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# ***JPRS Report***

# **China**

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## GENERAL

### **Danger Seen in Creation of 'European Superpower'**

40050455 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 5, 8 Mar 89 pp 22-24

[Article by Zong Gang 1345 6921: "The Ideological Foundation of the New Detente and a Potential Danger"]

[Text] A series of new developments in international relations have drawn widespread interest in all countries of the world, and at the same time they have evoked strong repercussions in academic circles in China. A fairly universal view is that, with the U.S.-Soviet intermediate-range missile treaty as a starting point, a new period of detente, which shows hope of continuing for a fairly long time, has already begun. On this topic this writer wants to discuss some of his views.

#### **Factors Promoting the New Detente**

Obviously, economic pressure and the trend toward pluralization in international relations are important factors in the new detente. However, we should pay attention to a factor that has not yet been fully brought up and that is extremely important—the ideological foundation that caused the "Cold War" has already collapsed.

In the more than 40 years since the end of World War II, the two superpowers have both thought that what they were engaged in was a life-and-death struggle between two mutually exclusive political and economic systems—socialism and capitalism. The two great blocs, East and West, headed by them have been hostile to each other, and they both thought that this was a struggle between good and evil—the international proletariat's liberation from the shackles of capitalism and imperialism and its achievement of "self-determination," or "freedom and democracy versus totalitarianism." After the October Revolution in Russia in 1917 and the postwar emergence of the socialist camp in 1945 (especially after the occurrence of a series of incidents in Europe after World War II), the people of the West (including the greater part of the workers) have really had a psychology of fearing "communism." Of course, their fear has been influenced by some distorted propaganda. People believe that the East (mainly the Soviet Union) is at all times prepared to overturn with military force their countries and destroy their freedom that is "filled with hope." In some countries of the East (especially the Soviet Union), the inculcation of comprehensive education on military patriotism and the assumption by the Soviet Union of an aggressive military posture in order to content with America for world

hegemony, as well as some international incidents stemming from this posture, have objectively fueled this feeling—there really exist some things that make people feel uneasy.

In the East (especially the Soviet Union), people for a long time have been influenced by propaganda on the orthodox theories of Marxism-Leninism, and they seem to really believe that capitalism, because of its own contradictions, is on the verge of collapse. Capitalism is thought to be decadent and moribund, and socialism will completely destroy it through a decisive war that is on the point of breaking out. A popular view is that, because its rulers profoundly realize that capitalism is on the brink of destruction, will go all out in using all forms (the most dangerous being armed invasion) to destroy the communist movement, which is growing more powerful every day. Thus, the people of the East, who suffered the full the trauma of imperialist wars, naturally also worry about the danger from the West.

In the previous two periods of detente, these worries, from first to last, lingered in peoples' minds; and from first to last the "Cold War" was a topic for basic analysis. No matter whether the West or the East (especially the two superpowers), they both understood that mutual destruction meant self-extermination. Therefore, the two sides tried hard to restrain themselves, so as to keep conflicts within a certain scope in order to be able to control a given situation fairly easily and insure each side's superiority. However, the viewpoint that one of the systems would, in the end, be bound to vanquish the other was never abandoned, and the real threat stems from the fact that the viewpoint of the ideological enemy has not yet changed. Therefore, the short life and abortion of the two previous detentes were, without a doubt, closely related to the abovementioned ideological confrontation.

Profound changes have now occurred in this situation. What is most striking is that U.S. President Reagan announced that he would no longer call the Soviet Union the "evil empire," and that at the same time Gorbachev indicated that, in the field of international relations, he would tone down the traditional idea of "ideological struggle." Especially in the West it is very difficult now to find people who still firmly believe that communism can at any time launch an all-out attack on the "Free World." On the contrary, almost all the people think that the socialist economy has stagnated for many years and that political bureaucracy is seriously affecting the revolutionary enthusiasm of the masses of people in the socialist countries. Although the West also has many serious economic and political problems, a tiny number of people think that capitalism will collapse in the not-too-distant future. Many people think that the series of reforms now being made in the socialist countries are proof that "communism doesn't work" (even though this interpretation is a misunderstanding). In brief, the people of the West do not feel all that uneasy about the opposing ideology.

Of course, no one denies that between East and West there still exist other conflicting ideas. However, what the people of the West worry about, to speak with precision, is the Soviet Union as a state and not the whole "communist movement." In other words they worry about a powerful state that has massive arms and possesses some imperial traits. Or perhaps they worry that the Soviet Union will become a competitor in the international field that has considerable potential—but this kind of competition already exists between it and the industrialized states of the West. Therefore, it may be said that the conflicts that were ideological in the past are now changing into conflicts that are international or interstate.

The abovementioned changes (especially in the West) have exerted powerful pressure on the hardliners who advocate the continuation of the "Cold War," and this is one of the ideological foundations and one of the important reasons for the conclusion of the U.S.-Soviet intermediate-range missile treaty, which is a symbol of the new detente. In this sense there is much hope that this detente will last longer than the two previous detentes.

#### **Potential Danger in Making Western Europe Militarily Organic**

After the intermediate-range missile treaty was signed, there were new developments and spectacular changes in making Western Europe militarily organic, such as the setting up of French-German integrated brigades. These developments exhibit a tendency toward independence or a centrifugal movement within the superpower blocs. Without a doubt they are beneficial for weakening "hegemonism" and accelerating pluralistic development. However, we must pay attention to a political contradiction in them.

To be sure, in the present stage Western Europe still needs to cooperate and coordinate for its own defense, and NATO cannot be disintegrated within a short period of time (this is also true of the Warsaw Treaty). There are two important reasons for NATO's existence. First, because historically the neutrality of small European nations has been repeatedly broken (for example, the cases of the Netherlands and Denmark in 1933), there is a definite reason for this type of small country to ally itself with other countries for "collective defense." Second, NATO's focus is not only on the Soviet Union; NATO is a means of preventing Germany from becoming militarily powerful, and it is a way of insuring that Germany maintains common interests with its neighboring countries.

Because America will inevitably reduce, by steps, its obligations for the defense of Western Europe, there are signs in Western Europe of the possible appearance of a new "superpower," with a Bonn-Paris-London axis with nuclear armed forces that will form a military, political,

and economic organic whole. This development is obviously not helpful for the maintenance of Europe's stability in the future, because in Eastern Europe a matching bloc cannot be formed—that is, it would be a military bloc without the participation of the Soviet Union. Therefore, the result of the abovementioned move would be the restrengthening of unity of the Warsaw Treaty in order to effectively deal with Western Europe as such and not the threat of American forces, which cannot be known at the present time. This would run counter to the tendency for pluralism. At the same time it would greatly damage the strong desire of the people of Eastern Europe to free themselves, to the greatest extent, from Soviet control and in the end dissolve the bloc. A relatively stable Western Europe accords with the hopes of most people in the East European countries; a highly militarized—with the potential for aggression—Western Europe will certainly not be advantageous for the stability of Europe as a whole.

Even if the abovementioned degree of organic wholeness in Western Europe's military is not a reality in the present stage, we must recognize the danger that a "European superpower" could pose. China is a developing country. We need a relatively stable environment of international peace for a considerable period of time. Therefore, while expressing our admiration for Western Europe's trend toward independence, we could even more support the realization of a nonmilitarized, non-bloc, stable Europe, and be on guard against the danger of one trend concealing another trend.

### **EAST EUROPE**

**Conference of Socialist International Reported**  
*40050420 Shanghai SHIJIE JINGJI DAobao in Chinese 20 Mar 89 p 15*

[Article by Hu Houfa 5170 0683 3127, Vienna correspondent: "Social Democracy Is Beginning To Advance in Communist Countries"]

[Text] Following the just concluded negotiations on conventional forces in Europe and just 12 hours after the opening ceremony for the talks on confidence and security building measures in Europe, another important international meeting, (the Conference of the Socialist International Party Chairmen) also convened at the Hofburg Palace, located in the center of Vienna. What attracted the most attention from the international community was the fact that the meeting was openly attended by the newly established Hungarian Social Democratic Party, the first non-Communist party in countries ruled by Communists.

The press here commonly expressed the belief that the formal appearance of the Hungarian Social Democratic Party at an international political forum is symbolic of the fact that Communist countries have taken an important, historic step toward political pluralization and

indicates that the policy and ideology of social democracy will advance in socialist countries and may become an important political-economic model in the Communist reform process.

The Socialist International is an international organization of socialist, socialist democratic, labor, and other parties that advocate socialist democracy and is the largest and oldest league of political parties in the world. Tracing its origin back to the First International, which was founded in 1864, the Socialist International has more than 60 members from many countries of the world. Socialist democracy originated in Europe, where capitalism is most advanced, is more than a century old, has been tested innumerable times amidst complex social change and political upheaval, has continuously grown and strengthened, and has always maintained an important position in various global trends in political thought. Many political parties that believe in socialist democracy have long and consistently served as ruling parties and have made political achievements that have attracted worldwide attention. For example, during the several-decade rule of the Social Democratic Party of Sweden, that nation's politics were stable, economy prospered, and society tranquil, the party's experience has recently attracted much attention from many Communist countries.

Since the 1970s, the Communist movement has been at low ebb, and almost all Communist countries suffer from economic stagnation, systemic ossification, and political and economic crises stemming from popular dissatisfaction. Traditional socialist theory and models have lost their efficacy, and the appeal of Communism as a system has declined commensurately throughout the world. Many national liberation movements in the Third World that had strong socialist colorings 10 or so years ago have moved toward socialist democracy due to their disappointment with socialism in the real world. For example, this conference of the Socialist International party chairmen discussed more than 10 applications from political parties to join the organization, including the ruling parties of Pakistan, Egypt, Turkey, and many other Third World nations.

Reporters noted that the principal topics of discussion at this meeting were East-West relations; arms control negotiations; conflicts in the Middle East, Central America, and other regions; and the "Declaration of Principles" that will be submitted for approval to the Socialist International Congress which will be held in Stockholm in June and that the meeting did not deal with such issues as unemployment, the rise of right wing forces, and social fairness under the new conditions countries now confront. Reporters offered the following explanations for these developments. First, economic conditions in the major countries of the world are basically satisfactory, and danger signals, though not nonexistent, are not serious enough to cause concern. Thus, in terms of social and economic policy, there are no major problems requiring urgent resolution. Second, socialist or socialist

democratic parties in most nations have readjusted their respective policies in recent years. To adapt to changes in international economic competition and to the needs associated with the new technological revolution, these parties have jettisoned old ideas, which placed excessive stress on seeking social equality and social welfare, and have incorporated many conservative approaches and ideas into their social and economic platforms, so as to keep from falling behind new world trends. There are signs indicating that some of the Western European socialist and social democratic parties that suffered electoral reverses in recent years have begun to return to power. Clearly, championing competition is an effective way by which to prevent ossification of political party ideology. Perhaps it was because the socialist parties have made substantial readjustments in their economic policies that there were so few arguments over economic issues at the conference.

All the people interviewed at the conference said that it is imperative that Communist countries learn from and adopt more of the ideas of socialist democracy in their reforms. They added that the fundamental ideology of socialist democracy is to achieve equality while not sacrificing freedom and to achieve fairness while ensuring market competition—precisely the goals Communist countries should pursue in their reforms. In this respect, Hungary has provided the world with an example of a forerunner.

## SOUTHEAST ASIA/PACIFIC

### **New Balance of Power Seen in Asia-Pacific Region**

*40050397 Shanghai SHIJIE JINGJI DAobao in Chinese 6 Mar 89 p 5*

[Article by Shao Jin 6730 6651: "After Long Period of Confrontation, the United States and USSR Hope to Maintain Asian Power Balance; China's Role in Their Asian Strategy Greatly Improved"]

[Text] Important changes in Asian politics have attracted the attention of the entire world in the last two years: China and the USSR began the process of normalizing relations; a resolution to the problem of the United States and USSR intervention in Afghanistan was begun; and there are signs of a breakthrough in the Kampuchean issue. That these matters occurred against a similar background clearly tells us that there will be a new balance of power in Asia.

With detente as a backdrop between the the United States and USSR, long-term opponents in Asia since World War II, there is hope for maintaining the balance of power in Asia.

After World War II, the United States and USSR became antagonists and contenders in Asia just as in other regions around the world. The aim of power rivalry in Asia is establishment of a political situation advantageous to each country.

The 1975 U.S. withdrawal from Vietnam signified the defeat of the United States' policy of direct hegemonist seizures. In the middle and late 1980s in Afghanistan, the USSR also realized that the losses of this policy outweighed the gains. Until now, the United States and USSR have achieved a hard-won understanding regarding the issue of methods for altering affairs in Asia. Maintaining the power balance in Asia has become their common object.

For the United States and USSR to maintain the balance of power in Asia requires that they change their mutually antagonistic China policies and correctly see the important role that China plays as a stabilizer in the Asian balance of power. China's role in this Asian strategy has been greatly improved.

The United States and USSR have always taken completely opposite strategies toward new China since its founding. In a comparison of changes in Sino-Soviet and Sino-American relations, as one supported China in any period, the other strove to weaken it. A large part of U.S.-USSR confrontation in Asia during the 1950s, 1960s, and 1970s was manifested over the issue of China. China plays a tremendous role in their Asian political power balance. As long as one side supported China, the other side found it very hard to maintain its stand in Asia.

The U.S.-USSR implementation of an antagonistic China policy often has made new China face severe tests in foreign relations. The fact that relations between them and China could develop into today's comparatively warm and natural state is due to changes in China's policies as well as changes in the diplomatic considerations of the United States and USSR.

Seen from the inside, the balance of power in Asia is more like a fine scale; China must have selective constraints.

Considered in terms of political power, Asia historically has always suffered from colonialist and imperialist aggression. During this century, oppressed peoples and countries have carried out movements and wars of national liberation without ever seeing such a multipolar state as that of today. Asia's complex political situation has been created by outside aggression. Close global attention directed here, in addition to the two present contentious issues, bringing into the line of sight the balance of power issue in northeast Asia, the Taiwan region, and south Asia, consistently related to the sensitive question of the rise and fall of multilateral power in Asia.

China figures in many balance of power issues in Asia. In other words, China faces many challenges to power all around. In general, since new China was founded, it has seen the eruption of limited wars or border military incidents every decade. The War to Resist U.S. Aggression and Aid Korea began in 1950. There was a Sino-Indian border conflict in 1959; the counterattack in self-defense of Zhenbao Island happened in 1969. The Sino-Vietnamese War occurred in 1979.

Since U.S.-USSR detente, the situation around China's periphery has become greatly simplified. However, the frequency of past wars tell us that the swiftness of change in surrounding areas are often difficult to predict. In the age of detente, the balance of power situation in the Asian region is like a fine scale that can still tilt if a certain side seeks benefits or policy changes. During such times, China must be anti-war and have apt choices; first, to support the weak; second, to cultivate two enemies at different times.

Asia's multipolar situation is seldom seen in other areas of the world, besides being historically unprecedented. As the two big European camps begin the process of security, cooperation, and dialogue, the process of detente in Asia undoubtedly will fall very far behind. Nevertheless, we still have reason to hope since the present crucial issues are starting to be resolved, possibly unfolding a new stage of a relatively sustained process of detente in Asia. The conditions for sustained detente in Asia are: whether each country can put improved economic power before seeking political influence, whether they will still merely rely on military measures to guarantee national security, and whether force will be used to resolve the issue of divided countries. The condition of a balance of power calls for restraints. At the same time, China's contribution to Asian detente will be an effective measure for its national security.

## WESTERN HEMISPHERE

### Venezuelan, Latin American Debt Problem Viewed

40050417 Shanghai SHIJIE JINGJI DAobao in Chinese 20 Mar 89 p 3

[Article by Pan Muping 3382 1970 1627]

[Text] *Economic problems were behind recent riots in Venezuela. The people are still worried even though the United States proposed the "Brady Plan." Riots occurred in Venezuela today; will they happen in another Latin American debtor nation tomorrow?*

Since 27 February, large numbers of armed police have been suppressing looting, bus burning, and rioting in the Venezuelan capital of Caracas and other cities.

The damage of the riots is now being tallied. It will be impossible to dissolve within a short time the worries the riots brought to Venezuela and other Latin American

debtor nations. The people worry: Riots occurred in Venezuela today; will they happen in another Latin American debtor nation tomorrow? Can't they break out again, given the tremendous long-term pressure of the \$400 billion foreign debt "economic crisis" that the region has been under?

Venezuela used to be the most prosperous Latin American country. It was praised as the "most stable democratic economic system" in the region since implementing a "free electoral government" in 1958. It became rich very quickly because of abundant petroleum resources and the petrodollars that rolled in since the 1970s, which supported cheap domestic food supplies, continuously expanding social development plans, and an increasingly improved standard of living.

Since approximately 90 percent of Venezuela's export income is derived from petroleum, once oil prices on the international market fell without recovering, inducing reduced export income tax revenues, naturally it gradually became difficult to sustain having the aforementioned items that the people had become used to. Unfortunately, lending and borrowing replaced petrodollars. Until the end of 1988, total foreign debt was more than \$30 billion while potential international reserves were just about dried up. Economic conditions worsen each day. Recently, there have been shortages of essential food products such as sugar, coffee, and powdered milk.

In order to obtain new loans from international financial organizations and creditor banks so as to respond to the severe economic conditions, newly-sworn President Perez announced on 16 February a serious economic readjustment plan. The plan entails removal of controls on interest rates, use of floating currency exchange rates, and great hikes on gasoline, bus fares, and other prices. This plan apparently increased dissatisfaction of residents. They had suffered several weeks food supply shortages. This was soon followed by the outbreak of looting and rioting.

According to the analyses of experts at the time, these riots have no political motivation. Rather, they were caused by the fact that the poor and laboring class in this "nation of consumers" found that they could no longer buy daily necessities.

This is precisely what makes people anxious since it is very obvious that economic conditions in other Latin American debtor nations are worse than in Venezuela.

The foreign debt of Brazil, the top debtor nation, is as high as \$121 billion. In 1988, its inflation rate was 934 percent, which forced Brazil to implement an extremely strict economic retrenchment plan. The foreign debt of Mexico, the number two debtor nation, was \$104 billion. It had to freeze wages, prices, and exchange rates in order to control inflation. Argentina, the third debtor nation, bears a \$60 billion foreign debt. It temporarily lost its urgently needed allocation of \$300.5 million in new World Bank loans because it could not achieve the goals of a lower inflation rate, reduced deficit, and removal of trade barriers demanded by international financial organizations. In the foreground were intense fluctuations of Argentina's financial market. Economic conditions in Peru, the fifth debtor nation, are extremely critical. In 1988, inflation rose 1,700 percent; per capita purchasing power dropped 50 percent. Workers can be seen striking and demonstrating on the streets almost every day. There also is a mention of clashes.

Given the above situation, it appears that these countries face only two fundamental choices: One, implementation of extremely strict economic restructuring and retrenchment plans in accord with the demands of international financial organizations, thereby attaining new loans. This is the route Venezuela is taking. The result has been further economic troubles as well as greater potential for social pressures and unrest. Two, refuse new loans and make it on their own. The outcome is quite difficult to determine and debt burdens become increasingly more serious.

U.S. Treasury Department Secretary Brady announced the "Brady Plan" to reduce the foreign debt of debtor nations on 10 March. An important difference between this plan and the "Baker Plan" is that it urges debtor banks to automatically cancel portions of the debt and not add new accounts to old ones. The International Monetary Fund and the World Bank have earmarked special reserve funds to assist the debtor banks. The Argentine government welcomed this idea while the president of Venezuela said that the direction of this plan is encouraging even though it does not meet the most basic needs of Latin American countries.

It was reported that a week ago the "International Monetary Fund" agreed to immediately provide Venezuela with a \$400.53 million loan. The U.S. Treasury Department also plans to provide \$500 million in urgent loans in order to alleviate "pressing needs." However, everyone realizes that money lent must be repaid. If the new loans cannot promote the difficult economic restructuring and improve competitiveness, then they will only add to the debt burden. If this should happen, who could prevent the Venezuelan "tragedy" from recurring or even spreading to other countries?

### High Level Political Infighting During Seventies Recounted

40050344 Hong Kong MING PAO YUE KAN [MING  
PAO MONTHLY] in Chinese No 27, 9 Mar 89 pp 3-12

[Article by Wang Ruoshui 3769 5387 3055: "A Turn Around From Criticism of 'Leftism' to Opposition to Rightism—One Individual's Experiences and Reflections on Chinese Communist High Level Infighting."]

[Text] Editor's Note. The frequency and depth of changes in China's Politburo often makes China watchers blink and blink again. The inaccessibility of information channels makes swings in the political line an unfathomable mystery, and the political activities of high level leaders are an even more closely guarded secret. As a result of 10 years of reform and opening to the outside world, it is no longer as easy as it was formerly to impose control over the expression of political views; officialdom has liberalized proscriptions against speech, society and culture are tending to become pluralistic, and persons in the know dare more to express their opinions and provide information. It was these social circumstances that brought forth the investigative reports about historical matters and personages that this magazine has carried in recent years. These reports not only tried to show these personages in their true colors, but even more provided a historical sketch of them that stands as a reference for the entire age.

The article that Mr Wang Ruoshui has recently written might be said to be yet another example in this regard. What makes it even more valuable is that what he has written are his personal experiences. During the early 1970's, Wang Ruoshui was one of the leaders of RENMIN RIBAO. As a result of having "mistakenly" understood the spirit of the Chinese Communist Central Committee in the campaign to criticize Lin Biao, he became involuntarily engulfed in a vortex of high level Chinese Communist political infighting. Although in a dangerous situation, not only did he realize why the political campaigns of the time could not easily avoid the historical pattern, turning from criticism of "leftism" to opposition to rightism, he understood more profoundly the high level Chinese Communist personages and political infighting.

The first draft of this article was completed in 1980; however, for various reasons, it has not been presented to readers until now.

*During the process of criticizing Lin Biao in 1972, Comrade Zhou Enlai correctly called for a criticism of the ultra-leftist tide of thought...Comrade Mao Zedong erroneously believed that the task at that time remained opposition to "ultra-rightism."*

### "Resolution on the Party's Various Historical Problems"

During the late stage of the "Great Cultural Revolution," RENMIN RIBAO launched a campaign against so-called "criticism of noxious influences, which continued from the end of 1972 until the end of 1974. Both its duration and momentum were greater than any single criticism campaign ever conducted by RENMIN RIBAO. A retrospective on this event holds very great significance today.

The direct contradictions against which this campaign was directed were the newspaper's "evil influence and power" as represented by Hu Jiwei [5170 4921 0251] and Wang Ruoshui. (Zhang Chunqiao's words), and the campaign's objective went far beyond that. Essentially it was a struggle that Jiang Qing, Zhang Chunqiao, and Yao Wenyuan had engineered for reversing the direction of the anti-Lin campaign, to oppose Zhou Enlai, and to seize control over RENMIN RIBAO.

Zhou Enlai Personally Takes RENMIN RIBAO in Hand

The details of the situation date back to 1971. After Lin Biao died in an airplane crash on 13 September, the successor issue, which had been solved, arose once again and became an urgent issue. Zhou Enlai's position went up. Mao Zedong seemed to have very great confidence in Zhou Enlai. He allowed him to handle the day-to-day work of the Central Committee, and he also put him in charge of RENMIN RIBAO. Although Yao Wenyuan still continued in charge of some matters at RENMIN RIBAO beginning in 1972, the top people in the newspaper could not fail to accept Zhou Enlai's leadership. Naturally, Jiang, Zhang, and Yao nursed hatred on this account. They could not tolerate having Zhou Enlai be the successor, and naturally neither could they tolerate Zhou Enlai's leadership over such an important propaganda vehicle as RENMIN RIBAO.

At that time, the newspaper had no formal leadership group, but only a "propaganda team" in charge of business that was convened by Lu Ying [7627 3841]. The only person in the newspaper on whom Zhang Chunqiao and Yao Wenyuan could rely was also Lu Ying. Lu Ying was not very capable; consequently, he was unequal to the task of running RENMIN RIBAO. Nevertheless, this was not of very great importance to Zhang and Yao; they had their own "political standards." At that time Zhou Enlai was unable to bear any further work load, but Zhang and Yao had no desire at all to be helpful. Instead, they pushed all matters, great and small, on Zhou Enlai. Those of us down below were all concerned about Zhou Enlai's health. Some drafts that were illogical and ungrammatical were sent to Zhou Enlai. Once while correcting a draft, Zhou Enlai shook his head and said to Lu Ying, "Don't have me act as a primary school teacher from now on, will you?"

In the summer of 1972, before Zhou Enlai proposed the establishment of a former leadership group in RENMIN RIBAO, he "wanted to organize a group to review full-page proofs, conduct collective leadership, and centrally administer all matters." Zhou Enlai also said that "cadres should also include the old, the middle-aged, and the young, because the old ones retain positions without authority, but to have all young ones is no good. Several days later, a telephone call from Zhou Enlai pressed for a name list. Lu Ying replied that he had been ill and unable to take care of it. Zhou Enlai said sternly, "What will happen if you become severely ill? If you die, will RENMIN RIBAO stop publication?" thereby showing his displeasure with Lu Ying.

The newspaper set up a provisional "team to review full-page proofs" in accordance with Zhou Enlai's instructions. It had seven members: Lu Ying, Wu Lengxi [0702 0397 6007], Wang Ji [3769 2253], Chen Jun [7115 3182], Pan Fei [3382 7236], Cui Qi [1508 1142], and Wang Ruoshui.

#### Initial Battle To Establish a Leadership Team

Plans called for the establishment of a Party nucleus team at the newspaper before the end of 1972, and Zhang Chunqiao and Yao Wenyan felt it necessary to take steps to protect Lu Ying. On 8 August, they called together for discussion several people from the newspaper's PLA propaganda team and from the team responsible for reviewing full-page proofs. When discussing the leadership team, Zhang Chunqiao said in an affected way, "I say that Comrade Lu Ying is very weak as the leader of a newspaper; at JIEFANG RIBAO, he was not the strongest. When he was transferred to Beijing at the beginning of the Cultural Revolution, it was not for the purpose of having him be a leader." Then the thrust of the conversation changed. "Now that matters stand the way they are, this is all that can be done now." "Under the present circumstances, we have to support Comrade Lu Ying."

After Zhang's and Yao's remarks got around the editorial department, everyone was very upset. During discussions in November about establishing a Party nucleus team, one comrade after another recommended that Lu Ying not be the number one. Some said, "The newspaper has very many old cadres and good cadres who are not being used, yet the likes of Lu Ying becomes the principle person in charge. To put a person with Lu Ping's level of competence in a leadership position would more harm him than help him. This would be neither good for the Party nor for him. To talk about this matter is really distressing." Some comrades said this "is not an appointment based on merit but an appointment based on favoritism." Other comrades said, "Lu Ping is not even up to common editing work in the newspaper. Do the central authorities have a real appreciation of Lu Ying? His situation should be reported to higher authorities." Whom did the comrades in the editorial department support to take over the job? The call for Wu

Lengxi was loudest, and for Hu Jiwei second loudest. Later on this came to be known as "Laud Wu and Disparage Lu," and "Disparage Lu and Laud Hu."

Under these circumstances, one comrade after another wrote a letter to the central authorities offering ideas. Quite a few other comrades strongly demanded that matters covered in the discussions be put into a brief report and sent to the central authorities. Naturally, this was very unfavorable for Lu Ying, Zhang, and Zhao. Yao Wenyan said he did not approve of issuing a brief report. Nevertheless, numerous comrades at RENMIN RIBAO refused to cater to him, and continued to demand that a brief report be sent. There was considerable turmoil at the newspaper. Yao Wenyan had no choice but to report the situation to Zhou Enlai. Zhou Enlai, who was accompanying a foreign guest in Tianjin, telephoned agreement at not issuing a brief report, and said that he would have a chat with comrades at the newspaper within a few days.

However, several days later, the situation suddenly changed very greatly, and Zhou Enlai was unable to carry out his original intention.

#### Criticism of Lin Biao: To Criticize "Leftism" or to Criticize the Right

The struggle for control of RENMIN RIBAO occurred at the same time as a divergence of opinion about the direction that criticism of Lin should take.

The criticism of Lin had begun as a criticism of the "Minutes of the '571' Project." This was part of Lin Biao's plot. It consisted mostly of exposing and denouncing—there was nothing theoretical to be criticized. Next was a criticism of Lin Biao's mistakes during the Liaoxi-Shenyang Campaign [12 Sept-2 Nov 1948], which was a part of history requiring no on-going criticism. There was nothing to criticize. This contrasted sharply with the maniacal zeal of the criticism of Liu [Shaoqi] at the outset of the "Cultural Revolution," and one could not help saying that it was a peculiar situation. At the time, the newspaper itself wanted to link the criticism of Lin to actual events, but the central authorities provided no explicit instructions as to what specifically was to be criticized. At that time, RENMIN RIBAO printed both anti "leftist" and anti-rightist formulations, and among regional newspapers there was also a lack of unanimity. Nor did Yao Wenyan speak very much about how to criticize Lin; he simply stressed no haste in linking criticism to actual events.

