriminatory measures taken by the United States exercise an evil influence and play a negative role in Cocom. China has huge trade deficits (from 1972 to 1984, the accumulated figure was \$13.5 billion). It is difficult to change the situation in the near future. However, great potential can be tapped in bilateral trade. The projects concerned include the extraction of inland and offshore oil, coal, and nonferrous metals, and economic and technical cooperation can be carried out in a number of important industrial fields such as hydroelectric power, telecommunications, air services, and so on.

China's exports to the ASEAN countries mainly include crude oil, steel products, chemical products, metal fittings, metal products, and Chinese medicinal materials, among others. China mainly imports from them natural rubber, timber, vegetable oil, tobaccos, and granulated sugar. China has a favorable balance of trade. In the future, since Sino-Indonesian indirect trade is to be upgraded to direct trade, the trade volume between China and the ASEAN countries will considerably increase.

China mainly exports to Australia, New Zealand, and the South Pacific islands textile products, grain, edible oils, foodstuffs, tea, handicrafts, light industrial products, and industrial chemicals. It imports from them wheat, wool, dairy products, sugar, ore and steel products. Australia and New Zealand have a trade surplus in their business with China.

Some countries worry about the possibility that an increase in China's export trade will give rise to competition which is not beneficial to them. They need not worry. China is carrying out its economic construction. Its priority and basic purpose is to enhance people's living standard throughout the country. China does not rely on foreign trade completely. Commodities it manufactures are mainly sold on the domestic market. This situation will not be substantially changed even during the first 50 years of the next century. With regard to the consumption level of the Chinese residents in the urban and rural areas, compared with 1978, their expenses in 1984 for rent, water, electricity, and medical treatment was small. There is a tendency that these expenses are slightly decreasing. Expenses for food and drink remain more or less unchanged. However, expenses for clothing and consumer goods have greatly increased. The use of television sets, radio/cassette players, washing machines, electric fans, and refrigerators has been continuously popularized. There is a marked change in the consumption conditions of the rural residents. There are 43.4 bicycles, 38.1 sewing machines, 56.8 radios, and 91 watches for every 100 households. They have spent their money on building houses, on medical services, and on daily necessities. Most of them no longer worry about their food and clothing. They are beginning to strive for a higher living standard. The money they spend on commodities accounts for 58.6 percent of their total expenses. In 1978, it only accounted for 39.7 percent. All this shows that the self-sufficient or partly self-sufficient economy in the Chinese rural area is changing into a commodity economy. Due to the expansion of social purchasing power, the days when consumers rushed to purchase with their money in hand are over. It is now a time when they save money in order to buy goods. There are 170 million peasant households in China. Residents in both urban and rural areas have continuously increased their consumption level. (BEIJING REVIEW, 22 July 1985) In 1985, the per capita consumption of the Chinese was only 320 yuan (\$100 or so). The commodities manufactured by China are far from enough to meet demand. It is obvious that China's market has enormous potential.

Of course, some commodities produced by China will be sold on the international market with quantity getting greater and greater and quality getting better and better, because international economic relations are always based on the principle of each supplying what the other needs. China exports commodities needed by the world. It also imports commodities which it needs. This embodies the spirit of mutual benefit and complement. If China can export more goods, it will earn more income in foreign exchange. This also means that China can buy more commodities from foreign countries, because its capability of payment will be enhanced. Therefore, generally speaking, an increase of China's exports to the world is beneficial to the development of international trade and the expansion of trade and economy of the neighboring countries. China has encouraged different enterprises to produce the same kind of commodities so that they can compete with each other on the domestic market. This is beneficial not only to the improvement of product quality, but also to economic development. Competition is unavoidable on the international market. By carrying out competition, various countries can promote and help advance each other to achieve common development. It is not China's

policy to use the export of certain kinds of commodities to squeeze out or to push down enterprises in certain countries which manufacture the same kinds of products. After all, foreign trade only plays a supplementary role in China's economic construction. Judging from China's product mix, we know that China will not participate in major international competition in the foreseeable future. As Malaysia's Mahathir has pointed out, many products manufactured by China are consumed domestically, and a large part of the competition involves products which the countries concerned no longer use in trade with other countries. As far as direct competition is concerned, we should not think that Malaysia is less competent than China. (SAALE ZEITUNG, 5 July 1985). Even if there is competition, it can be carried out on the basis of equality and mutual benefit, and problems can be solved through consultations.

It is obvious that China has established extremely close trade relations with the Pacific region, the Asia-Pacific region in particular. China's status in international trade has been greatly improved. It will be able to foster strengths and circumvent weaknesses, and give full play to its strong points on the basis of equality and mutual benefit so that the economic development of the Asia-Pacific region, or even the entire Pacific region, will be most favorably benefited in the course of helping supply each other's needs.

III.

Another important aspect of China's economic structural reform is the development in implementing a policy of opening to the outside world, encouraging the practice of importing foreign capital, technology, management experience, and talented personnel from foreign countries, and allowing the establishment of Sino-foreign joint ventures and wholly foreign-owned enterprises in order to compensate for the deficiency in the capital and technology of China's socialist economy and promote the development of its socialist construction.

Up to 1983, more than 45 percent of the capital imported by China came from the Pacific region and 39.18 percent came from the Asian-Pacific region. Imported capital from the Hong Kong and Macao region accounted for 39.1 percent in that from the Asian-Pacific region. In other words, China imported one-fifth of its capital from the Hong Kong and Macao region, while another fifth came from Japan. Of this imported capital, loans made up 65.8 percent, whereas direct investment only accounted for 34.2 percent. However, with regard to capital from other areas in the Pacific region, the situation is completely different. Direct investment made up 61 percent, whereas loans only accounted for 39 percent. Some 98 percent of the capital from the Hong Kong and Macao region, 81.1 percent from the United States, and 92 percent from Canada was used in direct investment. But only 14.46 percent of the capital from Japan was used in direct investment. This shows that Japan is only interested in providing China with loans. With regard to direct investment and technological transfer, it has only taken a small and slow step.

By 1984, China had imported and made use of foreign capital in a sum of \$17.2 billion from various countries, of which about \$4 billion came from direct investment. Some 931 Sino-foreign ventures, 2,212 enterprises based on cooperative management, 31 enterprises based on cooperative development, and 74 wholly foreign-owned enterprises have been established. Some 1,371 compensation trade contracts have been signed. A leap forward occurred in 1984. We signed 2,050 agreements and contracts with foreign businessmen and approved more than 700 Sino-foreign ventures and 26 wholly foreign-owned enterprises. The amount of investment made by businessmen from abroad in 1984 was 680 percent higher than that in 1983. On the mainland, 27 provinces, municipalities, and autonomous regions have their own Sino-foreign ventures, except for Nei Monggol and Xizang. (BEIJING REVIEW, 3 June 1985) In 1984, the number of Sino-foreign ventures and their investment amount was 350 percent and 220 percent respectively higher than those 5 years ago. Investors came from more countries. Investment made by the United States, Western Europe, and Japan has increased rapidly, with their investment areas and fields in China expanding. Their investment scale is getting bigger and bigger and more production projects are being carried out. This is also the case with the import of technology. Apart from foreign capital, we have also imported technology over the past 6 years. In 1983, the number of technical items we imported by using the foreign exchange of the state increased by 100 percent over 1982. There was another 50 percent increase in 1984 (BEIJING REVIEW, 3 June 1985) Of the 931 technical items, 741 (80.4 percent) were provided by the Hong Kong and Macao region, 61 (6.6 percent) by the United States, and 57 (6.1 percent) by Japan. There were 693 items (74.4 percent) dealing with energy, communications, metallurgy, machinery, electronics, chemical engineering, and building materials projects. Some 43 percent of the items dealt with postal and telecommunications projects, and 31.4 percent with foodstuffs, medicines, light industry, textiles, animal husbandry, planting, and forestry projects. There were 238 items (25.6 percent) which dealt with nonproduction projects. Such arrangements were completely in accord with the targets of China's economic development.

During the first half of 1985, the amount of imported foreign capital drastically increased. China signed more than 1,700 agreements and contracts with foreign businessmen. It imported foreign capital in the sum of \$3.1 billion, of which \$2.06 billion came from direct investment. Foreign capital used in direct investment accounted for 66.45 percent in the total of imported foreign capital, an increase of 400 percent over the same period of 1983. (BEIJING REVIEW, 5 August 1985)

The population of the 14 open coastal cities of China makes up less than 7.7 percent of the country's total population. These cities' fixed assets are valued at 55.5 billion yuan, equivalent to 12 percent of the country's total value of fixed assets. Their industrial enterprises make up 45 percent of the whole country's. In 1983, these cities' gross industrial output value accounted for 23.1 percent of the whole country's, their foreign trade volume accounted for 40 percent, their ports' cargo handling capacity accounted for 97 percent, the number of their scientists, engineers, and technicians

accounted for 12 percent, their institutes of higher learning accounted for 17 percent, the number of their wage earners accounted for 15 percent, and their labor productivity was 66 percent higher than the country's average level. (CAIJING WENTI YANJIU, No 2, 1985; see also "China Investment Guide (1984/85.") These open cities, together with the four special economic zones, the Chang Jiang and Zhu Jiang deltas, and the Zhangzhou-Guangzhou-Xiamen triangular zone, are to bring their particular favorable conditions into play in implementing the policy of opening up to the outside world. The number of enterprises run with foreign investment in Fujian Province ranks first in the country, followed by Tianjin, Shanghai, Beijing, Jiangsu, Zhejiang, and Liaoning in that order. In 1984, the value of foreign investments drawn in by the four special economic zones made up 25 percent of the total foreign investment value absorbed by the whole country.

If we consider any single country's or area's contribution, we find that the United States' direct investment in China has exceeded \$700 million, composed of more than \$100 million invested in joint ventures run with Chinese and U.S. capital, nearly \$600 million invested in cooperative offshore oil exploitation projects, and \$10 million invested in cooperative enterprises. So far, a total of 62 Sino-U.S. joint ventures have been approved, accounting for 6 percent of the total number of joint ventures run with Chinese and foreign capital. The U.S. investments, whether in terms of their total value or the number of projects, are only second to those run with Hong Kong and Macao capital. In the first several years, the economic and technological cooperation between the two countries was concentrated on tourism services, light industry, and the food industry. In recent years, the two countries have picked up their pace in cooperation, the scope of cooperation has been expanded to many important industrial and technological fields such as energy, metallurgy, automobile manufacturing, aeronautics, and electronics, and the scale of cooperation has been expanded from small to medium and large enterprises. The potential for economic and technological cooperation is enormous between the United States, as the biggest developed industrial country of the world, and China, as the biggest developing country. The two countries have signed agreements on scientific and technological cooperation, and the cooperative projects so far concluded between them cover 24 different fields. The Sino-U.S. joint committee for commerce and trade and the Sino-U.S. joint committee for scientific and technological cooperation meet regularly in the two countries in turn to coordinate the cooperative relations between the two countries in the economic, scientific and technological fields.

The economic cooperative projects initiated by Japan in favor of China range from investments to loans, free aid, and technology transfer. With regard to investment, China and Japan have signed five contracts on joint exploitation of offshore oil fields, involving a total of about \$800 million invested by Japan. Meanwhile, Japan, which used to take a wait-and-see attitude toward joint ventures, has now begun to start some small pilot projects; 47 new enterprises were established in 1984, raising the total number of joint ventures to 57, with a total investment value of \$120 million, which accounts for 8.57 percent of the total investment made by foreign business firms in joint

ventures. Of the investments made by Japan, 43.8 percent goes to manufacturing trades, 29.8 percent goes to service trades, and the remaining 26 percent to other trades (namely, rental services, taxis, computer software, and the breeding industry).

Government loans (loans for projects) ratified in 1979 amounted to about \$1.5 billion. These loans are to be used to initiate six large projects and to be paid back over 30 years at a 3-percent annual interest rate. By 1983, a total of five yearly agreements had been signed, and by the end of 1984, the amount of loans used accounted for 79.8 percent of all the loans secured. The construction of the projects of "two railways and two ports" (including Lianyungang Port) has been going on smoothly. The Beijing-Qinhuangdao railway was put into operation for coal transportation 1 year ahead of schedule, the Yanzhou-Shijiazhuang railway was linked ahead of schedule, and the equipment installation for the second phase of the Qinhuangdao coal transport project has been completed and put into trial operation.

The Japanese Government promised in 1984 to assist China in initiating seven additional projects (ranging from railways and port construction to hydropower station projects and telecommunications services) by granting loans totaling about \$2.1 billion. The 1984 agreement on the provision of the second group of loans for projects was signed, with the interest rate fixed at 3 percent per year.

The Japan Import-Export Bank provided the first group of loans for energy industry totaling about \$2 billion in 1979 to finance projects to exploit coal mines in Hebei, Shandong, and Shanxi provinces. The loans are to be paid back in 15 years at an annual interest rate of 6.25 percent. The bank granted the second group of loans for the energy industry totaling about \$2.4 billion in 1984 to finance projects to exploit China's oil and coal resources, which are also to be paid back in 15 years but at a higher annual interest rate of 7.125 percent.

Since 1981, the Japanese Government has initiated a total of nine free-aid projects involving a value of Y28.9 billion, aimed at financing medical services, sports and physical culture, library facilities, mineral resources prospecting, and so on. From 1984 on, Japan has also financed two projects with a value of Y1 billion to help China promote its grain output.

A total of 380 projects relating to the introduction of technology and equipment from Japan have been initiated. These projects, with a total value of \$7.3 billion, made up 23 percent of projects introducing complete sets of equipment and technology into China in terms of the number and 36.4 percent in terms of their value, and thus rank Japan first among other countries introducing equipment and technology into China. However, those projects that Japan itself initiated to introduce technology into China accounted for merely 29 percent in terms of number and 1.3 percent in terms of value, which rank Japan fifth, far behind the United States, West Germany, France, and Britain.

A Sino-Japanese meeting of government officials is held regularly to fully coordinate the economic cooperative relations between the two countries.

China and Australia signed an accord on the promotion of technological cooperation in 1981, according to which Australia provides China with A \$50 million of free aid, enabling the latter to buy advanced technology and equipment to initiate technological cooperative projects that both sides have agreed on. China and Australia are now introducing more and more economic cooperative projects through commercial channels. These projects cover a wide range and assume various forms. In 1984, the two sides set up a Sino-Australian joint group for iron and steel production to exploit Australian iron mines through joint management, with China providing 40 percent of the funds needed to finance the project. The two countries have also signed accords on scientific and technological cooperation and agreed to enter into cooperation in the following fields: livestock breeding and management; production, management, and improvement of plants; comprehensive exploitation of arid and semi-arid areas; environmental science; exploitation, conservation, and use of energy resources; Antarctic surveys; medical sciences and public health; meteorology and remote sensing; exploitation and comprehensive use of nonferrous metal and mineral resources; and engineering and construction. The Sino-Australian agreement on cooperation in transportation has already been put into effect.

The following economic cooperative projects jointly run by China and New Zealand have been completed: The Guangxi Qianjiang demonstration animal farm, the rebuilding project of Dangui Hotel in Guilin, the multifunctional alarm manufacturing workshop in Fuzhou, and the extension project of the woolen yarn workshop of the state No 2 cotton mill in Nantong. There are bright prospects for the cooperation between the two countries in animal husbandry. The two countries will also start joint ventures to produce pottery and porcelain for everyday use, paper, and sheepskin products, and to breed prawns.

Singapore, Malaysia, Thailand, and the Philippines are the most important ASEAN countries investing in China. Their investment projects mainly consist of hotels, warehouses, light industrial enterprises, support services for petroleum production, fodder processing, glassworks, carpet factories, and improvement of grain strains.

