JPRS-CAR-93-050
16 July 1993

JPRS Report

China

DTIC QUALITY INSPECTED 2

19980113 346

DISTRIBUTION STATEMENT A
Approved for public release;
Distribution Unlimited

REPRODUCED BY
U.S. DEPARTMENT OF COMMERCE
NATIONAL TECHNICAL INFORMATION SERVICE
SPRINGFIELD, VA. 22161

China

JPRS-CAR-93-050 16 July 1993

CONTENTS

POLITICAL

Xu Jiatun's Memoirs Continued *[Hong Kong LIEN HO PAO 14, 17-27 May]* 1

ECONOMIC

NATIONAL AFFAIRS, POLICY

Government Called Upon To Limit, Define Powers *[BAOKAN WENZHAI 7 Jun]* 18
State Figures Show Industrial Efficiency Rising *[XINHUA]* 18
Hou Jie Urges Strict Control Over Real Estate *[ZHONGGUO XINWEN SHE]* 18

PROVINCIAL

Xinjiang Loses Funds To Eastern Provinces *[XINJIANG RIBAO 21 Apr]* 18
Xinjiang Enterprises Experience Difficulties 19
Excessive Fees *[XINJIANG RIBAO 5 May]* 19
Enterprise Debts *[XINJIANG RIBAO 5 May]* 20
Loan Problems *[XINJIANG RIBAO 5 May]* 21
Enterprise Closures *[XINJIANG RIBAO 5 May]* 22

FINANCE, BANKING

Specialized Banks To Convert to Commercial Banks *[JINRONG SHIBAO 27 May]* 23
Commentator on Meeting International Banking Standards *[JINRONG SHIBAO 24 May]* 24

SMALL-SCALE ENTERPRISES

Township Enterprise Policy Pitfalls *[ZHONGGUO MAOCU BAO 26 Apr]* 25

TRANSPORTATION

Guizhou Improves Communications Network *[XINHUA]* 26

AGRICULTURE

Agricultural Trade Policy After Joining GATT *[NONGYE JINGJI 13 May]* 27
GATT's Potential Impact on Agriculture, Trade *[ZHONGGUO NONGCUN JINGJI 20 Apr]* 30
Hubei Increases Farm Machinery Sales *[ZHONGGUO NONGJIHUA BAO 15 May]* 33
Agricultural Mechanization Spreads in Hunan *[ZHONGGUO NONGJIHUA BAO 15 May]* 33
Water Conservancy Construction Achieves Good Results
[ZHONGGUO NONGJIHUA BAO 15 May] 34

SOCIAL

Sales of Party Publication Opened To Public *[XINHUA]* 36
Intensified Activities of Transport Bullies *[Hong Kong LIAOWANG OVERSEAS EDITION 17 May]* ... 36
Rampant Phenomenon of Illicit Prostitution
[Hong Kong LIAOWANG OVERSEAS EDITION 17 May] 38

TAIWAN

Hao Po-tsun Interviewed on Politics, Society *[CHO-YUEH 1 May]* 39

Xu Jiatun's Memoirs Continued

93CM0321A Hong Kong LIEN HO PAO in Chinese 14, 17-27 May 93

[Selections from serialized memoirs: "Xu Jiatun Wants To Be a Witness to History. Xu Jiatun's Hong Kong Memoirs"]

[14 May 93 p 2]

[Text] **5. Understanding Hong Kong Anew (Part 1)**

Intelligence System Damaged After Anti-British Violent Repression Struggle; Li Weiting Transferred to Grass-roots

"No investigation, no right to speak" is a famous saying by Mao Zedong and has been part of the party's character since the CPC's rectification movement in 1943. Since then I have been involved in party and government leadership work in the political, economic, military, and scientific and technical fields and at the local level. Every time I took up a new job, accepted a new assignment, or encountered a new set of circumstances, I did my best. I always began with research and investigation.

Before coming to Hong Kong, I was briefed by comrades in charge of Hong Kong affairs about the situation there but I felt strongly that such briefing was inadequate, long on superficiality and short on detailed analysis. For instance, they assumed there was widespread support among Hong Kong compatriots for the return of Hong Kong to the motherland, citing as an example the student protests that greeted British Prime Minister Margaret Thatcher when she arrived at Hong Kong Airport after completing a round of negotiations in Beijing. In fact, the protests could only be construed as an act of patriotism on the part of the students, but could not be interpreted to mean that all Hong Kong people embraced the idea of returning Hong Kong to China. Only after I came to Hong Kong did I realize the complicated feelings of the local countrymen. People who were truly in favor of China taking over Hong Kong did not make up a majority. I keenly felt that without researching and investigating in depth the true circumstances in Hong Kong, we could not make the right policy and would certainly not be able to do a good job. At a meeting of the Hong Kong and Macao Work Committee a few days later, I made the point that we had to understand Hong Kong anew, and proposing that research and investigation be made our top priority, asked everybody to get to work.

The second round of Sino-British negotiations was about to begin. Since the Hong Kong office of XINHUA is an agency of the CPC Central Committee and the State Council, I thought that a leading goal of our research should be to figure out clearly the strategy and tactics the British would use at the conference table in conjunction with the negotiation struggle. As they say, "know the enemy and know yourself, and you can fight a 100 battles with no danger of defeat."

Yet Li Jusheng [2621 5468 3932] said wryly: "In our struggle with the British, we have always gained mastery by striking only after the enemy has struck." Still uninitiated into Hong Kong XINHUA's intelligence work at the time, I did not argue with him.

After studying the situation for more than one month, I learned that in the wake of the anti-British violent repression struggle, our intelligence system was so severely damaged by the Hong Kong British regime that it could no longer gather any information in advance. What Li Jusheng said about "gaining mastery by striking after the enemy has struck" was a totally reactive strategy.