On 1 August, Zhou Enlai criticized the Ministry of Foreign Affairs, RENMIN RIBAO, and XINHUASHE (all of which were under Zhou Enlai's jurisdiction) at a reception for China's foreign envoys held in the Great Hall of the People. He said, "You have not thoroughly criticized the ultra-leftist ideological trend, and before 'leftism' was thoroughly criticized, rightism appeared.

When the tenor of these remarks reached the newspaper, everyone was excited. They felt that this instruction was extraordinarily correct, and that it should be discussed fully and implemented.

However, a week later (i.e., on 8 August), in a meeting with the seven from the newspaper, Zhang and Yao spoke about the criticism of Lin, and emphasized the following: "We went over all the stuff about Lin Biao during the criticism of Liu Shaoqi. ...Lin Biao used criticisms of Liu to do things that seemed to be 'leftist' but were actually rightist, and to do things that went too far and had a widespread pernicious effect. Therefore, we must use our heads and set clear boundaries in our criticism of Lin, not go too far, and not make the same mistakes that were made in criticizing Liu. These were Zhang Chunqiao's words. In addition, he said he did not approve criticism of "the omnipotence of spirit," for the reason that Mao Zedong had said that "man should have a little spirit." He also did not agree with criticism of "voluntarism," or asserting that Lin Biao was an exponent of the "theory that weapons decide everything." He felt that these were all examples that "went too far." "Omnipotence of spirit" and "voluntarism" were "leftist" things, and were things that Lin Biao had given enormous publicity. No sooner had the criticism of Lin begun, and before much criticism had been done, Zhang and Yao said that criticism of "leftism" should not go too far. This could not be criticized, and that could not be criticized, but actually the things that they felt could not be criticized were the ones that should be criticized. Naturally, this threw cold water on criticism of the ultra-leftist ideological trend, and was contrary to Zhou Enlai's view. Numerous comrades in the editorial department felt this lack of consistency, and were very dissatisfied with Zhang's and Yao's formulation.

During September Zhou Enlai repeated: The ultra-leftist ideological trend has not been thoroughly criticized. You do not have the courage to carry out Chairman Mao's revolutionary line.

It was almost national anniversary time. The newspaper had prepared an editorial to which Wu Lengxi, acting in the spirit of Zhou Enlai, had added a sentence as follows: "Both rightist and 'leftist' deviations should be criticized; the 'ultra-leftist' ideological trend is to be particularly criticized." When sent forward for review, Yao Wenyuan crossed out this sentence, saying: It is necessary to take another look at the situation nationwide.

#### The Reaction That One Article Evoked

It was under such circumstances that an article appeared on 14 October. The inspiration for this article was a reception for comrades from Heilongjiang Province by Hua Guofeng, Li Xiannian, and Yu Qiuli of the State Council's Operations Unit [2814 0523 4809]. In listening to a report from the Heilongjiang comrades on longstanding, big and difficult problems in three Harbin factories, they instructed them on the need to oppose

anarchism. Subsequently, the Heilongjiang Provincial CPC Committee's Writing Group wrote this article, signed it Long Yan [7893 1484], and forwarded it to RENMIN RIBAO's theory department. Hu Jiwei was the Party branch secretary in the theory department at that time. After reading it, he passed it to me. I revised it heavily, changed the title to "Anarchism is a Counter-revolutionary Tool of Bogus Marxist Swindlers," and added two additional articles (one was "Uphold Proletarian Iron Discipline," and the other one was a book review of "Bakunin") to form a full page. Neither Zhang Chunqiao nor Yao Wenyuan were in Beijing at that time, so I seized the opportunity to put out a whole page of anti-"leftist" articles.

At once, this page attracted attention in all quarters. On the same day, the Agence France Presse correspondent filed a dispatch that said that this article was speaking for all cadres, and was a criticism of the Red Guards. At the same time, a telephone call came from Shanghai. It was from Zhang and Yao's fair-haired boy on the Standing Committee of the Municipal CPC Committee, Zhu Yongjia [2612 3057 0857], who was calling Lu Ying to inquire who had authored this article, who had collated it, and whether it had been sent to anyone for review, etc. He also added, "Shanghai workers have reacted strongly to this article."

Ten days later, Issue No 312 (4 November) of WEN HUI QINGKUANG [WENHUI AFFAIRS], an internal publication of WEN HUI BAO, ran a report on Shanghai workers' discussion of this article. This was truly a "strong" reaction. The report leveled a host of charges that this article was a repudiation of the "Great Cultural Revolution," that it was a criticism of the masses, etc. Strangely, WEN HUI BAO had also vigorously criticized anarchism and ultra-leftist ideological trends, but now it had made a big change, and the views of all its spokesmen inclined to one side.

#### Neither Agreement Nor Disagreement Permitted

Yao Wenyuan called from Shanghai to have XINHUA-SHE send a copy of the Agence France Press dispatch for us to read. Next, he forwarded us the 4 November WEN HUI AFFAIRS article. He wanted the full-page proof review team and the theory department to discuss it, and he said, "You may either agree or disagree." He expressed no personal attitude claiming he had not yet read the article. Few people wanted to be taken in by playing this clumsy game. The Theory Department was first to openly refuse to discuss the article. Hu Jiwei said that if it were to be discussed, it would have to be discussed first by the full-page proof review team. Privately he told me, "How can it be discussed? If you say you agree, it is wrong; if you say you do not agree, it is the workers' views. How can we refute the views of the workers?" His words expressed the thoughts that many comrades held in common. At that time, the workers led the intellectuals, and the intellectuals were "stinking intellectuals." Consequently, we faced a situation of

being between the devil and the deep blue sea. Yuan Wenyuan said, "you may either agree or disagree," but actually we could neither agree nor disagree.

The full-page proof review team discussed it a total of four times without coming to a conclusion. At the first meeting, no discussion occurred. It seemed that most comrades were not convinced, but they dared not speak for fear of placing themselves in danger. Although Lu Ying was for it, it was unable to make a convincing argument. Ever since Zhu Yongjia's telephone call, he was nervous, and whenever he saw the word "leftist" on a full-page proof, he crossed it out. At that time there were quite a few words like "ultra-leftist ideological trend," and "leftist interference," so at this rate he had to cross them out every day. I took great exception to this way of doing things, and I asked Lu Ying, "Do you have any basis for crossing things out like this? Have the central authorities said that there can be no opposition to 'leftism'?" Lu Ying also admitted there was no basis.

When Yao Wenyuan saw that our discussions were not positive, he wanted us to study Central Committee documents. This time, I studied diligently indeed. Study or not, the more I studied, the more I felt I was right. A Central Committee document on rectification through criticism of Lin that Mao Zedong personally authorized for release referred many times to opposition to anarchism. Without going into the period before 1972, in 1972 alone, each of document numbers 26, 31, 38, and 42 referred to opposition to anarchism. Finally, these documents were printed on 1 November, which was after the 14 October date on which I put out that page. Even issue No 11 (published in November) of HONGQI [RED FLAG] magazine, which Yao Wenyuan was in charge of, criticized anarchism. Among other things, it said: Swindlers of Liu Shaoqi's ilk (*meaning Lin Biao*) spread anarchism in a vain attempt to refute the correctness of the Party line from the "leftist" standpoint. I might also add that when that 14 October article opposing anarchism was made one of the "selected topics in the plan for rectification through criticism of Lin," being worked on by the Theory Department and was sent to Yao Wenyuan for consideration, Yao Wenyuan expressed no disagreement. So why was he contradicting himself?

#### WEN HUI BAO and RENMIN RIBAO Put on Rival Shows

The changed situation seemed to have occurred around the time that Zhang Chunqiao and Yao Wenyuan went to Shanghai. I know that every time Yao Wenyuan went to Shanghai, as soon as he arrived he got in touch with those in charge at WEN HUI BAO and JIEFANG RIBAO with whom he talked on and on in a steady stream. Before long, these two newspapers disclosed the "new spirit." On the eve of the "Cultural Revolution," WEN HUI BAO and RENMIN RIBAO put on rival shows on the "Dismissal of Hai Rui" issue. This was the

first time that WEN HUI BAO gave pointers to RENMIN RIBAO, which was clearly abnormal. So, could anarchism and the ultra-leftist ideological trend be criticized? Wang Yi [3769 2253] and I pressed Lu Ying many times to seek instructions from Yao Wenyuan, but he avoided making a reply. Under these circumstances, we could only seek the "new spirit" from WEN HUI BAO.

The "new spirit" appeared as expected. On 6 November, a WEN HUI BAO editorial said: "It is necessary to oppose the right opportunist line that swindlers of Liu Shaoqi's ilk are pushing." A few days later, another article said that "swindlers like Liu Shaoqi" have been rightist all alone; it is simply that "at sometimes and on some issues," they have done some things that appeared to be "leftist" but were really rightist. These formulations aroused heated discussion among some comrades at the newspaper, because they were not contained in Central Committee documents. Wang Yi thought of a plan. He proposed that Lu Ying request instructions from Yao Wenyuan about re-running this editorial and this article in RENMIN RIBAO to see what Yao Wenyuan's attitude would be. Yao Wenyuan did not agree to re-running them, however.

Among comrades in the Theory Department, there were many contradictory feelings. They did not know what reason lay behind Yao Wenyuan's approval of the WEN HUI BAO articles. Hu Jiwei found an opportunity to say to me, "There are some theoretical issues that cannot be straightened out. I wonder what Chairman Mao thinks about them. You are engaged in theoretical work, and the chairman knows you. Suppose you write a letter to the chairman asking for instructions?" I had been considering doing the same thing, so I replied, "I have been thinking about it." I also told him my own view, which was that WEN HUI BAO's criticisms were largely the personal views of Zhang Chunqiao and Yao Wenyuan, and could not be the tenor of the central authorities.

In mid-November, when I was thinking about how to write a letter to the central authorities, issue No 335 of WEN HUI AFFAIRS criticized RENMIN RIBAO once again. This issue was published on 24 November, and it was already the end of the month by the time I read it. This issue was devoted to the effect on newspapers everywhere of a RENMIN RIBAO article opposing anarchism. It said that nine provincial and municipal newspapers throughout the country had re-run the article, and that eight other newspapers had published reports, articles or commentator articles on the criticism of anarchism, though they had not re-run the article. The sense was that the article's pernicious influence had been spread throughout the country. The issue of WEN HUI AFFAIRS also raised various arguments contained in the RENMIN RIBAO article including the point that "Swindlers of Liu Shaoqi's ilk are arch-criminals and chief culprits in the instigation of anarchism." (The newspaper had not yet publicly criticized Lin Biao by name). Although WEN HUI AFFAIRS did not directly

comment on these arguments, anyone with good sense would know what was intended as soon as they read it. It presented this material as a contrary point of view to the rank and file. I became very upset when I read it, and I thought to myself: Can it be that this is wrong too? Can it be that Lin Biao did not instigate anarchism? Can it be that rectification through criticism of Lin cannot include opposition to anarchism? This is not an issue of a single article or several articles; it is an issue of policy with regard to the criticism of Lin; it is an issue of whether "leftism" should and can be opposed.

### Great Turmoil in the Orchestration of the Criticism of Lin

I sent my letter to Mao Zedong in early December. The chaotic situation in propaganda that existed around this time may be seen from the several incidents below:

(1) The Central Committee documents on Henan Province's rectification through the criticism of Lin, which had just been issued in November, still called for opposition to anarchism.

(2) In issue No 12 of HONG QI, which was published on 1 December, the formulation changed. It said that "Swindlers of Liu Shaoqi's ilk were like wandering snakes who sometimes came from the right and sometimes came from the "left" to interfere with and do damage to implementation of Chairman Mao's revolutionary line." This differed from issue No 11's reference only to "leftism," but it was not entirely consistent with WEN HUI BAO. It seemed that HONG QI wanted to make a change, but it had to consider a way to dovetail the change into the formulation contained in the next previous issue.

(3) On 1 December, ANHUI RIBAO printed front page headline news. It reported that Li Desheng [2621 1795 3932] attended and gave a speech at an Anhui Provincial Agricultural Conference to Learn from Dazhai. The report said that in the elimination of "leftist" and rightist interference, of greatest importance at the present time is criticism of the "ultra-leftist" ideological trend while simultaneously paying attention to and guarding against rightist tendencies.

(4) The 23rd Enlarged Plenary Session of the Beijing Military Region CPC Committee criticized deputy commanders of the Shanxi Provincial Military Region, and National Defense Work Office CPC Committee secretary, Zhang Zhaoyuan [1728 3564 6678], maintaining that their units "did not regard the criticism of Lin as a matter of primary importance, but rather regarded criticism of the 'ultra-leftist' ideological trend and anarchism as matters of first importance, which was an error in principle." At that time, Ji Dengkui [4764 4098 1145] was political commissar. In an 11 December speech, he said that one could not say that it was an "ultra-leftist" line that Lin Biao promoted. Lin Biao wanted to restore

capitalism, betray his country and defect to the revisionists. This was the essence of his revisionist line. He also said, "Some formulations should be thought about such as armchair politics, voluntarism, and the omnipotence of spirit."

Yao Wenyuan wanted us to audit this conference in order to better understand the "spirit." When I heard this speech, I thought: Really interesting. Commander (Li Desheng) emphasizes opposition to "leftism" in Anhui, while the political commissar emphasizes opposition to rightism in Beijing...

Foreign dispatches also noted these differences in propaganda orchestration and provided their own explanations. A LOS ANGELES TIMES correspondent wrote a news article titled, "Beijing's Official Press Takes Different Paths" which said: "RENMIN RIBAO attacks grassroots level Party members, and wants to sternly suppress them while HONG QI advocates grassroots resistance. As is the habit in China, an internal power struggle is going on."

On 6 December, Zhang Chunqiao and Yao Wenyuan had a conversation in which Yao Wenyuan said, "The Chairman said that Lin Biao has always been a rightist." Lin Biao was a rightist on educational issues. Lin Biao's theory and practice were both "rightist." Zhang Chunqiao said, "Is great turmoil anarchism? During the early stage of the Cultural Revolution, the great turmoil was caused by the Chairman's call for the Red Guards to rebel. ...that the turmoil at that time caused some damage, such as to the railroads, is nothing extraordinary. ...a halt to Party organizational life was decided by the Chairman; it is not anarchism. As soon as the Great Cultural Revolution is over, how can it be forgotten? When there is no great turmoil, will there be great order? Comrades from RENMIN RIBAO will have to among the masses of workers and peasants to listen to the views of workers and peasants. They will have to go to Shanghai to listen, and Shanghai's workers will simply dare to express their views. The main reason for a bad job in production is class struggle. There is no unity in work teams. It is not because of the anarchism of the masses." Attributing it to the 'ultra-leftist' ideological trend does not convince me. Lin Biao also went through a development process; how can everything be attributed to "ultra-leftism?" His final defection to the USSR was "ultra-rightism."

### Just What Is the Great Leader Thinking

After hearing all this, I remained unpersuaded. This was because I just could not believe that Mao Zedong could make anti-rightism the focus at that time. The 1958 Lushan Conference change of anti-"leftism" into anti-rightism added fuel to the fire of "leftism" at that time, and the three years of hardships ensued. How could Mao Zedong not accept this grievous lesson?

The letter I had written to Mao Zedong went out on 5 December. I did not keep a draft of this letter. I burned it because of an intense subsequent investigation. Nevertheless, the main contents of the letter were "made clear" several times later on. Let me restate them below:

At the beginning, I said that RENMIN RIBAO's propaganda is mired in confusion, particularly about a policy for the criticism of Lin. On 1 August, the premier said that criticism of "leftism" has not been thorough, but Zhang Chunqiao and Yao Wenyuan said on 8 August that criticism of "leftism" should not be overdone. This caused a problem, namely whether criticism of "leftism," has not been thorough or whether it has been overdone. I believe Premier Zhou was right. Although he was referring to the campaign in several units, I believe it applies to newspaper propaganda.

I reported WEN HUI AFFAIRS' criticism of RENMIN RIBAO, and WEN HUI BAO's formulation of the nature of the Lin Biao line. I said that this situation was a little like the criticism of "The Dismissal of Hai Rui." Is or is not WEN HUI BAO's formulation the spirit of the Central Committee? If it is not, why does WEN HUI BAO have such nerve? However, if it is, why does RENMIN RIBAO not know? I said that I did not believe that the WEN HUI BAO formulation was the spirit of the Central Committee, because if the Central Committee had any new spirit, it would not keep it from the people. Central Committee documents had just said that rectification through the criticism of Lin required attention to opposing anarchism, and anarchism is ultra-"leftism." A change in the spirit of the Central Committee could not be so fast.

Here I said that I did not agree with WEN HUI BAO's statement that Lin Biao has pursued leftist opportunism, and that only "sometimes and on some issues" did he do some seemingly "leftist" but actually rightist things. I said that Liu Shaoqi exhibited some rightism and some "leftism," but mostly rightism. Lin Biao showed some "leftism" and some rightism, but mostly "leftism." The main interference with actual work today also stems from "leftist." Therefore, criticism of Lin should include criticism of the ultra-leftist trend of thought.

In the letter, I also quoted Zhang Chunqiao and Yao Wenyuan, with whom I expressed a different view (I thought that there was no use in concealing my own viewpoint in the letter to the Chairman of the Party Central Committee). Yao Wenyuan said that Lin Biao's opposition to the Party leadership was rightist. I said that depending on the form in which it was expressed, opposition to the Party leadership could come from the right or from the left. The rightist attack of 1957 was an opposition to Party leadership that came from the right. Lin Biao's instigation of anarchism was opposition to Party leadership that came from the "left." I also quoted from issue No 11 of HONG QI (Swindlers of Liu Shaoqi's ilk spread anarchism in a vain effort to negate the Party's correct line from a "leftist" standpoint), and

I said that Yao Wenyuan's statements were at variance with HONG QI. Zhang Chunqiao did not agree with the criticism of the "omnipotence of spirit" and "voluntarism." I said I did not know why one could not criticize the "omnipotence of spirit" just because Chairman Mao had said that "people should have a little spirit." I considered these to be two different matters. Lin Biao supported the theory that weapons decided everything and he was also a voluntarist. The two things can exist simultaneously in the same person. For example, Chiang Kai-shek and Hitler were like this.

The above is the main gist of my letter to Mao Zedong. I figured that since my letter had a bearing on the high level leadership, Mao Zedong would be unlikely to make any direct response. I felt that so long as he knew, that was all that mattered. However, these were important situations and issues, so even if Mao Zedong did not issue any instruction, he would bear them in mind. I also realized that this letter was risky, so in order to avoid implicating others, I did not show it to anyone. After writing it, I sent it off. I did not realize what great trouble this letter would bring.

#### Night Meeting With Zhou Enlai

On the evening of 19 December, I was still at a meeting in the Beijing Military Region Compound when a telephone call summoned me back to the newspaper. Then, Lu Ying, Cui Jinyao [1508 6855 5069] (the officer in charge of the Military Propaganda Team), Wu Lengxi, and I went directly by automobile to the Great Hall of the People. No one knew why we were called. In terms of our position, I was the only one about whom there was anything special in being called. Perhaps Lu Ying had done some speculating, because he patted my shoulder in the car and said, "Comrade Ruoshui, you will play a greater role in the newspaper in the future!"

Upon arrival at the Great Hall of the People, Wang Dongxing [3076 2639 5281] showed us to the Jiangxi Room to have a seat and wait. The time of the meeting had been set for 8 o'clock, but it had been delayed. At 8:30, Zhou Enlai, Jiang Qing, Zhang Chunqiao, and Yao Wenyuan walked in from an adjoining room. They appeared to have just finished a discussion. As he shook hands, Zhou Enlai was very cordial and calm, but Jiang, Zhang, and Yao had an irritated look on their faces. Wang Dongxing kept running in and running out looking after matters and never saying much from beginning to end.

Upholstered armchairs were arranged in a circle, and I sat next to Zhou Enlai. Before the meeting formally began, Zhou Enlai asked me from which college I had come, when I joined the revolution, whether I had been to a liberated area, which liberated area, etc. Though this was the first time that I had spoken with this great man whom I esteemed, I did not feel tense at all. His face was ruddy, and he looked very healthy. I did not know at that time that he already had cancer.

The meeting began. As the person in charge, Zhou Enlai spoke first. He said, "Your letter was received, and the Chairman approved our acting on it. Chen Jun [7115 3182] and the Theory Department are also involved in the issues you raise, namely the issue of "leftism" and rightism."

It was only now that I noticed a letter lying on the coffee table in front of Jiang Qing. I seemed to be looking at the letter I had written spread out there. Zhang Chunqiao and Yao Wenyan were also flipping several letters back and forth. I truly had not anticipated that my letter might fall into their hands!

#### Zhou Enlai's Insincere Remarks

Continuing, the gist of Zhou Enlai's remarks was as follows:

Wang Ruoshui heard my speech of 1 August. When I said that the ultra-"leftist" ideological trend should be thoroughly criticized, I was referring to foreign policy and to some work problems and not to the entire line of Lin Biao. Lin Biao's betrayal of the Party and the country was ultra-rightist. Central Committee publications have noted the ultra-"leftist" ideological trend, and issue No 11 of HONG QI also noted it. However, we have not cited anyone as being "leftist." As for forms of expression, there are things that are "leftist" in form that are actually rightist. To say that Lin Biao was a "leftist" is a mistake in principle. This is the fault of the Central Committee in not having provided sufficient discussion of ideological guidelines; comrades in the newspapers are not entirely to blame. Naturally, there is an "ultra-leftist" ideological trend among the masses that he put to use, and later on he became very rightist. Party newspapers and party periodicals should be consistent, otherwise the enemy will make use of the inconsistencies to set RENMIN RIBAO in opposition to HONG QI. Whenever we have a little difference, they immediately seize hold of it. This time it was an American correspondent who said that official publications in Beijing were following different roads, meaning that RENMIN RIBAO's article criticizing anarchism. I read it. It was not until Wang Ruoshui's letter arrived that I read it, and I felt that the article was wrong because it provided no clear theoretical explanation, nor did it properly link its contentions to actual events. To say that Lin Biao was a representative of anarchism was also wrong. Lin Biao also had his own government! At one time there was an "ultra-leftist" ideological trend among the masses, but anarchism was rare. Of course, when we did not notice such formulations in articles, the central authorities bear a certain amount of responsibility. If some places say that criticism of Lin is criticism of the "ultra-leftist" ideological trend, this is a wrong criticism that is a criticism of the masses. One cannot characterize some liberalism among the masses as anarchism and an "ultra-leftist" ideological trend. Criticism of Lin is criticism of Lin Biao for being a counterrevolutionary, and to unmask him. This is the main contradiction in our

criticism. Of course, there are defects and even more omissions in our individual articles. The central authorities have not done a good job of theoretical study in this regard. There has been insufficient discussion of ideological guidelines, and this is a failing.

Exchanges of views between HONG QI and RENMIN RIBAO, swapping pointers and mutual encouragement can only be good.

Today there seem to be several opposing ramparts in RENMIN RIBAO. Both the International Department and the Theory Department have written letters to me. There were no disputes involving principles, but a concentration of strength to attack Comrade Lu Ying, which we feel is not proper. Comrade Lu Ying came from JIEFANG RIBAO in Shanghai. When Tang Pingzhu [0781 1627 6999] fell, he took charge of the newspaper under difficult circumstances, and the leadership also had Chen Boda [7115 0130 6671] intervene. Possibly one might say that Comrade Lu Ying is a little weak, but he is still a good comrade. RENMIN RIBAO has also been through a lot. Right now there is a lot of controversy about building a leadership team, which is manifested in a scramble for power.

Fraternal newspapers should help each other. WEN HUI BAO expressed some views on internal matters! WEN HUI BAO's reporting of these matters is necessary. There should be a mutual learning from each other with both parties exchanging views.

#### Ingenious Rescue From a Predicament

The above is the main gist of Zhou Enlai's remarks. I included just what he said, omitting only unimportant or not directly relevant portions. During the 1950's I had opportunity to listen directly to Zhou Enlai make a report. The logical force and the fascinating demeanor of this speech at that time left an unforgettable impression. In February 1972, Richard Nixon visited China and had a long talk with Zhou Enlai. Later on, in recalling Zhou Enlai, Nixon evaluated him very highly, saying that "the logic of his speech was powerful, and that he was both earnest and convincing." (Nixon: "Leaders.") However, on this occasion, I had no such impression of Zhou Enlai. He spoke at length for at least an hour, but in a rather helter-skelter way. I thought that possibly he was rambling on purpose to soften his main point. I also felt that his sentences were not complete at times, and that sometimes his manner of speaking was not coherent. No sooner had he criticized Long Yan's article as being mistaken than he went on to say that it "provided no clear theoretical explanation, nor did it properly link its contentions to actual events," suggesting that this article was simply flawed rather than being wrong. What could account for this? I can construe it to mean that the premier was saying things that ran counter to his convictions. He had to be critical, but he also wanted to protect me. When he spoke of the central authorities not having

provided sufficient ideological guidelines and not blaming comrades in the newspaper entirely, this was an effort to take responsibility. Actually, he had no responsibility at all, because he was correct. If anyone was responsible, it was not he alone. Mao Zedong said it was necessary to oppose "leftism," and the Central Committee documents said it was necessary to oppose "leftism." Even Zhang Chunqiao and Yao Wenyuan said in the "8 August Speech" that one could not "contrast the criticism of Lin and the criticism of Chen with the criticism of the ultra-"leftist" ideological trend and the taking in hand of the 'May 16 [Red Guard] Corps.'" "There has been enough criticism of Lin, and the ultra 'leftist' ideological trend has also been resolved." However, Jiang, Zhang, and Yao never once uttered a single sentence of self-criticism; on the contrary, they pretended that they had been "right all along."

After he finished talking, Zhou Enlai said, "I began; now it's the turn of you three." Jiang, Zhang, and Yao said nothing, and Zhang Chunqiao wanted people from the newspapers to talk. Cui Jinyao reported first, and Lu Ying followed him. Zhou Enlai interrupted him several times. When Lu Ying said he had no other recourse, and that all he could do was strike out the word "leftist" whenever he encountered it, Zhou Enlai interrupted him to say that "That's no way to do either. If there was ultra-leftism in fact, the word should not be crossed out."

#### Whose Mistake

It was my turn to report. I said that the senior central cadres had made clear today the need to oppose rightism, and that I had not clearly understood this point in the past. Lin Biao's betrayal of the country and defection to the enemy was rightist in nature. Everyone could readily understand this, and Long Yan's article said as much. However, Lin Biao was ultra-left in the way he expressed himself, which is to say that he appeared to be a "leftist" when he was actually a rightist. This "leftist" mode of expression was a very great fraud, and its pernicious influence spread far and wide. In terms of actual work, there has been both "leftist" and rightist interference. Everyone acknowledges this. The question is which has been most important. I believe "leftism" has been most important. Therefore, when the prime minister spoke about the need to criticize ultra-"leftism" in his "August 1 Speech," I interpreted it in terms of my own ideas. Premier Zhou was talking about internal problems in several units, and also about diplomatic problems, but I supposed that this spirit should also apply to propaganda about rectification through the criticism of Lin. Actually, this idea did not occur to me after listening to the premier's speech.

Back in 1967, when Wang Li [3769 0500] and Guan Feng [7070 6912] fell from power and the investigation of the "May 16 Corps" occurred, the watchword was raised of criticism of the ultra-left ideological trend, including opposition to anarchism. Chairman Mao also gave such instructions. This point was reiterated many

times right down to the present documents on rectification through criticism of Lin. I thumbed through my notebook and read aloud a sentence from Central Committee 1972 document number 31 (On Rectification Through the Criticism of Lin in Sichuan Province): "The ringleader of the 'May 16' counterrevolutionary conspiratorial clique was Lin Biao, and the main agent in stirring up the 'ultra-leftist' ideological trend was Lin Biao." I said, in essence, there is no distinction between the "May 16" counterrevolutionary conspiratorial clique and Lin Biao. They were both ultra-right, but they appeared in the guise of being ultra-left. Since Lin Biao was the main agent in stirring up an ultra-leftist ideological trend, I supposed such criticism was permissible. I also referred once again to issue No 11 of HONG QI, which said that Lin Biao had fanned anarchism, negating the Party's line from the "left." Finally, I said I would have to think through these questions.