China also promotes extensive economic cooperation abroad, mainly contracting construction projects and providing labor services in Third World countries. Most of the [word indistinct] joint ventures established with Chinese capital abroad are concentrated in Hong Kong and Macao, but China has also begun to develop joint ventures in other countries. During the period from 1979 to 1983, the funds involved in all the above activities abroad totaled \$2,224.04 million, of which \$383.54 million, or 17.24 percent was invested in the Pacific region. The contracted projects run in the Pacific region were valued at \$314.28 million, accounting for 19.68 percent of all the contracted projects run overseas, which involved a total value of \$1,596.45 million. Most of these projects were run in the Hong Kong and Macao region, Thailand, Singapore, the Philippines, Mexico and the United States, and a few were run in Japan and

Canada. Labor services that China provided in the same period to the Pacific region, mostly to Hong Kong and Macao, Japan, and the United States, were valued at \$26.57 million, accounting for 4.6 percent of the total value of labor services provided overseas, which was equal to \$576.11 million. In addition, China invested \$42.69 million to run joint ventures in the Pacific region, mostly in Hong Kong and Macao and a few in the United States. These joint ventures accounted for 82.92 percent of all the joint ventures, valued at \$51.48 million, that China runs overseas. In 1984, China established 47 new joint ventures abroad, thus raising the total number of overseas joint ventures to 113. (BEIJING REVIEW, 11 March 1985)

China has also issued bonds overseas, but the amount is limited.

Some ASEAN countries are afraid that the injection of a large amount of international capital into China will reduce their share of the capital. Their worries are groundless. There is no doubt that China's capacity to absorb foreign capital will increase considerably; however, there is a certain limit. For one thing, China will not borrow money beyond its repayment ability; for the other, it will not borrow money beyond its spending capacity. This is the reason why China will accept only a limited amount of loans, even though many international financial organizations have offered to grant loans to China. During the period from 1979 to 1983, loans borrowed in the name of the central government totaled \$11 billion, of which \$8 billion has been repaid. The loans borrowed from foreign countries by local governments and departments totaled \$900 million. Thus the foreign debts that both the central authorities and local governments currently owe total \$3.9 billion. If these debts are divided by the country's 1 billion population, each person owes no more than \$4. The fund used to repay capital with interest every year accounts for about 3 percent of the country's foreign exchange revenue derived from exportation.

The four ASEAN countries [as published] and some areas in the Asia-Pacific region have borrowed much more foreign loans and absorbed much more foreign capital than China has. Take the ASEAN countries for example; capital from the United States, Japan, Australia, and Hong Kong makes up 62 percent of the foreign funds absorbed by Indonesia and Thailand, 64 percent of those absorbed by the Philippines, 54 percent of those absorbed by Malaysia, and 48 percent of those absorbed by Singapore.

At present, China's focal point of economic construction lies in the development of the energy industry, communications and transportation, and the planned transformation of the existing old enterprises. During the Seventh 5-Year Plan period (1986-1990), a large number of key projects related to the energy industry and communications and transportation are to be started, including projects of nuclear power stations, offshore oil exploitation, large coal mines, communications and transportation, radio and television broadcasting stations, telecommunications services, and so on. Large amounts of foreign capital will be absorbed to finance these projects. There are nearly 400,000 old enterprises in China. As most of them need to undergo technological

transformation, there is much room and bright prospects for investment by foreign businessmen. Moreover, China will still have to vigorously develop such technological branches as microelectronics, electronic computers, optical fiber telecommunications, lasers, and biological engineering. One can imagine how vast a market China, with its 1 billion population, will open to computer production and computer applications for industry, agriculture, commerce, financial services, and other service trades. Due to a stable society, a prosperous economy, flexible policies, and the improvement of the environment for investment, there are vast vistas for China to import capital and technology and enter into cooperation in many fields with all the developed countries and some developing countries, especially the countries in the Pacific region such as Japan, the United States, Canada, Australia, New Zealand, and the ASEAN countries.

IV.

The above data and analysis show that China's international economic relations are concentrated in the Pacific region, with the Asia-Pacific region as its center. This is primary because China is a big power in the Asia-Pacific region-- a Pacific country which has its feet firmly planted in the Asia-Pacific region, is bordered by the Pacific Ocean, and places its hopes in the Pacific region. Due to geographical and traditional factors, China's development and prosperity rely on the Asia-Pacific region. The closer and deeper the country's economic relations are with the countries and areas in the Asia-Pacific region, the more benefits it will obtain and the greater contributions it will make. International economic relations have shown themselves as a kind of relations of interdependence and joint development. So far no regional economic community can be completely independent of these links and relations, not to mention any individual country or bloc. The world market is developing in the direction of diversification and many regional organizations have been established. However, this has never given rise to two parallel markets. The differences in social and political systems, religious backgrounds, cultures, and ideologies may affect but cannot rule out these relations.

In light of the actual situation in the past few years, we can be sure that the strategic targets of the first phase of the economic reform in China will be overfulfilled even though we are to keep the annual growth rate around 7 percent from now on. Then, at the end of the first phase, China's gross industrial and agricultural output value will equal Japan's domestic GNP today, but that means that China's per capita national income will be equal to merely 16 percent of Japan's per capita national income recorded in 1984, or \$10,047 per year. China's foreign trade volume will also be likely to reach the targeted level--\$160 billion, but this will be equal to only 16 percent of its gross industrial and agricultural output value. If the export volume would increase to \$90 billion, it would be equal to only 9 percent of the country's gross industrial and agricultural output value, a proportion roughly equal to what we have today. In other words, China will still lag behind today's Japan in this regard. (In studying "China in the future," Western futurists predicted that "by the year 2000, China's gross industrial and agricultural output value

will not only be quadrupled but will be sixfold, and the GNP will reach \$1,500 billion then." They also predicted that "by 2050, China's GNP will reach about \$480,000 [as published] and its per capita national income will be \$12,000." --This is quoted from Wang Jikuan: "Who Will Run Fastest in the Next 2 Decades?" 1985) With regard to science, technology, and foreign economic relations, China will still lag behind Japan at that time. But its economic power and position will be substantially strengthened, China will have more intimate economic relations with other countries, it will play a much more active role, and it will make much greater contributions than it is making today to the development of the world economy and especially to the Asia-Pacific region.

According to a conservative estimate, China's per capita national income will be doubled and amount to \$1,600 by the 2020's; in other words, China will rank among comparatively developed countries by that time. China's gross social output value, calculated in accordance with the population at that time, will exceed \$2,000 billion, merely equal to the sum of the gross social output values of Japan and West Germany today. Only by the 2050's will it be possible for China's economic power to match that of developed countries and only by then will China be able to play a more important role. (Ibid.)

Some commentaries abroad have emphasized that the current economic reform in China is the greatest experiment that the world has ever witnessed in the realm of economics and that this reform will be of great significance to the peace and prosperity of both the Asia-Pacific region and the whole world. "The Asian countries are in a favorable position to benefit from China's modernization." (Report by (Dun Xin [2415 6580], director of the Asian sector of the International Monetary Fund, Beijing, 26 May 1984) Of course, many people are concerned about whether this reform can be carried out as scheduled, whether the policies concerning this reform will be changed, and what impact this reform will make on international relations and on the Asia-Pacific region.

Due to the excessively large scale of the economic reform and the lack of experience on our part, we can hardly be free of various difficulties and errors in the course of the reform. Some of the difficulties and errors have been overcome and the others are being handled. On the other hand, all the laws and regulations, including those important ones concerning foreign economic relations, are being constantly improved. Practice has proved that the current economic reform, which involves the policy of opening up to the outside world, is proceeding in a correct direction. As long as we carry out the reform actively and properly, we are bound to fulfill our magnificent strategic goal. If this trend is unchanged, surely the reform will better conform to the realities in China and the door of the country will be opened wider.

Why do we say that China's economic reform and its policy of opening up to the outside world are irreversible?

1. The principles and policies of the economic reform are a conclusion drawn from both the positive and negative experiences that China has accumulated in its socialist economic construction over the past 30-odd years. They are

not the product of anyone's imagination. China arrived at this conclusion at the dear cost of the length of a whole generation. This was due to objective and subjective factors. The dear cost China has paid made it understand that in practicing the socialist planned economy it is necessary to conscientiously follow and apply the laws of value, to attach importance to market regulation, and to practice a planned commodity economy on the basis of public ownership. Socialist construction should and can take various forms. The concept that there is only one straightforward way to build socialism and that this way must be followed to the latter is, theoretically speaking, a subjective and metaphysical one and, practically speaking, a pernicious one. It is necessary to respect the laws of socialist development. No country which seeks development must isolate itself. Closed-doorism just does not work. There is no other way but to adopt the opening-up policy, to promote international intercourse, and to introduce advanced experience, advanced scientific and technological achievements, and funds from developed countries. China's opening up policy is equally applicable to those countries with similar social systems and to those with different social systems, to developed countries and to the developing ones. This conforms to the notion that different modes of socialist construction can exist side by side. It is necessary to make full use of both the resources available at home and abroad, open up both the domestic and international markets, and learn how to organize national construction and develop foreign economic relations. China is to practice the system of "one country, two systems," that is, the system under which the socialist economy plays a leading role while other economies play the auxiliary roles and the original social economic system is allowed to remain unchanged in certain social administrative zones. This is a special form of socialism conforming to the reality in China in a specific historical period, and is an important aspect of the Chinese type of socialism.

That is to say, the objective reality in China demands that it implement the policy that has already been proved correct and effective--China will never return to the old economic policy that it had practiced before 1979.

2. Necessary personnel and organizational arrangements have been made to cope with the needs of the new situation. In order to fulfill its final strategic goal, China will require the unremitting efforts of three generations who will exercise leadership over and take part in the process. China has set to make necessary preparations by investing in the development of intellectual resources and personnel training, and has introduced important reforms in the economic, scientific and technological, and education administrative structures. Personnel reshuffles are under way on different fronts and at different organizations in accordance with the principle of recruitment of cadres who are better educated, more professionally competent, younger in average age, and more revolutionary. The third echelons at various levels are being built and the fourth echelons are taking shape. Thus, the continuity of the development strategy as a whole and the principles and policies for the economic reform will not be affected by any personnel change, and the fixed goals will be upheld.

The world media hold that China will be able to play a useful role in maintaining the balance of power and in stabilizing the world situation because of its vast territory, rich resources, large population, important strategic position, social system, foreign policy, and ever growing economic power and influence on the Third World. They believe that the rise of China will mean the disintegration of the Yalta bipolar structure, and that the emergence of a multipolar structure in the world will help to restrain the two super-powers from carving up the world and seeking hegemony, encourage various nations to develop independently, and thus bring about a higher degree of stability in the world. They think that China will be able to play a greater role as a fulcrum in the strategic balance if it readjusts its relation with the United States and the Soviet Union. By establishing stable and lasting economic and political relations with China, Japan, and Western Europe will be able to minimize their economic difficulties and will be in a more favorable position to contend with the United States and the Soviet Union. In fact, with regard to international relations, China's success in its economic reform will be a display of North-South cooperation and a development of South-South cooperation, which certainly will play an active role in establishing a new international economic order.

By and large, a rich, strong, democratic, civilized, and modern socialist China will be a great power to safeguard peace in both Asia and the world. "China will become a strong economic power in the Pan-Pacific region and will be playing an exemplary role in opposing hegemonism, safeguarding peace, and inspiring humankind to advance toward a splendid future." (See Wang Jikuan: "Who Will Run Fastest in the Next 2 Decades?") which quotes commentaries by Western experts on strategic problems.

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NATIONAL POLICY AND ISSUES

ACHIEVEMENT OF FULL EMPLOYMENT DISCUSSED

Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 6, 20 Dec 85 pp 46-48

[Article by Wang Yongjiang [3769 3057 3068] of the Beijing Academy of Posts and Telecommunications: "On Full Employment and Its Achievement"]

[Text] The achievement of the four modernizations and of full employment is a problem that must be considered as China confirms what route shall be taken in the modernization and construction drive. The resolution of this problem is significant both in practice and in theory.

In capitalist systems, the problem of employment remains an incurable blight. The establishment of socialism creates the objective possibility of resolving the problem, but this does not mean full employment can be achieved as soon as a socialist economic system is established. If we wish to transform the objective inevitability of full employment under socialism into reality, specific measures that are in accordance with economic laws and objective needs must be taken.

The practice of China's socialist economic construction, especially after the 3d Plenum of the 11th CPC Central Committee convened in 1978, tells us that in order to realize full employment, the following two conditions must be created: 1) The state and all levels of local government must take various economic, administrative and legal measures to expand employment opportunities and need for labor power in order to provide full employment opportunity for those waiting for work assignment. 2) Employees must agree to vocational training to enhance their ability to find employment and meet the needs of production. Essentially, the most fundamental way to realize full employment is the development of the socialist commodity economy and socialist education and training. In view of the present conditions, the most basic means to attain full employment include:

A. The establishment of an ownership structure over the means of production that is suited to the needs involved in the development of the productive forces, that is, the creation of diversified economic forms. Under certain economic conditions, the employment of labor enables the means of production is determined by the nature of the system of ownership over the means of production to be integrated with the labor force. The nature of employment is determined by the nature of the system of ownership over the means of production and, to a certain degree, employment capacity is decided by the

structure of that system of ownership. An ownership system structure that is suited to the development of the productive forces can absorb, to the greatest degree, personnel seeking employment, whereas structures that are not suited to the development of the productive forces cannot bring about a good integration between the means of production and the labor force. An important reason for the appearance of a serious employment problem for a period of time in China is that the only channel for the disposition of employment was the state and that only by developing the state-owned economy was lack of employment resolved. Collective, individual, joint-venture, and private sectors of the economy were ignored or forbidden, further blocking avenues to employment. Given the present level of the productive forces, only by developing diversified economic forms can we better develop the productive forces and provide the economic conditions necessary to the greatest degree to solve the employment problem.

In a diversified economy, the collective and individual sectors can play a role in resolving this problem that the other sectors cannot. Of the 40 million people employed in the 5 years from 1978 to 1983 nationwide, more than 50 percent found work in the collective or private, self-employed sectors.

The development of socialized large-scale production not only does not demand the elimination of collective and individual economic forms, but, to the contrary, requires the strengthening of these two sectors. This is because: 1) The collective economy is usually small in scope, requires little investment, obtains quick returns, has flexible organization, can shift production conveniently, and is easy to manage. Given the rapid development of science and technology and the ceaseless rise in labor productivity, the development of middle- and small-sized enterprises is an important factor in ensuring a constant increase in the absolute number of the employed. This is something which has been demonstrated by the experiences of developed capitalist countries. For example, in the United States there were 93,000 new enterprises begun in 1950 and at present, the number of enterprises increases 600,000 per year, of which the absolute majority are middle- and small-scale enterprises. In the 7 years from 1970 to 1976 the vast labor army of the United States increased by 9 million of which 6 million were employed in middle- and small-sized enterprises, while 1,000 of the largest enterprises did not hire 1 additional person. 2) As for the individual economy, along with increasing productivity, the enhancing of the people's living standards and the diversification of the people's needs, more demands will be made on the private, self-employed sector to fill them.

B. The establishment of an industrial structure that is suited to the development needs of socialized large-scale production. The ownership system structure merely provides social and economic conditions for the realization of full employment which also requires an industrial structure that is suited to the developmental needs of socialized large-scale production. With socialized large-scale production, the industrial structure is constantly changing and the volume of material goods produced by departments directly involved in material production continues to increase, but employment capacity is gradually reduced. Therefore, when thinking about the employment problem, we must utilize systems engineering and make an overall review of the industrial structure

and its development and changes. Economists now divide industry into three categories. According to China's Bureau of Statistics, they are agriculture, industry, and construction and those industries not included in the first two categories. The history of the development of socialized, large-scale production has shown that the employment capacity of primary industry continues to shrink along with the development of science and technology and the increase in labor productivity, while employment in secondary industry stagnates and increases sharply in tertiary industry. Changes in the employment structure of the United States, Japan, the FRG, England, and France from 1950 to 1970 has proven that employment has gone down rapidly in primary industry at an annual rate of 5 percent in most developed nations. Employment volume in secondary industry has varied, increasing in the beginning and decreasing later, both at fairly slow rates. Employment in tertiary industry has shot up at an annual rate of more than 1 percent in most developed countries.

This law relating to the changes in employment also exists objectively in China's economy, however the economic conditions necessary are lacking, due to the low level of socialization of production in China and the backwardness of science and technology. Still, along with the development of socialist modernization, this trend will become evident in China's employment structure. We ought to develop industry according to this tendency and greatly develop tertiary industry. This will create a huge potential for absorbing employment in China. Although the numbers of persons employed in primary industry will gradually decrease over the years, there should be a slow, steady increase in employment in secondary industry, in particular, in China's modernized industries, urban and rural natural gas, running water, energy, and construction which all require great development. Tertiary industry will require even greater development. At present, tertiary industry in China is not coordinated with the development of the entire national economy. In the 30-odd years since the establishment of the PRC, the percentage of those employed in tertiary industry has not only not increased, but has shown a tendency to decrease. From 1952 to 1980, the percentage of workers employed in communications, transportation, commerce, public utilities, science, technology, medicine, finance and government organs fell from 59.6 to 41.1 percent. The figures for commerce, culture, education, and health fell from 33.6 to 26.9 percent. Therefore, the development of tertiary industry and the creation of a rational industrial structure is a material guarantee for the achievement of full, socialist employment.