So I commented at the Hong Kong and Macao Work Commission that to "gain mastery by striking after the enemy has struck," we must equip ourselves with basic information about the enemy beforehand, knowledge about their tactics, methods, and procedures of competition. Then we could determine our own tactics, methods, and procedures of competition, and once the enemy had struck, return fire. This was the only way to seize the initiative by striking after the enemy has struck and gain control of the whole situation. If we did not know the ins and outs of our enemy beforehand, but only familiarized ourselves with it bit by bit after they made a move, we would not be able to defeat it let alone take the initiative to control the whole situation. This kind of gaining-mastery-by-striking-after-the-enemy-has-struck strategy lacked initiative and should be avoided at all costs.

After some consideration, I decided to strengthen the investigation and research function of the Hong Kong office of XINHUA in these six ways:

1. Reorganized and reinforced the policy research office. At the beginning, I had high hopes for the policy research office headed by Li Weiting [2621 0251 1656] because it had furnished a lot of materials and proposals and done a good deal of work for the Sino-British negotiations. When I began making additional demands on it, however, I felt it was not up to the job. The materials gathered by Li Weiting and others were almost all publicly available. Moreover, there was little in-depth analysis. For instance, I wanted information on social figures and all they could come up with were newspaper and magazine articles. They did not do any investigations on their own and their commentaries on individuals were often superficial.

At the time the research and investigation office made up a good chunk of the personnel of the Hong Kong office of XINHUA, more than 20 out of a total of a little over 100. Li Weiting had a hands-on approach, which was quite good, but it did mean that instead of taking the initiative to investigate, his subordinate cadres would look up something only when they were given the marching order. A number of researchers of a high caliber were transferred from Guangdong but they could not get along with Li Weiting's no-letting-go style. One

researcher simply could not work in the office and wanted to quit to pursue further studies at Hong Kong University. I could not keep him and had to let him go.

A long time passed without any improvement. Then came time to draw up the Basic Law. I had no choice but to set up a separate research and investigation group and put Qiao Zongzhun [0829 1350 0402] and Mao Junnian [3029 6874 1628] in charge to coordinate with the work of the Basic Law Drafting Committee. In 1988, I asked Ma Hong [7456 3163], president of the Chinese Academy of Sciences, to loan us its senior researcher Zuo Mu [0146 3668] whom I appointed director of the research and investigation office. Li Weiting was transferred to be secretary of the Central District Work Committee where he had an opportunity to acquire grass roots experience.

2. I demanded that the sub-branch (an office of XINHUA in Beijing which specialize in press work) step up the gathering of social news and provide me with information whose publication is not advisable but which I could use for reference. It played a major role in helping me understand Hong Kong. In the incident surrounding the Lobo motion, for example, it gave me some information rarely known in society. I also demanded that the sub-branch send reporters to cover some of the public activities I took part in and report them to the CPC Central Committee for its reference.

From my experience in Jiangsu, I knew that there were some local events which the local party committee could not report to the CPC Central Committee right away for a variety of reasons. On that kind of occasion, a reporter should send a report to the CPC Central Committee for internal reference purposes only. This practice would help leaders at the center grasp public feelings in a timely way and harmonize the relations between local party committees and news organizations.

3. I mobilized all organizations to involve themselves in research and investigation. Chinese foreign trade organizations in Hong Kong, such as the Hong Kong and Macao offices of the Bank of China and Huarui Trading Company, all had research and investigation offices regularly turning out reports of limited circulation. I suggested that they expand their circulation to include the appropriate Chinese-funded organizations. In addition, I had some of the more valuable materials reprinted in XIANGGANG CANKAO put out by the Hong Kong and Macao Work Committee so that leading cadres at the provincial level nationwide would get a chance to read them.

4. To gain better access to world economic information, I decided to set up the Southeast Economic Information Center and assigned it the mission of gathering, studying, and evaluating global economic information. Their findings would be made available to the Hong Kong and Macao Work Commission, leading bodies in Beijing, and other interested units in the country. The center also was to accept commissions to provide research services, starting with Hong Kong issues and gradually developing into a research organization similar to the Rand Corporation in the United States. The plan was to build it up as an international authority in economic and financial research.

I picked Yang Zhenhan [2799 2182 3352], a younger brother of Nobel laureate Yang Zhenning [2799 2182 1337], to be vice chairman of the board and general manager, with myself as chairman of the board. The last fact was not made known to the public. Unfortunately, after he took office in 1990, Zhou Nan disbanded the center with just one sentence: not engaged in proper work. (10)

[17 May 93 p 2]

[Text] 6. Going Home for Consultations in September (Part 1)

Nervousness in Hong Kong Reported; Goal To Boost Chinese Capital Proposed

After rushing about for three months, I got a preliminary understanding of Hong Kong. In September I returned to Beijing armed with the outline of a report I had drafted.

Back in Beijing, I telephoned Hu Qili, a member of the Standing Committee of the Political Bureau of the CPC Central Committee and secretary of the secretariat and asked him to present the report on my behalf. He replied: "I asked Comrade Hu Yaobang [5170 5069 6721] for instructions and he has arranged for the report to be heard by a foreign affairs leading group."

The report was presented at State Council Conference Room No 3 at Zhongnanhai. Li Xiannian and Zhao Ziyang, chairman and vice chairman, respectively, of the foreign affairs leading group, and Director Ji Pengfei [1213 7720 7378] of the Hong Kong and Macao Affairs Office arrived in close succession, as did Hu Qili. They were joined by Minister of Finance and State Councillor Wang Bingquan [3769 0014 0051], and a deputy director of the Organization Department under the CPC Central Committee. The last two were invited to participate by Hu Qili at my suggestion since I was going to ask for personnel and money.