#### Jiang Qing Launches a Bombardment

Next, Jiang Qing spoke. As soon as she opened her mouth, she fired a blast:

"The contractions in this article from your organization are directed at the masses. The nasty title of this RENMIN RIBAO article is long. I had to force myself to finish reading it." (Then she raised her voice). "This is not directed against Lin Biao; it is directed against the masses. I do not know a great deal about matters at RENMIN RIBAO. I have the feeling that no matter the motivation, objectively this letter played a role in provoking the central authorities, and I was very unhappy after reading it. It used the prime minister's words, which were spoken in a specific circumstance and about a certain issue. Lin Biao's line was rightist to the point of betrayal of the country. As for his use of an ultra-leftist ideological trend at certain times and in certain circumstances, that too was actually ultra-rightist. Your letter makes it seem that Comrades Chunqiao and Wenyuan are at odds with the prime minister. I think this is an overstatement. The whole text does not make very much sense. You also refer to the present situation as being like 'The Dismissal of Hai Rui.' Maybe it's a 'Dismissal of Hai Rui' kind of situation!"

"Today I received another letter. It was written by some Party members in the Theory Department. They all worked in the Central Committee. How can two Politburo Members and a member of the Standing Committee be pitted against each other? I also suddenly received several letter packets, all of which launched personal attacks on Lu Ying. I certainly do not say that you (pointing to Lu Ying) have no faults. I am also bureaucratic; I didn't read the letters."

Yao Wenyuan interjected, "Some letters are written so that they gather together all of a person's shortcomings. This is really the limit. Only yellow tabloids write like that. I have said in front of the chairman that polemics are all right, but such tactics I do not appreciate." He was

saying that these letters gathered together many jokes about Lu Ying, but Yao Wenyuan went on to say that "polemics were all right," by which he clearly meant something else.<sup>1</sup> (According to data that Lu Ying wrote, Yao Wenyuan had earlier telephoned him to talk about the letter that Wang Ruoshui had written. Yao said, "I find people who write such letters most loathsome. If they have something worth saying, they can lay it out; they can argue it, and they can write an article! The Central Committee wants to discuss Wang Ruoshui's letter).

Then Zhou Enlai also interjected a comment. Since I had referred several times to an article in issue No 11 of HONG QI, he had a secretary bring HONG QI, which he leafed through for a while and said, The "thrust of the article on anarchism is not Lin Biao's intrinsic qualities. Issue No 11 of HONG QI has an article that refers to Liu Shaoqi's advocacy of slavishness and Lin Biao's instigation of anarchism. That way of putting it is all right. Naturally there is no need to classify one as representing the left and one as representing the right, but the overall viewpoint is correct." Here Zhou Enlai made a clever little counterattack. He quoted from the Yao Wenyuan-controlled HONG QI that Lin Biao had instigated anarchism, and later affirmed that this way of putting it is all right, thereby leaving Yao Wenyuan with nothing to say.

However, Jiang Qing's tone suddenly turned shrill, which clearly surprised Zhou Enlai. Zhou Enlai spoke in a moderate tone of voice, but Jiang Qing raised her voice. Zhou Enlai regarded my mistake as a problem in understanding, but Jiang Qing believed I harbored evil intentions. Jiang Qing said that the article was a contradiction directed at the masses, and said that I had sown discord between two members of the Politburo and a member of the Standing Committee. She also said that letters from comrades in the Theory Department made a personal attack on Lu Ying. Zhou Enlai had mentioned none of this. It goes without saying that how to talk with us at this meeting should have been decided at a small conference to shape a unified line of action before meeting with us. Because Jiang Qing spoke in this way, the atmosphere suddenly became tense. She criticized me for pitting the leadership against each other, but she also used her own statements to show differences with Zhou Enlai. In a later talk, Zhou Enlai interjected remarks several times to remedy this point and raise the tone in order to cover up these differences. However, if one paid attention, it was possible to discover that there were still subtle differences between them.

#### Zhang Chunqiao's and Yao Wenyuan's Performance

Once Jiang Qing finished talking, Zhang Chunqiao and Yao Wenyuan were easy to handle. They both said that they "agreed with the prime minister's views, and agreed with Jiang Qing's views." Yao Wenyuan made a few remarks, all of which were of an extemporaneous nature. He buried his body in the upholstered chair, one leg cocked up very high, with the self-satisfied look of a

victor. From time to time, he would interject his own remarks during pauses in the conversation of others. Zhang Chunqiao picked up where Jiang Qing had left off, adding elaboration. (I believe that Jiang Qing's words had actually been Zhang Chunqiao's ideas). His tone was very serious:

"How can you imagine that the workers, peasants, and soldiers are opposed to the dictatorship of the proletariat? Shanghai workers had a lot of complaints about this article. They felt insulted. In order to safeguard the prestige of the Party Central Committee organ, I did not dare say anything.<sup>2</sup> (It was later disclosed that the workers who took part in an informal discussion had not felt there was any problem with Long Yan's article; however, they had been made to understand that Zhang Chunqiao "read this article and felt it was no good. He feels people should not suppose that what RENMIN RIBAO prints is the final word. This article is very much open to discussion. The spokesman spoke on the basis of the tone that had been set"). If one says, on the one hand, that anarchism is in opposition to the dictatorship of the proletariat, how can one say, on the other hand, that the masses perpetrate anarchism? I say that without education by a negative teacher it cannot be. It was seized by the enemy! How can one say that hundreds of millions of workers and peasants are anarchists? How can one say that they are Lin Biao's counterrevolutionary tools? This is ultra-rightist thinking!"

#### The Road of Criticizing "Leftism" Is a Dead End

Long Yan's article did not say that the workers and peasants were counterrevolutionary tools of Lin Biao; it did say that anarchism is this kind of tool. When Zhang Chunqiao spoke of seized by the "enemy," he meant the foreign dispatch. He regarded foreign correspondents as enemies. Such things happened frequently; there was nothing strange about it. Even if an investigation were to be conducted to fix blame, RENMIN RIBAO could not be blamed, but rather Zhang and Yao should themselves be blamed. The RENMIN RIBAO article was published first; the HONG QI article was published later. If Zhang and Yao disagreed with the RENMIN RIBAO article, they could certainly say so and have RENMIN RIBAO publish another article in correction. But they did not do this. Instead they put on a rival show through HONG QI, and then they were seized by the "enemy." This was precisely the point that Zhou Enlai made when he said that the Party newspaper and the Party magazine should keep each other informed.

Zhang Chunqiao tried to refute the two arguments in my statement, the one on the mode of expression of Lin Biao's line, and the other on the Central Committee document formulations. On the former issue, he said that Lin Biao's opposition to the Party and betrayal of the country was not just in substance but also in its mode

of expression. His ultra-rightism was in action. I maintained that it was only at certain times and on certain questions that ultra-leftism was exhibited, but most important both content and form were rightist."

On the Sichuan document that I mentioned, Zhang Chunqiao had the following answer: "The Sichuan document was mostly to correct a shift in the orientation of Liang Xing's preliminary criticism of ultra-"leftism." That sentence was put in to show consideration for the comrades who had criticized "ultra-leftism." In just the same way as it is wrong for you to look for places to drive a wedge between the prime minister and Comrade Wen Yuan, it is also wrong to look for openings in the Central Committee documents too. You're really something, looking for arguments in Central Committee documents and looking for justification in the prime minister's statements."

When Zhou Enlai was talking, I sensed that I had made a blunder in quoting him; consequently, when I made my report I quoted Central Committee documents several times. I never imagined that Zhang Chunqiao would say such a thing. To look for justification in the prime minister's statements was bad, and to look for justification in Central Committee documents was bad too, wasn't it? Since to criticize "leftism" or to criticize "rightism" is a matter of general orientation, it is also a matter of principle. On matters of principle, can one "show consideration?" Can the Central Committee documents sacrifice principle in order to "show consideration" for some people? Furthermore, how was I to know that those few sentences were for the purpose of "showing consideration?" Since consideration can be shown for other people, how come no such tolerance can be shown me? Later on I realized that Zhang Chunqiao had an authority that had a much greater basis than Zhou Enlai and the Central Committee documents. Central Committee documents counted for nothing in comparison with this supreme authority.

#### **Provoking Someone Far Superior in Power**

Proof of this point may be found in the following words from Zhang Chunqiao. He said, "Once in an exchange of views with Lengxi and Lu Ying, I said that criticism of the omnipotence of spirit deserves to be studied. I posed this in the form of a question. Then there is "voluntarism" about which the USSR scolds us. Why do we use this term? Armchair politics also merits study. Project 571 was counterrevolutionary politics? The capsulization to be used merits study. I broached all this to the Politburo. Comrade Wang Ruoshui's letter quoted me as though I opposed criticism of ultra-leftism. Actually, those were not entirely my own idea, so whose idea could they have been?"

Yao Wen Yuan continued by saying, "The Chairman said that the old study of psychology differentiated among knowing, feeling, and will, which are actually the same thing. I feel that the Chairman's talk at the Lushan

Conference about the apriorism of idealism is best able to grasp the essence of this issue. The USSR scolds us for voluntarism, wondering why we use this term of the enemy. The Chairman also said that when we are sitting here talking, can it be that we have only thoughts, but do not have will or feelings?"

It figures that not long previously Mao Zedong had one or two private conversations. One was before 8 August when he talked about criticism of voluntarism, the omnipotence of spirit, and armchair politics. The other time was in October when he spoke about anarchism, "leftism," and rightism. I thought I was criticizing Zhang, Yao, and WEN HUI BAO when who was I actually criticizing? I felt that I had gotten into big trouble. My own misfortune was a trifling matter, but I had also implicated Premier Zhou. Zhang and Yao had known Mao Zedong's intentions all along, but apparently Zhou Enlai had not known them in advance. This was the reason that Zhang and Yao had made this matter so mysterious.

#### **Hot Pursuit and Ferocious Attack**

The remainder of the talk was rather fragmentary and repetitive, so I will only relate it in capsulized form.

Jiang Qing realized I was holding back in the face of this criticism, so she pursued relentlessly. She said, "Comrade Wang Ruoshui. You must clear up this matter before the central authorities. Whatever else you have to say, say completely. Don't waste time. This page of the newspaper shifted the orientation of struggle throughout the country; it was not a criticism of Lin. Bad things can turn into good things. RENMIN RIBAO is a pool of stagnant water that should be brought to life. I believe that Comrade Wang Ruoshui can play a role in this. Do you dare put yourself on the spot?"

Zhang Chunqiao said, "The issue that this letter reflects is not an issue having to do with Comrade Wang Ruoshui alone; there are others in RENMIN RIBAO." Just what is this issue that requires study? I have always felt that there are evil influences and forces at work in RENMIN RIBAO that cannot abide outsiders. Their newspaper not only uses differences between us and the prime minister, but also makes use of differences in opinion that appear in documents from the Central Committee and each of the ministries of the State Council such as the views of Comrade [Li] Xiannian. All of you had better watch out."

Yao Wen Yuan said, "Where do you stand during this time of class struggle? (The ramifications of this sentence frightened me.) Another thing you said was that Lu Ying comes from Shanghai. You should not say such things. Such a statement is unprincipled. This is the way that the Lin Biao factionalists talk. Two letters came from the Theory Department. They were not signed. Letters should not be unsigned. Those from the International Department were signed. The Party Branch secretary in

the Theory Department is Hu Jiwei." "I made a suggestion to the Theory Department several times, calling on them to hold a discussion. Why don't they have a discussion?"

Zhou Enlai said, "Do you resent the Cultural Revolution? A little bit? Even the slightest bit is not good." "The Chairman feels your letter is bad. This article is wrong, and this letter goes beyond the article. Of course, you wrote 'Table Philosophy,' so you studied a little Marxism. Did you take it all in?" "Comrade Wang Ruoshui: first of all, your letter paints a black picture of the situation at the newspaper that is like the situation at the time of 'The Dismissal of Hai Rui.' Secondly, you are looking for a chink in the Central Committee. You need to understand this issue thoroughly. You do not approve of the good situation in Shanghai. A serious view of your error is that it is a matter of your [class] standpoint." "If you really feel mistakes have been made, you should make changes in your own position; once changed, it will be fine. In propaganda, since Comrade Wang Ruoshui has studied philosophy, you should express yourself in these terms."

#### Attack "Evil Influences and Forces"

The question of whether to criticize "leftism" or to criticize rightism was resolved this way, and the meeting decided the RENMIN RIBAO formal leadership team issue in the following way: Hold off on its establishment. Lu Ying said at the meeting that he could not go on working, and suggested that Wu Lengxi take over. Zhang Chunqiao chided him saying, "To put Comrade Wu Lengxi in charge now is not realistic. He is in poor health, and he has been out of touch with matters for a while. If he were called back under these circumstances, he would be bound to make mistakes." The prime minister and I agreed to propose the following principle at this meeting: Have more young people do the work. Jiang Qing said, "To find new talent, you have to let them speak; don't be afraid." Zhang Chunqiao said, "Once the rights and wrongs of the criticism of Lin have been sorted out. Once we get through this, the leadership team may come forth." He added with regard to RENMIN RIBAO that the "evil influences and forces" problem had to be solved. Jiang Qing said, "Start with this article and with this page. Start with the Theory Department."

The meeting had lasted a full 5 1/2 hours. It had begun at 8:30 p.m. on the 19th and ended on the following day at 2:00 a.m. When the meeting broke up, everyone shook hands as before. I shook Zhou Enlai's hand firmly and tried to read some indication from his face. However, I found that his countenance had changed, and showed no expression.

This meeting had provided me with a hard-to-obtain opportunity. It had enabled me to observe at close range these high level leaders and the relationship among them. Up until this time I had separated Jiang Qing from

Zhang and Yao, feeling that only Zhang and Yao were bad and completely in accord with each other. It was not until after this meeting that I realized I had thought wrong.

This meeting "rectified" the orientation of struggle at RENMIN RIBAO: Not criticism of Lin but criticism of "evil influences." A storm was on the way.

#### Unintentionally Drawn Into the Vortex of High Level Infighting

Following this meeting, except for taking part in a straightening out meeting where I took notes, made a self-criticism, and listened to the criticism of others, I returned to the Beijing Military Region conference because it had not yet finished.

#### Ji Dengkui Follows Up Quickly

At 2 o'clock on the morning of the 28th, I was awakened out of a dream. It was Ji Dengkui who wanted to speak to me. What surprised me was that he was very polite to me. He said he had not taken part in the Politburo meeting of the 19th because he had other business to attend to. I remember several sentences of what he said to me.

"I read your article, 'Table Philosophy,' and I recommended it to the military units. When the Chairman received me on the 17th, he spoke about you. He said I am acquainted with this comrade. Do you know him? You don't? Well I won't talk to you about him because the Central Committee did not tell me to talk to you about him. Nevertheless the Chairman thinks highly of you."

Actually, Ji Dengkui had revealed at a meeting on the previous day the spirit of Chairman Mao's talk to Politburo members on the 17th. The gist was that it is a problem of form. After the Lin Biao incident, the armed forces felt somewhat gloomy. At that time, the form was a dark mass, but hasn't it become brighter? Another matter was the criticism of Lin. He said that the Lin Biao line was ultra-right. Here he said that he had received a letter from Wang Ruoshui. I know him. He wrote "Table Philosophy." His letter brought up criticism of the ultra-leftist ideological trend, and I think this criticism is not too clever!

ere clearly inconsistent with the words "things highly." I knew that Mao Zedong had a good opinion of me, but that was in the past.)

Later on I received word from elsewhere that Mao Zedong had written a comment on my letter, the gist of which was that the author of "Table Philosophy" was not too clever. According to my information, this was what Mao Zedong had said on the 17th; it was not a written comment. Mao Zedong had probably written on my letter the words, "Have the Politburo handle." This

fitted with Zhou Enlai's statement that we "received your letter; the Chairman approved giving it to us to handle." Anyhow, the criticism, "not too clever" was not that serious. Beyond this, Mao Zedong gave no other specific instructions, and the Politburo had a rather large area of maneuver in handling it. Clearly Zhou Enlai intended to act strictly in accordance with the surface meaning of the words, "not too clever" in saying that mine was a problem of understanding. However, Jiang, Zhang, and Yao wanted to make a big issue out of the letter. Their desire to do so did not lack a basis. In my letter I had referred to criticism of the ultra-leftist ideological line as an expression of my agreement with Premier Zhou's instructions. It was I who Mao Zedong criticized directly; whom did he criticize indirectly?

### Paving the Way For a Successor

The implications of this event came out in a talk that Ji Dengkui and I had on the second day.

At the conclusion on 28 December of a meeting of the Beijing Military Region Party CPC Committee, a reception was held for senior Central Committee cadres. Zhou Enlai, Li Xiannian, Jiang Qing, Zhang Chunqiao, and Yao Wenyuan went and, to everyone's surprise, an additional one, namely Wang Hongwen. In a speech, Ye Jianying raised the successor issue. He said, "the Chairman has talked about successors ever since 1964. Comrade Wang Hongwen, who is present, comes from a poor peasant background; he took part in anti-America aid Korea; he has been a worker; and he is more than 30 years old. The Chairman noticed him long ago, and wanted to bring him along." Zhou Enlai's speech conveyed Mao Zedong's intentions. He said, "Mao Zedong said that foreigners say we are old and should pin our hopes on youth. Actually, there are 'revisionists' among the old. My (Mao's) idea is to make some young people a deputy chairman of the Military Affairs Committee, and a deputy chairman of the Party." Zhou Enlai went on to say, "I say let you prepare your spirits and let you take some shocks to see whether you can stand them. When people get old, they are prone to become conservative and smug, and they may be in for a fall. The Chairman says their age should be between 30 and 40, and they should be of a worker or peasant background." During this time, the eyes of every one in the place was on Wang Hongwen, who was sitting on the rostrum.

Actually, Wang Hongwen did not only want to become deputy chairman of the Military Affairs Committee and deputy chairman of the Party, he wanted to replace Zhou Enlai and be Chairman Mao's successor. In 1975 when Mao criticized the "gang of four," he said the following: "Jiang Qing is ambitious; she would like to become the chairman and have Wang Hongwen become [Military Affairs] Committee chairman. One can guess from these words that the chairman position was being made ready for Wang Hongwen.

### Several Reflections

Continued opposition to the right when everything is already very "left," has occurred many times since founding of the People's Republic. In an overall sense, this situation is illustrated in the former criticism of Peng Dehuai. A later example was the "criticism of Deng." Why is it this way?

I think it is because criticism of "leftism" may generate a series of problems. If the Lin Biao line is ultra-left, is there a Chairman Mao correct line that is opposed to the Lin Biao line? How do these two lines struggle? Was the "Ninth Party Congress" a victory for that line? By these lights, not only may criticism be heaped on Jiang, Zhang, and Yao, but damage may be done to Mao Zedong's banner in this regard, and the "Great Cultural Revolution" may be refuted, but this is something that Jiang, Zhang, and Yao positively could not tolerate, and it is also something that Mao Zedong positively could not tolerate. Even though those who advocate the criticism of "leftism," (such as we) have no such subjective intention at all; nevertheless, the situation may develop according to its own logic and not be changed by individual will. For example, do the mistakes of "omnipotence of spirit," "voluntarism," and "armchair politics" apply only to Lin Biao? Zhao Chunqiao said that "great tumult," "Red Guards rebelling," and "a halt to Party organizational life" were all called for by Chairman Mao, were decided by Chairman Mao, and are not anarchism. He defended them in this way simply because he feared that someone might say this was anarchism, and the reason for his fear was simply that these matters were really anarchism. Were these words his advice to Mao Zedong, or were they Mao Zedong's hint to him. There is no way of knowing, but for Mao Zedong to have such worries would not be strange. The 1975 "criticism of Deng" actually derived from such a motivation. However, Mao Zedong was able to control what happened during his lifetime, but unable to control what happened after his death. The 1981 "Resolution on Party Historical Questions" finally provided a proper conclusion.

The events of 1972 also showed that though the "gang of four" spouted Marxism-Leninism and Mao Zedong Thought, they dealt with people unscrupulously. Though they themselves plainly did not criticize Lin but wanted to criticize Zhou, they turned around and said that you had shifted the orientation of struggle. When they themselves were plainly engaged in splitting activities, they turned around and said that you were sowing discord. There were "never at a loss for a pretext when they wanted to condemn." They would excuse themselves and forget things that they had done and words that they had spoken. Zhang Chunqiao had a famous phrase, "They do the work, and they bear the responsibility, but we find fault." Internal affairs and foreign relations all fell on Premier Zhou's shoulders and on those of a small number of leaders in the State Council, while these few imperial scholars devoted themselves to finding fault,

causing damage, and then placing the blame on others. Matters finally reached the following ridiculous pass: to engage in anarchism does not matter, but opposition to anarchism makes one guilty of the most heinous crime; the ultra-left ideological trend is no problem, only opposition to the ultra-left ideological trend is a serious problem. Opposition to anarchism and the ultra-left ideological trend is to be a rightist; consequently the right must be opposed. By going on in this way, naturally the economy was bound to be destroyed, but at that time they wanted to find fault with their adversaries and bring them down. Past experience poses the following question for our journalism theory: There can be no question that the Party newspaper should accept Party leadership and carry out the instructions of the central authorities, but within the Party there is never a situation of eternally being without differences of opinion. When one central leader instructs one way, and another central leader instructs another way, what is to be done. Who is to be obeyed? Should one trim one's sails to suit the wind, or should one adopt an attitude of responsibility to the people and think for oneself? A situation may also arise in which representatives of an erroneous line or careerists seek to control the Party newspaper. Should one become a pliant tool, or should one conduct a boycott?

History ponders this...

Manuscript completed on 3 March 1988, the eve of Zhou Enlai's 90th birthday.

### **Public Opinion Seen as Effective Way To Keep Government Honest**

40050456 Beijing GONGREN RIBAO in Chinese  
17 Mar 89 p 3

[Article by Qian Lixue 0578 6849 7185: "Welcome and Support Supervision by Public Opinion"]

[Text] An important part of information and propaganda work our party has always encouraged is to use the press, television, and radio to publicize the legal system, promote healthy trends, expose and attack all activities violating law and discipline, and carry out supervision by public opinion. In the past few years, since the party Central Committee issued the call for honesty and against corruption in government, the press units have actively responded, strengthened criticisms and reports, closely cooperated with law and discipline enforcement departments, and played an important role.

In the struggle to keep the government clean and oppose corruption, public opinion has a special supervisory function. It is because in China the media have always been instruments for our party to keep in touch with the masses and channels for the masses to participate in and comment on political affairs. The power of public opinion is the power of the masses of the people, and relying on the masses of the people is the most effective way to fight corruption. Public opinion is also characterized by its openness and transparency. As all ugly things are

afraid of sunlight, all law and discipline violators are afraid of openness. Once their ugly behavior harmful to the interests of the state and people is exposed and published in the newspapers, it becomes known to all the people, and their reputation is ruined. This is why they are "afraid not of circulars, but of newspapers."

It should be pointed out, however, that some comrades do not quite understand this simple truth. Others do understand and even talk about welcoming and supporting supervision by public opinion, but actually they are filled with misgivings, fearing that it may have negative results. It is necessary to analyze some of their fears.

"Open criticism and exposure of violations of law and discipline in the newspapers and magazines could make people lose confidence." This is what some comrades are worried about. In fact, what matters is not whether violations of law and discipline are publicly exposed, but whether the exposures are substantiated by objective facts, and whether the cases are investigated and dealt with. The purpose of supervision by public opinion is to impel solution of the problems. If we use the media to publicly expose violations of law and discipline, dealing with them seriously according to party discipline and national law, people will see that their wishes and the party's determination are turning into concrete actions and that justice is prevailing over evil, and their confidence will grow. If we ignore the facts and fail to publicly expose and seriously deal with the phenomena and activities of corruption because we are afraid, people will still be able to see and feel their existence, and they will be more disappointed and really lose confidence.

"Using the media to publicly criticize and expose violations of law and discipline can bring shame on ourselves." To a very large extent this psychology of a few comrades probably has a close relationship with their ideological concepts and way of thinking. These comrades always try to conceal their problems, thinking that it is the only way to prove their success in work and fearing that exposure will make them lose face. They are somewhat like Lu Xun's Ah Q, who had unsightly head sores and scabs, but resented and feared being pointed out by others. They don't know that concealing one's mistakes can only lead to the development and spreading of the problems, which ultimately will be exposed anyway. If we criticize and expose publicly and in a straightforward manner any phenomenon of corruption and violations of law and discipline in our own units and deal with them seriously and promptly, we will be able to curb unhealthy tendencies, promote healthy ones, improve our work, and hopefully change the outlook of our units. It will not bring shame on our own units, but will win greater respect for them.

"Using the press, television, and radio to publicly expose violations of law and discipline will hurt the interests of our own units." This is yet another worry of the leadership of a few units about supervision by public opinion.

It depends on how you look at it. When corrupt phenomena and activities which have been publicly exposed by the news media are being dealt with, it is only natural that some units will be punished economically. If leaders of the units are personally involved, they too will be called to account. This is what should be done to strictly enforce party discipline, check corruption, and promote honesty. If someone still argues that it hurts the interests of his unit, then this kind of "hurt" to the interests of a small unit of individuals is good for the interests of the party and people as a whole. Every comrade, who is really concerned about the future of the party's cause, should abandon unhesitatingly the narrow individualistic considerations and sincerely welcome and support supervision by public opinion. The same is true with our factories, mines, and enterprises. When an enterprises is involved in corrupt activities and violations of law and discipline exposed by the media, it should not shield its own fault or nitpick, but should get to the bottom of the problem and deal with it seriously according to party

discipline and national law. When an enterprise is not involved in violations of law and discipline exposed and criticized by the media, it should also study the cases, draw lessons from them, and, proceeding from realities, study and explore ways and means to prevent similar problems from occurring and developing.

Our intention is to work through the media to stimulate people's enthusiasm, inspire the masses' confidence, and contribute to improving the economic environment, rectifying the economic order, and keeping the government honest. Criticisms and reports certainly must not go against this general premise and principle. It follows that in using the media to criticize and expose corrupt activities, it is necessary to choose cases which have aroused strong feelings among the masses and which can be solved rather quickly; and in addition to criticizing and exposing, it is also necessary to publish the handling and the results.

## NATIONAL AFFAIRS, POLICY

### Security Company Manager Talks About Capital Market

40060434 Shanghai SHIJIE JINGJI DAobao in Chinese 6 Mar 89 p 4

[By staff reporter Lu Yi 7120 0001: "The Capital Market Is an Important Instrument for Developing a Commodity Economy—Capital Market Has Not Really Been Formed in China Which Basically Has Only Money Market; Soviet Officials Are Calling Together Financial Experts To Carry Out Active Planning and They May Take Bigger Steps Once a Decision Is Made Whereas China Had an Early Start in the Stock Market but Needs a Better National Plan"—Interview with the general manager of the Wanguo Brokerage Company]

[Text] Guan Jinsheng [4619 6855 3932], general manager of the Wanguo Stock Company—China's first local shareholding security enterprise dealing in international securities—in April became the first general manager of China's 34 security companies to visit the United States to investigate the security market.

After learning that he had returned from his U.S. trip, I recently called on him for a long late night interview.

The first thing General Manager Guan told me was that judging from this trip, the personnel of U.S. security circles were very interested in the development of China's security business because this was the first time in 40 years that Chinese security brokers visited the United States. They thought that the establishment of specialized security companies in China showed that the development of security business in China has entered a new phase.

At a reception held by the colleagues of U.S. security circles in honor of General Manager Guan Jinsheng, (?Roderick Hilton), former chairman of the U.S. Security and Exchange Commission, and chairman of the Manchester Group, and Mr (?Doran), president of the Wellington Security Management Company, mentioned that Gorbachev has an ambition to surpass China in building a security market. They said that Soviet officials were calling together all the financial experts to carry out active planning and that they may take bigger steps once a decision is made. They said that the U.S. security circles hoped that China could take the lead in this regard because China's security market had an earlier start. But at present, China does not have a better national plan.

Mr Hilton thought that the Soviet Union makes plans first and implements later while China seems to have pilot units first and then spreads to other units. Both methods have advantages and disadvantages. Since China already has pilot units, it must try to make a

success of this experiment. At present, Shanghai basically has only money markets. Capital markets have not really been formed although it is an important instrument for developing a commodity economy.

Mr Hilton and Doran said that Shanghai used to be the financial center of the Far East and is now China's extensively open city. If Shanghai is interested, they are willing to help Shanghai plan and reorganize a capital market. They made two suggestions. One is that on the invitation of the Wanguo Security Company, the U.S. side may organize relevant experts of developed and developing countries to investigate Shanghai's security market at their own expenses and make suggestions on the design of Shanghai's capital market for the year of 2000. The other is that the U.S. side may work together with the Wanguo company on the design and use American retirement and mutual funds to support Shanghai's shareholding enterprises in raising foreign exchange capital funds.

General Manager Guan told me that as former SEC chairman, Mr Hilton is still the authority of U.S. security circles. His wife has been officially appointed by newly elected President Bush as his trade representative. Through departments concerned, I have verified that a group of U.S.-trained scholars are working vigorously in an attempt to establish a national security center in Beijing. It is reported that the plan has been drawn up and that they are now raising money among students studying in the United States to sponsor a U.S. tour.