C. The creation of an educational structure that is suited to the law of the development of the industrial structure. The achievement of full, socialist employment depends on not only the amount of need for employment provided by socialist industry, but by the labor capacity and quality of the employed. In large-scale socialist production, the capacity and quality of labor relies primarily on education and training. Along with the development of science and technology, the labor type needed by industry will gradually shift from physical to mental labor, and the percentage of employees performing mental labor will increase. In addition, there will exist a definite proportional relationship among intellectual laborers of all kinds in large-scale socialized industry. Only when the labor force provided suits this objective proportionate relationship can the conditions necessary to satisfy those seeking

employment be met and an organic unity between the means of production and the labor force be achieved. Therefore, to realize full employment, an educational system must be built that meets the changing needs of the development of the industrial structure. For example, in agricultural education, we must not only develop education in cultivation techniques, but in forestry, animal husbandry, fish farming, fodder growing, and agricultural business management as well.

In developing education, we must greatly develop education in fields suitable to tertiary industry. China has ignored for some time the study of the relationship between the educational and industrial structures, and has one-sidedly sought to develop senior secondary education while neglecting education that could meet the needs of tertiary industry, such as service industries, commerce, etc. This was one of the reasons for the creation of a serious employment problem at one time. In addition, along with the development of science and technology, the percentage of employees with higher education in the needed labor force will increase more and more. Therefore while making primary and secondary education more widespread, we must greatly develop higher and graduate school education. In particular, we must promptly develop education that suits the needs of newly emerging industries. Otherwise, even if employment positions are available, due to the unsuitability of the labor force to the new industries and the decrease that will occur of the numbers of the employed in traditional industries, it is inevitable that a situation will develop in which there are large numbers of people seeking employment and, on the other hand, many jobs for which there is no one to fill. This situation was common on capitalist nations after World War II. Therefore, China should heed this problem as soon as possible and create an educational structure that is suited to the industrial structure.

D. The creation of a balanced chart for the population, employed labor force, and retirees. As socialism involves a planned commodity economy, the distribution of live labor must be integrated with that of materialized labor. Therefore, to realize full employment, in addition to taking the above measures, we must incorporate population reproduction, employment, and retirement into a unified plan and roughly calculate every year the numbers of employed and retirees and the net increase in the numbers of employed, in order to provide comparatively accurate grounds for the disposition of employment and the expansion of avenues of employment. Legal age limits must be set for employees and retirement.

We cannot implement flexible standards according to the individual for the retirement age limit. Educated, skilled, healthy people who have reached that age limit are not to be exceptions. After retiring, workers can seek a second career. The regulation of legal age limits for retirement is a necessary condition in the realization of full employment.

In summation, to realize full employment requires the development of the socialist commodity economy and the augmenting of labor productivity. All measures taken must encourage increases in productivity in order to provide the conditions needed for the achievement of full employment. According to one opinion, to increase productivity requires a reduction of employment, and the augmenting of employment requires a reduction of labor productivity. I

believe that this reflects a static, isolated view of the relationship between employment and productivity. The term "full employment" refers to social employment and not employment within a particular enterprise. It involves employment in tertiary industry, not primary and secondary industry. "Machines replacing workers" is a common occurrence in certain individual enterprises in the capitalist system, but is not necessarily the result of an increase in productivity alone, but of the surplus population whose existence is a basic capitalist contradiction. Actually, even under capitalism, the problem of "machines replacing workers" does not entail a reduction of the absolute number of the employed. As Marx pointed out: "Despite the actual replacement by mechanized production of large numbers of workers, along with the development of production...the numbers of factory workers may be more than the number of workshop craftsmen or artisans replaced by them.... The relative decrease of employed workers and their absolute increase are not mutually exclusive." That is how the situation is, in fact.

As regards society as a whole, the increase in productivity not only cannot lead to a reduction in employment, but rather causes its increase. This is because: when productivity is increased, although the numbers of laborers directly involved in the production of material means of production are reduced, the overall employment of society as a whole increases greatly. At the same time, as the national income increases, so does accumulation. Within a definite period of time, the production departments of society as a whole expand, thereby expanding the provision of employment opportunities.

Finally, the labor time of the individual laborer can be reduced, the working day can be shortened, and the number of shifts can be increased to provide more employment opportunities.

In large-scale, socialized production, shortening the working day is necessary in the development of production and is a condition for the reduction of production costs. This is because, "reducing labor time is equivalent to increasing free time, that is, increasing time to allow for the full development of the individual. The full development of the individual becomes the greatest productive force in its reverse effect on labor productivity." (Footnote 1) ("Capital" Vol 1, p 492) The reduction of labor time is an essential requirement of the socialist economic system.

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NATIONAL POLICY AND ISSUES

JINGJI RIBAO DISCUSSES URBAN ECONOMIC ASSOCIATIONS

HK271545 Beijing JINGJI RIBAO in Chinese 15 Mar 86 p 3

[Article by Zhang Ping [1728 5493]: "The Urban Economic Association Is an Outcome of the Development of the Commodity Economy"]

[Text] The Urban Economic Associations Have Demonstrated Strong Vitality

The urban economic associations and the lateral economic ties are new things that have emerged in the course of China's economic development since the 3d Plenary Session of the 11th CPC Central Committee. They also constitute an important aspect of the reform of the economic structure. Though they are small in number, these economic associations have demonstrated strong vitality.

First, they help break down barriers between departments, between regions, and between the military and civilian sectors and, in line with the principles of coordination among specialized departments and economic rationality, adjust the production structure and product mix of the urban industry and stimulate the rationalization of the economic pattern and regional distribution. By bringing into full play their advantages, the participants will be able to learn from one others' [as printed] strong points to offset their weaknesses, to gradually work out the development priorities and the pillar industries and products of the city group, to raise the level of specialization, and to improve the economic results.

Second, they help develop the commodity markets under planned guidance and gradually improve the market system. In line with the objective demands of the inherent links of the commodity economy among different cities, they organize lateral production and circulation networks, open up numerous markets, and turn the closed and isolated markets into open, unified markets, thus creating conditions for the establishment of capital markets.

Third, they help increase the cities' ability to radiate, appeal, and comprehensive functions. In line with the functions and inherent links of the cities themselves, the urban economic associations organize lateral network systems of circulation, transport, banking, and information in order to turn a city group into an organically integrated and comprehensive economic structure which is interdependent and has a scientific division of labor, to develop its comprehensive service functions, and to increase its ability to radiate and its appeal.

Fourth, they help gradually turn state control over the enterprises from the previous practice of stressing direct control to one of stressing indirect control, and stimulate the organic integration of microeconomic flexibility with macroeconomic control. To invigorate the enterprises and enliven the microeconomy, in terms of management methods, we should primarily rely on giving full scope to the role of key cities in organizing production and circulation. In a relatively large space, the urban economic associations can make use of various network systems and economic means to organically integrate vertical with lateral and microeconomic with macroeconomic links.

Basis for the Formation of the Urban Economic Associations

Socialist production is based on socialized mass production. The inherent close links of the commodity economy among different cities constitute an objective basis for the formation of the urban economic associations.

Historically, the expansion of a social division of labor and commodity exchange has gradually led to the formation of cities with comprehensive functions, such as the trade collection and distribution centers. Meanwhile, some cities with a relatively high level of social production forces and a comparatively developed commodity economy organize themselves into a city group. Due to their geological proximity and developed regional commodity economy, there exist a mutual flow and a mutual appeal among the cities in terms of commodities, materials, capitals, technology, population, and information. The functions of the cities are fulfilled through the economic links among them and between the cities and the other regions. In discussing the division of labor and the links among different cities, Marx points out: "With the mutual links among different cities, new implements of labor are transported from one city to another and the division of labor between production and commerce immediately leads to a new division of labor among different cities. Each city has certain specific industrial departments in which it occupies a dominant position. The previous regional limitations start to diminish gradually. "There are some urban economic associations in our country, such as the urban economic and technological association consisting of seven cities in central Liaoning, the urban economic coordination association consisting of Changsha, Zhuzhou, and Xiantan, which form a letter "T" in the middle and lower reaches of the Xiang Jiang in Hunan Province, and the urban economic association consisting of Nanjing, Zhenjiang, Yangzhou, and Nantong cities in Jiangsu Province with the Chang Jiang as a link. All of them are situated in places with a fairly developed commodity economy, a good industrial foundation, convenient communications, and a fairly high degree of urbanization.

For a long time, however, our economic work has been seriously affected by the traditional ideas of the natural economy and a pattern of product economy has been followed in the management structure. This has resulted in a division between different departments or regions, separation of cities, and seclusion of regions, and has blocked the lateral economic links among different cities. Having a close structure of its own, each city or region has been engaged in the practice of "big and complete" or "small but complete." All this has seriously weakened and restricted the functions of the cities.

The 3d Plenary Session of the 11th CPC Central Committee laid down the policy of opening up of the outside and invigorating the domestic economy, repeatedly stressing that it is necessary to open to the outside world and that it is even more necessary for all regions in the country to open to one another. It also pointed out the need to smash the blockade and, in line with the principle of bringing into full play one's strong points and steering clear of one's weaknesses and the principles of diversified forms, mutual benefit, and joint development, to develop lateral economic links and various types of economic and technological cooperation and associations. In line with the policies of reform and opening up, we first instituted in an all-round way the system of contracted responsibilities with payment linked to output in the rural areas. This aroused the initiative of the 800 million peasants for socialism and stimulated a change toward specialization, commercialization, and modernization in the rural economy. At the same time, experiments and explorations were also conducted in the cities, which have now developed into the all-round reform of the economic structure with the focus on the urban economy. A new situation has started to emerge in the economic life as a whole. The rapid development of commodity production and commodity exchange in the urban and rural areas has started to smash various blockades and to turn the separated markets of cities and the urban and rural areas into an open, unified socialist market.

The development of the socialist commodity economy makes it necessary for a number of cities which are close to one another to develop cooperation and association of various forms, at different levels, through various channels, and, according to their close economic links, to establish lateral and interconnected structures and to organize themselves into open urban economic associations. Some urban economic associations have started formulating strategies for their socioeconomic development; coordinating development plans among different cities, departments, and enterprises; drawing up plans for the joint development of natural, technological, and intellectual resources in the regions; and combining the management of departments and regions at different levels, as well as the development plans for different industries and city groups, through the various network systems. On the basis of expanding the division of labor, cooperating with one another, and bringing into full play one's superiorities, they have turned the scattered superiorities into the concentrated and comprehensive superiority of the group, and the favorable conditions in natural resources and technology into the favorable conditions in commodity production. In line of the market demands and the conditions of city groups, they have jointly developed and organized new superiorities, freed the potential productive forces, and formed new productive forces of the city groups, thus quickening the pace of China's socialist modernization.

China's urban economic associations have come into being in the course of implementing the policies of reform and opening up so as to suit the objective demand of socialized mass production and the development of the planned commodity economy.

The Nature and Development Trends of the Urban Economic Associations

An urban economic association is an open and inter-connected regional economic combination with a group of large, medium, and small cities as its basis.

A city group is closely related, to, yet different from, an urban economic association. The former serves as a basis for the formation of the latter, which is an organizational form to bring into play the functions of the former. The former is a natural formation of cities in terms of space distribution while the latter is a regional, comprehensive, organizational form of the urban economy. An urban economic association is also related to, yet different from, an economic zone. The former rationally organizes cooperation and division of work among specialized departments in different cities and forms a lateral and inter-connected structure within a city group primarily through the mutually-radiating economic links of different cities. The latter is an inter-connected regional structure integrating town with country. It is formed according to the functions of a key city or city group, the scope of its economic strength, and the economic links between different cities, between cities and towns, between the urban and rural areas, and between different departments or enterprises. An urban economic association serves as the core of an economic zone. It plays a leading role in determining the orientation, speed, and level of economic development in the economic zone. An economic zone serves as the hinterland for and as the basis and conditions for the existence and development of an urban economic association. The basic characteristics of an urban economic association are as follows:

I. It is a mutually complementary and coordinately developing structural pattern formed on the basis of bringing into play each other's superiorities. An urban economic association is an organizational management structure of the national economy which consolidates and develops, by means of an organizational form, the economic links and specialized cooperation among members of a city group, stimulates the rational distribution of work, cooperation, and the distribution of the productive forces among them, and thus develops and brings into play the superiority of a city group. It is an important component of China's future economic patterns. It is also a regional economic cooperation structure that is gradually advancing toward an integrated whole through an inter-connected system.

II. An urban economic association is not an administrative level or region. For this reason, the relationships between the association and its members and between the association and the state are primarily handled by the method of integrating planned guidance with the market mechanism and by such economic means as the market mechanism rather than administrative means.

With the development of China's social productive forces, a large number of urban economic associations, corresponding networks of economic zones, and correspondingly unified markets will emerge in those regions where the cities

are relatively concentrated. They will gradually develop into a national network of economic zones transcending regions, departments, and trades, with large cities as the center and with multilevel, multichannel, and multiphase development. It will be our new system of lateral economic links.

III. The principles guiding the formation of urban economic associations and the question of organizational forms: In establishing and developing urban economic associations, it is necessary to abide by the following four principles:

1. The principle of quality: Members of the association, whether large or small, should follow the principle of [words indistinct] consultation and use economic methods to handle cooperation and combination in production, circulation, and other fields on a mutually beneficial basis.
2. The principle of being open: The urban economic association is an open system and, therefore, each economic network in the association should also be an open subordinate system. Within the association, it is necessary to abolish restrictions among different regions and departments and, in line with the principle of exchanges of equal value and improvement economic results, [as printed] to extensively develop economic and technological cooperation and combination with other regions.
3. The principle of being an entity: On the basis of synthesizing the economic, scientific, technological, social, and ecological systems of all member cities, the urban economic association should develop the best overall structure and group functions so that the members of the association will gradually develop from the scattered and mainly self-circulatory practice of "large and complete" or "small but complete" to an economic community with unified planning, a scientific division of labor, and rational distribution.
4. The principle of uniqueness: Each city in the urban economic association has its own special features and strong points. For this reason, when organizing cooperation and division of labor among specialized departments in these cities, it is necessary to coordinate and complement one another on the basis of bringing into play and developing their strong points and gradually develop the pillar industries and products of the association as well as its rational and overall industrial superiorities. Moreover, it is necessary to make up for and offset its weaknesses with its overall strong points in order to improve the comprehensive economic results of the society.

The urban economic association is not an administrative level, but it needs a proper organizational form. In line with the nature of the association, it is advisable to establish an authoritative system of coordination meetings and a corresponding institution of a coordination nature.

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AGGREGATE ECONOMIC DATA

PROGRESS OF ANHUI'S SHARE OF NATIONAL INCOME EXAMINED

Hefei ANHUI RIBAO in Chinese 9 Feb 86 p 1

[Article by Anhui Province Bureau of Statistics and Statistical Sampling Team: "Industrial, Agricultural Production and Financial Revenue Increase Together; Peasant Average Per Capita Net Income Reaches 369 Yuan; Anhui's Share of National Economy Maintains Steady Sustained Growth, Coordinated Development in 1985"]

[Text] Last year Anhui seriously implemented reform and the open door and enlivening policy, paying attention to macroeconomic control while accelerating the rate of economic development. The province's share of the national economy showed steady, sustained, coordinated growth and development.

According to statistics, the GVIAO in Anhui last year reached 40.8 billion yuan, for a 20.1-percent increase over 1984. Figures for 35 counties and cities such as Quyang, Yu County, Guzhen, and Mengcheng doubled since 1980.

Great breakthroughs in rural economic development have been made along with the further readjustment of industrial structure. Last year GVAO province-wide reached 18.6 billion yuan, for a 20.3-percent increase over 1984. Gross agricultural output value in 7 prefectural cities including Huainan, Qufu and Quyang, and in 26 counties including Fengtai and Gucheng, doubled since 1980.