The meeting was presided over by Zhao Ziyang. He said he would only spare me a morning and asked me to make a succinct report.

The report revolved around three issues: the situation in Hong Kong, the state of the local economy, and the corps of cadres. I started out by reporting on the situation in Hong Kong. I said: "When Hong Kong compatriots learned that the CPC Central Committee has decided to take back Hong Kong in 1997, they were badly shaken. Social fragmentation and realignment are going on in a big way. These phenomena are particularly severe among the upper crust in society. Because of the righteous cause of nationalism, they have to pay lip service

to the idea of returning Hong Kong to China even if they do not really approve of it. At a minimum they have to keep mum about their opposition. Privately, they are worried that private properties will be transformed or communalized by socialism and that they will lose their freedom after 1997. In addition, intellectuals dread brain-washing and the middle- and lower-strata of society are concerned that their living standards will decline. After interacting with the people for several months, I discovered that a majority of the compatriots do not know the policy of one nation, two systems that would be put in place after China takes over Hong Kong. The few who know worry that things will change. They are mistrustful of the party. Pervading society is a sense of doom. Capital has been fleeing Hong Kong and residents have been migrating."

I noted that the participants were all listening with rapt attention.

Li Xiannian chipped in with this question: "Is the outflow of capital serious? How much money has left Hong Kong?"

"From what I know, it is quite bad. The first to flee Hong Kong were a number of patriotic capitalists. Leading comrades at the center invited them to come to Beijing for discussions. No sooner had they got wind of this than they turned around and fled. According to estimates by the Bank of China in Hong Kong, however, more funds are flowing into Hong Kong than out. They believe that as long as people can make money in Hong Kong, capitalists that have already left will return."

Li Xiannian did not say anything.

I said: "I have come in contact with numerous Hong Kong compatriots in the last few months, including many in the upper and middle levels of society. It is not a minority which wants to keep the status quo and let the British continue to run Hong Kong. Zhong Shiyuan [6988 1102 0337], senior member of the Legislative Council, for instance, once openly proposed that China be the 'chairman of the board' with Britain as general manager. Is the idea of trading sovereignty for the right to govern really a British tactic, something the Hong Kong people were brain-washed into adopting as their own? Or is it a local product subsequently taken over by Britain to be used as public opinion and a tool in their struggle with the Chinese? My answer is, perhaps both. These days the Hong Kong compatriots are torn between relying on Britain and trusting China, between staying in Hong Kong and migrating. Social fragmentation and realignment are accelerating. Winning the trust of Hong Kong compatriots is a task that brooks no delay."

At this point Li Xiannian said emotionally: "Winning over the public should be our top priority."

Referring to the Hong Kong economy, I said: "It began taking off back in the 1960s and grew by leaps and bounds in the latter half of the 1970s, becoming one of the four mini-dragons of Asia. Currently there is an oversupply of buildings caused by international economic factors as well as the Hong Kong British government's policy of jacking up land prices. Further depressing the real estate market is the 1997 factor. All of this has been a drag on the local consumption market." Zhao Ziyang interrupted: "Real estate is only one link in the entire economy."

Turning to Hong Kong industry, I said: "People in local industry and commerce asked me to pass on this request, namely that the mainland allow Hong Kong industrial goods to enter China. Industry is the pillar of the Hong Kong economy. If the mainland market is opened up to local industrial products, that may revive the Hong Kong economy currently mired in recession."

Li Xiannian interrupted immediately: "That won't do. Hong Kong should go and look for world markets. The domestic market is limited in size. They cannot come in and compete with domestic products." I interpreted his words to mean that if Hong Kong products were allowed entry to the mainland market, the foreign exchange earnings of the state would diminish.

I continued: "The Hong Kong economy is a typical colonial capitalist economy. By resorting to privileges and monopolies, British capital has taken over many sectors of the economy and occupies a vital place. In the past decade, local Chinese capital has come into its own. While many Chinese capitalists relied on Britain at the beginning, they have gradually become the latter's main competition. Overseas Chinese capital, capital from Southeast Asia, Taiwan capital, and capital from other nations and regions all consider Hong Kong an easy place to make money. The prospect of Hong Kong being returned to China in 1997 has caused them different kinds of concern and forced them to make different plans. To keep Hong Kong prosperous, we must work hard to win them over so that they will continue to invest in Hong Kong. The policy we should consider is: keep British capital, stabilize local Chinese capital, unite overseas Chinese capital and Taiwan capital, and strengthen Chinese capital."

Hu Qili was very interested in these several words. He repeated them and jotted them down, verifying them with me sentence by sentence.

I also told them my tentative ideas about implementing this policy. Referring to the strengthening of Chinese-funded enterprises in Hong Kong, I proposed that we reform the import/export operations by taking a leaf from the book of Hong Kong businessmen and that pilot projects be carried out in investing in real estate, in stocks, and in gold. Later, we might consider broadening the experiences.

Li Xiannian responded right away: "As Comrade Chen Yun [7115 0061] said, 'Prevent the outflow of profits.' We don't even have enough funds at home. Where are we going to find the money to invest elsewhere?"

I went on to comment that the Bank of China was too cautious in the way it did business, dealing mainly with small and mid-sized companies and not doing enough to court large corporations. That was something which should be improved.