When General Manager Guan visited the New York Stock Exchange, Mr (?Leonard), member of the executive board of the New York Stock Exchange, made special arrangements to tour a display room where the stocks of the Shanghai Feiyue Stereo Company were displayed. According to him, some large U.S. security companies, such as Shearson Company, are U.S.-Japanese joint ventures, and four major Japanese security companies allow their subsidiaries to establish joint ventures with foreign countries. He thinks that since the stock of the Wanguo company is controlled by the Shanghai Municipal Investment and Trust Company, it is similar to the Shearson Company, whose stock is controlled by the American Express Company. Judged from the two angles of capital expansion and international connections, the Wanguo company should allow foreign investors to become share holders, he suggested. It is reported that the Wellington Security Management Company and the three large security companies of Merrill Lynch, Shearson, and Goldman have also made similar suggestions.

General Manger Guan told me that as China's one and only specialized security company which is approved by the People's Bank of China to deal in international securities, the Wanguo company should take quick actions to help Shanghai become a national security center. He said that his company will coordinate with

departments concerned to discuss the development orientation and phases of Shanghai's security market and make preliminary proposals on organizing and establishing Shanghai's capital market. In light of its original plan to raise foreign exchange capital fund, the company will use this fund-raising opportunity to directly absorb foreign capital and make the company become a real export-oriented financial enterprise and a link between domestic and foreign security operations. It is understood that the Wanguo Security Company has pro-pounded four plans of implementation. One is to use the mechanism of share-holding enterprise and issue some foreign currency shares in China. Second is to allow the Wanguo Security Company to sell its stocks on foreign stock markets. Third is to absorb direct foreign investment and make the company a joint venture. Fourth is to use foreign investment to establish abroad subsidiaries of the Shanghai Wanguo Security Company. General Manager Guan said: To compare the four plans, the first and second are more standard, but they need corresponding supporting policies. Shenzhen of Guangzhou has reportedly set precedent in this regard. The second and third plans can be carried out under existing law, but they need support of departments concerned.

#### **Economists Discuss Reform Priorities**

40060493 Beijing JINGJIXUE ZHOUBAO in Chinese  
12 Mar 89 p 2

[Forum sponsored by the Academic Department of JINGJIXUE ZHOUBAO: "Middle-Aged and Young Economists of Beijing Earnestly Discuss Social Instability, Insufficient Motive Power for Reform, Inflation, Difficulty of Bank Independence, Orientation of Improvement, Rectification of Financial Order, and Selecting Priorities of Readjustment"]

[Text] *Editor's note: What is the current economic and social situation? What kind of situation would appear if our current situation continued to develop? Is there any way to extricate ourselves from the predicaments already evident? All these issues are closely followed by all circles of society. At a recent gathering in Beijing, middle-aged and young economists expressed their own views.*

**Yang Guangsan [2254 0385 0005] of the Political Structure Reform Research Institute:** In the past few years I have analyzed and studied the data of 30-plus social surveys and come to two basic conclusions on the current social situation. One is that social environment may enter a period of growing instability. Second is that the reform now lacks motive power.

The first conclusion is based mainly on the data analysis of social psychological surveys conducted between 1987 and now. The analysis includes the following characteristics: 1) Discontent has grown. A continuous survey of the past 2 years shows that 43 of 48 indexes of social contentment indicate a falling trend. What is especially noteworthy is that a considerable number of people surveyed have given a much lower evaluation of the

reform. People have begun to attribute their discontent to the reform. 2) In the past 2 years, people's expectations of the benefits of reform have continued to increase while the subjective appraisal of their actual living standards continued to decline, causing the contrast to become sharper and sharper. 3) The sense of relative deprivation is spreading quickly among all strata of society. At present, the most typical psychological case is that people in every stratum of society all think that they have been shortchanged in the reform. Everybody thinks that he or she is the one who has gotten the worst of it and everyone else has benefited. 4) The sense of relative deprivation has resulted in the sense of unfairness and the disorder of society, forming a vicious circle.

In addition, this year has several factors that may cause social instability. 1) Price increase. There is an essential difference between this year and previous years. In the past, price increases were accompanied by wage increases, which served as a great psychological balance. This year, price increases may not be accompanied by wage increases, which is more likely to cause social instability. 2) The investment reduction of this year, especially capital construction reduction, may cause more workers to lose their jobs. A great many common laborers may become unemployed, and 15 million construction workers may be underemployed. It is obvious that we cannot send large numbers of workers to rural areas like in the early 1960's. These unemployed and underemployed people will stay in urban areas and become a major cause of social instability. 3) The food crisis and its consequences may cause social instability in urban areas.

The only permanent solution to all these problems is to deepen the reform and readjust the whole social and economic structure. This happens to be another major problem we are now facing. It is also our second conclusion that the reform now lacks motive power. This does not refer to the demand and desire for the reform. It refers to the social force that actually drives the reform forward. Such a force depends on the upper and lower levels—namely the decision-making level and different interest groups. But after studying large amounts of investigation data and comparing different interest groups, we have discovered that currently there is no beneficiary of in-depth reform. Many comrades attribute the great initial success of the rural reform to the ready-made beneficiary in rural areas—peasants. It was peasants who first set forth the demand for the household production contract system and volunteered to implement it, thus starting the prelude to the rural reform. The past 10 years of urban reform, especially the impending in-depth reform, does not have a ready-made beneficiary to push the reform. In the 10 years of reform, the enthusiasm of urban residents for the reform was aroused mainly through power delegation, profit concession, and extensive social mobilization. The support of urban residents for the reform was exchanged with power delegation and profit concession. Now things have changed drastically. Now the motive of gaining

greater benefits through the reform is growing even stronger among state employees. This point has been proved by the research of many economists and sociologists. In a modern industrial society, the basic driving force behind social development is nothing but the motive of the people to repeatedly ask for higher income. The analysis of data shows that the Chinese people do have such a motive. But under the current situation, this motive reflects serious distortion. Instead of turning into a motive power for further reform, it has become an obstacle to further reform.

The main causes for the lack of beneficiary of further reform are as follows: 1) The 10 years of reform have not changed the way urban residents get their benefits, still through the old form of distribution. 2) After the 10 years of reform, some new interest relations have been formed, which hinder the emergence of a new reform beneficiary. 3) The mutual restrictions and demands of different interest groups have offset each other. 4) The urban reform is viewed as a whole and rural and urban areas have obviously different forms of property rights. Rural areas practice collective ownership, under which peasants can initiate the reform in relatively small units. But since urban areas have to face the state ownership and the whole country, it is very difficult to find a breach.

In conclusion, I should emphatically point out that this situation is not unique in China. Many other socialist countries have all encountered the same problem of lacking the beneficiary, who can push reform forward, in the course of their reforms.

**Wu Xiaoling [0702 0879 7227] of JINRONG SHIBAO:** The most direct cause of current inflation is the oversupply of money. Technically speaking, the central bank can stop the oversupply of money. Repeated retrenchments have proved that the bank has this ability. But the bank cannot solve a series of economic problems resulted from such a measure. The principle of overall control, structural readjustment, and timely regulation set forth by the people's bank is correct. But problems encountered during the implementation of this principle cannot be resolved by the central bank itself.

Two key issues are worth noticing in current retrenchment. One is that the government must concentrate on readjusting industrial structure. Under the precondition that it cannot waver when tightening the money supply, the government must not just watch the bank. Second is that the government should not interfere with the operational measures of the central bank. The duty of the central bank is to draw up a monetary policy, loose or tight, according to the wish of the government. Whether or not a monetary policy is tight or loose is relative to the expected economic growth rate. The amount of cash supply is not determined by the bank because when loans are released, they will become deposits and cash. Whether or not enterprises are willing to pay in cash or through account transfer depends on the convenience of

the means of account settlement of the bank. If the cash supply is stifled, other supervision measures of the state lag behind, and all social supervision functions are forced onto the bank, enterprises would avoid the bank. Currently, not only individuals engage in cash transactions but state enterprises are also involved in a big way. A large amount of cash circulate outside the bank. This is exactly because the bank has been forced to perform functions which have nothing to do with the bank.

I think that we have indeed encountered some difficulties in current structural readjustment. 1) The contradiction between local and central treasuries and between local and national interests. Since the separated management of local and national treasuries, small enterprises under the control of local governments have all become the money bags of local governments. The only way to implement the central policy of structural readjustment in local areas is to kill one and save the rest. Which one should we kill? We should kill large enterprises under the direct control of the central government and save small local enterprises. 2) Our judgement of township enterprises. What have we really achieved and failed by developing township enterprises in the past few years in terms of the national economy as a whole? It is about time that the whole nation take a serious look at this issue. In spite of all the great achievements made by township enterprises in the past few years, I think they have three major problems: 1) The returns on natural resources are relatively low. 2) The instant prosperity of peasants has put great pressure on the urban reform and drastically raised the expectation of urban residents for the benefits that the reform might bring. At the same time, it has made many rural residents unwilling to engage in farming. 3) We have lost, to a large degree, control over the capital distribution system. Originally, the financial department had control over the direction of investment. Later the state bank controlled the direction of loans. Now state finance has weakened and is unable to control the direction of investment. The circulation of large amounts of currency outside the system has also made it very difficult for the bank to control the direction of investment and carry out the task of structural readjustment. This has resulted in the control of materials. But this practice runs counter to the direction of the reform. 3) There is a social stability issue. To carry out readjustment, we should let some enterprises die and others live. If we let every one live, no one can live well. But letting some enterprises die can cause the problem of social stability.

To go forward, we have to solve these three problems. To back off, we can further loosen the supply of money and use inflation to cover up these contradictions. But the latter can cause runaway inflation and make the government lose all its credibility.

I think that China's economic strength is completely able to withstand this readjustment but we should be determined in five areas in curbing inflation. 1) The central government must not waver in curbing inflation. 2) We

must spend time and efforts on property rights and create a new beneficiary. Property rights reform is a must. 3) Price reform must be carried out. To create a new beneficiary, we must have correct the market signal system. 4) The state apparatus should be strengthened. Otherwise, nobody would implement the measures set forth by the state. 5) We should quicken the step in establishing the social security system.

**Gong Zheming [1362 4192 6900] of the People's Bank of China:** It is necessary to correct the direction of readjustment and rectify financial order. The current readjustment is justified, but the guiding principles and methods of readjustment need to be restudied. There are mainly two problems. One is that some measures, such as the cash control plan, are ineffectual. The other is that purely administrative orders and measures are too severe.

To guarantee cash withdrawal, we should first guarantee payment. Currently the cash issue is very prominent mainly because banks cannot guarantee payment. Customers deposit their money in the bank, but the bank cannot guarantee payment when they need the money. Because of the cash control plan, the bank knows when it is near the limit of the cash control plan. The consequence of this practice is that customers will become unwilling to deposit their money in the bank. The method of the cash plan cannot reverse the current situation of excessive cash supply. In fact, to control cash, we should first guarantee payment and ample supply of cash. Only when there is an ample supply of cash can we withdraw currency from circulation. This is dialectics.

We must change the method of controlling through banks the management of consumption funds. The state demands that the consumption funds be controlled under the level of August 1988 and has assigned this task to banks. Specialized banks are enterprises, so they cannot perform this function. The central bank can, but it does not have access to the accounts of enterprises, so it cannot either. If we ask specialized banks to perform this function, it would be like ruining their reputation. If enterprises cannot use the money they deposited in the bank without repeated screening by the bank, the bank would lose its credibility.

We should change the dual-track funding system. The dual-track funding system has two problems. One is that the interest rates of deposits and loans are reversed. The other is that the gap between favorable and unfavorable interest rates has been widened. The dual-track funding system is much more difficult to carry out than the dual-track steel product system. The state can control a dozen large iron and steel enterprises but cannot control funds because they are scattered among millions of households. Because of this, the dual-track funding system does not work, and the banking system is not enthusiastic about it. First, rural credit cooperatives and agricultural banks have very little deposits from state

enterprises. Their deposits are composed mainly of special farm and sideline funds and personal deposits. Personal deposits bear high interest. We ask the agricultural banking system to grant low-interest loans for the procurement of farm products, but nobody is responsible for the losses resulting from such practices. This has made credit cooperatives reluctant to accept deposits. As a result, they have to issue more money and grant fewer loans; otherwise, they would not be able to handle the procurement of farm products. Therefore, problems caused by the dual-track funding system are quite serious.

We should clarify the guiding principles of the reform and readjustment. There is a superstition that the market economy is supposed to be disorderly and only the planned economy can bring about economic order. The fact is just the opposite. There is only one way to improve the order; that is to use the methods of commodity economy to improve and rectify and resolutely discard administrative means and the methods of planned economy.

The main orientation of readjustment should be clear. Readjustment must not be carried out without orientation. Currently, the processing industry, capital construction, foreign trade, and consumption are overheated and agriculture is overly depressed. Therefore the orientation of readjustment should be to guarantee agriculture. But many current measures are doing just the opposite. Our thoughts of readjustment should be clear. For instance, we should cancel agricultural tax and shift it to township enterprises to use the funds of township enterprises to guarantee agricultural production. The funds of urban areas should be tightened slightly to guarantee the procurement of farm products.

Every major problem we have had is about agriculture. Judged from all socialist countries, the planned economy cannot be considered as failure in industry, but it is a total failure in agriculture. We must realize this fact.

**Wang Jian [3769 1696] of the Research Institute of Planned Economy:** What are the priority choices of readjustment?

How to choose the priorities of economic readjustment is a crucial issue at present. Further agricultural development forbids continuous use of traditional production methods and demands for modernized production methods, which requires more industrial input. Therefore, the key to the solution of this problem is in industry. The crux of industrial problems is basic industries. Therefore, the focus should be placed on basic industries. However in the past few years, many policy choices have not been made according to this principle. This is because of the pressure of social demand for consumer goods. The pressure of consumption demand is caused by a slant in the preliminary distribution of national income which again contributes to a slant in the redistribution, thereby distorting the structure of demand.

Because of this, we should first readjust the structures of demand and income distribution. Only when the supply structure matches the demand structure can structural change become a natural process; otherwise, structural change would inevitably run into great contradictions. In the past I suggested that we use the method of great international economic circle to link up agricultural and industrial relations, which is actually solving the problem of incoordination between the supply of resources and the structure of existing industries in China. At present, we should first raise the financial accumulation rate and solve agricultural problems by developing basic industries. Judged from long run, agricultural problems cannot be solved by relying on China itself because China's agricultural resources are very scarce. The problem of grain supply can be solved only through industrial development and the transformation of the international market. In addition, one way to combine the rural reform with the solution of the grain problem is the reform of the property right system. If we can realize the private ownership of land, we can ask peasants to pay for the sale of land, namely land prices, in the form of grain delivery to the state. In short, before basic industries are developed, we cannot make large investments in agriculture, so we may have to give more consideration to system-related factors. In coastal areas, we should continue to speed up export-oriented development. Otherwise, if we fail to direct toward the international market enterprises which have already established production capacity and are looking for markets and raw materials, they may interfere with the movement and readjustment of the national economy. We need to hold back the development of township enterprises. Growth rate should be reduced except for areas capable of developing the export-oriented economy. Resources saved by restricting some township enterprises may be used for basic industries.

The reform has now entered a critical period, and it is a fact that the situation is tense. But since we have not come to the point where economic growth is negative and the household consumption level is declining and since our economy is still growing, we still have the opportunity to make the final choice and readjustment. In short, the issue of priority choices of readjustment is an extremely critical issue in our improvement and readjustment. We should look for opportunities in crises. We should seize the former to overcome the latter.

## PROVINCIAL

### Tax Evasion 'Serious' Among Shanghai's Commerce

40060505a Shanghai JIEFANG RIBAO in Chinese  
13 Mar 89 p 1

[Article by Wu Dawei 0702 1129 1218: "Tax Evasion Is Serious Among Shanghai's Individual Households—A Crash Investigation Levies Over 700,000 Yuan of Late Fines"]

[Text] Coordinated with procuratorial, industrial, and commercial departments, tax organs at all districts and

counties of Shanghai recently sent 500-plus cadres to carry out a crash investigation among nearly 1,000 individual industrial and commercial households and levied over 700,000 yuan of late fines. Currently, the in-depth anti-tax evasion and resistance struggle is entering a new phase in Shanghai Municipality.

Major problems discovered in this crash investigation are: 1) The tax evasion is very common among booth leasers. For instance, the crash investigation carried out on 2 March in the Zhabei District revealed that all individual managers of the 60-plus booths of four department stores, including Xinxin Department Store, had evaded taxes and that over 100,000 yuan of late fines were collected on the spot according to law. 2) The phenomenon of evading taxes by not issuing receipts is quite serious among individually-run restaurants. Repeated crash investigations of restaurants in Nanshi, Xuhui, Jingan, and Jiading districts and counties revealed that over 60 percent of the restaurants investigated were caught on the spot for not issuing receipts. According to the relevant regulations of the "National Temporary Provisions on Receipt Control," a heavy fine of about 200 yuan will be imposed for failing to issue all receipts. The Xinghe Restaurant in the Xuhui District was fined as much as 500 yuan in one incident. 3) The phenomenon of individual households assuming the name of collective to evade taxes is serious. For instance, the crash investigation of the Huangpu District revealed that several people, who quit their jobs and rent a sales booth in the name of an out-of-town township enterprise to sell electronics and hardware, had evaded a total of several 100,000 yuan in taxes. It has been handled as a major case by the tax department.

Relevant personnel of the municipal tax and procuratorial organs said that such crash investigations have effectively rectified tax order and encouraged individual households to run businesses according to law. They said it is an effective measure to implement the municipal government's call for stronger tax control and will be carried out as a long-term regular practice throughout the municipality.

### Shanxi Supports Shanghai's Economic Development

40060505b Shanghai JIEFANG RIBAO in Chinese  
14 Mar 89 p 3

[By staff reporter Di Wutong 4574 0063 0681: "Wang Maolin, Deputy Secretary of the Shanxi Provincial CPC Committee, Told JIEFANG RIBAO Reporter That Shanxi Is the 'Rear Area' of Coastal Areas and Welcomes Shanghai To Further Develop Coordination With Shanxi"]

[Text] During an interview with JIEFANG RIBAO reporters, Wang Maolin [3769 5399 2651], deputy secretary of the Shanxi Provincial CPC Committee, said:

"Shanxi Province is the 'rear area' of coastal areas. We should supply more energy resources and raw materials for coastal economic development. This is our unshirkable responsibility."

Wang Maolin came to Shanghai to attend the Pacific Regional Urban Seminar as the vice chairman of the Chinese Urban Economic Society. This high-level economist told reporters that the coastal economy is the "economic pillar" of our country. The central government calls for the implementation of the coastal development strategy because it wants to gradually push the coastal areas to the export-oriented economy, to fully use the human resources of coastal areas, and to enable 100 to 200 million people to rely mainly on and participate in the international market competition. At the same time, advanced international technology should be assimilated through the coastal areas and then spread to other parts of the country to give impetus to national development. This would be very helpful to China's economic development as a whole.

He said that Shanxi Province is a large province with energy, raw materials, and heavy chemical and rough processing resources. It is reported that Guangdong, Fujian, Shanghai, and Jiangsu have established a group of sizable aluminum product processing enterprises which were designed to process aluminum imported from foreign countries. Due to the influence of the international market, most plants lack aluminum and only 40 percent are in operation. Shanxi Province has rich aluminum mines waiting to be exploited. Their deposits rank first in the country. It is completely possible to establish a production system from mining to smelting and processing. Shanxi Province also has large deposits of limestone and plaster stone. We may invest in establishing cement plants. We welcome Shanghai to strengthen coordination with Shanxi Province.

Comrade Wang Maolin continued by saying that Shanghai has made great contributions to the nation and provided "all-round" support for Shanxi Province. I urged Shanxi to learn from Shanghai's advanced experience because it is more direct, concrete, and practical than learning from foreign experiences. We have calculated that if Shanxi can get close to or reach the level of its counterparts in Shanghai, Shanxi's output value, profit delivery, and tax will double. Facts have proved this. The Taiyuan Light Bulb Plant has become an advanced enterprise in Shanxi thanks to the selfless assistance and "personal" instructions its plant director, engineers, technicians, and workers have received from the Shanghai Yaming Light Bulb Plant. During the mutual emulation and assistance program carried out by the Changzhi and the Shanghai Xiechang sewing machine plants, Shanghai master workers helped solve 24 critical problems concerning working procedure and enabled the Changzhi plant to win first place in the quality competition of northern China.

In conclusion, Wang Maolin said that inland areas support coastal areas by supplying resources, and coastal areas bring us technological and managerial information. Export-oriented economic development in coastal areas is bound to boost similar development in inland areas. Therefore, when we implement the coastal development strategy, we should advocate the spirit of "mutual support, cooperation, unified planning with due consideration for all concerned, and profit sharing" between coastal and inland areas and between the provinces and cities of processing and the provinces of resources. This would enable us to further develop the advantage of integration.

### **Shanghai To Transform High-Energy-Consumption Industries**

*40060505c Shanghai JIEFANG RIBAO in Chinese  
27 Mar 89 p 5*

[Article by Zhu Jinhai 2612 6855 3189 and Xu Yuanhua 1776 0337 5478: "Shanghai Needs To Gradually Transform and Transfer High-Energy-Consumption Industries—Prospects for Extensive Operations Are Dim and Structural Imbalance Sees No End of Trouble for the Future"]

[Text] Shanghai is a famous metropolis of the world. For a long time since the founding of the PRC, Shanghai's industry has taken the road of extensive operations, slanting especially toward the development of high-energy-consumption industries. But Shanghai is a city without energy resources and its urban areas have limited space. The slanted development of high-energy-consumption industries has seriously tilted the internal balance of Shanghai's industries and created a series of sharp social and economic contradictions.

Therefore, to ensure that Shanghai's economy follows the road of coordinated development, we must earnestly readjust internal industrial structure and be determined to transform and transfer high-energy-consumption industries while vigorously developing tertiary industries.

### **High-Energy-Consumption Industries Still Needs To Be Developed**

High-energy-consumption industries in this article refer mainly to 13 industrial departments whose energy consumption per output value is higher than the average energy consumption per output value of Shanghai Municipality. They are electric power, gas production and supply, ferrous metal, coking, cement production, brick and lime production, glass and glassware, petroleum processing, chemical fertilizer, basic chemical and raw materials, synthetic materials, chemical fiber, and papermaking industries. In 1987, the total industrial output value of these 13 major industries accounted for 17.9 percent of Shanghai's total industrial output value. But their energy consumption ratio was as high as 65 percent, and their energy consumption per 10,000 yuan

of output value was 8.43 tons, 2.57 fold higher than Shanghai's industrial average. Currently, about 60 percent of "the three wastes" produced by Shanghai's industries are also concentrated in these 13 major industries.

Among the 13 major high-energy-consumption industries, the two energy industries of electric power and gas production and supply are indispensable to the development and civilization of all cities. At present, these two major industrial departments are still the "bottleneck" of Shanghai's economic and social development. Judged from either a practical or developmental point of view, they should be developed substantially in the future instead of being controlled. Judged by the degree of energy consumption and the "three wastes" pollution, the remaining 11 major industries should be in principle transformed, readjusted, and transferred. Judged from relevant factors, the situations of these 11 major industries are very different, so they need to be analyzed specifically and respectively.

1. Analysis based on the factor of economic returns. In 1987, the average profit delivery and tax created with each ton of energy consumption by Shanghai's industries was 897.2 yuan, but none of the 11 major high-energy-consumption industries could surpass this level. However, judged by other economic indexes, many high-energy-consumption industries belong to high efficiency departments. In 1987, the average amount of profit delivery and tax created from each 100 industrial output value was 29.91 yuan in Shanghai, and the average of the 11 major high-energy-consumption industries reached 28.64 yuan, 20 percent higher than the city's average. Five of the high-energy-consumption industries—crude oil processing, coking, basic chemical and raw materials, chemical fiber, and cement—surpassed the city's average by 41.6 to 116.4 percent. During the same period, the average profit delivery and tax created from 100 yuan of investment was 33.68 yuan in Shanghai's industries, and the average of the 11 high-energy-consumption industries was 22.69 yuan, 33 percent lower than the city's average. Five of the high-energy-consumption industries surpassed the city's average by 62.88 to 276.58 percent. Papermaking, crude oil processing, coking, basic chemical and raw materials, and synthetic materials industries surpassed the city's average in both of these two efficiency indexes.

2. Analysis based on the factor of exports and foreign exchange earnings. In 1987, the average export ratio of Shanghai's industrial output value was 15.25 percent, and the average of the 11 high-energy-consumption industries was only 4.54 percent. However, at present 46.2 percent of Shanghai's industrial products are concentrated in the textile industry. If the textile industry is deleted from this, the export ratio of other industries would only be 9.94 percent whereas the export ratios of three major high-energy-consumption industries of papermaking, crude oil processing, and glass would be 14.43, 15.02, and 13.82 percent respectively. The export ratios of these three industries may be lower than that of

the textile industry, but they are much higher than other industries. Besides, judged from the developmental point of view, these industries have greater potential in exports and foreign exchange earnings.

3. Consideration based on the needs of Shanghai's economic development. The basic chemical and raw materials industry is an industrial department that supplies raw and semi-finished materials to the entire chemical industry and other industrial departments. Sulphur, caustic soda, and sodium carbonate supplied by Shanghai's basic chemical and raw materials industry are consumed basically by Shanghai's industries. These products are still in short supply in China. The net imports of sulphur and caustic soda were respectively 304,900 and 853,400 tons in 1987.

4. Consideration based on the needs of national economic development. Currently, China has a shortage of raw materials for all industries. What needs to be pointed out here is the iron and steel industry. China imports about 20 million tons of iron and steel annually, accounting for a third of the national consumption. The iron and steel industry is an industry China still needs to develop vigorously, so it is impossible for Shanghai to transfer its iron and steel industry to other areas in the near or foreseeable future. The coking industry is a supporting industry for the iron and steel industry, and 75 percent of its products are used by Shanghai's iron and steel industry. So the trend of coking industry is determined mainly by the development of the iron and steel industry.

This shows that different degrees of contradictions exist between the transfer of Shanghai's 11 major high-energy-consumption industries and economic returns, exports and foreign exchange earnings, and the balanced development of the entire economy. These contradictions must be properly handled in the course of transfer.

#### **The Direction and Means of Transfer of High-Energy-Consumption Industries**

1. We must be determined to transfer some products out of the city.

A. High-energy-consumption industries are suitable to be transferred to energy-producing areas or areas with easy access to abundant energy resources. This can reduce the energy consumption of Shanghai's industries and substantially lighten the burden of the communications and transportation system and reduced the cost of transportation. These products mainly include synthetic ammonia (chemical fertilizer), calcium carbide, and alloy iron.

B. High-energy-consumption industries are suitable to be transferred to the neighboring areas of Shanghai where communications are convenient. Judged from the cost of transportation, it is cheaper to ship in energy resources

to produce high-energy-consumption products in Shanghai than directly ship in products from energy-producing areas. However, judged from energy efficiency and the pollution of the "three wastes," such products are by no means suitable to be developed in Shanghai. If we transfer such products to Shanghai's neighboring areas such as Jiangsu, Zhejiang, and Anhui, it would not create pressure on communications and transportation, but it could achieve the purposes of reducing energy consumption and the "three wastes" pollution. Such products mainly include cement, brick, and lime.

2. We should readjust industrial distribution and transfer some high-energy-consumption industries to concentrated suburban industrial districts.

A. The iron and steel industry should be concentrated in the Wusong Industrial District. Currently, metallurgical industrial enterprises are scattered over an area of nearly 100 square km in the southeast and northwest districts of the city. They operate under a crisscross, overlapped production coordination system based on sectional production and multi-level transportation systems. The distribution is extremely irrational. Since at present Shanghai's iron and steel industry cannot be transferred out of the city, we should be determined to move them all to the Wusong District and form a new coordinated and complete iron and steel industrial district there. What needs to be pointed out particularly is that the relocation and transformation of urban iron and steel industry must be combined with the building of the Baoshan Iron and Steel Company to make full use of the company's pig iron resources and form a continuous casting and rolling technological process. This not only can spare Shanghai's local industries from building new blast furnaces but also can solve the problem of having to melt iron twice for some steel plants, thereby substantially increasing the use efficiency of energy resources.

B. Papermaking and basic chemical industries should be all moved to industrial districts where the "three wastes" can be easily disposed of. Shanghai's papermaking industry has good economic returns and is vital to exports and foreign exchange earnings. It also boasts a wide variety, assorted designs, and excellent quality of products. No other area of the country can compare to this. The basic chemical and raw materials industry has a very close relation to the entire chemical industry itself and the light and textile industries. It is impossible to transfer these two major industrial departments to other areas in the near future. But due to the excessive amount of "three wastes" pollution, it is not suitable to leave them in the city. Therefore, they need to be moved as soon as possible to suburban areas where pollutant can be better disposed of, especially coastal industrial districts.