There has been fairly rapid development in the enhancement of product quality, reduction of material consumption and the augmenting of economic returns, all of which are factors necessary for industrial production. Last year GVIO for the province reached 22.2 billion yuan, or a 20.5-percent increase over 1984. The figure for Yu, Quyang and two other prefectures and 45 counties including Mengcheng and Wuhe has doubled since 1980.

Along with the rapid development of production, there has been a great increase in Anhui's financial revenue as well. Last year it surpassed the figure of 3 billion yuan, for an increase of 23.6 percent over the year before.

Average per capita pure income for peasants in Anhui Province last year was 369 yuan, an increase of 14.4 percent over the year before and nearly double that of 1980, thus implementing the 1982 instructions of Comrade Hu Yaobang that the percentage of peasants with an average per capita pure income of

200, 300, 400 and 500 yuan should be one-quarter, respectively, with an average figure of 350 yuan by the year 1985.

According to the Anhui Province Rural Household Statistical Sampling Team, the percentage of peasant currency income which is gross pure income has increased as the commodity economy has been invigorated. Peasant savings in banks, credit cooperatives and at home have doubled.

Last year's readjustment of the rural industrial structure led to more increases in peasant income, and income structure showed noteworthy changes. The percentage in 1985 occupied by income from nonagricultural labor in industry and construction of total family business income grew from last year's 11.8 to 14.2 percent. The proportion occupied by income from forestry, animal husbandry, fishery and other "short-legged" industries of agricultural pure income increased from last year's 14.4 to 17.8 percent. Of income from cultivation, the percentage earned via the planting of cash crops grew from last year's 24.5 to 30.7 percent. The overall material living standards of peasants have shown an overall improvement.

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ECONOMIC MANAGEMENT

CHINA'S CAPITAL GOODS MARKET GRADUALLY EXPANDS

Beijing RENMIN RIBAO in Chinese 4 Feb 86 p 2

[Article by Lu Mu [7627 3668]: "China's Capital Goods Market Gradually Expands; Materials Departments Begin Shift Toward Business Services; Promotes Enlivening of Circulation"]

[Text] Along with the eradication of the old-fashioned concept of "the means of production are not commodities," many cities, such as Shijiazhuang, Wuhan, Chengdu and Chongqing, have undertaken preliminary exploratory reforms of the system of materials circulation.

In recent years, capital goods markets of differing categories and scope have appeared in China one after the other, and their range is increasingly growing. Due to the reduction of centrally distributed goods and the gradual decrease of the percentage of materials distributed under a plan, plus the expansion of sales work done by enterprises themselves, there has been a fairly great development of buying and selling among enterprises and interregional cooperation. The old command system of planned allocation has been gradually changed to a diversified one characterized by directive planning, guidance planning and the use of the market in regulating the economy. According to information garnered by some cities involved in overall test reform, for the category of steel products alone, more than 40 percent of total social consumption was taken up by nondirective planning circulation. Suzhou, Wuxi, Changzhou, and other places have created interurban materials and economic cooperation zones, transforming the system from one entailing the simple exchange of goods to a diversified one involving economic technological, and materials cooperation.

The preliminary formation of a capital goods market has promoted the initial loosening of price restrictions on the means of production. Planned and market prices now exist for some major capital goods. In light of this, the city of Shijiazhuang has ruled that products within and outside the plan are to be sold at one market price and that price differentials are to be returned to the enterprise according to plan norms. This shows that the purchase of materials according to demand which is beneficial to production enterprises and the reduction of the gap between planned and market prices are beneficial to enlivening the circulation of materials. Cities such as Wuhan and Lanzhou have studied the problem and designed, based on their actual situations, measures involving the complete return of price differentials and their readjustment and utilization. Varying degrees of success have been achieved.

The reform of the system of circulation of materials has encouraged urban materials departments to begin the shift from planned allocations to the development of business services. Many cities have, in accordance with local conditions, created trading centers, markets, and sales departments for materials. According to partial statistics, the number of such exchange markets and business networks for materials in these cities last year increased 100 percent since 1979, and the total volume of materials purchased by enterprises accounted for approximately one-half of total purchases. This has had a definite effect on enlivening enterprises and promoting construction.

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ECONOMIC MANAGEMENT

DEVELOPMENT OF SICHUAN TOWNSHIP, TOWN ENTERPRISES QUICKEN

Beijing RENMIN RIBAO in Chinese 23 Feb 86 p 2

[Article by Yi Hanqing [0122 3352 0615]: "Township and Town Enterprises in Sichuan Develop Rapidly; Seek Flexibility, Quality Amidst Shortages, Make Efforts To Cooperate"]

[Text] Last year, despite many difficulties and contradictions, township and town enterprises in Sichuan Province developed rapidly, achieving good economic returns. This is the result of cadres at all levels and the masses basing themselves on the spirit of regeneration through self-reliance to enhance enterprise flexibility, overcome difficulties engendered by shortages of funds and to correctly balance the factors of speed and effectiveness. According to information from the relevant provincial departments, gross output value and total revenue last year for the province's township and town enterprises reached 14.14 billion yuan and 12.15 billion yuan, for respective increases of 59.3 and 65.2 percent over the year before. Tax revenue remitted to the state grew 29 percent.

Township and town enterprises in Sichuan started late with a poor base. For the past 2 years average per capita output value and income was lower than the national average. Early last year as prefectures throughout the province were preparing to develop township and town enterprise, the money market was tight nationwide, and some projects already in progress were faced with the danger of having construction stopped. The cadres were worried and the masses complained, but how could the problem be resolved? The provincial CPC committee proposed the principle of, "seek enlivenment and quality amidst shortages cooperate to get through difficulties" educated the cadres and masses on the need for improving macroeconomic control in developing the national economy overall and sought diverse avenues to amass capital. In addition it also adjusted the scope of capital construction based on the real situation to guarantee that funds would be used for projects requiring little investment that could reap high returns. After investigation, research, and the results of feasibility studies, construction on more than 3,500 projects were either halted or decelerated and investment was reduced by 1.42 billion yuan, or 45.5 percent of total investment volume. Of projects retained, 81.3 percent are scheduled to be completed by the end of the year.

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ECONOMIC MANAGEMENT

IMPROVED MACROECONOMIC MANAGEMENT OF CIRCULATION URGED

Beijing RENMIN RIBAO in Chinese 25 Feb 86 p 2

[Article: "National Materials Work Conference Proposes Improving Macroeconomic Management of Materials Circulation"]

[Text] (XINHUA dispatch from Nanjing, 24 Feb 86)--National materials departments nationwide will put further efforts this year into the development of planned commodities markets for the means of production, at the same time reforming and improving macroeconomic management over circulation of materials in order to create a relatively relaxed environment for reform.

The following major measures to improve and reform macroeconomic management were discussed at the National Conference on Materials Work now in progress in Wuxi: 1) Engaging in serious balanced planning of major materials for society as a whole; 2) materials departments must take the initiative to cooperate with planning, financial, banking and other departments to persist in controlling investment scope in fixed assets based on possible material resources; 3) improving the state's overall management over natural resources; 4) implementing a system of planned quotas and licenses for imported steel products.

Materials workers from all departments throughout the country exchanged their experiences regarding the supply of steel products to focal construction projects and discussed ways to further improve their work in this area. Appraisals and decisions will be made regarding the necessary volume of materials to be supplied to new construction projects from now on according to the regulations and within the scope of the plan to be divided out yearly on a rational basis. The parties involved will have to find other means to obtain materials needed outside of the appraisal. This must also be done after projects already underway have been put into order. The methods used in places such as Nanjing, Shanghai, Jilin, and Shaanxi regarding the complete, direct supply of materials to the worksite must be made widespread.

The problems of enlivening circulation of materials and the development of a capital goods market were singled out for study at the conference. In recent years, horizontal circulation of materials linking enterprises, regions, and departments has begun and new developments have been seen in the formation of coordinated integrated entities--from the usual coordination of materials to

the construction of a stable base for sources of goods; from interlocking networks for the redistribution of materials to the creation of economic coordination zones for materials; from the average association of materials and production enterprises to the establishment of integrated economic units. Total output value last year for materials coordination in all provinces, cities, and autonomous regions nationwide already reached 16 billion yuan, for a 77-percent increase over the year before. In order to expand the horizontal linkups of materials circulation, it was decided at the conference to further improve macroeconomic guidance this year.

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FINANCE AND BANKING

RENMIN RIBAO ON REGULATING FUND SUPPLY

HK300638 Beijing RENMIN RIBAO in Chinese 17 Mar 86 p 5

[Article by Zeng Kanglin [2582 1660 7207] and Shui Shangyong [4451 1424 3057]:
"A View on Solving the Problem of Stringent Funds"]

[Text] At present our socialist construction is confronted with the problem of stringent funds. How should we solve this problem? The following is our opinion:

We Cannot Completely Rely on Increasing Bank Loans to Overcome the Financial Stringency

Last year the banks began to tighten money supply, but in fact, money supply still increased in various forms. First, the amount of bank loans increased although the growth rate was brought down. Second, the turnover of bank credit was expanded. Not only did the year-end loan balance increase, but the accumulated turnover for the whole year was larger than the figures of previous years. Third, the banks retrieved a low percentage of loans and the number of overdue loans increased. This showed that funds held by enterprises increased. In 1985, the average amount of working funds held by enterprises was higher than the year before. The amount of funds used for each 100 yuan of output increased, but the tax-profit contributions made for each 100 yuan of funds decreased. That is to say, on the part of enterprises, input increased, but output relatively decreased. This state of affairs was contrary to the general situation caused by stringent money supply in which banks make fewer loans and retrieve more loans and enterprises increase output and reduce input. Fourth, the development of other credit forms substitutes for part of money circulation and prevents the tightening of money supply. When various forms of credit are developed, not only can bank credit substitute for money circulation, but other forms of credit can also play this role under certain conditions. For example, commercial credit can substitute for money circulation. Purchases on credit and bartering can all help commodity exchanges and can save more currency in circulation. This may accelerate or delay money circulation and may give more elasticity to money circulation. Therefore, the banks' policy of tightening money supply can merely control the means of circulation offered by bank credit and cannot control other forms of credit. Under these circumstances, if the banks tighten their credit, other forms of credit will develop more

rapidly. Even if the banks do not offer any means of credit and circulation, commodity producers and handlers can still use other forms of credit to substitute for money circulation so as to fulfill the process of commodity exchanges in accordance with the needs of the objective economic process. Therefore, we cannot completely rely on increasing bank loans to overcome the financial stringency.

Tapping the Potential of Monetary Funds and Speeding Up the Turnover of Monetary Funds

By tapping the potential of monetary funds, we mean that it is necessary to turn potential money into currency in actual circulation. For example, residents' savings are potential money. Banks draw on this money in the form of time deposits or concentrate this money by issuing shares and bonds so as to make use of it. This is one of the ways to turn potential money into currency in actual circulation. For another example, the time deposits and special funds that the enterprises and institutions hold and will not use within a fairly long period also belong to potential money. Banks may also make use of this money by absorbing and concentrating it through issuing shares and bonds, so as to turn potential money into money in actual circulation. Potential money is part of the currency that banks have offered to society. To tap the potential of monetary funds, we need to turn this part of potential money into currency in actual circulation and to speed up the circulation of this money so as to increase the total volume of money in circulation. However, to speed up the turnover of monetary funds, we not only have to speed up the circulation of this money, but also have to speed up the turnover of the currency in actual circulation. Money in actual circulation not only exists outside the banks but also inside the banks. Large amounts of currency in circulation are functioning as circulating money inside the banks in a non-cash form. Therefore, the quicker turnover of circulating money should be effected mainly through the better organization of non-cash settlements inside the banks. The present state of affairs in inner-bank non-cash settlements is not good enough. This is mainly reflected in the following three problems: First, banks do not promptly pay the balance of payments among them according to the relevant regulations and often default on payments to each other. This has increased the money being withheld in the course of transfers. Second, various special banks have their respective settlement systems, which increases the procedures for non-cash settlements and affects the turnover of funds. Third, many enterprises default on payments to each other, and some grassroots banks do not adhere to financial regulations. In order to protect the interests of some enterprises [words indistinct] in those banks, the banks often refuse to make payments on behalf of their clients. This has made defaults on payments more serious and has affected the normal turnover of funds. The deposits as funds in transit were also created by bank loans. Thus, part of the bank loans could not play a normal role and could not reach the hands of the borrowers; instead they were kept in mid-transit. Under these circumstances, the

borrower acts as a bank and the creditor acts as a bank. Banks make loans to themselves, and not all the loans are offered to their clients. On the other hand, with more enterprises defaulting on their payments, the balance of bank accounts seems to be maintained, but this certainly causes increasing credit demands in some localities because of the differences between localities. It will sharply increase loans. In other localities, this may reduce deposits and increase pressure on credit. This state of affairs not only affects the enlivening of microeconomic activities, but also affects macroeconomic management.

As funds in transit for non-cash settlement increase, loans involved in this also increase. This thus sets some artificial obstacles for non-cash settlements, weakens banks' credit capacity, and increases pressure on banks' credit. (If enterprises cannot receive payments on time, they may ask the banks for more loans.) Perhaps many comrades (including some comrades engaged in banking work) have not understood this point. We should call on all economic departments to pay close attention to tapping the potential of monetary funds and speeding up the turnover of monetary funds. Banks at all levels are all the more duty-bound in this regard. They should improve the system for interbank settlements as soon as possible, more widely adopt the method of settling accounts by means of bills of exchange, and develop the business of accepting and discounting bills. Banks should also adopt the method of telex remittance so as to reduce the time of transit and to save more funds.

Tapping the Potential of the "Physical Funds" and Speeding Up the Turnover of the "Physical Funds"

At present many enterprises stockpile large quantities of raw materials and products such as steel products. Steel products are in short supply to a serious degree, yet enterprises stockpile large quantities of steel products. It is estimated that more than 20 million tons of steel products are stockpiled by various enterprises. Many reasons can be found for the existence of reserve funds and the overstocking of products. There are many problems in the management system, in policies and plans, and in the field of ideology. For example, large quantities of consumer goods are now stockpiled in many industrial enterprises, because commercial enterprises do not want to undertake the responsibility for underwriting all of these goods. We should consider whether this state of affairs is favorable to getting consumer goods rapidly to markets and to providing consumers with these goods. Certainly, the practice of underwriting all goods by commercial enterprises is not good; however, if commercial departments do not actively help industrial enterprises market their goods, the situation will be not good enough. The development of a commodity economy must be based on large-scale production and large-scale marketing. The circulation of commodities should be organized by commercial and supply departments. In this sense, we should study the problem of overstocking. According to an investigation of the banks in Chengdu City, the reserve funds and physical funds in the form of products can be reduced by respectively

50 percent and 42 percent from the present level. This means that large potential can be tapped in this regard. By tapping the potential of physical funds and speeding up the turnover of physical funds, we mean that materials and products should be rapidly put into circulation so as to move them into the fields of production consumption and livelihood consumption. Raw materials form the precondition for the process of reproduction. Through processing, they are turned into products and are sent to markets. If they are stockpiled and are not processed, that will be a waste. Manufactured goods are the result of the reproduction process and should be sent to markets. However, if they are stockpiled in factories and are not sold as commodities, that will also be a waste. In essence, tapping the potential of physical funds and speeding up the turnover of physical funds means to shorten the process from production to consumption. Therefore, over a long period of time, the overstocking of raw materials and products will just reduce rather than increase social wealth.

At present it is necessary to adopt some encouraging and restrictive policies to help tap the potential of physical funds and speed up the turnover of physical funds. It is necessary to expand the scope of the trial measures for giving awards to units which achieve good results in conserving fuel and raw materials. We should allow industrial enterprises to sell their surplus products and stockpiled goods at negotiated prices on markets for production materials. Banks should strengthen credit management and should examine the accounts of the enterprises. At the same time, they may open special accounts for enterprises' stockpiled goods and materials, offer special loans for enterprises to handle goods and materials, give buyers' credit or sellers' credit on a trial basis, increase the interest rates for loans resulting in stockpiling materials, and improve the system for assessing the economic efficiency of the use of funds by the banks and enterprises. Banks should not provide funds for enterprises which stockpile materials in order to raise their growth rates without regard to economic results. A responsibility system should be set up to require banks which offer loans to retrieve the loans and interest.