Neither Li Xiannian nor Zhao Ziyang interrupted me at that point. After the meeting, Zhao Ziyang told me in private that we must be careful as we went about reforming the Bank of China since the entire nation looked to it for foreign exchange. (13)

[18 May 93 p 2]

[Text] **6. Going Home for Consultation in September (Part 2)**

Request for Staff and Money: Zhao Ziyang Gives the Nod

Finally I proposed reorganizing the Hong Kong office of XINHUA and the Hong Kong and Macao Work Commission, improving the low morale among the cadres, and reversing the "one left and two narrows." I asked the CPC Central Committee to approve an expansion in the authorized size of the Hong Kong office of XINHUA and an increase in funding. Permission was also sought to reform the workers' wage system to bring it in line with wages in society over time.

Zhao Ziyang said: "If you want staff, ask the Organization Department." The deputy director of that agency asked me: "How many?" Having projected the future workload, I replied: "The Hong Kong office of XINHUA right now has just a little over 100 workers, including door-keepers, chauffeurs, and other workers regularly doing odd jobs. Not enough to handle the assignments in the days ahead. I expect we would need 500 to 600 people." He asked me to make up a detailed list for its consideration. (In the end the authorized size of the Hong Kong office of XINHUA was raised to 400.)

After manpower, I asked for money. Pointing to Wang Bingquan [3769 0014 0051], Zhao Ziyang said: "If you need money, go talk to him." Wang Bingquan kept a tight grip on the purse-strings. When I was working in Jiangsu, I argued with him at least once a year. The localities wanted to minimize payments to the state while maximizing what they could keep. Wang Bingquan, in contrast, tried to do just the very opposite. In the end, the localities were never his match. This time around, though, he was quite generous. He said with a smile: "How much do you want? Have you brought along a budget? Provided Li Xiannian and Zhao Ziyang give the nod, I will go along." I said, also smiling: "The work has not been assigned yet, so how can I produce a budget? You guys have allocated too little money for Hong Kong and Macao, a mere HK$30 million for the entire year. Can this money be taken back to Hong Kong?" At that several of the officials in charge burst into laughter. Zhao Ziyang said: "Name a price to Comrade Wang Bingquan. Neither Li Xiannian nor myself have any objections. Right?" Li Xiannian smiled and nodded. In the end the Hong Kong office of XINHUA was allocated a total of more than HK$300 million in operating expenses and special expenses. We ended the first year with a "surplus" of over HK$100 million.

The next day I went to see Hu Yaobang at Qinzheng Hall and briefed him on the situation. He said: "I am very pleased that you could come up with such a report in three months. At the central level, Comrades Li Xiannian and Zhao Ziyang are in charge of Hong Kong and Macao affairs. In the future you need only report to them regularly." Then I went to see Hu Qili, who also had an office in Qinzheng Hall. He asked me to lunch with him. The meals served at Zhongnanhai were extremely simple, two dishes and one soup for each person. The food tasted delicious. We talked as we ate. I said: "With some effort, I more or less accomplished the mission you assigned me for completion within three months." Hu Qili said smilingly: "Not bad, not bad at all. You want staff, I can recommend a few." He asked me what kind of people I wanted. I said: "I need a second-in-command, someone who can help run the office. Next I want a scholar who can take care of publicity work." He told me: "The CPC Central Committee is looking for a second-in-command for you at this very moment." But he did think of someone who was good at publicity and recommended him to me. He put his bowl and chopsticks down and jotted down two names for me. (I passed the names on to the Central Organization Department. In the end only one person was actually made available to the Hong Kong office of XINHUA.) I reported to him Hu Yaobang's instructions. Then we chatted briefly and spent a very pleasant midday.

My report was endorsed by the CPC Central Committee in essence, so it was not in vain that I toiled day and night for over three months. I was happy and grew more confident.

7. Shenzhen Conference (Part 1)

Preparations for Enlarged Meeting of Hong Kong and Macao Work Commission

Before returning to Hong Kong, I paid a special visit to Ji Pengfei, director of the Hong Kong and Macao Affairs Office under the State Council and my immediate boss. Every time I went to Beijing, reporting to him and asking for instructions was routine business.

Ji Pengfei's office was located at Zhongnanhai. Like that of several vice premiers, his office suite consisted of three rooms, one housing his two secretaries, one serving as a reception room/small conference room, and one occupied by Ji Pengfei himself. All three rooms were bright and spacious. We usually talked in his own office.

I indicated that I planned to convene an enlarged meeting of the Hong Kong and Macao Work Commission in Shenzhen at year end to carry out the reorganization of party organs in Hong Kong. I invited him or Li Hou [2621 0683] to attend the meeting to give guidance.

He approved of the idea of convening the meeting and asked me who would attend. "That has to be worked out." I also asked him to comment on my report. (He did not speak at the report-back meeting.) He said, "It is OK. Li Xiannian and Zhao Ziyang have spoken. Just follow their instructions."

Back in Hong Kong, I relayed the instructions from the top to the staff. Preparations immediately went under way for the enlarged meeting of the Hong Kong and Macao Work Commission. So-called "enlarged meeting" meant that apart from members of the work commission, it would be attended by delegates from all party groups and party branches under the leadership of the work commission, possibly as many as 100 to 200 people.

As I see it, returning Hong Kong to the mainland is a glorious and arduous task. One nation, two systems is also a historic innovation. Yet the departments in charge of Hong Kong and Macao work as well as the Hong Kong and Macao Work Commission itself had no overall plan. This situation needed to be changed.