C. Some products may be transformed locally to increase their added-value.

High-energy-consumption industries which produce less "three wastes" pollution, have no effect on the environment, are vital to Shanghai's economic development, and cannot be transferred, such as synthetic materials and chemical fibers, may be transformed locally to improve quality and upgrade products, thereby significantly increasing the added-value rate and reducing the energy consumption rate for each unit of output value. Currently, engineering plastics, synthetic rubber, and chemical fiber monomer industries lag far behind the advanced international level in quality and variety and cannot meet the needs of the rapid development of Shanghai's light and textile industries. Therefore, they should be transformed with concentrated efforts to push their products to a new level.

In short, if the plans and means of transformation and transfer are selected in accordance with the different characteristics of Shanghai's high-energy-consumption industries, the transformation and transfer would have no detrimental effect on the economy as a whole.

#### Corresponding Supplementary Policies and Measures Are Needed

Under the current conditions of China's economic development, overall raw material shortage, and growing domestic market demand, it is very difficult to transfer Shanghai's high-energy-consumption industries. So we must adopt a series of coordinated policies and measures to encourage and promote their gradual transformation and transfer.

1. Adopt differential energy transportation taxes. Currently, the state levies 15 percent of energy transportation taxes on enterprises. This practice has concentrated a certain amount of funds but has failed to perform the function of tax lever. Therefore, we should proceed from the actual needs of the transfer of Shanghai's high-energy-consumption industries and of industrial structural readjustment to implement a new differential energy transportation tax policy. The principle is to set different tax rates according to different circumstances and district locations under the precondition of not changing the total amount of energy transportation taxes. Higher energy transportation taxes should be levied on those enterprises whose energy and material consumptions are high, especially those whose consumption is above their quotas. Lower energy transportation taxes should be levied on those enterprises whose energy and material consumption is low, whose energy-saving efficiency is high, and whose transportation volume is small. What needs special attention here is higher energy transportation taxes should be levied especially on those high-energy-consumption enterprises in the downtown area; lower energy transportation taxes may be levied on those enterprises which have moved to suburban areas or new industrial districts. Making full use of this lever and implementing the new energy transportation tax policy not only is conducive to the transfer and transformation

of Shanghai's high-energy-consumption industries and industrial structural readjustment but also can promote the rationalization of Shanghai's industrial distribution.

2. Adopt a severe, differential penalty system for the "three wastes" pollution. The collection and refund of waste discharge fees should be handled differently according to different circumstances. Waste discharge fees may be included in the cost of production provided that the enterprise meets the national waste discharge standards. If the enterprise does not meet the national standards and fails to correct its problem within a given period, a fine will be levied according to regulations in addition to extra waste discharge fees. The penalty system should be differentiated according to circumstances.

3. Abolish the irrational preferential price system. Currently, many Shanghai high-energy-consumption products still enjoy very favorable treatment. This is very unfavorable to Shanghai's industries taking the road of intensive development.

4. The departments concerned should vigorously support high-energy-consumption industrial enterprises in developing low-energy-consumption and high-tech products. Those high-energy-consumption enterprises whose production capacity needs to be transferred to other areas, in particular, must develop low-energy-consumption and high-tech products in the course of transfer. Only by so doing can we gradually replace high-energy-consumption products with low-energy-consumption products.

5. Vigorously open up fund-raising channels for high-energy-consumption enterprises moving to suburban areas. The funding issue is one of the major problems facing high-energy-consumption industries moving to suburban areas. Because enterprises moving to suburban areas have very limited free funds, we must increase the percentage of funds retained by enterprises and open up a variety of centralized channels. 1) High-energy-consumption industrial enterprises moving to suburban areas may be allowed to collect transfer fees for their original sites. 2) A special depreciation system may be adopted for the old equipment of high-energy-consumption industrial enterprises moving to suburban areas. Under this system, old equipment may be depreciated within 5 years or so, and the depreciation rate may be raised to around 20 percent. This can help increase the free funds of moving enterprises and accelerate their technological advances.

## FINANCE

### Shanghai's Money Supply Shortage Discussed

40060517 Shanghai JIEFANG RIBAO in Chinese  
13 Mar 89 p 5

[Article by Cao Zhihu 2580 0037 5706: "How Can Shanghai's Economy, Which Has Entered the 'Year of Money,' Clamber Out of the Money Trap—An Analysis of Monetary Conditions and Policy Suggestions To Deal With Monetary Problems"—first paragraph is source-supplied introduction]

[Text] *If, for Shanghai's economy, 1988 was the "year of raw materials," then 1989 may be called the "year of*

*money." Industrial and commercial enterprises have nowhere to go for funds or loans, and financial enterprises' fund controls are not working. Like the rest of the country, Shanghai, confronted with an interrelationship between economic growth, inflation, and money supply, seems to have entered a "Bermuda triangle." The top priority for Shanghai's economy is to clamber out of the money trap as quickly as possible.*

After the 3d Plenary Session of the 11th Central Committee, Shanghai gradually shifted from traditional product economy to planned market economy, the financial system has played an increasingly greater role, and the economy is becoming ever more monetarized. The most salient feature of this period is that money no longer serves merely as a unit of account but has emerged as a stimulus to economic growth and now governs output volume and mix. For example, whereas from 1981 to 1983 growth in loans extended by Shanghai banks was consistently below four percent, and growth in gross value of industrial and agricultural output [GVIAO] was always less than 5 percent. In 1984 and 1985 bank loans rebounded to 13 and 27 percent, and GVIAO expanded by 12 and 20 percent, respectively. Clearly, before 1985, money supply-demand conditions were basically consistent with economic growth in Shanghai.

### Money Supply and the Leakage Trap

Nevertheless, after 1985 a fundamental change occurred in the positive, proportionate relationship obtained between bank credit and economic growth: As bank credit expanded, GVIAO growth slowed. Expansion in bank credit outstripped GVIAO growth by more than 30 percentage points in 1986, by 12 percentage points in 1987, and by 15 percentage points in the first 8 months of 1988, when the money supply was tightened. The negative relationship between credit and GVIAO growth has stimulated demand for money and exacerbated the contradiction between supply of and demand for currency.

The fact that money is losing its stimulative effect as its supply grows indicates that leakage is occurring in monetary circulation, the largest outflow occurring in the following three ways. (1) Cost leakage. Since 1985, the rise in total production costs has vastly outstripped GVIAO growth, with raw material costs exceeding growth in output value, wages exceeding raw material costs, and expenditures outstripping wages. (2) Profit leakage. There are three channels by which this occurs: increases in costs, especially for raw materials; the various abnormal profit returns, give backs, and kickbacks that occur in commodity and produce dealings; and illegal retention of profits, such as petty cash holdings. (3) Investment leakage. This occurs largely through declines in returns on investment in various raw material commodity bases outside the municipality undertaken by Shanghai enterprises and investment units, through enterprise loan diversions, and by fund precipitation outside the realm of circulation. These leakages divert

Shanghai's funds into raw material bases or into the hands of small groups or of individuals for consumption purposes, diminish the transparency of money supply, and steadily reduce the contribution of money supply toward economic growth.

### Money Circulation and the Stockpiling Trap

After the financial system was reformed, as regional money supply was placed under the control of the plan for aggregate credit volume set by the central People's Bank, specialized bank loan volume came to be determined by the amount and mix of the deposits the banks attract. In the past few years, the Shanghai financial system generally had more deposits than loans. Specifically, the growth in enterprise deposits exceeded the growth in enterprise working capital loans, the growth in urban and rural savings exceeded the growth in enterprise deposits, the growth in bank cash receipts exceeded the growth in bank cash outlays, and the growth in net currency recovery exceeded the growth in cash outlays. For example, in 1987, growth in bank system deposits exceeded loans by one percent. Specifically, the growth in enterprise deposits exceeded growth in loans for working capital by two percent; municipality-wide, growth in deposits and loans by 14 percent; and the growth in currency recovery was 1 and 2 percent higher than the growth in cash outlays and receipts, respectively.

However, since the beginning of 1988, conditions have rapidly deteriorated. Enterprise and resident savings have sharply declined, while loans have continued to rise, and currency recovery showed one of the sharpest negative growths in history—even at the end of the year it still stood at a low of -28 percent. The increase in expenditures, the decline in currency recovery, the rise in loans, and the drop in deposits have exacerbated contradictions between fund supply and demand, creating a vicious circle in which money supply gets tighter as demand for money grows.

The reverse gap between income and expenditure and savings and loans indicates that much of the currency in circulation has precipitated and that Shanghai thus has fallen into the trap of "stockpiling," which occurs in two ways. The first is enterprise stockpiling. In the past several years, expectations of large price increases for raw materials have driven enterprises, even as their revenues decline, to increase raw material procurement. And the policy of negative interest rates, which has long been pursued, has given enterprises incentive to hoard raw materials. The second is resident stockpiling, which largely results from inflationary expectations. Residents greatly prefer to hold cash and commonly withdraw money from banks to snap up goods, which they store or consume before they really need or want them. Price expectations and the stockpiling trap have made it much more difficult for funds to work properly and have made money movement itself more complicated.

### Money and the Debt Trap

Shanghai is the largest financial center in the country and has a long history of and abundant experience with financial organization and management. With the advance of economic restructuring during the past few years especially, all kinds of financial institutions have been established; short-term financing is steadily expanding; in the area of long-term financing, several thousand enterprises have issued stocks and bonds, secondary markets have been established and improved, and foreign exchange markets, where the three kinds of foreign-owned enterprises can adjust their foreign exchange holdings, have played a very big role. It is fair to say that the development of financial markets and the expansion in the variety of credit vehicles available are major contributors to the benign cycle that has arisen between money and economic growth in Shanghai.

Nevertheless, the growth and development of financial markets that break through vertical and horizontal fragmentation have been accompanied by the problem of unbalanced development between banks and nonbank financial institutions and other problems caused by the leakage and stockpiling traps that plague regions, sectors, and enterprises. Especially after the central authorities started tightening the money supply, fund dispersion and the reduction in money supply capacity caused enterprise stockpiling to increase and bank credit to dry up, and funds that were supposed to be collected were not, and those that were supposed to be paid out were not. The principal credit vehicles employed in financial operations have been eclipsed by cash, which everyone wants to trade, and many enterprises have been forced to cease production. The more people seek cash, the more severe "cellar hoarding" becomes, the more banks "divert" and refuse to pay out, the more funds stagnate, and the greater the lack of money needed for economic growth.

The shortage of cash and the problem of "diversion" indicate that a debt chain reaction has occurred in monetary function and that Shanghai has fallen into a debt trap. Shanghai's economic system is rooted primarily in processing and combines industry, commerce, and trade. And in the supply, production, and sales operations carried out by the municipality's industrial enterprises; in the purchasing, sales, and readjustment storing effected by the municipality's commercial enterprises; and in the importing and exporting carried out by the municipality's foreign trade enterprises, money and credit serve to link the municipality and rest of the country and to plug China into the outside world. When bank operations contracted nationally, the first thing that happened was that industrial, commercial, and foreign trade enterprises in the municipality and elsewhere began to fall into arrears, setting off a chain reaction of debt, which quickly spread to and created a cash crisis for financial enterprises. Credit vehicle insufficiency caused the chain of debt to spread and made it even more difficult for funds to function properly.

### Scrambling Out of the Money Trap

In a market economy, supply of and demand for money are determined by the rate of economic growth, the increase in price levels, and conditions in money circulation, working together; the stable development of the economy and of society are determined by balance between supply of and demand for money and the efficiency of the financial system. In different ways, the leakage, stockpiling, and debt traps each destroy the balance among the three major factors determining the relationship between supply of and demand for money, stifle the efficiency of the financial system, and engender economic turbulence. Thus to resolve Shanghai's financial difficulties so as to enable the municipality's economy to stabilize, we must clamber out of the money trap as quickly as possible.

Getting out of the leakage trap basically will be a long-term process, because the major cost, profit, and investment leakages Shanghai suffers are due primarily to readjustments in the state's policy vis-a-vis distribution of national income. Plugging these leaks will require improvement in the national market, price, and distribution systems. Thus the increase in costs, decline in profits, and diversion of investment that plague Shanghai will persist for a while. For the time being, we must try as much as possible to reduce these leaks, control costs, reduce expenditure, eliminate petty cash holdings, strengthen discipline in the financial and economic systems, and the like.

Getting out of the stockpiling trap basically requires medium-term measures. Success in the effort to guide income into savings and savings into investment will depend on improvement of the financial system, especially interest rate policy. The state and enterprises would have a hard time coping financially if we make interest rates, which have long been negative, positive. Thus, while gradually increasing interest rates so as to spur savings and to reduce demand for consumer funds, we must also make a big effort to control inflation, reduce inflationary expectation, induce enterprises to clean up their inventories, and guide the masses toward rational consumption. Appropriate policies at this juncture would be to ensure that the value of savings is maintained, practice savings in kind, and have enterprises save the capital they raise.

For the present, getting out of the debt trap should be our top priority. The purpose of funds is to circulate, and the efficiency of the monetary system depends on the development of credit vehicles. With money tight, Shanghai's financial circles should accomplish the following: (1) strengthen macroscopic controls, and manage funds through unified planning; (2) expand credit vehicles, and cut the chain of debt, so as to invigorate the municipality's finances.

### Interest Rates Adjustment 'Crucial' in Financial Macroeconomic Control

40060429a Beijing JINRONG SHIBAO in Chinese  
7 Mar 89 p 3

[Article by Liu Guangdi 0491 0342 4574: "Interest Rates Adjustment Is Crucial to the Building of a Financial Macroeconomic Control System"]

[Text] I think that in addition to certain mistakes in China's guiding ideology, the key to our current serious inflation is a matter of emphasis. That is, in the process of reforming our economic system (including our financial system), we have concentrated only on opening it up and stimulating it and neglected to restrain and eliminate certain aspects of it. But in order to curb our current inflation and develop our socialist commodity economy, we will have to devote a lot of time and energy to building and perfecting a system of restraining and eliminating certain aspects of our economy. We will be able to open up our commodity economy to the extent that the state can restrain its growth.

The principal restraints on our economy can be administrative, economic, or legal. The advantages of administrative restraints are that they can put the brakes on at the right time and achieve instant results. But the disadvantages are that they are likely to be applied "indiscriminately" or "in a blanket fashion" and cannot "be used flexibly" and "deal with each case on its merits." In addition to applying administrative restraints in our present retrenchment, we must also make better use of economic restraints.

When using economic restraints, I think that fully developing the effects of interest rates adjustment will play a particularly important role in China's present retrenchment and building of a financial macroeconomic control system. This can be seen in the following three aspects:

1. Interest rates adjustment is the most sensitive, effective, and basic way of carrying out macroeconomic control of a modern commodity economy. Our long neglect of the effects of interest rates adjustment has made it impossible for us not only to effectively carry out macroeconomic control, but also to stimulate our microeconomic activity. Thus, adjusting current interest rates should be seen as being necessary not only to curb inflation, but also to rationalize interest rates relationships and change our control emphasis. Interest rates adjustment should be seen as a regular practice to be emphasized by central banks.

2. Interest rates adjustment is the most important way of realizing the "20-character" stable monetary policy (controlling the overall money supply, restructuring, ensuring priorities, general retrenchment, and timely adjustment). Administrative restraints must certainly continue to be

used to strictly control credit, but they are too rigid. Whereas interest rates adjustment has the necessary flexibility to effectively perform the job of macroeconomic control.

3. Interest rates adjustment is a prerequisite for price modification. There has long been controversy in theoretical circles over whether the key to reform was price reform or ownership reform. The present viewpoint is that they are both very hard to carry out and that only reforming the interest rates on the price of capital is objectively both necessary and possible. This is because interest rates reform, either by adjusting their overall level or their structure, is easier to achieve than either price or wage reform. Rationalizing interest rates will create the conditions not only for restructuring the economy and increasing effective supply, but also for rationalizing prices. Our present retrenchment has shown that rationalizing interest rates is a prerequisite for rationalizing prices. We should seize the opportunity to carry out interest rates reform. Thus, I think that we must settle at least the following issues:

a. We must settle the issue of interest rates payment. Our recent interest rates adjustment has played an active role in stabilizing savings and tightening credit, but the issue of interest rates payment has not yet been settled. The key is that when setting all interest rates on loans, we must consider the rate of price increases and satisfy the demands of marginal profit rates for all costs and loan capital. Although interest rates were too low in the past and it will certainly be hard now to raise them to their proper level all at once, interest rates on loans should still be raised. In order to raise interest rates on loans, the central government should make up its mind to let some enterprises that have poor or no results go bankrupt, while using other ways to settle the issues of enterprise bankruptcy and staff member and worker unemployment. Enterprises that have good results will certainly not be overburdened by higher interest rates, but they will have to work harder to tap their potentials.

b. We must settle the issue of the interest rate structure. Our present interest rate structure for deposits is very irrational, and different interest rates for bank deposits, various kinds of government bonds, and enterprise bonds have not been set according to the principles of "safety, fluidity, and profitmaking." Interest rates on government bonds should be raised appropriately or it will be hard to sell and circulate them. Interest rates on savings deposits with less than 3 years maturity periods should also be raised again. Since these savings account for over 50 percent of all savings deposits, we must absolutely not overlook their fluidity and the possibility of their shocking the market.

c. We must settle the issue of coordinating favorable interest rates with industrial restructuring. Statistics show that there are more than 20 favorable interest rates for over 30 projects throughout China. Giving favorable interest rates is the same as carrying out a low-priced or

free credit ration system and allows many enterprises that have poor or no results to exist and grow. For instance, the constant yearly increases in loans to township enterprises, which accounted for over 50 percent of state agricultural loans in 1987, has been an enormous waste of state funds and resources. We should reset favorable interest rates based on the needs of industrial policy and make them favorable mainly to industry and not to regions.

Based on developing the effects of interest rates adjustment, we must also take the following financial macroeconomic control steps that are favorable to economic and financial stability:

1. We must reform the deposit reserve fund system. In China, special banks are liable for reserve funds. This severs the inherent relationship between the quantitative liability of central banks and the use of excess reserve funds by special banks. In order to develop the role of macroeconomic control on the deposit reserve fund system, special banks and other financial institutions should not be liable for using their deposits as reserves, but should rely on central banks' liability for reserve funds. Moreover, the fund supply system should be basically changed to a capital loan system, and deposit deficiencies should not be made up by central banks, but should only be financed by selling negotiable securities. The single official deposit reserve fund rate must also be changed to a weighted rate structure.

2. We must set up special deposits. Special deposits can be regarded as a supplemental form of deposit reserve funds. Their purpose will be to ensure special banks' regular seasonal fund needs, freeze part of normally unused deposits, and reloan them to special banks to prevent hard fund demand shortages from being kept by central banks as are agricultural sideline product procurement funds. These special deposits can also be set up through the sale of short-term bonds by central banks.

3. We must as soon as possible begin to grant mortgage loans and use other lending methods that are favorable to regulating property inventories. When restructuring our economy, in addition to developing the financial effects of interest rates adjustment, we must also change our form of credit from unsecured loans to mortgage loans. When the ban on mortgage loans is lifted, banks must first start to grant the following two kinds of mortgage loans on liquid assets: 1. mortgages on commodities that are in short supply and great demand; 2. mortgages on overstocked and unmarketable commodities. By mortgaging commodities that are in short supply, enterprises can obtain rational loans from banks to continue buying raw and processed materials and avoid the effects of tight credit. Whereas banks, by developing their control over these commodities that are in great demand, can recall these loans and withdraw currency from circulation whenever necessary. By mortgaging unmarketable commodities, enterprises can obtain discount loans from banks. This will spur enterprises to sell

these unmarketable commodities at reduced prices in order to repay the loans before they are due, and give banks the option of selling them at reduced prices when the loans are overdue and not repaid. This can both increase the supply of commodities and also curb price increases. In addition to mortgaging finished products or raw and processed materials, enterprises can also mortgage notes or negotiable securities. Central banks can also handle second mortgage and rediscount business. This will coordinate money and commodity circulation, avoid fund stagnation, and help to restructure the economy. As to inventories of fixed assets, banks should practice credit policies that are favorable to speeding up reform of enterprise leasing, incorporation, and shareholding.

4. We must improve our management of bank asset liability. In addition to needing to reform our way of settling accounts and set up a national clearing bank, we should also now take steps to control asset liability rates for special banks and nonbanking financial institutions in order to improve the capacity of all financial institutions to regulate their own affairs and handle emergencies. In order to establish the management concept that the amount of liability restricts the amount of assets, we must regularly analyze, study, and constantly adjust the assets and liability structures to avoid improper fund turnover that would result from excessive liability and an irrational assets structure. Moreover, banks should develop diversified financial and advisory services to both invigorate their funds and increase their earnings.

**New Model of Financial Macroeconomic Control**  
40060429b Beijing JINRONG SHIBAO in Chinese  
7 Mar 89 p 3

[Article by Zhou Xiaolan 0719 2556 2714: "A New Model of Financial Macroeconomic Control"]

**[Text] I. Disadvantages of the State-Market-Enterprise Control Model**

Since China began to reform and let enterprises become independent commodity producers, the state has changed its mode of control from direct control of enterprises to direct control of the market and given enterprises the decision-making power over their own operations. This has produced the state-market-enterprise economic control model that we call the market system control model. This control model is now seen as the objective of economic reform. But it is certainly not a perfect macroeconomic control model.

In the state-market-enterprise control model, the state regulates the market mainly by adjusting and using market variables to affect the enterprises that exist and operate according to them. This model of control is more flexible than the traditional one in which the state regulated enterprise production directly and has brought the effects of enterprise initiative and market forces into play, but it still has the following major disadvantages:

a. The state market regulation model gives producers and consumers the ability to adjust social supply and demand only within the limits of state input-price signals and excludes the regulatory effects of market conditions on prices. Since prices become an external variable of economic activity, the effectiveness of planned regulation is determined to a great extent by the rationality of input prices. Irrational input prices can cause either high social purchasing power along with market commodity supply shortages or overstocking of commodities because supply is greater than demand. Since the market cannot regulate price variables spontaneously and the state cannot modify a great number of commodity prices quickly, price swings are unavoidable and commodity market imbalances are not only hard to eliminate, but become a normal part of economic activity.

b. Another disadvantage of state market regulation is that the state is still bogged down in a lot of microeconomic activity, which weakens its major economic function of macroeconomic control. Market activity is typical microeconomic activity and is composed of many particular market transactions. A distinct feature of microeconomic activity is that it deals with a huge amount of diverse information. It is hard for the state economic regulation sector to gather completely and handle quickly and accurately such a huge amount of market information.

c. Market decentralization and diversity make state market regulation harder and less effective. The market system in our national economy is actually composed of tens of thousands of decentralized and diversified markets. This decentralization and diversity make state market regulation harder and less effective. Centralized state regulation of each particular market would certainly deny the differences among all markets and lower control effectiveness.

**II. The State-Monetary System-Entity Economic System Control Model**

A new macroeconomic control model should be set up to carry out financial macroeconomic control of the operating forces of our contemporary monetary system. The financial macroeconomic control model is one in which the state regulates all national economic operations by regulating monetary system operations, i.e., it is the state-monetary system-entity economic system. It has the following advantages:

a. It avoids the problem of state macroeconomic regulation being bogged down in microeconomic activity. State macroeconomic regulation must be aimed at the macroeconomic sector, not the microeconomic sector, and at control of the whole national economy, not of its many individual parts. In this way, state control of the national economy can be focused on controlling the overall money supply, its major circulation orientation, and overall national economic operations through the monetary system's conduction and enlargement forces. State

regulation of the monetary system will greatly simplify the state's macroeconomic control function, prevent the state regulation sector from getting bogged down in too much specific decisionmaking, and enable it to focus its energy on overall control of matters that affect the whole national economy.

b. It has stronger regulatory power and thus, improves regulatory effectiveness. Figuratively speaking, the state-monetary system-entity economic control model is a powerful one. It regulates economic entities by providing not only information but also capability, integrates capability with information, and has a very strong regulatory power. Whereas in the state-market-enterprise regulation model, the state provides regulatory information plus administrative force, i.e., state market regulation is motivated by administrative force (the power to set prices).

c. It brings the regulatory effects of market forces into full play. In this control model, the major market variables are determined not by the government directly, but by economic forces within the market. Thus, the financial macroeconomic control model better coordinates planning with market forces by coordinating planned and market regulation through the operations of a modern monetary system.

### III. The Aim and Methods of Financial Macroeconomic Control

Macroeconomic control, whether in developed or developing countries, runs into the following two basic issues: 1. the choice of the ultimate aim of financial macroeconomic control; 2. the choice of the methods of achieving financial control. China must also settle these two issues to set up a financial macroeconomic control system.

Our choice of our financial macroeconomic control aim depends not only on our control effectiveness, but also on our national economic development strategy. The controversy over this issue is focused on whether the ultimate aim is economic growth or currency stability. The essential issue in these two choices is whether economic growth should be based on currency stability or currency stability should be sacrificed to economic growth. Based on the long-standing practices of all countries and China's mixed experiences, I think that we should clearly make currency stability the major ultimate aim of financial control and decisively discard the traditional choice of making economic growth our major ultimate aim. Currency stability is the key to economic stability and is fertile soil for the growth of a modern economy. Some of the more recent rapidly developed countries also encountered inflation in the course of their development and were able to develop their economies quickly only by using one method or another to curb inflation.

Socialist economic reform is a transition from centralized planning to a planned market system. The key to realizing this transition is to establish effective market forces. As to the issue of how to establish effective market forces, people often emphasize price reform while overlooking another very important matter. That is, a sound currency is a prerequisite for the effective operation of market forces. If the currency is unstable, effective operation of market forces cannot be established. A stable currency can be said to be a basic condition for smoothly achieving our current economic transition.

Our choice of our financial control methods must be favorable to the development of our financial market. Since our current social money supply is too large, the key to controlling it is to correspondingly increase the percentage of reserve funds, shrink the basic money supply and thus, control the overall social money supply. Traditional administrative quota control methods should not be overused. Moreover, we should start using the financial control method of interest rates adjustment, set up an interest rate system in which central banks' interest rates on second loans are the standard, inject profit forces into financial control, and improve their regulatory effectiveness. The key to China's starting to use the method of interest rates adjustment is to reform our long-standing low interest rates, raise them considerably, and make them very flexible and sensitive.

### SMALL-SCALE ENTERPRISES

**Report on Qingdao's Township Enterprises**  
40060468 Beijing ZHONGGUO XIANGZHENQIYE  
BAO in Chinese 13 Mar 89 p 1

[Article by Yao Bin 1202 1755: "Implementing Coastal Development Strategy Bears Fruit; Qingdao City Township Enterprise Export Trade Value Redoubles"]

[Text] Last year the Qingdao Municipal Committee and Government actively organized and implemented a coastal development strategy, maintained an integrated trade, industry, and agriculture policy in the entire city and rural areas and with the expansion of foreign trade exports as its guiding direction, rural enterprises as its main body, and rural natural resources and excess labor force as the foundation, vigorously developed the externally-directed economy and energetically pushed township enterprises towards the international market. Last year, the export goods of the township enterprises of Qingdao City increased from 117 to 208, enterprises producing export goods increased from 478 to 819, and the value of trade in export goods increased from 306 million yuan to 620 million yuan, an increase of 102.1 percent.

—They vigorously opened channels of direct contact with foreign businesses, and there were breakthrough developments in the three kinds of manufacturing using important materials, in compensatory trade and in joint Chinese-foreign cooperative projects.

Among Qingdao City's township enterprises there used to be only one Chinese-foreign joint enterprise and two enterprises processing with imported materials. Last year, by actively participating in trade fairs and going abroad and to Hong Kong for observation and talks, actively making use of Qingdao natives abroad, the Qingdao City's township enterprises discussed over 100 projects and formally concluded 21 transactions. Of these there were 10 Sino-foreign joint projects with a committed investment of \$14.02 million, of which \$6.06 million was in investment by foreign businesses; there were 5 processing and assembly projects using imported materials and parts with contract processing fees of \$6.20 million; 6 compensatory trade projects with a business volume of \$4.47 million.

—They accelerated the development of export mainstay enterprises by paying attention to scope and benefits and adopted encouraging measures.

Qingdao City made continuing to treat the managerial scope of accelerating the growth of export enterprises as an important measure for raising the grade and quality of export goods and thus for improving their competitive ability in the international market. In addition to making priority arrangements for energy, raw materials, enterprise upgrading, and fine-quality products for township enterprises producing goods for export, Qingdao City also vigorously raised funds to concentrate on technological transformation and expansion of export enterprises. For newly started export enterprises, they stressed a high starting point and a new standard. Last year the number of township enterprises in Qingdao City whose export trade exceeded 1 million yuan increased from 68 to 126, during the year the total amount of loans made up 11.7 percent of those of the nearly 100,000 township enterprises in the city; the value of export goods traded was 450 million yuan, or 72.6 percent of all the city's township enterprises. Among these enterprises there are 24 whose value of export goods traded exceeded 5 million yuan, five exceeded 10 million yuan and the highest, Jiaozhou City's manufactured goods [fazhipin [4099 0455 0756]] plant reached 30.34 million yuan. After the Jiaozhou City Amino Acid Plant improved product quality through technological transformation, and opened markets in Japan and the Federal Republic of Germany, they actively spread the technology to 3 branch plants outside the province to become the largest cystine export group with 10.04 million yuan in export trade last year.