Some comrades may not understand why banks should offer funds for enterprises to dispose of the stockpiled materials. They may think that the overstocking of materials has used some of the bank loans, so why should banks offer more funds to dispose of these materials? Indeed, enterprises which have stockpiled materials and goods are holding some bank loans, but the currency (or cash) generated by these loans does not stay in the hands of these enterprises; instead, the money goes to the hands of other localities, departments, and enterprises. In a province, if the money generated by its banks flows to another province, it will become cash or deposits of the enterprises in other provinces. If those enterprises in other provinces which hold the money do not buy the stockpiled goods from enterprises in this province, there will be a deadlocked situation in the circulation of goods and funds in this province. Therefore, as long as the stockpiled materials and goods can be sold properly, banks should offer loans to the enterprises which want to buy these materials and goods so as to enliven commodity circulation. On the surface, more money is supplied; in fact, bank credit has played the role of regulating currency circulation between different localities. This is desirable.

FINANCE AND BANKING

STATE DISCOUNT AGRICULTURAL LOANS PROMULGATED

Chengde JINGJI XIAOXI in Chinese 11 Dec 85 p 1

[Article by Ji Xun [0370 6598]: "To Support the Conversion of the Concentrated Grain and Cotton Producing Areas, the State Has Decided To Grant Discount Agricultural Loans"]

[Text] At the recommendation of the finance departments, the state has decided to grant 100 million yuan annually in discount loans to the villages from 1985 to 1990 in order to support the concentrated grain and cotton production areas and so reap economic benefits. This plan recently was jointly issued by the Ministry of Agriculture, Animal Husbandry, and Fishery; the Ministry of Finance; the People's Bank of China; and the Agricultural Bank.

These loans implement preferential interest rates; the People's Bank is responsible for arranging the loans; the Agricultural Bank is in charge of management; and the central finance authorities bear the burden of the interest. These major uses of the loans are for the development of grain and cotton processing in concentrated grain and cotton production areas, comprehensive utilization of sideline products, feed processing, food processing, guaranteeing the fresh storage of rural produce, and the raising of livestock and aquatic products, etc. Any specialized households, collective households, township and town enterprises as well as the projects which they manage jointly with state-run units are eligible for loans: the key is that they must first choose their projects.

To apply for these loans, they must be a productive or administrative economic entity with a certain level of production technology and operational management. They must produce reports of technological proof and economic evaluation, have 30 to 50 percent of their own funds, and be capable of repaying the loans. Each specialized household will generally be granted a loan of 1,000 - 3,000 yuan, with the highest not exceed 10,000 yuan. The repayment schedule of the loan is from 1 to 3 years. The borrowing unit must first apply for the loan to the county agricultural office, which will initiate the processing and ratify the loan after a joint inspection with local bureaus and banks concerned. After the approval of the people's county government, a loan contract with repayment play will signed. However, the Agricultural Bank is responsible for granting, administering, and collecting the loan.

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FINANCE AND BANKING

HENAN AUDITING WORK CONFERENCE ENDS 2 MARCH

HK070819 Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 4 Mar 86

[Text] The provincial conference on auditing work concluded in Zhengzhou on 2 March. Since last year, auditing organs at all levels in our province have gradually shifted the focal point of their work, centered on reform of the economic structure, to auditing and supervisory work. The province has audited the accounts of some 2,900 units, which are mainly in the grain and water conservancy trades and agricultural banks. It has also audited the accounts of funds for education and urban construction, of fines, and of goods confiscated. The province has audited the accounts of 79 county and city grain departments and discovered irregularities which involved an amount of 97 million yuan. Of the irregularities, violations of discipline involved 82 million yuan. The province has also audited the accounts of administrative units and institutions and organized social forces to carry out auditing and supervisory work, which has played an important part in upholding financial and economic discipline, correcting party style, and strengthening macroeconomic control.

Vice Governor Hu Tiyun and Sun Renqing, deputy secretary of the provincial discipline inspection committee, attended the conference. In his speech, Comrade Hu Tiyun pointed out: Our province scored marked achievements in auditing work in 1985. We must completely audit the accounts of the financial, material, and foreign trade departments this year. The tasks are very arduous. The auditing organs must study their own characteristics very well, enhance efficiency, observe strict discipline, have good work style, dare to tackle the hard problems, and work hard to create a new situation.

Hu Tiyun demanded that governments at all levels support auditing work and improve conditions for their work so as to give play to the role of auditing and supervisory work.

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CSO: 4006/868

FINANCE AND BANKING

XINJIANG RADIO URGES NEW FINANCIAL CONTRACT SYSTEM

HK271248 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 17 Mar 86

[Station commentary: "Institute the Financial Contract System, Properly Manage and Enliven Finance"]

[Excerpts] Instituting the financial contract system is an important issue which involves a wide range of fields, requires strict implementation of policies, and concerns the overall economic situation. CPC committees and governments at all levels must seriously strengthen their leadership over the work. They must earnestly implement the principle of providing unified leadership and carrying out management level by level, and must correctly handle the relationships between the whole and the part, and between concentration and deconcentration, so as to ensure local interests and the dominant role of the region's expenditure in distribution.

Instituting the financial contract system has expanded the power of local financial authorities and given them new vitality, as well as exerting pressure on them. On the basis of vigorously developing production and opening up all avenues to increase income and make money, all localities must, in accordance with the relevant principles and policies of the state and region, do their utmost to maintain an overall financial balance, adhere to careful calculation and strict budgeting, and properly arrange their production and financial expenditure.

All localities must implement unified regulations and must not alter them arbitrarily regarding the important matters involving the whole country and region, such as the tax system, pricing policy, the scale of wages and bonuses, the level of costs and expenditure of enterprises, the proportion of special funds retained, and necessary levels of expenditure.

It is necessary to strictly enforce financial discipline and to prohibit people from overstepping their authority to exempt or reduce others' tax payments or to squeeze out the financial income of the state and region.

This year is the first year of institution of the financial contract system. All localities and departments must make concerted efforts, cooperate well, conduct more study and investigations, and discover and promptly solve new problems which may arise in the course of implementation so that the reform will be perfected continuously and develop healthily.

FINANCE AND BANKING

BRIEFS

HAINAN CREDIT FUNDS--The Hainan Branch of the Agricultural Bank recently made a decision that the Agricultural Bank system throughout Hainan Region should arrange this year for credit funds of 2.5 billion yuan to support rural economic development in a planned way, in order to speed up our region's exploitation and construction. The total amount of credit funds is 300 million yuan more than in the preceding year. These credit funds will be mainly used to support rural areas to develop the production and processing of grain and tropical crops; to develop animal husbandry, the breeding and harvesting of aquatic products, mining, and tourism; and to support rural state-run shops and supply and marketing cooperatives to procure and produce agricultural and sideline products and to supply the means of subsistence. In January and February this year, the Agricultural Bank system throughout the region issued credits funds of 120 million yuan. [Summary] [Haikou Hainan Island Service in Mandarin 0400 GMT 26 Mar 86 HK] /8309

JIANGXI AUDITING UNITS--Auditing units at all levels in Jiangxi last year audited 5,263 big and small enterprises throughout the province and discovered violations against economic and financial discipline involving 345.9 million yuan. A total of 96.61 million yuan was recovered. [Summary] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 9 Mar 86 OW] /8309

CSO: 4006/868

22 April 1986

INDUSTRY

XINJIANG HOLDS CONFERENCE ON LIGHT INDUSTRY

HK030805 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 31 Mar 86

[Excerpts] The regional conference on light industry, which concluded today, put forward that we must give full play to the region's advantage of having abundant natural resources and promoting lateral economic ties. We should actively develop the key trades and develop light industry with regional characteristics.

The conference pointed out: During the Sixth 5-Year Plan period, the region rapidly developed light industry. But the base was still not good enough. The development among trades and localities is still very uneven. An important method for expediting the region's development of light industry is to promote lateral economic ties among localities, departments, and trades. All light industry enterprises must sum up their experience, widen their field of vision, and uphold the practice of developing lateral economic ties marked by the feature that cities are the base, and the core enterprises and well-known products are the focal points. In addition, the ties should involve enterprises, urban and rural areas, local people, commerce, industry, and trade. The ties should be multilevel and diversified, including such areas as capital, technology, equipment, qualified personnel, scientific research, production, sales, and management. The enterprises must use them to promote the rational development and use of resources; to promote the transfer of qualified personnel, technology, and products; to improve the enterprises' standards of technology and administration; to improve product quality; and to improve the light industrial products' ability to earn foreign exchange. Thereby, on the basis of the doubling of the region's gross light industrial output value during the Sixth 5-Year Plan period, the region will further double its output value during the Seventh 5-Year Plan period.

During the course of meeting, Zhang Xixue and (Gong Dinghui), regional party and government leaders, attended the conference and made speeches.

/6662

CSO: 4006/883

INDUSTRY

BRIEFS

SHAANXI CONSTRUCTION MATERIALS--According to SHAANXI JIANZHU BAO [SHAANXI CONSTRUCTION JOURNAL], Shaanxi will greatly develop its construction materials industry during the Seventh 5-Year Plan. By 1990, annual cement output will reach 5 million tons and output of plate glass will reach 2 million standard cases. The province will establish six bases for producing construction materials. [Summary] [Xian Shaanxi Provincial Service in Mandarin 0200 GMT 1 Apr 86 HK] /6662

GUANGDONG INDUSTRIAL PRODUCTION SUCCESSES--Guangdong maintained steady development in industry and communications during the first quarter. Relatively good achievements were recorded as the staff and workers overcame difficulties in energy, raw materials, and capital. Total industrial output value for the quarter is estimated at 11.7 billion yuan, representing 23.5 percent of the year's plan and basically reaching the required rate of progress. Among the province's 14 prefectures and cities, relatively big increases were recorded in Shaoguan and Maoming cities, Huiyang Prefecture, Jiangmen, Zhanjiang, and Foshan cities, Zhaoqing Prefecture, and Shantou City. During the quarter, the railroads shipped 100,000 tons of freight more than in the same period of last year, and freight volume handled at the province's ports rose by 5.6 percent over that period. [Excerpts] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 2 Apr 86 HK] /6662

CSO: 4006/883

FOREIGN TRADE AND INVESTMENT

FOREIGN INVESTMENT SOUGHT IN HEILONGJIANG

Preferential Treatment for Foreign Investors

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 4, 20 Jan 86 p 29

[Article by Shi Jing [1597 2417]: "Heilongjiang Offers Preferential Treatment to Investors"]

[Text] In order to use more foreign funds, import advanced technology, and accelerate economic development, the people's government of Heilongjiang gives to Hong Kong and Macao compatriots, Taiwan compatriots, overseas Chinese compatriots and foreign businessmen, coming here to invest in and set up various ventures, the following preferential treatment in the areas of tax revenue, markets, prices, foreign exchange, and import and export controls:

--The legal investment rights and interests of businessmen are guaranteed. As soon as any Chinese-foreign joint venture, cooperative venture, or foreign-owned venture set up in Heilongjiang is approved and registered, it becomes an independently operated economic entity, with the status of a legal person, enjoying the right of self-management, and in every aspect of joint operations under the protection and jurisdiction of Chinese law.

--"Eight preferential treatments" will be uniformly accorded to Chinese-foreign joint ventures and cooperative ventures: namely, preferential supply of the relevant resources and materials needed for operation of the ventures; preferential supply of water and energy sources such as coal, electricity, gas, and oil; preferential arrangement of water, land, and air shipping; preferential installation and use of postal and telecommunications; preferential distribution and supply of raw materials and other material; preferential arrangement of sites and capital construction; preferential granting of bank loans; and preferential selective hiring of the needed labor force. Every effort will be made to give support and cooperation, based on the above principles, to foreign-owned ventures.

--Exemption from or reduction of income taxes. Chinese-foreign joint ventures operating for more than 10 years are exempt from income tax in the first 2 years after they make their first profit, and pay half of the income tax for the next 3 years. Joint ventures set up in agriculture and forestry, in which the profit is rather low, and in economically undeveloped areas, pay reduced

income tax for the first 5 years; in addition, in the following 10 years their income tax can continue to be reduced by 15 to 30 percent.

Wholly foreign-owned ventures in agriculture, forestry, and animal husbandry which are in operation for more than 10 years are exempt from income tax in the first year after they start making a profit; in the second and third years, income taxes are reduced by half; for 10 more years they can continue to have their income tax reduced by 15 to 30 percent.

The tax for visiting businesses will be at the rate of 30 percent on income from the usage fees obtained by providing specialized technology in agriculture, forestry, fisheries, and animal husbandry; in scientific research, energy development, and transportation and shipping; and in energy conservation, prevention of environmental pollution, and developing major areas of technology; those which have advanced technology and favorable terms can be exempted from income tax.

The local income surtax can be exempted for a set period of time for Chinese-foreign joint ventures, cooperative ventures, and wholly foreign-owned ventures.

--Export products produced by Chinese-foreign joint ventures, cooperative ventures, and wholly foreign-owned ventures are all exempt from uniform industrial and commercial tax and customs duties, except for those goods whose export is limited by the state. Those ventures which sell goods domestically and have difficulty paying taxes in the first stage of operation may, on approval of application, for a set period pay less general industrial and commercial tax or be exempt from it.

--According to the investments (including investment loans) stipulated in the contract, machinery and equipment imported by Chinese-foreign joint ventures, cooperative ventures and wholly foreign-owned ventures and the household goods of foreign partners (limited to reasonable amounts) are all exempt from customs duties and the uniform industrial and commercial tax on the various importation steps.

The household property tax and vehicle and boat license plate fee for household property, vehicles, and boats personally owned and used by Chinese-foreign joint ventures, cooperative ventures, and wholly foreign-owned ventures may be dispensed with or reduced, according to circumstances.

--Implement rational price policies. The price on export goods produced by Chinese-foreign joint ventures, cooperative ventures, and wholly foreign-owned ventures will be determined by the venture itself. Products sold domestically will in principle be sold at the domestic price, setting the price according to quality. The level of price and various charges for raw materials, fuel, and power needed by the venture for production will all be set at the domestic price, except for six raw materials--gold, silver, platinum, petroleum, coal, and timber--used for direction production of export products. Chinese-foreign joint ventures, cooperative ventures, and wholly foreign-owned ventures charged for cargo shipment, labor, engineering design, consultancy service, and advertising will enjoy treatment equal to that of Chinese state-run enterprises.

--Implement special preferential policies on site-usage charges (collected according to land-usage fees and site-development fees). The site-usage fee can be calculated and collected in a number of flexible ways, such as regarding it as capital stock invested by China or having joint ventures and foreign-owned enterprises pay cash. Businessmen who invest and set up production-oriented ventures in Heilongjiang before 1987 will be exempt from land-usage charges for 3 years and will have the site-development charge reduced by 10 to 30 percent.

--The level of land-usage fees will vary according to the location within the province, the type of production, and the number of years of use. The annual land-usage fee charged for each square meter in large and medium cities will be 20 to 50 percent lower than the level of charges in neighboring provinces. Compared to the charges in large and medium cities, the annual land-usage rates for each square meter in most cities and counties will be correspondingly reduced by 30 to 50 percent. All land needed for setting up cultural, educational, scientific research, medical, health, and social welfare projects is exempt from land-usage fees.

--The annual site-development fees (including land-requisition fees, fees for dismantling, moving, and installation, and charges for directly connecting the venture with roads, electricity, gas, telecommunications, sewage, and levelling land) for each square meter of land in large and medium cities will be 10 to 40 percent lower than those in neighboring provinces. In most cities and counties the level will be correspondingly reduced by 30 to 50 percent. No interest will be calculated on site-development fees completely paid off within 2 years; if paying off within 2 years present difficulties, yearly payments can be made. The maximum period for making annual payments should not go beyond 2 years before the contract expires.

--Chinese-foreign joint ventures, cooperative ventures, and wholly foreign-owned ventures are encouraged and supported to sell the goods they produce on the international market, but at the same time they are permitted to sell a portion of their products on the domestic market. The domestically sold proportion of products involving advanced technology and in short supply, so that China urgently needs to import them, may be increased appropriately, and some may primarily be sold domestically. Heilongjiang will take comprehensive measures to compensate ventures which have an imbalance in their foreign exchange due to their production of such goods, thus guaranteeing that partners in cooperation are able to earn and repatriate the amount of foreign exchange due to them.