At that time cadres in the party in Hong Kong and Macao and the Hong Kong office of XINHUA were careless and sloppy in their work and had many problems in their ideology. Most people worked blindly. They were given assignments without being clearly told what the demands were. To run an enterprise successfully, you must set clear goals so that the workers can do their best to achieve them. Herein lay the purpose of convening the enlarged meeting. (14)

[19 May 93 p 2]

[Text] **7. Shenzhen Conference (Part 2)**

Held Under Cover of an Economic Study Workshop. Ji Pengfei and Li Hou Purposely Do Not Participate

Someone proposed Guangzhou as the site of the meeting, but I proposed Shenzhen. My thinking was that since the conference was expected to go on for a week, and since many of the conferees were in charge of units in Hong Kong, should something come up during the conference, they could leave at anytime.

The main concern in leaving Hong Kong to attend the meeting was secrecy. We did not want the outside world to know that the Hong Kong and Macao CPC was holding a meeting, nor did we want the outside world to know what was being discussed at the meeting. Hong Kong was too sensitive! I wondered whether it would be possible to deceive the Hong Kong British government what with the people in charge of some many units passing through customs at the same time on their departure from Hong Kong. What was more, the Hong Kong British government had a special agency to monitor constantly the telephone conversations of the XINHUA branch and other Chinese agencies in Hong Kong, and their intelligence organization was not being paid for doing nothing. This being the case, we had to make a full effort.

We also feared that should the media find out and report the meeting, this might arouse unnecessary speculation. We used an economic study workshop as a cover for the meeting, which fooled the media as intended.

Shenzhen Municipal CPC Committee Secretary and Shenzhen Mayor Liang Xiang was very helpful. He allowed us to use the Xinyuan Guesthouse as our conference site, and during the conference when we asked him to help, our wish was his command. He really did everything possible in response to our requests. Shenzhen was the "back-up" for XINHUA.

The most important preparatory task was the report to be made to the meeting, which Yang Qi—the acting secretary of the branch—found someone to draft, its contents were based on the reporting outline. After reading the first draft several days before the opening of the November meeting, I found it could not be used. This was not Yang Qi's fault. When Wang Kuang was head of the Hong Kong XINHUA branch, although Yang was the acting secretary, mostly he did nothing in this capacity. The person in charge of the office was the office director, who was known as the "second in command at XINHUA." Seemingly, this person and the secretaries in the office had no knowledge or experience in this regard. I had no choice but to spend several days and night re-writing the report outline myself.

The meeting was held in November. I issued the work report one day, and this was followed by individual group discussions.

Neither Ji Pengfei nor Li Hou from the Hong Kong and Macao Office in Beijing attended. Only two department directors attended, and they could not be asked to issue instructions at the conference. They also announced that they had not carried any instructions. It was not until more than a year later that I found out that Ji Pengfei and Li Hou had purposely not come. I had suspected as much.

The work report contained several salient points:

1. During the 16 year transition period from the beginning of Sino-British over negotiations on the retrocession of Hong Kong until the restoration of Chinese sovereignty in 1997, winning the hearts and minds of the public is the main task.

2. During the transition period, the contradiction between China and Great Britain is the main contradiction. China's strategy for battling with Great Britain is to use peaceful negotiations, both battling and working together in partnership, and using battling to win partnership to ensure the retrocession of Hong Kong, and to ensure that Hong Kong continues to boom. (Subsequently, the term partnership was changed to cooperation for a more precise meaning.)

3. Reliance on the Hong Kong working class, and reliance on the broad united front of people who love the motherland and love Hong Kong constitutes the two wings for the practice of the one country two systems policy, which cannot fly in the absence of either one.

4. Propagandize patriotic ideology and the one country two systems policy. In the ideological realm, call for "Great Harmony," meaning loving the motherland and loving Hong Kong, and approving the retrocession of Hong Kong; where "major differences" exist, permitting criticism of communism and the CPC, and allowing the propagandizing of capitalism as well as other isms.

5. Hold on to British ownership and stabilize Chinese ownership, and unify alien ownership and strengthen Chinese ownership to support the flourishing of Hong Kong's economy.

6. Rectification of the party ranks. Maintenance of a high degree of unity with the Central Committee in political ideology, meaning practice of the Central Committee's one country two systems policy in Hong Kong and Macao. After retrocession of Hong Kong, the capitalist system is to continue unchanged for a long period of time, and a policy of a high degree of self-rule for the people of Hong Kong maintained. Resolute overcoming of the mistaken tendency toward "both leftism and narrowness" requires moving out of narrow "leftist" circles into society, permeating all strata of society, uniting with centrists, and winning over "rightists."

The small team discussions were very lively. A fairly large number of agreeing and supplementary views were advanced. Some local party delegates disagreed. The main things brought out in the meeting were: first, past work achievements had not been sufficiently affirmed, and there had been too much condemnation. Second, the Central Committee had not said certain things, so their aptness was suspect. Third, some people in the outside world felt that after I came to Hong Kong XINHUA became a second power center in Hong Kong.

Following the discussion, I made a "summation" speech. I accepted the first criticism, and I added to the list of previous work accomplishments. On the second criticism, I made no explanation, I awaited the test of future practice.

On the third criticism, I provided explanation. I said that in its role as a news agency, the XINHUA branch could not be regarded as a second power center in Hong Kong. As an agency of the State Council abroad, it had to exercise the functions of an agency that represented the State Council. It had to conduct a certain amount of activity. Understandably, Hong Kong compatriots recognized XINHUA to be a representative of the motherland during the current negotiations on retrocession between China and Great Britain. This was also result of our first steps to win people's hearts and minds. Before 1997, XINHUA will not and cannot become a second power center in Hong Kong that infringes the Hong Kong British government's administration of Hong Kong.

During conference breaks, quite a few critical remarks were made. As a result the two department directors from the Hong Kong and Macao Office naturally carried these discussions back to Beijing.