—They developed the superiority of township enterprises on the basis of the demands of the international market and readjusted the make up of export goods.

The staple goods from Qingdao City's township enterprises with export trade value of more than 30 million yuan the year before last were ores, machine metals, food, handicrafts, and chemical industry goods. Last year, the staple goods with export trade value of more than 50 million yuan changed to handicrafts, foods, ores, machinery metals, chemical industry, light industry, and textile goods. In response to changing demands of the international market, Qingdao City took full advantage of the breadth of township enterprise trades and utilization of natural resources and used such advantages as the adaptability of natural resources and the abundant labor force to actively readjust the composition of export goods. Three trends appeared: 1. It improved the processing depth of agricultural by-products and ore resources. That is, the value of export goods of the Monanqian Edible Oil Processing Plant such as graded peanuts which were processed into shelled peanuts fried in oil and roasted shelled peanuts was 14.9 million yuan, a 15-fold increase over last year. Utilized such ore products as barite the Qingdao (pujihua [5291 7162 0553]) plants utilized developed such export goods as barium carbonate, strontium carbonate, barium nitrate, and strontium nitrate. 2. Replacement of high speed machine, light industry and textile goods has raised the grade of export goods. In terms of machine goods, last year Qingdao City township enterprises first of all exported integrated textile machines and woodworking machines and drastically altered the previous situation in which only machine parts and metal tools were exported. 3. They actively expanded labor-intensive goods in the direction of agricultural household groups. Last year the value of handicraft exports from Qingdao township enterprises was 109 million yuan, an increase of 189 percent over last year. The Qingdao Second Embroidery Plant established 37 processing points in ten Qingdao counties (cities) and attracted over 3,000 rural women to engage in production of goods for export.

## FOREIGN TRADE, INVESTMENT

### New MOFERT Rules on Special Commodities, Export Licenses

40060376a Beijing GUOJI SHANGBAO in Chinese  
16 Mar 89 p 1

["New MOFERT Rules on Special Commodities and Export Licenses in Foreign-Invested Enterprises—10 Types of Products Are Under Export Prohibitions and There Are Strict Controls on 12 Goods That Are in Short Supply."]

[Text] The Ministry of Foreign Economic Relations and Trade [MOFERT] has issued a notice tightening management over several special commodities and has established regulations over foreign-invested enterprise export licenses and over processing supplied raw materials, assembling parts for re-export, and processing imported raw materials for re-export.

The commodities which are prohibited from export are musk, natural bezoar polyethylene (raw material), monazite, copper and copper alloys, tin and tin alloys, white

gold, yellow phosphorous, nickel and nickel alloys, and nickel materials. These ten commodities have been restricted from export in the face of China's current conditions.

If there are special conditions why any of these ten types of commodities must be exported, then it must be approved by the authorizing department, the exporting unit must make application to MOFERT for an export license, and customs will release the goods after inspection of the export license released by MOFERT.

Prior to these regulations, foreign-invested enterprises and compensation trade were permitted to export within their allowed range of production, resale rate and contracted time period, by presenting their document of permission to MOFERT to apply for an export license; importing raw materials for re-exporting were in their document of permission to MOFERT to apply for an export license; importing raw materials for re-export was not restricted and one could apply to MOFERT for an export license based on the customs' registration manual for importing raw materials.

The regulations state that, based on China's domestic supply and demand conditions, the 12 goods that are in short supply and need to be controlled are polyacrylic, chromium, molybdenum, metallic magnesium, metallic manganese, ABS resin, polystyrene, toluene, dimethylbenzene, chromium iron, manganese iron and rubber goods. To export these products the exporting unit must apply to the supervising department, and the licensing authority will issue a license in conformity with the regulations specified.

For foreign-invested enterprises to export goods they produce that fall under the export regulations (including Sino-foreign joint ventures, cooperative ventures, and foreign-funded enterprises), they must apply to MOFERT once a year or several times a year for an export license.

The newly established range of foreign-funded enterprise investment is above the quota set by the State Council. Or, if it is below the quota but the products manufactured for domestic sale are subject to the state's import restrictions, products manufactured for export are subject to issuance of an export license by MOFERT and its specially appointed agents. State manufacturing, quota management, or industries or programs that are subject to the state's limitations on use of foreign exchange must get agreement from MOFERT or the supervising department prior to approval.

All products that are subject to export licensing and are in the categories of processing supplied materials or assembling parts for re-export, with the exception of those that are prohibited, are exempted from export licensing, and customs will inspect and release them according to regulations.

For those products that are made from imported raw materials for re-export and need export licenses, the exporting unit should proceed according to the customs register manual and contract, and apply for export licenses to the appropriate issuing department on the basis of the grade level. The issuing department must issue an export license according to contracted regulations and according to the quantities of imported raw materials specified in the registration manual.

Processing imported raw materials for re-export does not count on the plan or the quota.

### **Continued Emphasis on Foreign Trade Agent System**

*40060453b Beijing GUOJI SHANGBAO in Chinese  
30 Mar 89 p 1*

[Article by staff reporters Chen Xueyan 7115 1331 3601 and Yao Ximin 1202 6932 2404: "The Important Orientation of the Reform of Foreign Trade System—An Investigation of the Implementation of the Agent System in Shanghai Textile Department"]

[Text] Shanghai has decided to implement the agent system in an all-round way in the textile department and practice the "dual-line" contract system of industry and foreign trade, beginning in 1989. This extremely important reform of the foreign trade system is undoubtedly of immeasurable significance to strengthening industrial and foreign trade integration and unifying our stand on foreign trade.

For a fairly long period of time, one of the defects of the foreign trade system has been the divorce of industry from foreign trade. Foreign trade only takes care of exports and often neglects the interests of industry whereas industry is only responsible for supplying goods and does not have a grip on the status and fate of their own products on the international market where the superior survives and the inferior perishes. As a result, contradictions have emerged. Foreign trade blames industry for failing to supply the goods needed for exports while raising the prices to "the unbearable level." Industry complains that foreign trade has "dominated everything," forcing industry to survive only in cracks. The divorce of industry from foreign trade has resulted in the downgrading of products, delay in the delivery of goods, and stagnation in export volume.

In accordance with the guidelines of the circular of the central government that foreign trade should "assume sole responsibility for profits and losses, practice open management, integrate industry and foreign trade, implement the agent system, and be unified when dealing with foreign countries," the Shanghai Textiles Import and Export Company took the first step in implementing the agent system in 1985. This company has signed agent agreements with the Jiafeng, No 4, No 2, and No 35 cotton mills, the No 17 Bleaching and Dyeing Plant, and the No 3 Woolen Mill.

In the past, the relationship between industry and foreign trade was one between buyers and sellers who had endless disputes over trifles. Exorbitant internal waste seriously hindered China's foreign trade from making further development. Implementing the agent system can push production plants to the forefront where plant officials can meet with foreign customers directly, get quick access to information, take the initiative in adapting to foreign investors' needs in different fields, thus increasing their competitiveness on the international market. The agent system combines responsibility with right and interest and delegates them to plants to revitalize plants and put plants in a voluntary position in foreign trade. With one heart and one mind, industry and trade now have a common language and consider fulfilling export tasks and increasing foreign exchange earnings as their common responsibilities.

The agent system has increased the export responsibility and economic returns of plants. In the Jiafeng Cotton Mill, profits from each loom of export poplin have increased from 5.87 yuan to 21.84 yuan, and direct foreign exchange earnings from each loom of cotton cloth have also increased from \$10,000 to \$18,000. To increase returns, plants have vigorously tapped potential and reduced cost of production. The No 3 Woolen Mill used to always use imported expensive high-count (66 to 70) wool. After implementing the export agent system, this plant concentrated on technological improvement and began to use less expensive 64-count wool to produce equally high-quality products. With regard to economizing on raw materials, this plant has substantially reduced the wool consumption rate. Before the agent system, it used 1.32 kg of yarn to produce 0.9 kg of products; after the agent system, products increased to 1.06 kg.

The agent system has enabled plants to voluntarily change the variety of products and produce products that are readily marketable. In only 5 months after the implementation of the agent system, a new workshop of the Jiafeng Cotton Mill extensively revamped its 240 looms three times. First, it changed from medical gauze to 3030 and 6868 fabric. Then as soon as it learned that this variety was produced by many other mills and was stockpiled in foreign trade departments, it quickly changed it to the 63-inch wide, 5050 and 9080 variety to upgrade products and develop toward high-count, fine and thin varieties. The No 4 Cotton Mill used to produce mo gong [2875 6300] cloth. When it heard that this variety did not sell well on the international market, it immediately changed to producing readily marketable venetian cloth.

The delivery of goods is on time and the percentage of contracts fulfilled has been increased substantially. Under the procurement system in the past, since plants attended only to production, not marketing, they did not even have the concept of fulfilling foreign contracts. Foreign trade companies were exhausted trying to rush the delivery of goods, but still could not fulfill contracts

on time. Foreign businessmen ridiculed them, saying, "It is routine to be late." Since the implementation of the agent system, production and marketing has become one, plants are closely concerned with the fulfillment of contracts. So they are voluntarily concerned about international letters of credit (namely credit provided by foreign countries) and the date of shipment, thus substantially increasing the percentage of contracts fulfilled. The contract fulfillment rate of all plants implementing the agent system is mostly over 95 percent.

Great efforts have been made to improve the quality of products and create name brands. Since the implementation of the agent system and the integration of production and marketing, plants have deeply felt that quality is the life of enterprise and are willing to devote much time to improving quality. After the agent system, the product rate of the Jiafeng plant increased from previous 65 percent to about 95 percent. As its product quality improves, the No 17 Bleaching and Dyeing Plant has increased the average export price of its products by 8 percent, earning an extra of \$180,000 in foreign exchange for the state.

The improvement of product quality has not only helped plants earn more foreign currency but also given plants a sense of honor, enabling plants to strive to create name brands for their own enterprises. The Jiafeng Cotton Mill has used high-quality electrically sheared yarn to weave cloth and stamped the package of this cloth with the name of "Jiafeng," which consequently has become a name brand and made the plant a "credible" enterprise. With such a sense of honor, plants would never produce illegal export goods. Instead, they want to create their own brands.

#### **Sichuan Governor on Development of Foreign Trade**

40060453c Beijing GUOJI SHANGBAO in Chinese  
28 Mar 89 p 1

[By staff reporter Lin Guihua 2651 2710 5478: "Zhang Haoruo Says Sichuan Continues To Open Up During Improvement and Rectification by Developing Advantages and Avoiding Shortcomings"]

[Text] In an interview on 25 March, Zhang Haoruo [1728 4110 5387], delegate to the 7th National People's Congress and governor of Sichuan Province, said that Sichuan Province will continue to open up during improvement and rectification by developing advantages and avoiding shortcomings.

Zhang Haoruo pointed out that as an inland province, Sichuan Province should guard against two tendencies. Last year when the coastal economic development strategy was first propounded, some people in Sichuan ignored our own conditions and tried to compete and compare with coastal areas in regard to the "large scale importing and exporting, putting both ends abroad, and

preferential policies." This is wrong. Due to the difference of conditions, policies cannot be copied. Now that we have to carry out improvement, rectification, and readjustment of the economic structure, money would be even tighter, the scale of capital construction would be reduced, and it would be easier for us to go to the other extreme, thinking that we no longer need to open up. This is also wrong.

Zhang Haoruo said that Sichuan should open up according to the actual conditions of the province. First, it should be enthusiastic. Second, it should consider the possibilities. Sichuan itself is a very large market and its products are definitely oriented toward domestic and provincial markets. It does not yet have the conditions to market its major commodities overseas. However, it must try to increase exports as much as possible and expand the ratio of foreign trade.

With regard to the focal points of foreign trade development in Sichuan Province, Zhang Haoruo thinks that priority should be given to two points: First, we should steadily develop traditional export commodities such as raw silk, grey silk, cotton textiles, canned goods, citrus fruits, hogs, bristles, and tung oil. Special attention should be paid to the major product of raw silk to develop its production, raise the level of processing, increase its output, and improve its quality. In the meantime, we should gradually shift our energy to fine processing and import technology, through cooperation with foreign investors, to upgrade products and increase our foreign exchange-earning ability.

The second important aspect is to vigorously change the mix of export goods. We should first fully develop the advantage of Sichuan, which has a stronger basis of electronic and machine-building industries, and give priority to the development of construction machines, machine tools, aviation equipment, cutting and measuring tools, and electronic products (including color televisions, kinescopes, and electronic elements) so as to increase the ratio of electronics and machine-building products. We should further improve quality through technological transformation and authorize some qualified enterprises to carry out foreign trade operations and organize their own exports. In addition, Sichuan has a fairly good basis for the export of five mineral and chemical products, which should be stressed in development.

With regard to the utilization of foreign capital and foreign economic cooperation, Zhang Haoruo thinks that first we should focus the import of foreign capital and technology on the relatively weak infrastructure and basic industries of Sichuan, such as energy, transportation, agricultural, and water conservancy projects. Low-interest and long-term loans provided by foreign governments should be used mainly in this regard. Second, we should vigorously use foreign capital to transform existing traditional industries such as silk, electronics, machine-building, cotton and flax textiles, and some

light industries (food processing). We should welcome foreign investors to make direct investment in a selective manner. Third, we should take advantage of the fact that Sichuan has many war industries, institutions of higher education, scientific and technological forces, especially highly sophisticated aerospace industries and technologies, to strengthen economic cooperation with foreign countries and develop the exports of military-turned civilian products.

Zhang Haoruo said that Sichuan has an advantage in foreign construction contracts and labor exports. The Sichuan Provincial International Economic Cooperation Company has great strength and ranks second among similar companies at the national level. In 1988, the Ministry of Foreign Economic Relations and Trade approved the founding of the new Huaxi Engineering Company, which is very competitive and has already entered the Hong Kong and Southeast Asian markets. The existing 2 million construction forces of Sichuan may be brought into play. Foreign construction contracts may be extended to Middle East and South Pacific areas.

Sichuan's technological forces are stronger in regard to computer software and engineering design. Zhang Haoruo thinks that computer software may be used as an impetus to hardware exports. At the same time, we may establish companies abroad to run industry and commerce. In addition, Sichuan cuisine is very popular overseas. Sichuan has opened some restaurants in West Germany, Austria, and Australia, and others are still being built. This is a kind of software and labor exports. It is also conducive to increasing the popularity of Sichuan. It can serve as a link or bridge and help import more capital and technology.

**Anhui Vice Governor Reveals Foreign Trade Plans**  
*40060453d Beijing GUOJI SHANGBAO in Chinese*  
28 Mar 89 p 2

[Report by reporter Zhong Shengli 6988 0524 0448: "Anhui's Foreign Economic Relations and Trade Develop Steadily—Developing the Advantage of Having Both Inland and Coastal Characteristics; Vice Governor Wu Changqi Says This Year Anhui Will Use Favorable Conditions Created by Improvement and Rectification To Further Expand Exports"]

[Text] Anhui province has strived to develop the double advantages of coastal and inland characteristics and vigorously accelerated the development of foreign economic and trade undertakings, with marked achievements.

Anhui is located in the hinterland of Eastern China, contiguous to the coastal areas. It has convenient communications and rich natural resources. Its metal and nonmetal deposits are some of the largest in the nation. It has a great variety of farm, sideline, local, and native

products, quite a few traditional agricultural and processing industries, new modern industries and technologies, and scientific and technological achievements which are available for exports. Moreover, the Huangshan and Jiuhuashan mountains and other tourist spots within the border of Anhui Province attract large numbers of Chinese and foreign tourists every year.

Since the reform and opening up, Anhui Province has fully developed the advantage of its proximity to coastal areas and rich natural resources, vigorously developed its foreign economic and trade undertakings, and made marked progress. Statistics show that since 1979, Anhui's foreign trade export volume has increased at a progressive annual rate of 50 percent. In 1988, the self-managed foreign trade exports of Anhui Province reached \$550 million.

In the past 10 years, Anhui Province has continued to expand the scale of technological imports. It has imported over 700 items of advanced technology and equipment from foreign countries and effectively boosted its economic development. The amount of foreign capital used has also increased continuously. The number of enterprises financed by foreign investors has exceeded 100. The overwhelming majority of foreign-funded enterprises have achieved better economic and social returns. In addition, Anhui Province has also made relatively great progress in foreign economic aid, construction contract, and labor cooperation and established a good reputation overseas. Anhui Province now has established economic and trade relations with over 100 countries worldwide, establishing broad markets in the United States, Europe, Hong Kong, Macao, and Southeastern Asian countries.

Wu Changqi [0702 2490 2601], vice governor of Anhui Province, recently told reporters that this year Anhui Province will use favorable conditions created by the improvement and rectification drive to further develop the export-oriented economy. With regard to foreign trade exports, it will continue to adopt positive measures to try to increase exports as much as possible and strive for stable growth. It will strive to increase the exports of all commodities except for those commodities whose exports are prohibited by state regulations or controlled by state plan. This year Anhui Province will further optimize the mix of export products, upgrade export products, and strive to increase the exports of electronics and technology while expanding the exports of light industrial products, textiles, handicrafts, and processed foods.

## ECONOMIC ZONES

**Hainan's Export Revenue Doubles**  
40060354b Beijing JINRONG SHIBAO in Chinese  
9 Feb 89 p 2

[Article by Xing Yiyue 6717 6095 6390: "Hainan Carried Out a Policy of Allowing Enterprises To Keep Their Export Earnings, Set Up Foreign Exchange Transaction Businesses, and Doubled Its Export Revenue in 1988"]

[Text]

**Hainan Province's 1988 export revenue reached \$279 million, surpassed planned targets, was double that of 1987, and set a new record.**

The "thirty" policy regulations that Hainan put into effect to further open up to the outside world after it became a province, clearly stipulated that all enterprises in Hainan (including those set up in Hainan by people from outside Hainan) would enjoy the following foreign trade rights: 1. Export quotas and settling of foreign exchange accounts would be completely deregulated and enterprises would not have to settle accounts for their export earnings and other lawfully earned income, but could keep it all as cash; 2. Foreign exchange transaction businesses would be set up and Hainan's foreign exchange financial market would be invigorated. After the Hainan Foreign Exchange Transaction Center was set up in October 1987, the Sanya Municipal Foreign Exchange Transaction Center and foreign exchange transaction agencies in cities and counties, such as Wenchang County, Danxian County, Tongshen, and Qionghai County, were set up in 1988. Thus, Hainan's first foreign exchange transaction network was set up and all enterprises or individuals could buy or sell foreign exchange at the centers or agencies. The Hainan Foreign Exchange Transaction Center worked hard to earn foreign exchange for Hainan and strengthened its control over foreign exchange transaction sources and investments. In 1988, it handled 1,006 foreign exchange transactions amounting to almost \$200 million and played an active role in speeding up foreign exchange circulation and helping enterprises earn foreign exchange from exports. It also actively developed lateral economic contacts and took advantage of Hainan's rich natural resources to process primary products in depth and break into the international market. It developed Hainan's products from the former single-product agricultural sideline products to dozens of varieties with distinct Hainan characteristics and also expanded Hainan's sales markets from the former Hongkong-Macao area to over 50 countries and regions, such as England, the U.S., France, the Soviet Union, Japan, and Singapore.

**On Shenzhen's State-Run Enterprise Shareholding System**  
40060354c Shenzhen SHENZHEN TEQU BAO  
in Chinese 14 Feb 89 p 7

[Article by Zhu Hui 2612 2547 of the Shenzhen Investment Management Company: "Complex Issues Involved in Changing State-Owned Enterprises Over to a Shareholding System"]

[Text] *Editor's note: The shareholding system is a product of the market economy, the result of constant deepening of economic reform, and one of the major ways to invigorate enterprises and improve economic results. Shenzhen's pilot project in changing its state-owned enterprises over to a shareholding system has been underway for over a*

*year with generally good results. But some of the relationships in its practical operations have not yet been rationalized due to either imperfections in our laws and regulations and disunity in our thinking or technical problems. Zhu Hui's article "Complex Issues Involved in Changing State-Owned Enterprises Over to a Shareholding System" has raised several practical issues and given us much food for thought. For instance, such issues as whether enterprise shares should be established, how stock rights should be divided, and how dividends should be paid and used are in great need of theoretical study to help us reach a common understanding of them. We are publishing the article now in hopes that all Shenzhen theorists and businessmen will freely express their views and suggest ways and means of finding the best method to resolve these issues. This will enable Shenzhen's state-owned enterprises to be smoothly changed over to a shareholding system in line with international practice and achieve better results.*

Shenzhen's pilot project in changing its state-owned enterprises over to a shareholding system has been underway for over a year. The following practical issues have arisen, deserve consideration, and must be resolved quickly:

**1. Questions About the Validity of Converting Net Assets Into Shares:** In changing state-owned enterprises over to a shareholding system, some enterprises have established enterprise shares and some have not. How shares should be divided between the state and enterprises and how enterprises should calculate their assets and convert them into shares have become difficult problems in putting the state-run enterprise shareholding system into effect. The present method of converting net assets into shares is still not based on scientific theory. Enterprise net assets are calculated only according to book value, which does not reflect their real value, i.e., their gross purchase value. Many enterprises have been built up to a certain size through years of painstaking work. Enterprise fixed assets, production real estate in particular, have tended to rise in value and some enterprises still have free production real estate that was allocated to them by the state. The continued use of book value to convert net worth into shares will certainly hide the real value of enterprise assets. When net assets are converted into shares, investors certainly do not have to run much of a risk. Even if enterprise net assets are calculated according to market quotations, shareholders still run very little risk because the gross purchase value of enterprise fixed assets bought at auction is far higher than the registered enterprise capital. Thus, converting net assets into shares is unscientific, irrational, and can make the state and enterprises sustain undeserved losses.

**2. Objections To Dividing Stock Rights and Paying Dividends:** Shenzhen's state-owned enterprises have undergone different experiences from those in the rest of China. Many of them have developed without state investment, without circulating funds, and dependent on bank loans to carry out production. But it should also be

acknowledged that the state has given them many favorable terms and supportive policies, such as tax reductions and free production real estate. Thus, the role of the state in enterprise development must not be overlooked. Of course, it should also be understood that the development of Shenzhen's enterprises to their present level would have been impossible without the hard work of their staff members and workers. Therefore, establishing enterprise shares makes a certain amount of sense. There is still quite a lot of controversy in theoretical circles throughout China about establishing enterprise shares and we tentatively recognize the historical basis for its existence. But state-owned enterprises are certainly different from collective and individual ones and, no matter how their stock rights are divided, they still are ultimately state-owned. An ownership issue is involved here. The current issue is that there is still no objective basis or criteria for dividing shares of enterprise net assets between the state and enterprises. No matter how state assets are divided into two parts by the enterprise—whether the state gets more than 51 percent of the shares, the state and the enterprise get 50 percent each, the state gets less than 50 percent, or even if the enterprise gets 40 percent of the shares and the state only 28 percent as in some industrial enterprises that have large state investments—these divisions are obviously irrational and mean that the state will lose control of the enterprise. Thus, the departments concerned should handle this matter with great care when examining and approving the changeover of state-owned enterprises to a shareholding system.

**3. Problems in the Use of Dividends After Enterprise Shares Are Established:** Many knotty operating problems will certainly exist after enterprise shares are established. In addition to using part of the dividends from enterprise shares for welfare services, another part will also be used for expanded reproduction. But investing enterprise shares only increases the capital of the enterprise shares without correspondingly increasing the capital of the other shareholders. This kind of one-sided increase in the capital of shareholders is obviously out of line with established practice. According to international practice, increases in the capital of certain shareholders must be approved by the board of directors. If there is not a corresponding increase in investment by the other shareholders, the enterprise shares might be subject to constant inflation along with production developments and infringe on the rights and interests of the other shareholders. Thus, one-sided increases in the percentage of stocks held by certain shareholders does not conform to the operating practice of a shareholding system.

**4. Operating Errors Caused by Imperfections in Our Laws and Regulations and Disunity in Our Thinking:** Some enterprise regulations stipulate that shareholder dividend be paid yearly, dividend rates be no lower than annual interest rates on fixed deposits, and dividends be deducted and paid from pretax profits and included in

costs. Deducting dividends from pretax profits is obviously out of line with China's present tax collection system because it infringes on the interests of the state. Moreover, stipulating that dividend rates be no lower than annual interest rates on fixed deposits is inappropriate because it blurs the distinction between preferred and common enterprise stocks. It is conventional to set dividend rates on preferred stock but not on common stock. Whether enterprises incur losses and pay dividends or not is simply a symbolic expression of their management. Therefore, setting fixed dividend rates for common stock is not the standard practice.

The above issues arose out of theoretical and cognitive factors and are also matters of international practice. If these operations are not standardized as quickly as possible, the process of changing state-owned enterprises over to a shareholding system might be stopped or delayed. Therefore, I am making the following suggestions: 1. Centralized leadership of the changeover of state-owned enterprises to a shareholding system should be improved and special organs that have full powers and responsibility for examining and approving, guiding, and explaining the job should be set up; 2. Laws and regulations for assessments of capital should be formulated as quickly as possible to ensure that these assessments are legal and regulated, and that state-owned property can safely increase in value; 3. The relevant Shenzhen government departments should define the principles and limits for dividing shares between the state and enterprises to prevent enterprises from doing things their own way and arbitrary misappropriation of state property. Moreover, they should make clear provisions for the use and investment of dividends from enterprise shares in order to safeguard the rights and interests of all shareholders; 4. A complete set of laws and regulations for reforming the shareholding system should be enacted and perfected. Until China enacts legislation, such as a corporation law, an investment law, a negotiable securities trading law, and enterprise tax collection regulations for the shareholding system, relevant temporary provisions based on Shenzhen's practical needs should be formulated as quickly as possible to ensure that Shenzhen's state-owned enterprises can be carefully and safely changed over to a shareholding system.

## AGRICULTURE

### Unified Management Over Farm Products Supply, Marketing

40060477 Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY] in  
*Chinese No 3, 23 Mar 89 pp 19-22*

[Article by Zhang Wenbao 1728 2429 1405 and Tang Renjian 0781 0088 0256 of the Policy, Laws, and Regulations Department, Ministry of Agriculture: "Theoretical Reflections on Unifying Management of Production, Supply, and Marketing of Agricultural Products"]

[Text] In the wake of China's continuously deepening reform in the rural areas and the development of the

commodity economy, various deficiencies are constantly coming to light in the system of managing agricultural products. Production has become disjointed from marketing and impediments have arisen in circulation, and all these circumstances have become major obstacles to the development of the rural commodity economy. Establishing a new system of unified management of production, supply, and marketing, a system that will adequately meet the needs of the developing rural commodity economy, has now become one of the important issues in the ongoing modification of government functions and organizational reforms.

Unified management of agricultural products refers to the establishment of a management system and organizational setup in which the government agencies occupy dominant position and exercise macroeconomic regulation and control of production and circulation of agricultural products, two functions which it will combine in an organic integration, whereby it will also be able to coordinate the interests of producers, traders, and consumers. The present article tries to present an in-depth theoretical analysis of this issue, submitted herewith to our readers for their study.

### I. The Objective Inevitability of Unifying Management

According to the theory of commodity economy, the value of a commodity is determined by the social labor required to produce the product. However, even under conditions of a complete market economy, determination of value for agricultural products is still different from that in case of industrial products, and as a result, it is not possible to determine prices of agricultural products by adding production costs to average profits. A basic reason for the special way of determining the value of agricultural products is the special nature of agricultural production itself. Agriculture is an ancient occupation, and the reason why agricultural products can never gain full realization of their value, and why, therefore, their added value is always lower than in the case of products of the processing and manufacturing industries, is that the comparative national income from agriculture (or comparative labor productivity) is always lower than in industry. A deeper reason for this disparity is the time lag that occurs in the shift of agricultural labor force to nonagricultural production, namely its being always slower than the speed with which the proportion of national income generated in agriculture in the total national income declines. In this way, as applied to a certain time period, the relatively small national income from agriculture is distributed over a comparatively large agricultural labor force, so that the margin of productivity and profitability of agriculture, compared with industry, is always lower. Especially in China, the shift of agricultural labor force is much slower than the decline of the agricultural proportion in the national income. At present, there is a huge contrast between the 75:25 proportion of industrial as against agricultural output values, and the 24:76 proportion in labor force complements. The effect of it is a further lowering of the

comparative labor productivity of China's agriculture and making it even more impossible for agricultural products to achieve realization of their full value.