--Overseas Chinese and Hong Kong, Macao, and Taiwan compatriots who invest in Heilongjiang will receive special preferential treatment. Investors are permitted to hire their relatives and friends in Heilongjiang to serve as representatives and agents. Their relatives can be given preference in employment in ventures they set up. Relatives living in the countryside are permitted to take residency at the location of the venture and receive commodity grain.

--Simplify and facilitate procedures. Whenever the province has the right to examine and approve Chinese-foreign joint ventures, cooperative ventures, and wholly foreign-owned ventures, the examination and approval procedures will be

simplified and the time will be shortened. Foreign entrepreneurs will have their residential, travel, vacation, and family-visit needs facilitated and taken care of, creating a fine investment, work, and living environment for outside businessmen.

The above-mentioned preferential treatment accorded investors has been entered into the "Several Regulations of the Heilongjiang People's Government Concerning Preferential Procedures for Business Investors Setting Up Enterprises." This regulation has already been announced and in effect for some time.

It is reported that Heilongjiang is at present drafting a number of local economic laws and regulations concerning foreign contacts, providing full and effective legal protection and legal foundation to both the Chinese and foreign partners in economic and technical cooperation.

Types of Foreign Investment Sought

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 4, 20 Jan 86 pp 27-28

[Article: "Come to Heilongjiang If You Want To Get Rich; Governor Hou Jie of Heilongjiang Speaks on the Essentials of Cooperating with Foreigners"]

[Text] In the past few years Heilongjiang Province, located on China's north-east border, has shown itself to be extremely active in economic undertakings with foreign countries, and very much appears to be coming out on top despite its late start. Recently this reporter interviewed Hou Jie [0186 2212], governor of Heilongjiang, asking him to introduce this province's opening up to the outside for the benefit of the many overseas readers concerned with Heilongjiang's development.

The conversation began with the talks held last year from the end of August till the beginning of September. Governor Hou said that for Heilongjiang, these talks were an occasion for large-scale foreign economic and technical cooperation and trade. In the first 8 days after the opening, there were more than 700 businessmen in attendance from almost 20 countries and regions, including Hong Kong, Japan, Southeast Asia, and Western Europe. Businessmen participating in the talks included old friends known for many years as well as many new friends; there were countries and regions which traditionally have had economic and trade ties with Heilongjiang as well as countries and regions which have just established economic links. This reflects the increasing expansion of economic exchanges between Heilongjiang and the outside world.

He stated that as early as 1 year ago, Heilongjiang began to prepare for these talks. At the talks, there were 291 proposals for foreign cooperation and importation, all of which were determined by the development needs and the resources of the national economy in Heilongjiang. These proposals had been through feasibility studies and expert review, which showed that raw materials, energy sources, communications, and shipping could be assured. In addition, this guaranteed that partners in cooperation could make a profit. Therefore, discussion of most proposals began as soon as the talks started; in just 8 days, 15 joint venture and compensation trade contracts were signed, the total

amount of investment by foreign businessmen was about \$15 million, and 22 letters of intent were signed.

Governor Hou said that these talks also opened up 10 exhibition rooms, with more than 10,000 items displaying the more than 1,000 kinds of Heilongjiang export commodities. The atmosphere of the trade talks was extremely enthusiastic because of the many flexible options available, such as the integration of economics and trade, technology and trade, industry and trade, and imports and exports, as well as brand name production, multilateral trade, barter trade, entrepot trade, and compensation trade. Due to the improved quality of export commodities and the ample supplies of traditional export commodities, the deal-making was most lively; in just 8 days, trade contracts were signed worth 25.6 million yuan. This surpassed the planned goal. These talks also set up special counters for the export of new commodities, reflecting the new progress in the efforts of enterprises in Heilongjiang to develop foreign trade and exports, providing foreign businessmen with even more resources.

Governor Hou indicated that the condition of the talks illustrates that economic work in Heilongjiang directed overseas has already entered a new stage of development.

Governor Hou continued by listing the principal areas of progress since Heilongjiang opened up to the outside:

--Use of foreign funds: by now Heilongjiang has used \$67 million in foreign funds from joint ventures, leased business, compensation trade, export credits, and foreign government loans. Among these, progress in Chinese-foreign joint ventures has been quite fast. From the establishment of Heilongjiang's first joint venture, in March of the year before last, until the opening of these talks, the number of joint ventures had grown to 19.

--Importing technology and equipment: since 1980, almost 500 items of technology and equipment have been imported at the cost of more than \$370 million. Based on statistics from 65 completed projects which have started production, each year the newly added output value is more than 300 million yuan and profit and taxes are more than 40 million yuan.

--Foreign trade: in 1984, the value of direct exports was \$339 million, an increase of more than 300 percent over the previous year. In 1984, imports were worth \$46 million, almost twice as much as the previous year. In the first 7 months of last year, import and export trade continued to grow. Exports were \$230 million, a 12.8 percent increase over the same period of the previous year. By the end of June, the total value of received imports was almost \$50 million, an increase of almost 700 percent over the same period in the previous year. There has been substantial growth in Chinese-Soviet border trade in the past year. Heilongjiang currently has economic and trade relations with more than 100 countries and regions around the world.

--Labor cooperation: by now Heilongjiang has signed nine contracts with foreign countries, worth almost \$6 million.

--Overseas friendship exchanges: Heilongjiang has established friendly ties with the states of Wisconsin and Alaska in the United States, the province of Alberta in Canada, and Niigata Prefecture in Japan. Harbin, Qiqihar, Mudanjiang, and Jiamusi have separately set up friendly ties with prefectures and cities in Japan and Denmark. In addition, friendly contacts have been strengthened with the state of Minnesota, Hamkyong Pukto in the Democratic People's Republic of Korea, and the Soviet Far East. Last year alone, more than 1,000 foreign friends from 19 countries and regions came to Heilongjiang to discuss economic and technical cooperation and import-export trade.

--Agencies established overseas: currently, Heilongjiang has set up in Hong Kong the Harbin-Hong Kong Development Consultants Corp. Ltd., Longfeng Co. Ltd., and Longguang Industrial Corp. Ltd. It has set up a trade representative office in New York City. These agencies play a positive role in strengthening the economic exchange and cooperation between various countries and Heilongjiang.

Governor Hou stated that Heilongjiang has a vast area and abundant resources; of just the identified reserves of mineral resources, there are more than 50 kinds. Since the founding of the country, the economy has continually developed, forming a production base covering almost every category of industry and agriculture. However, on the whole, the rate of economic growth has been rather slow, the quality of industrial and agricultural production has not been high and the economic results are also poor.

Therefore, we have determined that from now on, the guiding ideology for this period of economic development is: persist in reforming the economic system and accelerate technical transformation, further develop and open up Heilongjiang, create a new situation for the four modernizations, and enable the people to become prosperous as soon as possible. To this end, opening up should become the major strategic measure for reviving and making Heilongjiang prosperous; it should become the essential way to develop the economy; we should employ a variety of flexible means to continually expand and strengthen the economic and technical cooperation and trade contacts with all nations and regions.

In discussing what areas of foreign economic and technical cooperation Heilongjiang will stress in the future, Governor Hou stated that, based on the conditions in Heilongjiang and the national economic development plans, the areas stressed are: more thorough development of resources, technical transformation of enterprises, the processing and conversion of agricultural products and by products, and expanded production of daily consumer items and export commodities. They principally fall into the following 10 areas:

--Fully use the raw materials produced at the 300,000-ton ethylene plant in Daqing in Heilongjiang, and vigorously develop the plastics, textile, and the fine chemicals industry.

--Fully use Heilongjiang's abundant production of soybeans, potatoes, and other raw materials and develop the thorough processing of food and feed.

--Fully take advantage of Heilongjiang's primacy as the main timber producer in China to develop comprehensive use and processing of timber.

--Fully take advantage of Heilongjiang's primacy as the main beet sugar producer in China to develop processing industries producing sugar and byproducts from beet sugar.

--Fully take advantage of the primacy in flax, a local specialty, and develop a textile industry using flax as the main raw material.

--Fully take advantage of Heilongjiang's excellent grasslands to vigorously develop animal husbandry and the dairy industry.

--Fully take advantage of Heilongjiang's excellent mineral resources to develop the mining and processing industries.

--Fully take advantage of the small but excellent resources of local and special products and mountain area special products, developing a product processing industry with Heilongjiang's characteristics.

--Fully use the present industrial foundation, with emphasis on the transformation of the province's machine and electronics industry.

--Fully use the excellent cultural and geographic attractions to develop the tourism industry.

In regard to foreign trade, he said that in the future we must strive to develop export commodities which have Heilongjiang's characteristics and which can be sold on the international market.

Governor Hou said that we will also accelerate construction in postal and telecommunications, transportation, and ports and speed up economic legislation, especially economic legislation affecting foreign contacts, thus providing an ideal investment climate for overseas investors.

He said that at the beginning of last year the provincial government had formulated "Several Regulations of the Heilongjiang People's Government Concerning Preferential Procedures for Business Investors Setting Up Enterprises." This regulation not only gives reliable guarantees of the legal rights and interests of outside investors, it also gives special treatment in the form of reductions or exemptions in income taxes for joint ventures, cooperative ventures and wholly foreign-owned ventures; a reasonable price policy will be implemented for required raw materials, energy sources, transportation, shipping, and product marketing; special consideration will be given on the usage fees for land occupied by ventures; for those ventures with advanced technology and products which China urgently needs to import, the proportion of products sold domestically can be appropriately increased. Overseas Chinese and compatriots from Hong Kong, Macao, and Taiwan receive special treatment in addition to that mentioned above.

Governor Hou finally repeated that Hong Kong compatriots, overseas Chinese, and businessmen from every country are welcome to cooperate with Heilongjiang on an even broader and deeper scale. With great wit he said, If our friends want to see the sights, there is Heilongjiang in north China; if our friends want to get rich, please come to Heilongjiang.

12919/13045
CSO: 4006/744

FOREIGN TRADE AND INVESTMENT

TECHNOLOGY IMPORT TURNOVER TOPS \$1 BILLION SINCE 1984

HK050356 Beijing CHINA DAILY in English 5 Mar 86 p 2

[Text] China Technology Import Corporation's 11 branches have imported 1,800 items of technology and equipment at a business turnover of more than \$1 billion since being set up in 1984.

The newspaper INTERNATIONAL BUSINESS reported that the company's Beijing, Southwest China, Qingdao, Shanghai and Tianjin branches each had a business turnover of more than \$100 million.

The corporation's branches were set up to meet the needs of China's open policy. In its first 16 months, the Southwest China branch imported 152 items and finalized 229 contracts, adding up to a turnover of \$140 million, the paper said.

Meanwhile, Qingdao branch introduced 117 items in 1985 and Dalian branch 368 items, while Nantong branch handled 90 percent of the city's imported technology. All have played a large part in helping local businesses become more efficient, the paper said.

Technology and equipment imported by Qingdao branch has helped exports of industrial and mineral products as well as light textiles. When all the technology and equipment imported in 1985 goes into operation, the city's output value will be increased by 400 million yuan and tax paid to the state may reach 24 million yuan.

Shenyang branch handled all the city's seven key development projects last year. No. 1 Steel Factory signed its contract in only three days and business volume reached \$5 million. The factory's imported equipment could boost its annual output value to 84 million yuan and profits to 11.5 million yuan.

The paper also reported that Dalian branch imported a pineapple bean production line for Dalian Foodstuff Factory, which made profits of 300,000 yuan after only three months' operation.

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CSO: 4020/262

FOREIGN TRADE AND INVESTMENT

VARIOUS VIEWPOINTS ON DRAFT FOREIGN-OWNED ENTERPRISES LAW

NPC Deputy

OW031316 Beijing XINHUA in English 1252 GMT 3 Apr 86

[Text] Beijing, April 3 (XINHUA)--The draft law on wholly foreign-owned enterprises, presented to the current session of the National People's Congress (NPC), promises a vast market for overseas entrepreneurs and financiers, according to a veteran Chinese entrepreneur.

The essence of the draft, which is being deliberated by the 2,800 deputies to the ongoing NPC session, is the encouragement of overseas investment in China rather than restricting the influx, said Liu Nianzhi (Johnson N. J. Liu), an NPC deputy and vice-chairman of the All-China Federation of Industry and Commerce.

The formulation of the new law shows China's determination to make a success of its open policy, said the entrepreneur who is also vice-chairman of the All-China Federation of Returned Overseas Chinese and chairman of the board of directors of the Shanghai Industrial Investment Company of Hong Kong.

Mr. Liu, 74, said that the articles of the draft provide legal protection for the legitimate rights and interests of foreign investors and may end their worries in this respect.

The draft not only allows foreign-financed enterprises to remit their legitimate profits and other earnings outside China, but also provides other preferential treatment, including their operation and management free from interference, optional purchasing of their raw materials and parts in China or abroad and tax reduction and exemption, he said.

Liu, who graduated from Britain's Cambridge University in 1934, was a well-known businessman in China before liberation in 1949.

He believes that foreigners will be glad to see the provision, "the investments made by a foreign investor in China, the profits he earns and his other lawful rights and interests shall be protected by Chinese law."

Shanghai, where Liu is from, used a total of 1,272 million U.S. dollars of foreign investment and imported 873 items of foreign technology in the past five years.

China's draft law on enterprises operated exclusively with foreign capital offers more preferential treatment for overseas investors, compared with similar laws of many foreign countries, he said.

For example, the draft stipulates that foreign-owned enterprises and their foreign employees may remit their legitimate profits, other earnings and wages outside China. But, Latin American countries allow individuals to remit no more than 50 percent of their income abroad and the amount of profits allowed to be remitted abroad should account for 14 percent of the capital at most. India and Mexico permit establishment of only export-oriented enterprises with exclusive foreign capital.

He also lauded the provision stipulating that foreign-funded enterprises "shall be conducive to the development of China's national economy. Such enterprises shall use advanced technology and equipment and market all or most of their products outside China."

He said many industries do not need establishment of foreign-owned enterprises. For example, it is not necessary to set up textile mills in China by foreign investors as China's textile industry has reached the world level. But the technology-intensive and sophisticated industries such as electronics should be developed with great efforts.

Talking about the provision that foreign-financed enterprises should set up account books in China, conduct independent auditing and be supervised by China's financial and tax authorities, he considers it necessary because some foreigners try to evade taxes.

Macao NPC Delegate

OW031322 Beijing XINHUA in English 1308 GMT 3 Apr 86

[Text] Beijing, April 3 (XINHUA)--The formulation of a new law on foreign-funded enterprises is further evidence of the long-term and steadfast nature of China's open policy, a leading Macao businessman said here today.

Ma Man-kei, member of the National People's Congress (NPC) Standing Committee and chairman of the Chinese Chamber of Commerce in Macao, said this in an interview with XINHUA. He is here attending the NPC annual session.

The new law was drafted after the promulgation of a law on Sino-foreign joint ventures in 1979, he noted.

"This is another step China has taken to codify in the form of law its policy toward the use of foreign investment," Ma said.

"By doing so," he said, "China ensures that this policy will remain unchanged despite any change in its leadership."

The new law also shows the sincere desire of the Chinese Government to expand its economic cooperation and technological exchanges with the outside world, he said.

Ma particularly noted that the new law does not define the operational duration of foreign-funded enterprises. The duration is left for negotiation. The foreign investors can also apply for extension of operational period.

"These provisions will benefit those projects that need big investment and long time for construction," he said.

The new law also provides that the authorities concerned have to make a decision within 90 days and 30 days respectively on whether or not to approve an application for establishing a foreign-funded enterprise or to extend operational duration.

"This will greatly reduce the loss of time on the part of foreign investors who would otherwise suffer from red tape," Ma said.

Referring to the provision that such enterprises have to market all or most of their products outside China, Ma said that since they are required to use advanced technology and equipment, their products will be quite competitive in the international market.

He suggested that foreign-funded enterprises be allowed to produce items China needs to import. "This will help those enterprises balance their foreign exchange and at the same time save a lot of money for China," he explained.

Other provisions Ma said will alleviate foreign investors' misgivings include: the legal person qualification of such enterprises; legal protection of their investments, profits and other lawful rights and interests; and permission to remit abroad their legitimate profits and other lawful earnings.

Such enterprises may also apply for tax reduction or exemption, and for refund of the income tax paid on the reinvested money. "These are preferential treatment clauses," Ma said.

Foreign investors have good prospects of making profits in China, which is rich in raw materials, and where land tax, fees for factory facilities and salaries are low, Ma said.