During the period between my becoming the XINHUA branch director in July and the holding of this enlarged meeting, I corrected the past tendency toward "both leftism and narrowness" in Hong Kong's work; I changed the work style; and I hoped to put work on a new footing. I changed the lack of confidence of Hong Kong people toward the CPC, and I had won the people's hearts and minds for retrocession. I hoped to use this Shenzhen enlarged meeting to put in place an across-the-board plan and policy for Hong Kong work, and to unify all Hong Kong CPC organizational and work cadres to maintain Hong Kong's continued prosperity, and to strive for the implementation of one country and two systems. (15)

[20 May 93 p 2]

[Text] **8. Revamping of the Organization and Reorganization of Leadership Teams.**

Chinese Communist Activities in Hong Kong Began With the First Period of Cooperation Between the Kuomintang and the Communists. Hong Kong and Macao Work Committee Founded in 1947 Under XINHUA Branch Leadership

The CPC has a long history of organizational activities in Hong Kong. During the first period of cooperation between the Kuomintang and the Communist Party, Sun Zhongshan advocated links with Russia and the Communists as well as assistance to industry and agriculture, and he relied on the USSR for assistance in conducting the Northern Expedition. That marked the beginning of Chinese Communist clandestine activity in Hong Kong.

During the entire period of the War of Resistance to Japan, Chinese Communist organizational activity never stopped. In 1937, the Chinese Communists overtly established an Eighth Route Army Office in Hong Kong headed by Liao Chengzhi. The Hong Kong British government permitted the founding and operation of a Chinese Communist organization in Hong Kong out of fear over the threat of Japanese militarism at that time. Hong Kong hoped to gain the cooperation of Chinese Communist armed forces opposing Japan—the Dong Jiang Column, and the Hong Kong-Kowloon Da Dui—to protect Hong Kong. When Hong Kong fell, Chinese Communist guerrillas rescued quite a few Britishers who escaped from Hong Kong. Following victory in the War of Resistance Against Japan, the Chinese Communists established the South China Bureau in Hong Kong.

In 1947, the XINHUA branch was established in Hong Kong. At the same time, the Chinese Communist South

China Bureau founded the Hong Kong and Macao Work Committee as part of the Hong Kong XINHUA branch. The first XINHUA director was Qiao Guanhua, who was also a member of the Work Committee. Following founding of the PRC, the Chinese Communist South China Bureau disbanded, and the CPC Central Committee mandated the Guangdong Provincial CPC Committee to take charge of the Hong Kong and Macao Work Committee.

Prior to the great Cultural Revolution, Hong Kong and Macao work were under control of the State Council Office's Hong Kong and Macao Work Leadership Team. The team leader was Liao Chengzhi. Party work was under control of the Guangdong Provincial CPC Committee. In 1978 the State Council established the Hong Kong and Macao Office under chairmanship of Liao Chengzhi and in direct control of Hong Kong and Macao work. The Hong Kong and Macao Work Committee also came under direct control of the CPC Central Committee. Actually Liao Chengzhi ran it on behalf of the Central Committee. This state of affairs continued until June 1983 when Liao Chengzhi died. This was before I took up my post as director of the XINHUA Hong Kong branch.

Hong Kong was an important Chinese Communist operational base for a long time. Hong Kong was always under British rule, so the Chinese Communists had to operate in secret. The CPC was a "white area party." Following founding of new China, the situation began to change. The CPC became the ruling party in China, and China and Great Britain established formal diplomatic relations. Although the Hong Kong British government continued to proscribe the clandestine party in Hong Kong, it had to change its way of dealing with it. At the same time, with the gradual increase in Hong Kong of the number of Chinese agencies and the personnel sent to staff them, the number of Communist Party members also increased. As China became more powerful and the international situation changed—particularly since the beginning of Sino-British talks on Hong Kong's retrocession when the days of British rule in Hong Kong became numbered—even though grassroots CPC organizations in Hong Kong did not yet operate openly, some of the activities of the agency in charge of the Hong Kong and Macao Work Committee, i.e., XINHUA, became semi-overt. The existence in Hong Kong of Chinese Communist organizations that have conducted organizational work all along became an open secret.

During the period of my predecessor, Wang Kuang, the Chinese Communist Hong Kong and Macao Work Committee was made up of a secretary, a deputy secretary, and work committee members totaling about 40 people. In addition to the secretary and deputy secretary, the members of the Work Committee included persons in charge of individual departments of the Work Committee, who were party members and leading cadres in China enterprises and agencies in Hong Kong. The director of the Hong Kong and Macao Administrative Department of the Bank of China at the time, Jiang Wengui [5592 2429 2710], the chairman of the board and concurrent general manager of China Resources Company, Zhang Jianhua [1728 1696 5478], and the acting chairman of the board of the China Steamship Navigation Company, Yuan Geng [5913 1649], were all members of the Work Committee. Internally, the Hong Kong branch of the China Travel Agency is the Hong Kong and Macao Overseas Chinese Affairs Leadership Team under jurisdiction of the Central Overseas Chinese Affairs Commission. Its head is a member of the Work Committee.

In Macao, the Chinese Communist Macao Territory Party Branch Committee under direct jurisdiction of the Hong Kong and Macao Work Committee was established. Its outside activities are under control of Ke Ping [2688 1627], the general manager of the South China Co. Ltd. This is a special situation that applies to Macao. The Portuguese Macao government recognizes Ke Ping as a representative of the Chinese government. The party branch deputy secretaries are Zheng Hua [6774 5478] and Ke Ping, both of whom are members of the Work Committee.

During the period when Liao Chengzhi ran it, the Hong Kong Chinese Communist Party organization was divided into two main parts, or one might say three parts. One was the local clandestine organization, which was run entirely like an underground party. It was directly responsible to Liao Chengzhi through a series of individual links.