Obviously, continuing to maintain this structural disparity will not only impede agricultural development, but will in the end adversely affect also the development of industry and of the entire national economy. Eliminating this structural disparity, effecting a radical improvement in agriculture's dealings with the other sectors of the national economy, balancing out the interest relations between society's various economic sectors, consolidating agriculture's independent production position, will make it necessary that unified adjustments be carried out by one particularly designated government department. Under the present conditions in China, with its system of management of agricultural products split up among different departments, neither the agricultural nor the commercial departments will be able to eliminate this structural disparity. It requires a new administrative agency that could assume the function of adjusting the conflicting interests between production and circulation, and that can ensure that the macro-interests of the national economy are truly taken care of. This new administrative department would then be the organization for unified management.

Agricultural and sideline products are greatly affected by natural forces, some must be kept fresh or alive and some will easily spoil. This makes it necessary to closely coordinate their production, purchasing, processing, storage, transportation, and marketing throughout the entire length of their handling processes. Otherwise, the use value of agricultural products may be partially or totally destroyed, making it impossible to realize their value. In recent years, because of the disjointed way of producing and marketing, obstructions have occurred in buying as well as in selling agricultural products. Much rotten and discarded agricultural production and the death of much life merchandise has caused huge losses to producers, the peasants, while those in the circulation sector, who mostly "ate from the big pot" by way of receiving state subsidies, did not suffer the slightest; this was indeed an extremely bitter lesson.

Commodity reproduction is a uniform organic entity in the direct production process and circulation process. At this time, when commodity economy is still in its initial stage, commercial capital, with its effective function in circulation, and production capital, with its effective function in production, are one and the same general trade capital. When commodity economy will have developed to a more advanced stage, commercial capital will gradually emerge as independent from the general trade capital, the circulation process will split off and emerge from the direct production process, the commercial component will become an independent trade, and this will stimulate the development of the social division of labor. But this does not mean that circulation can be isolated from the production process and exist independently. It rather means that circulation and production

are integrated at an even higher level and in an even closer relationship. Circulation is the continuation of production process operations, and an extension of the production capital activity. Under these circumstances, the functions of circulation and production are no more fixed in one unit, but are dispersed among many different units. Because this dispersal does not at all diminish, but rather substantially increases the operational efficiency of social reproduction, it renders the process of social reproduction more rational and orderly. As far as the circulators and producers are concerned, their relationship does not become estranged, but will become closer and one of inseparable linkage. Any management system or government policy that splits the linkage between circulation and production will be an obstacle to socioeconomic progress.

Separation of the processes of production and circulation into two processes is a theoretical abstraction and must not be used by administrative departments as theoretical justification for splitting up economic operations. On the contrary, in all actual economic operations, production and circulation are inseparably connected activities; they are two organically integrated components of the same entity. In concrete application, production and circulation of agricultural products are still two organic components of the reproduction process as a whole, and this would require a unified macroeconomic management system of regulation and control, to coordinate the overall process of reproduction and to normalize the activities of the various agents with different interests.

In short, the special nature of determining the value of agricultural products is responsible for the difficulty of realizing in the first exchange phase the value compensation for primary agricultural products when their use value is being transformed into currency. It is rather necessary to extend considerations into the area of circulation and into the value increasing phase of processing of primary products. This will make it possible to eliminate the structural discrepancies of interests between producers, traders, and consumers along the various links of purchasing, storing, transporting, processing, and marketing. Besides, the special property of the use value of agricultural products and the inseparable links between the production process and the circulation process in the reproduction process of agricultural products, are demanding, objectively, that there be a unified management of agricultural products. Starting out from the demand of the overall interests in the macroeconomic operations of the national economy, it becomes necessary that the government establish a unified administrative department to regulate and control production, supply, and marketing of agricultural products, that it achieve development of production, assurance of markets, coordination of the various different interests involved, and that it will promote comprehensive economic growth in town and countryside.

Referring to the conditions in many other countries and territories, especially to those that practice market economy, we see that they all have unified management of agricultural products. The Soviet Union and the East European countries are also in the process of reforming their systems of managing agricultural production. They have already instituted, or are in the process of instituting unified management. The Soviet Union abolished many of its departments, bureaus, and companies handling production and circulation of major agricultural products, and has set up a state agricultural-industrial commission for the unified management of production, supply, and marketing of agricultural products. In recent years, China has gained conspicuous experience in its experiments with unified management of agricultural products. As far as the country as a whole is concerned, there is unified management of the milk, milk products, and aquatic products trades, and the results have been outstanding. In some regions, unified management has been instituted for animal products, vegetables, and other products, also with excellent results. Practice has proven that unified management of agricultural products is not only the correct way in theoretical respects, but also absolutely feasible in actual working conditions. We must be thoroughly aware of this objective law and allow it to guide our reform.

## II. Unified Management and Social Division of Labor

Is unified management of agricultural products rejecting social division of labor? It is our opinion that unified management is indeed one kind of social division of labor at a higher level; it is a new type of cooperative relation engendered on this foundation.

The state of natural economy is characterized by self-sufficiency; it precludes, objectively, any social division of labor. The small commodity producer combines production and exchange in one person. It was only the modern commodity economy of capitalism that changed this low-grade form of combining the two functions and brought forth a high degree of social division of labor. The operational forms of capital are characterized by a separate existence, but also combination of currency capital, production capital, and commodity capital. Commercial capital exists independently outside of general trade capital and exercises the double function of transforming currency capital into production capital, and production capital into commodity capital, even though this double function appears in the same capital operation. The capitalist commodity economy, therefore, not only cut the umbilical cord between small producer production and commodity exchanges, but reintegrated production and exchange activities on a new and higher level. The independence of commercial capital promoted the formation of capitalist trade capital, which provided excellent facilities for trade, saved large amounts of circulation expenses, and, more importantly, brought about a constant improvement in the operation and development of the capitalist commodity economy, as well as in its regulatory and control system.

The socialist commodity economy has evolved from the capitalist commodity economy, but in a form that is of a higher grade than the capitalist commodity economy. Under the socialist commodity economy, commerce is an independent trade connected with production and consumption. It is the inevitable outgrowth of social division of labor in the socialist commodity economy. The commercial departments are also absolutely necessary as important departments of the government's administration of the economy. It is precisely by recognizing social division of labor, by having the administrative system of the superstructure adapt to the needs of division of labor in the commodity economy, that we put forward a system of unified management, capable of coordinating the two large processes of production and circulation. It would therefore be a lopsided view to think that instituting unified management of agricultural products would reject social division of labor.

Commodity economy presupposes social division of labor. Without social division of labor, exchange relations cannot possibly come into being. But regardless of the finest possible degree of social division of labor, all sectors of society are organic components of social reproduction, all exist in a relationship of close cooperation, and division of labor and cooperation are like a pair of twin sisters. In concrete application, in the reproduction of a certain product, for instance, an agricultural product, the direct production process and the circulation process may appear relatively independent, viewed under the aspect of commodity use value and the changeable pattern of value, but seen from the standpoint of the overall reproduction process, the two relatively independent processes again are closely intertwined, as they engender a new type of cooperative relation on the basis of a high degree of social division of labor. This cooperative relation manifests even more the wholeness of reproduction and also the equality of opportunities and balance of interests of the units with differing interests in the reproduction process. The lack of this cooperative relation, combined with an artificially created split of production and circulation, placing them into hostile confrontation, would impede and possibly even put an end to social reproduction. For instance, in the current production and circulation of animal products, the two functions have been separated. The agricultural departments administer breeding, production, epidemic prevention, and quarantine in connection with animal products. The commercial departments administer purchasing, processing, transportation, and sale of animal products. The light industry departments administer processing of some animal products into nonstaple foods. The departments in charge of grain administer processing animal products into feed and the supply of animal feed. The foreign trade departments administer exports. The assigned tasks and objectives of each department are different, and if one were to try to coordinate conflicting economic actions in connection with the production, supply, and marketing of animal products by relying only on one of the mentioned departments, it would be an impossible

task to accomplish. The administrative system of the different separate departments was set up in the 1950's. Its layout was shaped under the guidance of the theory of product economy and was based on the ossified planned economy theory. This old system was one of hierarchical leadership from top to bottom. It negated lateral cooperation between departments, and whenever contradictions arose with subordinated units, the department in charge would refer the matter to higher authority through channels, so that finally all problems (importantly, questions of interdepartmental cooperation) were shifted to the central authorities to decide. Because the borders of responsibilities between the departments were vague, these decisions were also often only settlements by compromise. As a result, departments lacked internal work pressure, enterprises lost all motivation for growth, there was no equality of opportunities to gain benefits among the departments, and contradictions between departments grew without letup (for instance, the "great trade war" over agricultural products that broke out in various localities in recent years). All this had an ill effect on the development of the entire national economy. Government orders issuing from diverse sources, vague designation of responsibilities, shifting responsibilities onto others, mutual wrangling, this is the true picture of the shortcomings under the old system of the divisive separation of departments.

The new system of unified management of agricultural products was evolved precisely at the opportune time when commodity economy came into full bloom and is a rejection of the old system of divisive separation of departments as it existed in the product economy. If we take rejection of the old system of divisive separation of departments as a rejection of social division of labor, then this rejection is specifically directed against the narrow one-sided division of labor that only entails division of labor without consideration for cooperation, that only considers departmental interests without regard for the interests of the whole. Experience gathered in experiments in various localities show that the new system strengthened comprehensive management of production and trade operations, improved all types of services before, during, and after production, harmonized the relations between production and circulation, resolved the problem of excessive losses of the intermediary links, and, more importantly, it strengthened the regulatory and control capacity of the government over the macroeconomy, and enabled the gradual progress toward the condition of slogan "the state regulates the market, and the market guides enterprise."

### III. Unified Administration and Microeconomic Production and Business Management

The concept of unified management of agricultural products comprises two components: One is unification of the administrative system, that is, unification of the administrative departments in charge of production, supply, and marketing of agricultural products and of the way they exercise their macroeconomic regulatory and

control functions with regard to the production and circulation processes. The other component is unification of the business management of production, supply, and marketing of agricultural products, that is, linking together the supply of means of production, the direct production of primary products, their purchase, storage, transportation, processing and marketing, and forming an uninterrupted production-circulation system from the production of the primary products down to their final marketing.

Very obviously, unified administration and unified production and business management reflect two different aspects. Unification of administration refers to the way government agencies exercise macroeconomic regulation and control with regard to production and circulation. Whenever there is overproduction or a shortage, the government must take measures to guide production, take in or issue products, adjust commodity prices, and ensure a balance between supply and demand, in order to protect the interests of the producers, the traders, and the consumers. These activities of regulating the market and guiding production run counter to the motivation of enterprises to maximize profits. Of course, in whatever department the unified administration will be placed, the government's administrative agencies must not directly participate in the business operations of circulation. A system of government and commercial joint ventures is bound to magnify market signals, lead to false commercial phenomena and distorted fluctuations, which will have an adverse effect on the normal growth of production and the effective supply of products, to the harm, finally, of the basic interests of producers and consumers. The pursuit of maximal profits by the enterprises conforms to the law of commodity economy, but actions of this kind on the part of the enterprises are objectively in conflict with the interests of the consumers and producers. Government action, for the purpose of relaxing and adjusting these contradictions, should promptly provide feedback of production and marketing information, increase effective supplies, ensure the requirements of society, coordinate the various links of social reproduction, and promote the balanced economic development of all sectors. It is therefore necessary to separate government from commercial activities. Commercial enterprises must no longer assume the government functions of regulating and controlling the market. Otherwise, adjustments by the enterprises would be bound to confront in a hostile stance the interests of the consumers and producers, and would also run counter to the objectives of government action. Unification of enterprise production and business operations could be achieved in a variety of forms. Either the enterprises of the production sector or the enterprises of the circulation sector could be in a leading position; it could be either of a strict and tight, or a loose and dispersed type; it could be operations by single enterprises, so that trusts perform all operations from production to marketing, or that

several enterprises form lateral production and operational joint ventures, each party accomplishing its separate task of production, supplying, and marketing, and jointly sharing the profits derived from the production and circulation processes.

Unifying administration and unifying production and business operations are objective demands of the developing commodity economy. They cannot be substituted one for the other, nor can one be overemphasized at the expense of the other, nor would it conform to the development law of commodity economy to institute only one, either administrative unification or unification of business management. Commodity economy means market regulation, all state regulatory and control measures, regardless of how beneficial, must be activated through the market. Even if they are administrative measures of adjustments, they must not by-pass the market, and the main agents in the market are the enterprises. This shows that establishing unified production and business management will stimulate highest enthusiasm among enterprises for participation in market activities, and that integrating organically the micro-economic actions of the enterprises with the government's administrative actions are acts that supplement and complement each other, and neither of the two can be missed.

Achieving unification of administration of agricultural products and unification of business management of agricultural products can, on the one hand, strengthen the government's macroeconomic regulatory and control functions, and, on the other hand, revitalize production and circulation enterprises, revitalize especially state-run commercial enterprises, strengthen their competitiveness and risk mechanism, and instituting unification will not weaken the functions of circulation enterprises and of their subordinate enterprises and industries. Unifying administration lays stress on regulating and controlling the market, coordinating the many-layered interest relations in the production, supply, and marketing processes, and dovetailing the various links in production and circulation. Viewed under the aspect of production-circulation relations, production is the foundation, and production determines circulation. The system of unified administration must therefore, generally speaking, take the production sector as foundation. This would not only conform to the law governing the development of the commodity economy, but would also be beneficial for the resolution of the major contradiction of insufficient supplies in the general supply-demand contradiction of agricultural products. Establishing a system of unified administration with the production sector as foundation does not at all abolish the sector administering circulation, nor does it weaken its special functions, but rather creates better preconditions for the administration of the circulation sector. All business activities of commercial enterprises, regardless of which sector they belong to, must be controlled by the special administrative state agency in charge of circulation. This control must not merely rely on administrative means

and hierarchical leadership, but must rely on a composite control by such administrative means as policies, laws, and regulations together with economic measures and indirect controls. The substance and form of the control will undergo very large changes, as it will place greater emphasis on having the entire social commerce engage in outlining, planning, organizing, coordinating, and rendering service. Under the new system, the administrative departments will not directly participate anymore in the production and business management activities of enterprises, and the enterprises will also no longer be mere appendages of administrative departments, but will gradually evolve into pluralistic and independent producers and traders of commodities. When Shaoguan City in Guangdong Province engaged in a large-scale action to promote agriculture, various sectors participated in investments for setting up new enterprises and in the institution of unified production and business management, and excellent economic returns and social benefits were achieved. This makes it clear that it is not at all a complex question as to who shall be leader in unifying enterprise production and business management, the main thing is to recognize what is beneficial for the development of productive forces.

#### **Provincial Fertilizer Prices Reported**

40060405 Beijing JINGJI RIBAO in Chinese  
6 Mar 89 p 3

[Article by the Information Center of the State Statistical Bureau: "Chemical Fertilizer Prices of a Number of Provinces and Municipalities"]

[Text] *Editor's Note: This year, the State Council decided to institute official monopoly over chemical fertilizer, agricultural plastic film, and pesticide, three important agricultural means of production. This was a drastic step. Regrettably, however, there recently have been reports that official monopoly channels in a number of localities have become "rivers of gifts," and all kinds of "quid-pro-quo" fertilizers remain rampant. Many peasants, still lacking understanding of specific post-monopoly price policies and regulations, have spent much money uselessly.*

*Because of this situation, we today publish the post-monopoly chemical fertilizer price policies and regulations of a number of provinces and municipalities, which data were provided by the State Price Bureau Information Center, so as to let readers peruse this deathly boring yet immensely useful information. We hope that units dealing in chemical fertilizers and the broad masses of peasants will take careful note of this information, make good use of it, and thereby resist and report instances of profiteering and cheating of peasants, so as to protect their own vital interests.*

#### **Hebei**

The ex-factory parity prices for the output of the four urea plants in the province are 428 yuan a ton for agricultural use and 478 yuan a ton for industrial use

(including the packaging fee, as do the following figures). Premium priced urea goes for 643 yuan a ton from the Cangzhou plant and for 623 yuan a ton from the Shijiazhuang, Qianan, and Handan plants. The ex-factory price of ammonium nitrate is 428 yuan a ton.

Retail prices for centrally distributed chemical fertilizers are as follows. Fertilizers supplied as a reward for deliveries of grain, cotton, and oil all will be priced at the current parity levels. For all other fertilizers supplied to agriculture, the following prices apply: a unified provincial retail price of 850 yuan a ton for all urea produced in Hubei, 508 yuan a ton for provincially produced ammonium nitrate, and a unified retail price of 1,350 yuan a ton for diammonium phosphate distributed by the province. Localities may not establish a second unified retail prices for allocations of these fertilizers received from the province.

For fertilizers produced by small plants, the province has set the standard median price for the guidance ex-factory prices (which consist of a standard median price and a float range) of ammonium hydrogen carbonate at 230 yuan a ton and of superphosphate at 180 yuan a ton. The permissible float range is 10 percent.

For counties (cities) in which sales and output of ammonium hydrogen carbonate are in balance, the sales price of this fertilizer is set by adding an import sales differential of 30 yuan a ton to the ex-factory price and the weighted average import price with respect to the ex-factory price and the preferential price. For phosphates, whether produced locally or purchased from outside the province, the sales price is set by each prefecture, city, or county according to the weighted average import (or ex-factory) price. High quality chemical fertilizers sold as reward for grain, cotton, or oil delivery are sold at parity prices. All other fertilizers are sold at unified prices.

#### Sichuan

Ex-factory prices are 418 yuan a ton for planned output of urea (packaging in woven sacks requires an additional 10 yuan a ton; this fee holds for the following figures as well) and 642 yuan a ton for supraquota output. The sales price for urea distributed as a reward for grain deliveries is 548 yuan a ton; all other urea is to be sold at the provincial unified price, 660 yuan a ton.

The price of chemical fertilizer distributed by the province to effect supply readjustment basically will remain at the current level. The ex-factory price of ammonium nitrate is 240 yuan a ton, that of ammonium chloride is 430 yuan a ton, that of ammonium hydrogen carbonate 210 yuan a ton, and that of ordinary calcium 160 yuan a ton.

#### Xinjiang Uygur Autonomous Region

Prices for chemical fertilizers distributed as reward for grain delivery are 538 yuan a ton for urea (packed in woven sacks) and 700 yuan a ton for diammonium phosphate (including, as do the following figures, monoammonium phosphate imported from the Soviet Union).

Urea and diammonium phosphate not distributed as grain delivery awards are sold at the autonomous region's unified retail prices: 700 yuan a ton for urea (packed in woven sacks) and 1,138 yuan a ton for diammonium phosphate.

The region's supply and marketing cooperatives work with price bureaus to set unified allocation prices for ammonium nitrate, mineral phosphates, compound fertilizers, and other fertilizers that are not subject to the regional weighted unified retail prices.

The region's Price Bureau sets ex-factory prices for fertilizers produced by small plants.

#### Shanghai

### Chemical Fertilizer Prices (Unit: yuan/ton)

Product	Specification	Ex-Factory Price	Sales Price for Planned Output	Supraquota Output	
Urea	Nitrogen content 46%	451	520		
Urea	Nitrogen content 46%	750	865		
Ammonium hydrogen carbonate	Grade One nitrogen content (7.1%)	200	230	320	368
Ammonium hydrogen carbonate	Grade Two nitrogen content (16.8%)	190	220	310	358
Ordinary superphosphate	Grade One nitrogen content (18%)	245	275	285	325
Ordinary superphosphate	Grade Two nitrogen content	35	265	275	315
Ammonium sulfate	Nitrogen content 20.7%	300	352		
Ammonium sulfate	Nitrogen content 20.7%	280	320	320	368
Ammonium chloride	Nitrogen content 23-25%	270	314	390	440

Note: Urea 1 is sold as reward for grain and cotton deliveries; urea 2 is the unified sales price; ammonium sulfate 1 is produced at Baoshan; ammonium sulfate 2 is produced by Jiaohua Enterprise of Shanghai

### Ningxia Hui Autonomous Region

Urea and diammonium phosphate sold as reward for grain delivery are parity priced: 520 yuan a ton for urea (plus an additional 18 yuan for packaging) and 700 yuan for diammonium phosphate. The ex-factory prices for planned output at the Yinchuan Chemical Fertilizer Plant are 480 yuan a ton for urea and 175 yuan a ton for ammonium carbonate, and the autonomous region's unified retail sales price is 192 yuan a ton (additives require an additional 6 yuan a ton; and for both producer and retail sales there is an additional 18 yuan fee for packaging). The ceiling on ex-factory prices for supra-quota output of ammonium carbonate is 240 yuan a ton.

The region's unified sales prices for urea and diammonium phosphate are 650 and 1,500 yuan a ton, respectively.

### Fujian

All of the urea produced by the Sanming Chemical Fertilizer Plant is procured by monopoly departments. The ex-factory price for planned output is 568 yuan a ton (including a surcharge for packaging), and the supra-quota output is procured at the preferential price of 918 yuan a ton (including a surcharge for packaging).

Ex-factory prices for fertilizers produced by small plants are set by prefectural (city) price commissions at a reasonable rate of cost plus an eight percent cost-profit ratio.

High quality fertilizers sold as reward for grain and grain oil delivery or for exclusive use in grain production are supplied at parity price. Fertilizers used for other special purposes, fertilizers imported by the province, cooperation fertilizer, and supraquota output from the Sanming plant are allocated at unified prices set by the provincial Price Commission and retailed at unified prices set by prefectural (city) price commissions.

### Shaanxi

Ex-factory prices for planned output of urea used in agriculture remain at 468 yuan a ton (including packaging in woven sacks, as do the following figures) and for supraquota output, urea used in industry, and urea obtained externally on a cooperative basis are 950 yuan a ton.

Planned output and fertilizer distributed as reward for delivery of agricultural and sideline produce, to assist the poor, or to provide disaster relief are sold at the provincial unified retail price of 558 yuan a ton. For other urea used in agriculture, the unified retail price of 1,126 yuan obtains.

For ammonium nitrate, the ex-factory price is 400 yuan a ton, and the provincial unified retail price is 520 yuan a ton.

The unified ex-factory prices for all ammonium carbonate and phosphates, whether planned or supraquota output, are 235 yuan a ton for Grade 1, 230 yuan a ton for Grade 2, 180 yuan a ton for ordinary superphosphate, and 210

yuan a ton for superphosphate packed in woven sacks. Unified retail prices are set by counties for both planned and supraquota output of ammonium carbonate and phosphates, and off- and peak-season price differentials have been abolished.

### Gansu

For ammonium nitrate produced by the Lanzhou Chemical Fertilizer Co, the ex-factory price (including packaging) is 350 yuan a ton, and the provincial unified retail price is 440 yuan a ton. For premium priced ammonium nitrate produced from heavy oil, the ex-factory price (including packaging) is a negotiated price of 468 yuan a ton, and the provincial unified sales price is 558 yuan a ton.

### Jilin

Jilin has decided temporarily to effect separate sales prices at the provincial and county levels for ammonium nitrate, urea, and diammonium phosphate. The provincial unified sales prices are 495, 735, and 1,092 yuan a ton for these products, respectively. Ceilings on ex-factory prices for supraquota output of ammonium nitrate and urea are 530 and 718 yuan a ton, respectively.

### Jiangxi

Bulk ammonium carbonate produced at the provincially run Jiangxi Ammonia Plant and Jiangxi Phosphate Fertilizer Plant is priced at 232 yuan a ton, and bulk calcium magnesium phosphate fertilizer produced at the plants is 176 yuan a ton.

Ex-factory prices for these two fertilizers and ordinary calcium produced at small plants are set on the basis of current rates, with reference to the prices of provincially run plants, and may not exceed prescribed levels.

Sales prices for fertilizers produced by small plants in Jiangxi are set according to import prices (ex-factory prices) and readjustment prices, plus a reasonable amount to cover shipping and miscellaneous fees, plus a unified differential that the province currently maintains for small plant fertilizer production. Units dealing in such fertilizers submit price proposals to local price bureaus for approval, and counties (cities) set unified sales prices.

### Anhui

The sales price of urea used to reward grain and cotton delivery is 583 yuan a ton. For urea used for other reward sales or for other special purchases, the provincial unified retail price of 820 yuan a ton obtains.

Price ceilings for urea obtained through self-funded imports or through cooperative arrangements with monopoly departments are established by each county.

### Hainan

The provincial unified sales prices for chemical fertilizers distributed by the state according to plan are as follows: urea, 560 yuan a ton; compound fertilizer, 440 yuan a ton; and potassium chloride, 340 yuan a ton.

For supraquota output of urea, the provincial unified sales price of 1,400 yuan a ton applies.

**Shandong**

**Urea Prices (Unit: yuan/ton)**

Plant Name	Specification	Ex-Factory Price	Preferential Price	Note
Qilu No 1	Total nitrogen content 45%	428	643	Price is reduced by 10 yuan when shipment is packed in high-pressure polyethylene
Qilu No 2	Total nitrogen content 45%	428	643	
Lunan Chemical Fertilizer	Total nitrogen content 45%	428	668	Each ton reduced in price by 10 yuan (for planned output used in agriculture)
Lunan Chemical Fertilizer	Fertilizer used as industrial raw material		583	

**Provincial Unified Retail Prices (Unit: yuan/ton)**

Product Name	Specification	Parity Price	Unified Price
Urea	Nitrogen content 46%	558	870
Diammonium phosphate	Nitrogen content 16%, 18%, Phosphate content 48%, 46%	700	1,230
Monoammonium phosphate	Nitrogen content 10%, Phosphate content 50%	655	1,190
Nitrate-phosphate fertilizer	Nitrogen content 27%, phosphate content 12.9%	790	790
Ammonium nitrate	Nitrogen content 34%	392	590
Ammonium sulfate	Nitrogen content 20.8%	270	420
Potassium sulfate	Potassium content 48%	390	675
Potassium sulfite	Potassium content 50%	405	690
Potassium chloride	Potassium content 50-60%	340	620
Nitrogen-sulfur-potassium compound fertilizer	Nitrogen content 15%, Phosphorus content 15%, Potassium content 15%	440	970

Notes:

1. Ammonium nitrate packed in paper sacks is reduced in price by 14 yuan a ton.
2. For each 1-percent increase or decrease in the nitrogen content of compound fertilizer, the sales price rises or falls by 11.07 yuan; for each one percent increase or decrease in the phosphorus content of such fertilizer, the sales price rises or falls by 10.93 yuan; and for each one percent increase or decrease in the potassium content, the price rises or falls by 7.33 yuan.

**Guizhou**

**Ex-Factory Prices of Urea and Ammonium Nitrate (Unit: yuan/ton)**

Product	Price for Planned Output	Price for Supraquota Output
1. Urea		
Produced by the Chitian Chemical Fertilizer Plant (packed in raw plastic sacks)	418	618
Produced by the Guizhou Chemical Fertilizer Plant (packed in woven sacks)	428	698
2. Ammonium nitrate		
Produced by the Jianhua Plant (packed in woven sacks)	302	538

**Unified Retail Prices for Planned Output of Urea and Ammonium Nitrate (Unit: yuan/ton)**

Ammonium nitrate	Produced by the Jianhua Plant (packed in woven sacks)	392
Urea	Produced by the Chitian Plant (packed in raw plastic sacks)	539
	Produced by the Guizhou Plant (packed in woven sacks)	549

### **Water Fees Reform Spurs Commercialization of Water**

40060504b Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 13, 27 Mar 89 p 13

[Article by Wang Jin 3769 1017 and Sun Chunsheng 1327 2504 3932: "Turning Water Into a Commodity"]

[Text] Water fees reform, which at one time generated a range of different opinions, has been extensively introduced in China with good results. This is particularly true in rural areas where users of agricultural water did not pay for it or seldom did so in the past. Since 1985, almost every province or municipality has drawn up regulations to introduce a new fee system for water used in irrigation. Statistically, state-run irrigation works across the country collected 800 million yuan in water fees in 1987, up from 220 million yuan in 1980. Water fees reform has spread the idea that water is a commodity throughout the sprawling countryside and has cut down on water consumption in irrigation and increased water efficiency. Earnings from water fees have improved water works management and functioned as an economic safeguard to some extent.

#### **We Must Build Irrigation Works and Charge Water Fees**

Since the PRC was founded, the state has invested in the construction of a huge number of irrigation projects, which constitute some 110 billion yuan in fixed assets today, including state-run irrigation works worth about 60 billion yuan. These irrigation works have been pivotal in controlling flooding, preventing drought, promoting agricultural and industrial development, and making water available to urban and rural domestic users.

For many years, we were concerned with only input and not the output of irrigation projects. Many projects provide water free of charge or for a nominal fee. As a result, they are acutely short of funds needed for repair, maintenance, and modernization, rendering simple reproduction difficult. Based on calculations involving state-run irrigation works, it would take 1.89 billion yuan to maintain simple reproduction at the 1985 level, yet earnings from water fees amount to merely 650 million yuan, barely enough to pay the wages of 500,000 maintenance workers, leaving practically nothing for repair and maintenance. In recent years, irrigation works across the nation are showing serious signs of aging due to years of disrepair, with a steady decline in their water supply capacity. Irrigated farmland in China has been shrinking by over 1 million acres each year for the last several years.