He predicted that, with the improvement of China's legislation on economic activities with the outside world, an increasing number of foreign investors will be attracted to China.

Hong Kong Lawyer's Assessment

OW040930 Beijing XINHUA in English 0858 GMT 4 Apr 86

[Text] Beijing, April 4 (XINHUA)--A veteran lawyer from Hong Kong today called the proposed new law on foreign-funded enterprises in China "reasonable, straightforward, appealing and businesslike."

Percy Chen, a member of the national committee of the Chinese People's Political Consultative Conference, a leading advisory body, told XINHUA here the draft law is a decisive move the Chinese Government took to "encourage the entrance of foreign capital into businesses in China."

The draft law on enterprises financed entirely by foreign capital, being considered by deputies to the ongoing National People's Congress here, would guarantee government protection for all foreign investments and profits in China, provided the foreigners involved obeyed Chinese law and did not violate the public interest.

"That stipulation is reasonable," said Chen, adding that the draft constituted a "clear sign that the economic situation in China is such that it can withstand pressure from the operations of enterprises run by foreign capitalists."

The law also would guarantee that law-abiding foreigners could send abroad salaries and other earned income. "This is reasonable and would be most appealing" to foreigners thinking of doing business in China, Chen said.

Although the law codifies tax and other breaks for foreign investors, it also requires them to buy raw and processed materials from Chinese sources when they are available. And, to help China rapidly modernize its industrial plant, it requires foreign enterprises to import advanced technology and equipment.

These requirements will discourage foreign entrepreneurs whose only goal is quick profit, according to Chen.

Although he endorses the proposed law, the veteran lawyer said some articles in the draft still need further clarification, including provisions on insurance and the specification of legal rights and interests. But, he said this should happen in the detailed regulations that would accompany implementation of the law.

At the same time, he said, implementation of the law is a "must" if a China wants to modernize its legal system, even though such modernization would take a "very long time."

Chen suggested that China "accelerate its development of urgently needed laws," including commercial law, maritime law, banking law and corporation law.

CPPCC Members' Discussion

OW031356 Beijing XINHUA in English 1340 GMT 3 Apr 86

[Text] Beijing, April 3 (XINHUA)--While viewing that the law on wholly-foreign-owned enterprises will provide further protection for foreign business people, Chinese political consultants called for immediate working out of detailed regulations to ensure its enforcement.

Representatives from Chinese business circles at the ongoing annual session of the Chinese People's Political Consultative Conference (CPPCC) in Beijing held that the draft law, now under examination by the country's legislative body, is of great importance for China's economic cooperation and technological exchanges with other countries and regions.

"China is viewed as a potential market by foreign business people," said Wang Guangying, CPPCC vice-chairman and president of the Hong Kong-based "Ever-Bright" Enterprise Company, "and many of them are willing to set up enterprises in China."

He said that the law may answer many of their questions and open the door wide for foreign investment.

The law, he stressed, contains preferential treatment and several provisions aimed at protecting the lawful rights and interests of foreign-owned enterprises.

The earnings transference clause, in particular, should dispel worries foreign business people may have, Wang said.

It may be expected, Wang said, that a growing number of foreign business people will come to China to carry on business negotiations.

The formulation of the law itself clearly indicates that China holds, as its long-term national guideline, the policy of opening to the outside world, and expanding international economic cooperation and technological exchanges, according to Li Yongxi, a member of the Executive Committee of the All-China Federation of Industry and Commerce.

Li said that although many foreign business people consider China an ideal place to make investments and set up enterprises, the lack of such a law in the past caused many worries.

The passing of the law, he believed, will definitely convey a good message, boost their confidence and help them make up their minds to invest in China.

As well as his comments there were also several suggestions regarding the law and its enforcement from other members of the CPPCC.

T.K. Ann and F.Y. Kan, both from Hong Kong, suggested that detailed rules and regulations be formulated as soon as possible and published with the law so as to ensure its enforcement.

Also, departments concerned should quickly work out specific regulations regarding customs, railway transportation and taxes, on the basis of the law, so that foreign investors may have legal guidance when conducting feasibility studies, according to Zhou Baofen, vice-chairman of the Guangzhou CPPCC Committee.

Feng Kexu, deputy secretary-general of the Central Committee of the China Democratic National Construction Association, suggested that foreign-owned enterprises be given easier access to transport, basic facilities, telecommunications and information, so as to help them by providing a good investment environment.

/6662

CSO: 4020/261

FOREIGN TRADE AND INVESTMENT

SIEMENS PREDICTS TRADE WITH CHINA WILL DOUBLE BY 1990

Duesseldorf HANDELSBLATT in German 12 Dec 85 p 18

[Text] In the exchange of commodities with China, the Federal Republic has moved up to fourth place behind Japan, Hongkong and the U.S.A.: By 1990, German-Chinese trade is expected to double to approximately \$4 billion. However, Hans-Gerd Neglein, executive board member of Siemens AG told the Bavarian Export Club that, from the Chinese standpoint, this assumes the federal Republic to help equalize the balance of trade and assist the export efforts of Chinese enterprises.

The Chinese are most interested in intensive cooperation with those German firms which are acknowledged highly efficient and able to contribute as partners to the diversification of Chinese international trade relations. This is very clearly reflected in the agreements concluded so far on technology transfers. The Federal Republic here holds first rank among European countries.

Neglein stressed that Siemens has been operating in China for more than 100 years and gained a good reputation as an experienced and reliable partner for technology transfers. He considers a sound base to have been provided for the ongoing involvement of his company in China's economic reconstruction by the memorandum of October 1985 between the government economic commission and Siemens AG on long-range comprehensive and systematic cooperation in the modernization of the machine construction, electrical and electronic industries. The wide range of Siemens products and systems corresponds to the needs of Chinese development plans for energy, communication and transportation, the key topics of the Seventh Five-Year Plan 1986-1990.

Siemens encourages the construction of a Chinese national electrical engineering industry by the conclusion of many licensing agreements. Examples of such production under license are industrial turbines produced in Hangchow, ship generators in Shanghai, vacuum circuit breakers and teleprinters in Wuhan. All licensed manufacturing includes the training of operators in German factories and assistance with start-up operations in the Chinese plants. Neglein announced that various other projects, cooperations and joint ventures are being discussed. Siemens has had its own office in Beijing since 1982. In April another one opened in Shanghai and a third one is due to be

established in Canton in early 1986. Seventy-five of the 100 Siemens personnel in China are Chinese, the remainder Germans.

Siemens' China business stagnated for years at DM40-50 million turnover. In the 1983/1984 financial year, the volume rose to roughly DM100 million. Last year, 1984/1985 (30.9), incoming orders recorded a total of almost DM400 million, to which must be added a major order for the electrical equipment for the hot rolling mills at Baoshan, valued at more than DM300 million. Other major Siemens projects in China involve the electrical equipment for the iron and steel works in Wuhan, for chemical factories, coal mining and coal fired power plants as well as electronic equipment for ship construction. Siemens is also involved in the expansion of the communication systems and supplies medical appliances for hospitals.

11698

CSO: 4620/20

FOREIGN TRADE AND INVESTMENT

FRG ECONOMIC DELEGATION SIGNS CONTRACTS WITH ANHUI

Duesseldorf HANDELSBLATT in German 17 Dec 85 p 10

[Text] Two agreements, four draft agreements and two declarations of intent with corresponding Chinese firms are the spoils of a 17-man business delegation from Rhineland-Palatinate, who lately returned from the eastern Chinese Anhui Province.

According to the assessment by Rhineland-Palatinate Economic Minister Rudi Geil who accompanied the delegation, this result corresponds to realistic expectations. At the same time, the different nature and tentative character of some of these agreements reflect the difficulties confronting German firms doing business with China.

Some examples will demonstrate the wide range of agreements: Kirsch GmbH of Trier was able to conclude a follow-up contract complementing an earlier (1984) contract; it will supply units for automatic welding machines. Halberg Maschinenbau GmbH of Ludwigshafen succeeded in getting its first "direct China business" by delivering a sample pump; at the same time its salesman signed a protocol on coproduction with a pump factory in Bengu. Negotiations carried on by the representative of BASF of Ludwigshafen with seven enterprises in Anhui Province have not yet advanced to the declaration of intent stage. As BASF director Rudolf Moeller emphasized, the talks did not get much further than a detailed description of mutual interests.

Though anxious to industrialize, Anhui Province is still largely farming oriented. The German entrepreneurs often encountered underdeveloped management procedures, a lack of understanding for the use of modern machines and conceptual vagueness regarding the possibilities for German-Chinese coproduction.

Aside from BASF, the chemical giant, the delegation represented medium-sized firms from Rhineland-Palatinate exclusively. Following a 1984 partnership agreement with Anhui, it is the declared objective of the Rhineland-Palatinate Land Government to mainly assist medium-size business in the development of the Chinese market. China business is currently dominated by the expansive broadening of exports from the FRG and a modest increase in imports from China. The 137 percent rise in exports and only 8 percent increase in imports

in the first 9 months of this year by comparison with 1984 indicate that the scissors in trade with China are continuing to open wider.

It is not surprising, therefore, that Rhineland-Palatinate Minister President Bernhard Vogel (who was leading a political delegation to Beijing and Anhui at the same time) was warmly received by senior members of the Chinese Government when he advocated a rise in imports from China. Encouraged by their national and provincial governments, the corresponding Chinese firms offered reciprocal business to their German interlocutors, whenever they felt they had a chance. Unfortunately, these compensation transactions are difficult unless the offer concerns raw materials. More usually offers involve products unlikely to find buyers on German and European markets.

The Chinese are evidently ready for experiments if this is the only way of getting at the German market. At any rate that was the experience of the managing partner of the Schuhmaschinenfabrik Kurt O. John GmbH and Company KG of Muenchweiler. Although he returned home without a definite contract, his proposal of "compensation in a new guise" was well received in Anui. A minuted declaration of intent envisages the Chinese partner supplying leather products--mainly semifinished items. The Chinese partner also agrees for some of the earnings from the sale of the Chinese merchandise to be deposited in a German bank account, and for shoe machinery to be supplied to the Chinese partner factory only when a specific amount for financing it has accumulated on the German account.

The Chinese are quick to react when they receive an offer likely to meet a definite and short-term need. An agreement on the delivery of an intensive care unit for the central hospital of the provincial capital Heifi, for example, was concluded at the margin of the delegation's negotiations. The method of financing was agreed upon almost immediately by Guenther Storch, executive board member of the Rhineland-Palatinate Land Bank and a representative of the Bank of China which handles foreign trade.

11698
CSO: 4620/20

LABOR AND WAGES

PAPER VIEWS FUNCTIONS OF WAGES IN SOCIALISM

Beijing JINGJIXUE ZHOUBAO in Chinese 15 Dec 85 p 7

[Article by Zhao Lukuan [6392 1462 1401]]

[Text] The so-called function of wages is the role that wages should objectively play. It is a basic issue in both wage theory and in the restructuring of the wage system. What is the function of socialist wages?

I believe that socialist wages have two functions; an economic function and a socialist function. The former is their basic function; the latter is their supplementary function. The economic function of socialist wages is based on the principle of distribution according to work, allotting each person consumer goods, encouraging the advanced and spurring on the backward so as to arouse the people's enthusiasm to work. The socialist function of socialist wages is based on the national conditions of the country, such as the level and structure of productive forces, the special characteristics of production relations, management style, social philosophy, and other factors. It purposely causes wages to diverge to a certain extent from the "center line" of distribution according to work, so as to coordinate the relationship of the material benefits between different types of laborers and to promote the stability and unity of society.

When probing the question of the function of socialist wages one factor which is not a function of socialist wages but must be considered is that "the satisfaction of workers' basic necessities must be guaranteed." From a macroeconomic point of view, the control of wage levels by the state mainly concerns average wages even through it covers the minimum wage as well. In socialist countries "the satisfaction of workers' basic necessities of life must be guaranteed" should become one of the foundations for designing the standard for the minimum wage. If we do not clearly delineate the issues described above and simply regard "the satisfaction of workers' basic necessities of life must be guaranteed" as a function of socialist wages, we must unconditionally guarantee that every worker receives a minimum wage, regardless of what kind of labor is performed. Obviously this kind of method is, fundamentally speaking, contrary to the principle of distribution according to work. In principle, any laborer is entitled to receive a minimum wage under the premise that he has completed a fixed amount of work corresponding to the minimum wage. In other words, the wages received are payments for his labor

or special treatment under the principle of distribution according to work, not the so-called wage function wherein "the satisfaction of workers' basic necessities must be guaranteed." The function of wages and the use of wages have two different characteristics and cannot be confused; otherwise, not only will the reform and perfecting of China's wage system be jeopardized, but the reform and perfecting of the social security system will be hindered.

In recent years some enterprise units have implemented structural wages on a trial basis. As a result of errors in the understanding of the function of wages, the work done by a few experimental units to explain the theory of structural wages may not necessarily be scientific. It seems that wages are composed of several parts and thus have a few corresponding functions. The basic wage part of structural wages can be explained as "meal funds"; the job (post) part of wages as "endurance funds"; the length of service (meritorious service) part of wages as "seniority funds"; and the reward part of wages (sometimes called floating wages) as "contribution funds." To consider the aforementioned "meal funds" and "seniority funds" as a portion of wage earnings that "ensures stable yields despite drought or excessive rain" is precisely the misconception about the function of wages in socialism. Based on the principle of distribution according to work, basic wages and seniority wages in the wage structure must also be related to the laborers' work attitude and contribution, and should not be distributed unconditionally.

Engels said: "Only through clear theoretical analysis can the proper path be discerned amid intricate and complex facts." With regard to this complicated subject of wages in socialism, at present, "clear theoretical analysis" is what we lack the most. Consequently, I hope that we can further discuss this important theoretical problem of the function of wages in socialism.

13231/13045
CSO: 4006/581

LABOR AND WAGES

BRIEFS

GANSU OFFERS JOB OPPORTUNITIES--According to the provincial meeting of urban collective enterprises which concluded today, the province plans to provide this year, job opportunities for over 118,000 youths living in urban areas. This is an increase of 42.52 percent in the number of youths compared to last year. Jia Zhijie, deputy secretary of the provincial CPC committee; Hou Zongbin, vice governor; and Xu Feiqing, vice chairman of the Provincial People's Congress Standing Committee, attended the meeting and made speeches. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 20 Mar 86 HK] /8309

CSO: 4006/868

TRANSPORTATION

HIGHWAY TRANSPORTATION, ECONOMIC RESULTS DISCUSSED

Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese 20 Dec 85 pp 12-17

[Article by Sang Hengkang [2718 1854 1660]: "Highway Transportation and Its Economic Results"]

[Text] I. Introduction

The importance of communications and transportation is common knowledge. The government has already designated transportation and energy as focal points in economic construction, and according to Premier Zhao Ziyang in his instructions to economic workers in Shanghai, tertiary industry departments, including transportation, should be greatly developed from now on.

For many years transportation and communication has been an obvious weak department in the national economy, and highway transportation has been a particularly backward link of that department. In order to increase economic returns from transportation and highway departments which are part of the national economy and to strive for the prompt completion of the four modernizations, we must step up the rate of development of highway transportation. The aim of this article is to raise some views and suggestions regarding China's highway transportation problems for reference purposes. The discussion centers around the transport of goods and materials and does not deal with passenger transport.

II. The Special Characteristics and Functions of Highway Transportation

One special characteristic is that, unlike rail and river transport in which train and ship cannot operate independently from tracks or river, vehicles in highway transportation can be taken separately from the road. As long as there is a highway, vehicles can move about freely and go anywhere, regardless of distance. This characteristic is an extremely advantageous factor in highway transport.

Highways can be of different quality and capacity and can be designed based on needs, capital, and human and material resources. In addition, there is a great deal of flexibility regarding the structure and type of highway vehicles, as capital and human and material resource needs differ. Therefore, highway transportation is highly flexible and adaptable, its second characteristic.

Highway transportation has special economic and technical characteristics. Per-kilometer construction and maintenance costs for highways are far lower than those of railways, as are fleet purchase and maintenance costs. As regards technical requirements, highway construction is simpler than railroad construction as it is less limited by factors of terrain and geology. It also requires less time and is easier to train personnel for highway construction and vehicle driving and repair. Therefore highways are often involved in the vanguard of opening up new areas. For example, modern transportation leading to Xinjiang and Zizang began with highways. Highway construction is particularly suited to a country like China with its huge population and dearth of capital, because it is a labor-intensive form of transportation.