The other part was the Work Committee organization, i.e., XINHUA and party members among personnel in agencies sent to Hong Kong by the Central Committee and inland agencies. Many organs of the Central Committee have an agency or personnel in Hong Kong. These so-called agencies include large ones such as the Ministry of Foreign Affair's Visa Office, and small ones, such as the a small team from the Military Affairs Commission General Staff, which is responsible for collecting foreign books, newspapers, and magazines. Each province also has an agency, usually in a Hong Kong company that they have set up. These party members are under control of the Work Committee organization and are directly responsible to the Work Committee.

Still others have been sent to Hong Kong by the Central Committee Overseas Chinese Affairs Commission, or are party members under its control in Hong Kong, which form their own system. According to the constitution of the Chinese Communist Party, all party members in a location are to be under the leadership of the local CPC Committee or party branch. Consequently, the Overseas Chinese Affairs Commission has mandated the Work Committee responsible for leading these party members, personnel matters being taken care of by the Overseas Chinese Affairs Commission itself.

In 1983, there were more than 6,000 Chinese Communist Party members in Hong Kong, fewer than 3,000 of them from inland China. More than two-thirds were local party members.

Although the organization of these party members was the responsibility of the Hong Kong and Macao Work Committee, in fact the Work Committee was then only able to control the organizational life, and the political indoctrination of party members, to transmit directives from the Central Committee, and develop new party members. Professional and personnel matters were under dual leadership. This dual leadership was very complex in operation and numerous problems occurred. During Wang Kuang's stewardship, for example, all of the work of China-owned agencies under centralized control of the Work Committee, including its professional work, were deemed a failure. After my arrival in Hong Kong, some people made this same centralized control recommendation to me, but I felt it to be unworkable. All China-owned agencies were under jurisdiction of different provinces and cities and under control of different Central Committee departments. When I was in Jiangsu Province, central control of the various agencies of various departments and committees of the Central Committee was very difficult, so imagine the difficulty of central control given the clandestine character of the party in Hong Kong. Even the Jiangsu Provincial Foreign Economic Relations and Trade Commission, which was a provincial organization, was frequently unresponsive to the provincial CPC committee. It paid more attention to directives from the Ministry of Foreign Economic Relations and Trade because it had to go to it for projects, money, and materials. (16)

[21 May 93 p 2]

[Text] **8. Revamping of the Organization and Reorganization of Leadership Teams**

Liao Chengzhi Wants Wang Kuang To Destroy Two Magazines. Central Committee Discusses Situation, But Li Jusheng Fails To Report Back

I felt that China-owned agencies should accept the views of the Hong Kong and Macao Work Committee whenever they encountered problems in Hong Kong and Macao. If this were done, all would be well.

As expected, there were some differences of opinion about some issues later on. One such occurred when the Work Committee wanted the Bank of China to grant loans to certain people for political reasons. The bank was very reluctant to do so at first, and later on it insisted on approval from the Beijing department in charge. We did not oppose this, and both parties requested instructions from Beijing. But getting Beijing's approval proved very difficult. Some people agreed only grudgingly and had a lot of objections. They complained to the Central Committee that Xu "is giving us too many political tasks" (meaning loans for political reasons).

Actually, the loans were basically handled in accordance with professional regulations. Unconditional loans were given only in individual cases. The bank wanted me to go security for the loans on behalf of XINHUA, and I complied signing a written pledge.

Following my arrival in Hong Kong, straightening out the specific manifestations of "both leftist and narrow" became the focus of my conversations with cadres and working staff. Several former directors and deputy directors remained uncommunicative for the most part. They did not come forward with materials nor express a view. Seeing that they did not speak out at meetings, the cadres in charge of various units also said nothing. When some one did speak, a small number of Cantonese cadres were still unwilling to speak. Cadres from inland China provinces may have had a smaller "burden" to bear that the Cantonese, so they reported quite a few instances as follows:

The Work Committee approved for a time the attitude of two magazines toward Deng Xiaoping's reform and opening to the outside world. The two magazines were QISHI NIANDAI [THE 70s] (whose name has since been changed to JIUSHI NIANDAI [THE 90s]) and ZHENGMING [CONTEND]. Following the Xidan "Democracy Wall" incident, the attitude of these two magazines changed. They criticized Deng Xiaoping for his antidemocratic words and actions. Beijing could not tolerate this, and Liao Chengzhi summoned Wang Kuang to Beijing where he told him in a face-to-face meeting: "Destroy Them Completely!" Following his return to Hong Kong, Wang Kuang told Yang Qi to act resolutely. Yang Qi said, "Given the situation in Hong Kong 'complete destruction' is difficult. Furthermore, our relations with the two magazines were quite good formerly; their managers are leftist friends. Some of them also come from leftist organizations, and some writers are communist party members. Wang Kuang sternly criticized Yang Qi, and ordered him to withdraw the members of the communist party working in these two magazines. The leftist printing agency that formerly printed the two magazines was also to print them no longer. He intended to use these two means to "smash" these two magazines. But how could it be done in Hong Kong. In the end, the two magazines gained the sympathy of the public, not only locally but overseas as well. Not only did the two magazines not topple, but their name recognition became greater. Their circulation went up and their influence expanded. Such leftist infantilist methods even Liao Chengzhi had been unable to avoid.

Various agencies were at odds with each other. For example, in documents, agencies referred to each other as "brothers." For example, one unit called another unit "Brother Li" in the manner of an underground party when actually it was possible to learn from a reading of the document just what unit "such-and-such a brother" was, the document giving away the identity instead of maintaining secrecy. Units did not coordinate with each other. Each one regarded the work for which it was responsible and its "contacts" as individual property that was not the concern of any other. This was put as "he cannot interfere." Even some main leaders of the Work Committee were not free from such a work style.