There is talk about a water crisis everywhere these days. While China ranks among the 10 nations in the world with the largest amount of water resources, its water resources per capita is only one quarter of the world's

average. Thus it is imperative that we economize and consume water rationally. Water fees should be manipulated for their effect as economic leverage.

The state formally promulgated a set of water fees regulations as early as 1965. While fees were not calculated strictly based on costs at the time, the move ended the era of free water, which was a major turning-point. But nobody was put in charge of collection and payment of water fees. In 1980, the Ministry of Water Resources organized a national water fees survey. In late 1981, a seminar was convened to discuss water charges from the viewpoint of irrigation works economics. Since 1982, provinces like Shandong, Shanxi, Jiangsu, and Zhejiang have successively developed a new water fees system and taken the lead in reforming water fees. In 1983, Zhao Ziyang instructed us that we must charge water fees and that such fees must not be set too low. If people do not have to pay water fees or do so at a nominal rate, our plan to cut down on water consumption will not work. Building on all this preparatory work, the State Council in 1985 issued the "Methods for Determining, Collecting, and Managing Water Fees for Irrigation Works," which laid down new regulations concerning water fees. The new regulations revolve around two points. One, water consumption must be paid for and, two, users of water for different purposes must pay different fees to be worked out in accordance with the costs of water supply.

#### **Water Fees Reform Has Begun To Pay Off**

According to calculations by water resources agencies, the cost of agricultural water is 0.025 yuan per cubic meter. If water fees are set based on this figure, then they would account for only 8 to 10 percent of agricultural costs and less than 5 percent of the gross agricultural output value. Water fees are low, but if we collect a penny here, a penny there, soon there will be enough money to repair and maintain the irrigation works.

Since the State Council promulgated regulations for water fees reform in 1985, all provinces, municipalities, and autonomous regions, with the exception of Shanghai, Tibet, and Ningxia, have carried out water fees reform in light of local conditions. One of the more outstanding examples is Shandong Province, where water fees reform has met State Council requirements. In Shandong, water fees are collected at the rate of 0.03 yuan per cubic meter, higher than the national average of 0.0081 yuan. Be that as it may, the peasants are very eager to pay. In 1987 the province's state-run irrigation works collected 86 million yuan in water fees.

Gradually the broad masses of peasants are realizing that water fees are part of the costs of agricultural production, not an extra burden on them. Even more important, water fees reform has driven home the idea that water is a commodity, which cannot but help the effort to cut down on water consumption. After water fees reform went into effect on Jiaodong Peninsula, the water quota for irrigating one mu of farmland dropped to dozens of

cubic meters from over 100 cubic meters. In the process water has been saved, water fees burden has not increased, and since less water is being used, less soil nutrients have been lost, which facilitates land improvement.

The increase in water fees earnings can ease the burden on the state treasury. The day-to-day repair and maintenance of existing irrigation projects will be intensified. There will even be enough money to transform some works. Water fees incomes have also played a constructive economic role in stabilizing the irrigation works management corps.

### **Shanxi Grain, Oil Prices**

40060603b Taiyuan SHANXI NONGMIN in Chinese  
25 Mar 89 p 1

[Summary] Beginning 1 April, Shanxi Province will raise the procurement price for grain and edible oil. Wheat prices will increase 1.7 yuan for every 50 kilograms, a 6.7 percent increase over 1988; naked oat prices will increase 1.6 yuan for every 50 kilograms, a 6.8 percent increase; corn and sorghum prices will increase 1 yuan for every 50 kilograms, increases of 6.3 percent and 6.8 percent respectively over 1988; and millet prices will increase 5 yuan for every 50 kilograms, a 29.5 percent increase. The price for every 50 kilograms of rapeseed oil, huma oil, and sunflower oil will increase 10 yuan; every 50 kilograms of peanut oil will increase 11.4 yuan; every 50 kilograms of cottonseed oil will increase 17 yuan.

### **Article Views Crisis, Options in Forestry**

OW1205120189 Hong Kong LIAOWANG OVERSEAS  
EDITION in Chinese No 12, 20 Mar 89 pp 9-10

[Article by Li Yongzeng 2621 3057 1073 and Wang Jian 3769 1017: "Chinese Forestry: Crisis and Options"]

[Text] Editor's note: Without greenery—especially without forests, there will be no mankind. Are China's forests alright? People look to the departments in charge of forestry. However, forestry is a special trade. It not only must supply timber for economic development, but also should make important contributions to improving people's living environment. Therefore, forestry is a matter of concern for the whole society. We appeal to the Chinese people at home and abroad to make common efforts to build a green earth for the Chinese nation, which is precisely what the title of this article implies. [end editor's note]

As China's economy is developing at a high speed and its population is increasing to a worrying figure, departments in charge of forestry have issued a solemn warning to the people: Our forestry resources are facing a crisis!

### **The Signal of a Crisis: Coming From the Forestry Ministry's "White Paper"**

In May 1987, thanks to the disastrous fire in the natural forest zone in Daxinganling, the Chinese people started to sober up and worry about the country's forestry resources. The forestry minister was replaced. After Gao Dezhan, the new minister, assumed the post, he repeatedly appealed to society: China's forests face a grave situation. We should not be indifferent to our big forests any more, even though they are easily ignored by people. At one important meeting after another, to busy high level organizations, before cheerful and worried colleagues, and to news media concerned about social issues, he has made numerous speeches with a worried tone. In the nearly 10,000-character "White Paper" recently delivered to the NPC Financial and Economic Committee, Minister Gao cited a series of shocking figures, and once again sounded the alarm about a crisis facing China's forestry resources.

China's forest area is decreasing alarmingly fast. From 1976 - 1980 alone, 100 million mu was lost. This is an average of 20 million mu lost per year. Our forest vegetation rate decreased from 12.7 percent in the Fourth 5 - Year Plan to 12 percent in the Fifth 5 - Year Plan, well below the world's average of 22 percent.

—Over the past few years, China has consumed a far greater amount of its forest reserves than the amount of forest growth. According to the 1985 survey, resource deficits were as high as 100 million cubic meters. Forestry reserves across the country on the whole are now 9.02 billion cubic meters, with the average per capita reserve area about 9 cubic meters, or 13 percent of the world average per capita reserves. Of these reserves, only over 2 billion cubic meters are mature forests which can be felled and exploited. Our current annual consumption rate is close to 400 million cubic meters. At this speed, by the end of this century our mature forests will be basically exhausted. By 2010, our middle growth forests that we will be forced to use in advance will also be basically exhausted.

—Of the 131 state forestry bureaus in the key state forest zones, 25 are now facing basically exhausted resources; 40 can hang on for only 5 to 10 years; 24 can still fell trees for 10 to 15 years. By the end of this century, nearly 70 percent of China's forestry bureaus will basically have no trees to fell. In collective-run forest districts, 290 counties could supply marketable timber in the 1950's, while today more than a half of them have stopped doing so.

—"Three disasters" facing forests are: The damage caused by forest fires reaches eight times that of the world average level in the worst year; each year sees 100 million mu of forests victimized by plant diseases and insect pests; and each year more than 20,000 cases of indiscriminate felling and denudation are reported.

The "White Paper" points out: Along with the development of the national economy, all departments are demanding a greater supply of timber. The crisis in forestry resources will seriously restrict our economic development. Furthermore, over consumption and endless sabotage of forestry resources will pose a menace to the development of agriculture and animal husbandry and the ecological environment, such as worsening soil erosion, increasingly serious desertification of land, rivers and water reservoirs silted up, frequent flood and drought disasters, and sand more fiercely blown by the wind. These have become great problems for industrial and agricultural production and people's own existence. We should solve the crisis of China's forestry resources by "striking at the root of it" or else the problems left unsolved will lead to a "historic error."

Not long ago, a lengthy report entitled "Existence and Development," completed by the national situation analysis and study group of the Chinese Academy of Sciences, pointed out: "In a certain sense, today's ecological target foretells tomorrow's economic trends. We are bearing unprecedentedly heavy population pressure and problems in the ecological environment that we have never seen before. We are facing the dual challenge of the most rigorous ecological sabotage and environmental pollution in history.... As scientists, we are more concerned about not only the environmental pollution that the common people understand, but also the question of the ecological environment, which is an urgent problem, is complicated, and will seriously threaten the foundation of the future Chinese nation's existence and development." A Shortfall of 50 Million Cubic Meters of Lumber To Meet Industrial Needs [subhead]

Modern science regards forests as a multivalue ecological system. The economic value and ecological recycling function of forests are of vital importance to social and economic development and mankind's living environment. When this view is expressed to departments related to forest development, what we hear is a unanimous and strong response: We have to have vast tracts of forests.

A detailed account of the department in charge of lumber production under the Ministry of Materials states: China's current per capita lumber consumption is only 0.05 cubic meters; i.e., 1 cubic meter for each 20 people. This is one-thirtieth that of the Soviet Union, one-thirty-fifth that of the United States, and one-twentieth that of Japan. Under state plans, over 60 million cubic meters of lumber is allowed to be felled each year. This is still far from meeting the actual needs. Thus, great sums of foreign exchange have to be spent on lumber imports. Statistics show that a total of \$3.8 billion was spent on lumber imports during the Sixth 5-Year Plan. Since 1986, over \$1 billion has been spent on lumber imports each year.

To conserve lumber, some localities have adopted conservation measures and have begun using substitute materials, but this is also difficult because there is also a

shortage of steel and plastic materials. Responsible people from the materials departments have pointed out: "Despite shortages of substitute materials, we still must popularize their use in order to slow the felling of forests. We also hope that the forestry departments will plant more forests and accelerate the planting and building of forests."

According to official statistics, even with reduced consumption, there will still be a shortfall of over 50 million cubic meters of lumber for the various key state projects by the end of the century. No doubt, this will exert a huge pressure on China's forestry development. The Loss of 50 Million Metric Tons of Nitrogen, Phosphate, and Potassium Causes Deterioration of Soil Quality [subhead]

Since China's agriculture largely depends on natural conditions, ecological conditions play a fundamental role in crop growing. China is poor in agricultural natural resources. To solve the problem of feeding a billion people, China depends heavily on a high quality agricultural environment. However, China's agricultural ecological environment has suffered serious damage in recent years.

Statistics compiled by the agricultural environmental protection departments show that soil erosion currently affects one-fifth of China's total land areas, up 30 percent from the early 1950's. The total loss of nitrogen, phosphate, potassium, and other soil nutrients caused by soil erosion each year equals to 40 - 50 million metric tons of chemical fertilizers. The soil quality of farmland has markedly dropped. By the late 1970's, the total acreage of desert had doubled that of the early 1950's. Currently, nearly 60 million mu of farmland is under the threat of being turned into deserts. Compared with the 1950's, the rate of natural disasters increased nearly 70 percent, and the area suffering from natural disasters increased by over 90 percent. This has caused great losses to agricultural production and to the lives and property of the peasants.

At a meeting marking "World Environment Day" on 5 June 1988, Agriculture Minister He Kang pointed out: The continuously dropping quality of the agricultural environment and the declining natural resources have become major factors affecting China's agricultural development.

A host of facts show that the destruction of forests and vegetation and the improper method used in developing natural resources have combined to cause a deteriorating agricultural environment. Therefore, the most important task in improving the agricultural environment is protecting the forests, fondly called the "green bodyguard," the "agricultural reservoir," and "nature's general regulator." Ecological agriculture projects carried out by the Ministry of Agriculture since 1984 show that employing the principle of ecological economics and the method of systematic engineering to guide, organize, and manage a

new type of agriculture can help achieve a benevolent cycle in agricultural production. This no doubt has enlightened people to this truth: The balance of a natural ecological system on which agriculture depends can be achieved by relying on forests—a main force in the land ecological system. Ecological agriculture has been praised by many experts as being the hope of China's agriculture. **Measures Urgently Needed To Control Serious Soil Erosion in Chang Jiang Basin** [subhead]

At the Ministry of Water Resources, which is in charge of water conservancy, we sense that the people here are very worried about the water and soil conservation problem which has so far defied all measures of control. A document supplied by the ministry shows that although soil erosion has been controlled on about 50 million square kilometers of land (one-third of the land listed as having a soil erosion problem in the statistics compiled during the early years of the founding of the PRC) since the founding of the People's Republic, soil erosion has actually expanded to include new areas, because land formation and vegetation have been seriously damaged by production projects or by the development of natural resources in recent years. In September of last year, China's water conservation experts issued another warning that "the green hills and blue waters on both banks of the Chang Jiang will become barren mountains and unruly waters." A vice minister of the Ministry of Water Resources also admits with regret that progress is too slow in controlling soil erosion in the Chang Jiang basin, and that the damage caused by people has far outstripped what soil erosion control can restore.

Data shows that soil erosion defying remedies has completely silted up one-fourth of the reservoirs built over the past 30 years, causing direct economic losses estimated at between 20 and 30 billion yuan. The reservoirs' economic value has dropped sharply. The silted up river courses caused by soil erosion have made navigation difficult or impossible. Currently, the total navigable mileage of all inland waterways has dropped by 64,000 km nationwide, or nearly one-third, from the 1950's. A more serious fact is that soil erosion has caused changes in the waterways' ecological systems. Experts have predicted that without effective measures, serious "ecological disasters" may happen. While the fate of the Three Gorges project, a worldwide attention getter, is still undecided, experts estimate that the percentage of forest cover in the Three Gorges area has dropped to only 10 percent from 30 percent in the 1950's. Some experts think that in view of the intensified environmental destruction, people are beginning to wonder whether the Chang Jiang basin can withstand the new impact brought to bear by the Three Gorges project.

Almost all the water conservation experts agree that in future soil erosion efforts, in addition to relying on engineering projects such as reservoirs, dikes, and dams to temporarily control soil erosion, other ecological measures such as forests planted to prevent floods and

vegetation cover must also be viewed as a fundamental means of preventing soil erosion. This view has already been accepted by the state as a basic principle for soil erosion control. **The Green Color Is Fading; The Overall Environment Is Worsening** [subhead]

Deputy Director Jin Jianming of the State Environmental Protection Administration said with worry: Following a sharp decline in our forestry resources, the green color is fast disappearing from the landscape of China. Today, the world has generally used the greenery cover rate as an important criterion for judging whether or not a nation's environment is good and whether or not its civilization is high. Currently, the greenery cover rate of cities in the developed nations is between 30 to 40 percent. China is far below this level. The greenery cover rate in Beijing is only 10 percent, averaging 1 square meter of greenery per person.

The damage to China's forestry resources poses a great threat to the people's productivity as well as to their living environment. Citing examples, Director Jin said: First, the damage to forests causes inclement weather. The felling of Xinjiang's walnut forests in recent years has caused black storms to hit Xinjiang, which are like those caused by the development of the prairies in the United States in the 1930's and those caused by improper methods of opening up Western Siberia in the Soviet Union in the 1960's. Second, the damage to forests causes a fast decline of rare wild animals such as wild horses, high-nosed antelope, rhinoceros, and the white-bottom monkey, which are almost extinct today; and of rare plants such as the wood lotus, ironwood tree, yellow sandwood, yellow pineapple, and the shuiqu willow, which are becoming more rare each day. He said: The economic loss of these biological genetic data is immeasurable.

The ecological environmental problem has aroused worldwide concern. The Chinese Government regards environmental protection as a basic national policy. The natural environment and natural resources are material conditions on which mankind depends for its existence, as well as a material base for China to realize its socialist modernization and construction. China's per capita share of natural resources, particularly forestry resources, is far below the world average. Therefore, we must regard protecting natural resources and the natural environment as a strategic task, obey ecological laws, and comply with scientific principles in the course of development and construction in order to make our natural resources last and to reap benefits from a good ecological system.

#### **Scientists' Advice: Do Not Commit Sins Against Your Offspring**

The sharp reduction of China's forestry resources and the crisis in forestry worry many experts and scholars and draw their attention.

In 1987, noted scientist Qian Xuesen pointed out: The forestry problem is actually one of the ecological environment which our ancestors did not solve well. Eating food—cultivating land—felling trees, this vicious circle has undermined the forests on our motherland's good earth for nearly 2,000 years. The development of forestry in the days ahead is of vital importance to the major issue of how to turn our land of 9.6 million square kms into an environment fit for living and habitation by our 1.2 billion or more people in the future.

Noted ecologist Hou Xueyu pointed out: For a long time, people have erroneously believed that China's forestry resources are tremendous, inexhaustible natural resources. As a result, at the initial stage of forestry, a system of forest industry concentrating on felling trees was established. At that time, timber and profits were regarded as the principal goal for forestry production. He pointed out: Such a view was lopsided. In the days ahead

we must foster an entirely new guiding ideology for developing forestry. Forests must be felled in a rational manner and managed in a scientific way so consideration can be evenly given to the comprehensive economic, ecologic, and social benefits produced by forests.

A young scholar of the Forestry Economy Institute of the Academy of Forestry Sciences of China has analyzed the crisis in contemporary China's forestry. He points out: If we let the crisis remain unsolved, we will certainly face a "crisis in raw materials" and an "ecological crisis." He reminds people: Although China's forestry resources are inadequate, their exploitation is even more inadequate. Our limited resources badly need optimal disposition. He suggests that forestry departments establish their own dominant industry in order to raise the comprehensive utilization of China's forestry resources so as to greatly ease the crisis in forestry resources and accordingly reduce or eliminate the concomitant ecological crisis.

**Forum on Legal Responsibilities**  
40050383b Beijing RENMIN RIBAO in Chinese  
13 Mar 89 p 6

[Article by the Research Office, Legal System Bureau, State Council]

[Text] Legal responsibility is an extremely important topic for study in the current establishment of China's legal system. At the end of 1988, the Legal System Bureau of the State Council held a Forum on Legal Responsibilities in Suzhou. Participants at the forum united theory and practice. They had broad and deep discussions on general theoretical issues of legal responsibility, as well as how to clarify, specify, standardize, and make articles on legal responsibility easy to implement.

The forum held that legal responsibility is an important indication of the success or failure of a country's legal system; it is a yardstick for appraising the legal system and its actual results. To strengthen the legal system, we must attempt to set up patterns of legal responsibility that are easy to implement, and mechanisms for determining authority over legal responsibility. Delegates at the forum discussed the connotations of legal responsibility on this basis. Some delegates pointed out that legal responsibility is related to the standard of obligations, noting that violation of primary obligations leads to secondary obligations. Primary obligations are corresponding to legal rights and interests. Secondary obligations are corresponding to the state power; failure to carry out primary obligations would render secondary obligations necessary, and failure to carry out secondary obligations would impose state mandate. Therefore, this legal responsibility implies the following requirements: 1) Secondary obligations are by the state mandate, making it the highest and the most authoritative stature among the multiple social responsibilities. They differ from other forms of responsibility which are not mandated by the state, such as moral responsibility, party discipline responsibility, etc. 2) Secondary obligations are to provide concrete specificities with differentiation and distinction of scope and quantification. Sweeping, abstract, and somewhat unquantifiable and undifferentiated secondary obligations are not strictly denoted as legal responsibilities. 3) Secondary obligations can be made mandatory. Those which are not authorized or cannot be carried out by mandate cannot be brought on by primary ones. 4) We must rely on secondary obligations in setting up primary obligations. Standards which do not lead to secondary obligations cannot be used. On this basis, those in attendance analyzed present China's formulation and implementation of legal responsibilities. They felt that authority over formulation of legal responsibilities in China is unclear; articles concerning legal responsibility are too simple and sweeping. There is a lot of discord between legal responsibility and obligation standards, and between different forms of legal responsibility. Such a situation has to lead to distortion at will in the implementation of legal responsibilities.

Moreover, legal responsibility lacks force, further complicating the difficulties of enacting legal responsibility, as is seen by the fact that legal responsibility is often replaced by other forms of responsibility. Delegates at the forum emphasized that these problems of legal responsibility are not independent. They are intimately related to China's thinking on legislation and our understanding of the function of law. If we do not correct the biases in legislative thinking or those in the development strategy for the entire legal system, and seek mechanisms for implementing the law, then we cannot effectively attain our goal of manifesting a legal system. The forum pointed out that major issues for study in the theoretical science of law are how to determine authority for legal responsibilities; and specify, clarify, and make articles on legal responsibility form a self-contained, truly feasible system. They are also basic issues that legal system work units cannot ignore, as well as items for further theoretical study by theorists and politics and law departments.

The forum felt that the provisional articles for legal responsibilities should adhere to these principles: 1) the principle of legality. Determination of a certain form of legal responsibility must adhere to legal demands; 2) the principle of correspondence. Punishment for illegal behavior should correspond to the nature and degree of illegality; 3) the principle of coordination. Different forms of legal responsibility are coordinated, as the standards for legal responsibility and obligation are identical; 4) the principle of feasibility. The description, classification, and extent of legal responsibilities must all be clarified, specified, and easy to implement.

**American, Chinese Cultural Values Compared**  
40050458 Shanghai SHIJIE JINGJI DAOBAO in  
Chinese 27 Mar 89 p 1

[Article by Feng Zhaodong 3301 0340 2639: "I Should Not Be the Same as You—a Comparison of the Value Systems in American and Chinese Cultures"]

[Text] American culture has always had a strong bias against history and authority. With this antihistory and antiauthority nature, the social attitude of worshipping what is new, equality of position in the family's hierarchical relationship, and loose family ties, coupled with America's social environment of easy mobility, the influence of the previous generation on the next generation is extremely limited. But this proposition is only stated in the classroom. American culture also respects authority, but Americans do not have permanent authorities. If an academic authority of former times is no longer active on the academic scene, he is no longer an academic authority; if a president in earlier times no longer has political power, in both common practice and legal principle he is considered not much different than the common people.

These antihistory and antiauthority feelings, as well as America's social and geographical environments in which it is easy to move from one place to another, make people think that change is always better than no change and the new is always better than the old. With this social mindset of worshipping change and worshipping the new, the controlling role of ancestors, sages, famous persons, and powerful persons is put under maximum restraint. What the people pursue is this idea: tomorrow should not be the same as today, and I should not be the same as you. People's "traditional concepts" are replaced very quickly. A thing that was ridiculous 10 years ago might become a thing that many people advocate today. This cultural changeability is enhanced by the belief that "a live person is always better than a dead person" and "the future is always better than the past." Not only is it very difficult for parents to exert the influence of "tradition" on their children, but also the schools advocate that able students create something new and original and not become copies of their professors, and even put up restrictions to young teachers becoming assistants to or collaborators of famous professors. This is because the schools think that able youths should be a little less influenced by the famous men of the previous generation, and should rather strive as early as possible to surpass, by other means, and outstrip the famous men of the previous generation. However, this permissive social environment provides the conditions for the activity and spread of AIDS and the Ku Klux Klan. Without a doubt the fact that in

recent years America has been unable to stop the flow into it of pornography and drugs, that in America the Ku Klux Klan is active in a "free form," and so forth are byproducts of this "unrestrained" culture.

Diametrically opposite to this, Chinese culture puts much stress on history, and Chinese rulers throughout the ages have made history a "mirror of warning." To this day statesmen rely on the lessons drawn from history. The lessons of a sage were able to control the nation for several thousands of years. The expression of political views by a leader in history was made holy writ that, without the slightest development in it, guided a fast-changing modern society. This kind of culture also maintains a belief in the cyclical nature of history, namely, that "one is east of the Huang He River for 30 years and west of it for 30 years," and a belief that the people of today are not as good as the people of olden times. The education that people receive from childhood on is not an education in how to distinguish the true from the false, but is rather an education in what the ancients, sages, famous persons, and powerful persons deemed to be true and false. This inertia in Chinese culture, in which the ancients, sages, famous persons, and powerful person are worshipped, smothered to a serious extent the initiative, competitive spirit, and creativity of a great number of people. The distance in the position in the family hierarchy, in personal status, and in power that this inertia produced is a major obstacle to the establishment of a democratic society.

## Growing Problem of Illegal Mainland Immigrants to Taiwan Discussed

### Nearly 300 Apprehended This Year

40050447 Hong Kong MING PAO in Chinese  
14 Mar 89 p 9

[Text] Yesterday morning, the Taiwan military captured a mainland fishing boat at Taichung harbor that was attempting to deliver a group of illegal mainland immigrants to Taiwan. It is not known how many persons were aboard. The ship has been detained, and the incident is under investigation.

It is reported that Taiwan military police discovered three cases of illegal crossings by mainlanders on the 12th: 40 persons were caught trying to land in Miaoli County, 13 were nabbed at Aotikang in Ilan County, and 18 were apprehended at Taichung harbor. These cases have suddenly highlighted the problem of surreptitious "mainland laborers" in Taiwan.

According to statistics published in the Taiwan press, there have been 21 known cases of mainlanders trying to get into Taiwan illegally, involving 323 persons—293 since January of this year—totaling a shocking average of 120 persons a month. These were the only reported figures; it is impossible to estimate the numbers caught but unannounced and the number that have eluded capture.

As for landing sites, previously most were at major ports such as Kaohsiung, Keelung, and Hualien. But since the beginning of this year fishing boats have been going to uninhabited coasts all along the Western shore of Taiwan to drop off their cargoes and then go ashore.

Taiwan public security units, believing that the large number of illegal entries indicates serious neglect by coast guard departments, are going to investigate responsibility for the problem in greater detail.

In addition, what concerns Taiwan public security units most is whether or not the illegals are carrying guns or other contraband. The illegals possibly will be sent back to the mainland if careful investigation discovers no problem on this score.

### Routes, Occupations of Immigrants

40050447 Taipei TZULI WANPAO in Chinese  
14 Mar 89 p 2

[Text] A police officer who was involved in the apprehension of male and female illegal immigrants from the mainland on the coast at Fang Yuan Township, Changhua County yesterday said that, due to a few holes in the otherwise tight coast guard security net and the growing number of sea and air conduits for illegal crossings, many mainland men and women are secretly living and working in Taiwan.

This officer said that it is easy for these illegals to conceal their identity because they come from southern Fujian, which has exactly the same people, language, dialect, and customs as Taiwan, and because most of the illegals are in their 30s or younger and thus speak good Mandarin.

From what he learned through the grapevine, the male illegals have been taking on labor jobs in which workers are in short supply throughout the island, especially construction, and most of the women have been putting their primitive capital to use in sex trade. Rumor has it that sex parlors showcasing "little mainland sisters" have appeared in Taipei.

He said that, given mainland income standards, the illegals very likely have to use savings they worked so hard and for so many to amass or even borrow to make the crossing. However, given the money both men and women can earn working in Taiwan, they are able to repay their debts quickly and enjoy a vastly better life than they had on the mainland. So one should not be surprised that these men and women would risk making the illegal crossing.

He stated that the illegals' confessions and the addresses and phone numbers of "relatives and friends" obtained through body searches indicate that they were motivated by envy of the lavish expenditures they observed Taiwan visitors making on the mainland. The illegals then sedulously built clan and lineage connections through exchange of addresses and phone numbers so that, in the event of successful crossing, they would have something to depend on. The fact that the Taiwan "relatives and friends" left addresses and phone numbers at which they could be contacted strengthened the illegals' resolve.

### Costs, Types of Immigrants

40050447 Taipei TZULI WANPAO in Chinese  
14 Mar 89 p 2

[Text] One wave after another of mainland youth has escaped to Taiwan by fishing boat. Although each attempt is surrounded and seized by our coast guard, many fish escape the net. This growing "wave of refugees" crashing through our borders has caused intelligence and public security units great concern.

Each of the mainland youths apprehended last night carried \$2,000 in New Taiwan dollars, which they say they obtained for 500 yuan in renminbi on the mainland. In addition, each person paid 5,000 yuan in renminbi to the "mysterious person" who got them on board the boats. The total, then, was 4,500-5,000 yuan in renminbi a person. Given the average mainland monthly income of only 150 yuan renminbi, the total passage cost amounts to 2.5 to 3 years of total income. Consequently, intelligence and public security personnel suspect that this amount is more than mainlanders can afford and that there must be some "conspiracy" involved.

Intelligence and public security personnel point out that if the Chinese Communists send a large number of wreckers among the illegal immigrants and that if 5 of 100 successfully escape the net, Taiwan's public security will certainly be affected.

Also noteworthy is the fact that almost all of the illegal immigrants hail from southern Fujian, whose dialect is the same as Taiwan's. Once immigrants spend a few days in Taiwan and get to know local conditions, it is very hard to tell immediately that they are from the mainland.

And if the immigrants can get their hands on false identity cards so that they can land jobs and make a living, they will be even harder to uncover.

One netted mainland youth indicated, "After us, even more mainlanders yearning for the rich life in Taiwan will attempt illegal passage to the island to make a living." If that indeed happens, how can such a small place as Taiwan put up so many uninvited guests? Thus, our top priority must be to strengthen coastal defense.