Of course, highway transportation has its defects. Highway vehicle carrying capacity is rather small compared to that of rail and river transport, and the transport of large volumes of heavy materials cannot be successfully carried out on the road. Although highway vehicle speeds surpass those of ships, they are lower than those of trains. While construction costs for highways are less than those of railroads, river routes, with the exception of canals, are natural and do not require large investments.

Generally speaking, per-ton kilometer costs for long distance transport on highways is much higher than for railways and river shipping. However, highway transportation is quite suited to short-distance transport and unit costs are less than for rail shipping. This is because highway transportation is a door-to-door service, while rail and river collecting, distributing, retransport, loading, and unloading can only take place at a starting point or destination. The ideal distance for highway transport cannot be overgeneralized, and can only be determined according to highway capacity, vehicle size and type and the nature of the goods transported. Generally speaking, given China's present conditions, per-ton/kilometer shipping costs for a vehicle with a loading capacity of 7 metric tons traveling within 50 km or for a vehicle with a loading capacity of 13 metric tons traveling within 70 to 110 km is lower than by rail.

III. Macroeconomic Returns of Highway Transportation

The macroeconomic effects and functions of highway transportation are diverse, but can be divided into the following four general categories:

A. Part of the Basic Structure of the National Economy

Transportation facilities are necessary for all economic, social, political, military, and other human activities. Therefore, the transportation structure, especially its distribution, is part of the structure of human activity, and a major factor influencing decisionmaking; and highways form a component part of the transportation structure. Compared to other forms of transportation, highway transportation is uniquely important, widespread, and flexible. If it can be said that rail and river traffic are forms of linear transportation, then highway vehicles involve a form of network transportation. If one compared railroads and river lanes to major veins

and arteries, then the highways would be capillaries capable of linking up with factories, farms, consumers, and other microeconomic and work units and places of social activity.

When a nation has a good highway system, materials can be transported freely and utilized fully and people can make full use of their talent and abilities. Therefore some people use the degree of traffic and average number of persons per vehicle as an indicator of a country's social and economic development. This is, of course, a one-sided view, but highway norms are related to the development of a nation, because economic development is often a condition for highway development, and to a certain degree, economic development requires highway development as a prerequisite condition. China has 91 km of highway per 1,000 square km, which is much less than India's 335 km and Brazil's 175 km. This does not mean that China is economically less developed than these two countries, but it does show that, in comparison with India and Brazil, China's highways need to be greatly developed.

B. The Necessity for Transportation Between Regions and Cities

There must be a division of labor and coordination between regions and exchanges between cities. Social and business contacts, tourism, and population mobility all rely on transportation. In areas that have rail, water, and air transport, highway buses are the most ideal form of transportation for short-distance trips, and can supplement other forms of long-distance transportation. In areas lacking rail, water, and air transport, highway buses often are the major form of modern transportation. In both these situations, highway buses are necessary tools of transportation.

C. The Main Means of Transportation Within Cities

Transportation within city limits and between center cities and their surrounding metropolitan and suburban areas rely heavily on integration between automobiles, buses, streets, and highways. Public transportation routes extend in all directions, but are usually short in distance and cannot reach areas that can be reached by rail or river. Supply transport between the producer and the consumer, the factory and the market, between different industries and between different workshops within the same plant relies totally on trucks and cars. Vehicle transport on highways and streets is an important factor in life and work in the city.

D. The Necessity of Transportation Between City and Countryside

As a nation develops socially and economically, urban-rural contacts increase greatly, as will transportation between city and countryside. The circulation of supply and demand between agriculture and industry and between urban and rural administrative, educational, medical, cultural, and social activities all depend on highway transportation. With the modernization of agriculture, traditional tools of transportation using animals or human beings will inevitably be replaced by highway vehicles. Therefore, huge highways are needed in this regard. Highways must be greatly developed in order to meet the needs of urban-rural development.

IV. The Relationship Between Highway Transportation and Other Forms of Transportation

The transportation system of a nation, region or city is an integrated whole, and highways form a component part of that whole. In light of this, the relationship between highway and other forms of transportation is both quantitative as well as qualitative.

Highway and other forms of transportation all have their own technical and economic characteristics. Each nation and region has its own special transportation equipment and organizations, which leads to the formation, under certain fixed conditions, of a qualitative relationship between highway and other forms of transportation. This relationship is characterized by both competition as well as mutual benefit and assistance. As regards the mutually beneficial side, highway transport is suitable for short-distance travel and the transport of smaller loads, while other forms of transportation are suitable for long-distance travel and the transport of heavier loads. By using the strong points of one form to supplement the shortcomings of the other, the greatest economic returns can be gained for the whole. Secondly, highway vehicles can be used as tools for the amassing and distribution of goods for railway stations, piers, and airports and make up for the deficiencies of main line transportation. Third, the use of containers is a method of coordinated transportation among all forms of transportation for which highway vehicles are a necessary link. Fourth, there are other aspects to this supplementary relationship for which details shall not be given at this time.

When there are parallel lines of transportation, highways may compete with other forms of transportation. When highway transport fees are fairly low, competition with other forms may be more intense. This is a major issue in recent years in Europe, the United States and in the Third World. The main reason for this is that highways are publicly owned, so most construction and maintenance costs are taken on by bus transport companies (sic), while rail expenses are part of railroad company costs, which gives the highways a great advantage in the competition.

A rational policy for a developing nation would be to encourage a mutually beneficial relationship between the highways and other forms of transportation, limiting, at the same time, possibly harmful competition.

At certain fixed stages of development, a nation or region has definite transportation needs and equipment which determine the quantitative relationship between highway and other forms of transportation. Or it could be said that the ratio of distribution of shipping volume changes in accordance with the local geographical situation at the time, social and economic conditions, and political and military needs. This ratio may be rational or irrational. If it is irrational, the nation or region in question should attempt to develop the ratio in a rational direction. These rationalized plans and objectives should, of course, differ according to the social, economic and political conditions of each country and region. Present rational ratios will not necessarily be rational in the future.

The current distribution of China's major forms of transportation are patently irrational. As the table below shows, highway transportation occupies only 2.6 percent of transport volume per ton/kilometer, which is much too small.

Distribution of Materials Transportation in China (1979-1980)

	Ton/Kilometers of cargo	Percent	Metric tons of cargo	Percent
	(100 million ton/ kilometers)		(1,000 metric tons)	
Highways	268	2.6	760.2	33.1
Railways	5,588	53.6	1,112.8	48.4
Water Transport	4,564	43.8	426.8	18.5
Total	10,420	100	2,299.8	100

Source of Information: World Bank, China's Socialist Economic Development, Vol II.

Computed in terms of tonnage, highway transportation constitutes one-third of the national total for all forms of transportation, which demonstrates the inadequacies of highway transportation. This should be easy to understand. However, goods shipped by rail must be retransported by truck at both starting point and terminus. Thus 1 ton of goods shipped by rail becomes two tons by highway. By the same token, water route shipping also involves a starting point and terminus pier. Therefore one shipment of goods by water route entails a second transshipment by highway vehicle. A realistic calculation of highway transportation would result in a figure double that of the sum of rail and water shipping. If tonnage for highway transportation alone in some regions and routes is added, the figure becomes even larger. However, the smallness of these figures show that, in addition to the possibility of incomplete statistics, the complementary role of highway shipping in collection and redistribution of goods for rail and water shipping relies greatly on human and animal power. This fact further illustrates the need to greatly develop highway transportation. In short, the development of transportation markedly lags behind the needs of the national economy, and within that system of transportation, the highways are the most backward form.

An important problem in increasing economic returns is the coordinated division of labor among all forms of transportation. The crux of the problem lies in the rational distribution of the nation's transport tasks among all transportation modes. In other words, how are we to make suitable, coordinated use of each mode within the transportation system so that each can accomplish its designated national task. This problem exists not only throughout developing nations, but also in most developed countries, where

it has not yet been adequately resolved. There are two reasons for this. The first is the complex nature of the problem itself. The second is the changeability of the situation, which is transformed along with changes in social, economic, political, and other factors. This makes it impossible to resolve the problem in one fell swoop. Transportation must be adjusted periodically.

The problem of coordination between different transportation modes in developing nations can be dealt with on two levels. The first relates to the coordination of investment in and the construction of basic equipment. This is a problem of state planning organs and should be rationally resolved in the long run. The second problem is the full utilization of transportation equipment, or how to distribute the region's or nation's transport tasks among the various modes and tools of transportation, and rationally put them to maximum use to obtain the greatest possible economic gains for the entire nation.

The scope of the second problem is quite broad, but can be divided into four approaches in dealing with them: 1. coordination of technology and equipment. All equipment for coordinated transport and transshipment between trucks, trains and boats, and between bus and train stops, ports and storage facilities, for loading and unloading and for the amassing and redistribution of goods, should, as much as possible, be of good quality, highly standardized and show increasing rates of work effectivity.

2. Direct planning and distribution of the division of labor in transportation. This entails the use of rules, regulations, administrative commands and other direct means of management over highways and other means of transportation. For example, in a situation in which rail transport could replace highway transportation, it could be ruled that distance is to be the deciding factor, with highways carrying the burden of short-distance work. It also could be ruled that short-distance rail transport fees must not be lower than highway transport fees for the same type of service. 3. The use of taxes, subsidies, and other financial measures to encourage rational usage of all transportation modes. For example, when there is unnecessary competition between rail and water-route transport, certain amount of usage tax could be levied on the railroad while granting definite subsidies to water transportation. 4. Government implementation of fixed policies of transportation coordination as relates to the enterprises involved and their management.

V. Microeconomic Returns of Highway Transportation

The effect of the highway transportation system on a nation's or a region's economy and society is a macroeconomic one. Problems within a unit of highway transportation are microeconomic ones.

In capitalistic countries like the United States or the European nations, highways are state-owned and the construction of new roads and the improvement of old ones are based on considerations of social benefit. However, transportation convoys and vehicles mostly belong to private enterprises,

which take profit as their goal. In a socialist country like China, highways are also owned by the state, are totally constructed by the state or locality and also focus on the social needs of the state and society. However, transportation convoys and vehicles are mostly owned by the state or collective. Only a minority are owned by self-employed units. Each unit of highway transportation functions under the overall guidance of state planning according to regulations and the needs of the market. Under certain conditions, some units, public and private, that have been given responsibility over their own profits and losses are also run for a profit. Publicly owned transportation units have as their goal the welfare of the state and society.

I should like to point out in particular, that the construction and utilization of highways should be adapted, to the greatest possible degree, to the needs and welfare of the state. To accomplish this, a projected highway construction plan must first undergo preliminary feasibility studies and appraisals. Feasibility studies entail, after a project has been proposed, thorough technical and economic research to determine the project's strong points and shortcomings. Then after being included in the state's transportation plans before final investment for construction is made, appraisals are made to review the project's feasibility, importance, and quality in comparison to other suggested projects. After the selection of a project for construction, another appraisal is conducted to determine its success and to learn from the experiences involved in its construction. Conclusions involved at every step of the way depend on a project's cost and whether or not it has brought the nation economic gain. This could be economic or not, direct or indirect, material or not. A noneconomic effect would be environmental pollution. An indirect effect would be, for example, whether or not the project elicited economic and social changes via the changes in commodity prices it caused. A nonmaterial effect would be the exemplary or educational role played by the project.

All these steps are highly complex, but are worth the effort when one considers that highway construction is part of the struggle against nature and that the purpose of feasibility studies and project appraisal and related work is to reap the greatest possible social and economic benefit.

Although the making of profit is not the aim of the construction of publicly owned highways and transportation units, the industry cannot be allowed to undergo long-term losses that eat up the state's financial reserves. Therefore the conservation of natural resources and reduction of expenditure are still goals of highway work. No matter what, the gains and losses and benefits and costs involved in highway units must be clearly listed for reference purposes, which should be included in feasibility studies and project appraisals.

VI. Current Problems in China's Highway Transportation

China has at present, approximately 900,000 km of highway. With the exception of one county each in Xizang and Sichuan, all county seats nationwide can be reached by highways and buses. Highway mileage in 1983

was 150 percent greater than in 1949, which was a gigantic achievement. However, standards and quality of most routes within the highway system are low, as is destination ability, which cannot meet the daily growing bus transportation needs. At the same time, technical levels of engineering planning and construction are generally low, as are economic returns. Not even 2 percent of total highway mileage nationwide consists of Grade-One and Grade-Two roads.

Over the past 30 years, more than 2 million highway vehicles have been produced. Present production capacity is 250,000 vehicles per year, including 40 types of automobile and over 100 specialty vehicles, including large-scale buses and trucks. But all this is far from meeting present needs which are growing daily. The insufficient number of vehicles constitutes an outstanding problem at present.

The current planning objective of the Ministry of Transportation is to build 300,000 km of new highway by the year 2000 to attain the figure of 1.2 million km of total highway mileage. This includes improving the capacity of the 100,000-km main trunk lines and constructing a number of high-speed expressways. In order to reach this goal, effectively develop highway transportation, and promote the four modernizations, I have listed some noteworthy problems below for reference purposes:

A. Highway Reform and Planning

1. Making Long-Term Highway Plans

As China still lacks a detailed, long-term national highway plan, it would seem suitable to devise a plan modeled after reformed economic policy and objectives, to be included within the Seventh 5-Year Plan. The plan would cover work for the next 5 years as well as yearly objectives and would determine goals, strategy, and priorities for investment projects until the year 2000 to promote orderly construction. At the same time, we should develop according to plan, an integrated system of national, provincial, and rural highways which would link up with other modes of transportation according to the principle of the coordination of the division of labor to promote four modernizations.

2. Establish National Highway Standards

It would seem appropriate to set unified technical and equipment standards for national, provincial, and rural highways. As high-speed expressways are currently under construction in the areas around Beijing, Tianjin, Tangshan, Guangdong, Shenzhen, Shenda, Shanghai and Nanjing, standards for such roads should be established and implemented first in order to avoid future unnecessary waste due to repairs and rebuilding.

3. Establish a National Highway Transportation Management System

The coordination of highway construction should be included among the functions of such a system, as should highway maintenance, the coordinated use of highways and other modes of transportation and traffic management.

4. Establish Standards for Highway Signs, Signals, Lights and Other Safety Measures

It is natural that China should establish its own system of highway signs. In the course of this work, it would seem appropriate to examine the regulations concerning international road signs and signals established by the United Nations. Different, although consistent standards for signs and signals should be adapted for national, provincial, and rural highways.

5. Feasibility Studies for Highway Projects

A feasibility study should be undertaken before fully considering a highway construction project in order to evaluate its technical and economic possibilities and implementation plans to avoid waste due to overly hasty decisions.

6. Economic Evaluation of Highway Project Investment

Before the final decision regarding investment has been made, any proposed highway project should be carefully appraised. After the completion of construction, the project should be appraised again.

7. Standardization and Unification of Vehicle Models and Parts

Unified flexible standards should, within the bounds of reason, be set up for vehicle models and parts in order to attain the goals of rationality and economy in repair, utilization, and coordination.

B. Raising Highway Funds

1. Forms of Highway Fund Raising

Different fund-raising forms can be used for different highway construction projects. In addition to relying on central and local government allocations and on credit from domestic and international banking organizations, it would seem suitable to consider special taxation, the issuance of government bonds and other fund-raising methods to accelerate the speed of highway construction.

2. Establish the Principle of Making Highways Pay for Themselves

If railroad tracks are considered part of the costs of rail transport, then road expenses for major highways could also be included in the cost of highway transportation. In this way, the use of highway utilization charges under the appropriate conditions could be considered in order to retrieve some of the expenses involved in highway construction and repair and reach the goal of making some highways pay for themselves. This could not only be used for high-speed expressways, but for main trunk lines as well, could reduce national and provincial expenditure and accelerate the speed of highway construction.

C. Improving Technological and Engineering Levels

1. It would seem appropriate to energetically adopt new technologies and techniques in highway design, in particular, in safety plans relating to road surface, roadbeds, and overpasses that would be equal to international standards in order to avoid or reduce the amount of waste that stems from poor planning and design.
2. It would seem suitable to improve overall highway design capabilities, including experimental facilities and personnel.

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END