Li Jusheng had been a foreign service officer for many years. The CPC Committee Central Investigation

Department was his parent unit. Subsequently when the Investigation Department was disbanded, he came under full control of the State Secrecy Bureau. He was both a professional foreign service officer and a professional intelligence officer. In the Work Committee, he was the second in command XINHUA branch director who helped Wang Kuang handle all matters, but also had responsibility for intelligence and security work. When I set about correcting the "both leftist and narrow" Work Committee in response to CPC Committee instructions, except for Wang Kuang, his reaction was worst. Any mention of matters pertaining to opposition to leftism or "narrowness" in meetings, and he knitted his brow and put on a stern expression. He rarely smiled; he was unusually stern. When he held a meeting, he said very little, and should he have any dissenting views, he would only voice them simply making people feel that he was an aloof onlooker.

When I arrived in Hong Kong, he never took the initiative in briefing me on his work. He was even more spooky about the intelligence work for which he had responsibility, never saying one word about it.

During the second round of Sino-British talks, Li Jusheng was one of the Chinese representatives. He attended the talks because of his position as deputy secretary of the Work Committee and second in command in the agency. By rights, he represented the Work Committee just as Sir Edward Youde represented the British delegation to the talks (the Chinese never recognized Youde as representing the Hong Kong government; they recognized him only as a representative of Great Britain so as to avoid British use of "popular will" as a chip in the negotiations). Before attending each talk, Li Jushen should have reported to the Work Committee the main topics to be covered in the talk and China's battle tactics so as to give the Work Committee a chance to make recommendations to Beijing for its consideration on the basis of the reaction of all local parties concerned. When the talks returned to Hong Kong, he should also have reported Beijing's views on the Work Committee's recommendations, how the talks went, the main topics to be covered in the next meeting, and the materials that the Work Committee should gather on these matters. But Li Jusheng never did this for me or for the Work Committee. As to whether he used his position as the second person in charge of the office to gather materials or get the research office to research topics, I also had no information.

Li Jusheng walled off both me and the Work Committee from information about the status of the talks. What I knew about the status of the talks came mostly from two sources. One was through participation in discussions that Beijing held, and the other was from reading Ministry of Foreign Affairs-printed "Status Reports." (This was an internal use only document for people at the minister and above level.) This state of affairs did not change until Qiao Zonghuai [0829 1350 3232] replaced Li Jusheng as delegate to the talks. (17)

[22 May 93 p 2]

[Text] **8. Readjustment, Organization, and Reorganization of Leadership Team**

Wang Kuang Attacks People Behind Their Backs, Thereby Chilling Even the Deputy Directors. Yang Qi, Li Zisong, and Tan Gan Have "Special Cases" Against Them"

Li Chuwen and Qi Feng divided up united front work between them. Qi Feng worked in Hong Kong for more than 10 years, so he had many professional contacts. After working with him for more than half a year, Li Chuwen complained to me that Qi Feng never briefed him on situations or introduced him to his professional contacts. He would not tell him anything. Li Chuwen complained that he could not go on working with him. I prevailed on Li Chu to go on by saying: "Several people do pretty much the same thing. It is not just Qi Feng. We will not be affected. We will just go ahead with our work, and if there are problems, I will support you."

The existing work committee leaders demonstrated factionalism in the assignment of cadres. They was a "Guangdong Gang." Three of seven Hong Kong XINHUA branch chiefs and deputy chiefs were from Dongguan in Guangdong Province. In their small circle, even cadres from elsewhere in Guangdong felt shut out and discriminated against.

Yang Qi was acting secretary and head of the propaganda department, but Wang Kuang and the others had no confidence in him. Whenever Wang Kuang had anything to be done, no matter whether official or private, he never went to Yang Qi. Instead, he turned it over to the head of the branch office for handling. Within the branch, he was called the "No 2 director," and people resented him very much because he favored only Wang Kuang and Li Jusheng. So long as either of these two wanted him to do something, even if he should not do it in principle, he would do it. Toward others, he showed no respect; he considered people at the same level beneath him, and he treated people below his level tyrannically. Most of the personnel who did things in the branch were unemployed underground party members and left group staff members and workers in the so-called "Anti-Britain, Oppose Tyranny" movement. The attitude of this office director toward them was harsh and extremely disrespectful. The personnel regarded him as a "tiger."

What particularly irked people was that quite a few cadres told about a certain incident, as follows: One deputy agency director from another province (meaning someone from elsewhere than Guangdong) had many disagreements with Wang Kuang, so Beijing recalled him to inland China. By regulation, a deputy agency director carries a diplomatic passport, which gives him immunity from Chinese Customs inspection. If he carries a little something in violation of regulations, usually, this does not set off an exceptional customs inspection. It is mostly left to the passport holder to make a declaration.

Reportedly, at the behest of Wang Kuang and Li Jusheng, someone in the office wrote a letter to the Lohu Customs at Shenzhen accusing this deputy agency director of carrying smuggled goods. Consequently, customs inspected all of his baggage, finding that he was carrying a wristwatch. Customs filed a report to Beijing. Not only did this deputy agency director have to make a self-criticism, but a circular notice on the matter was circulated all over the country to punish him. Of course, this deputy branch director should not have carried an extra watch, but when the Work Committee leader found out about it, he should have dealt with him leniently by pointing out his mistake to him and helping him correct it. However, he did not mention it to his face; instead, he did him dirt behind his back. Such a way of doing things is not open and aboveboard within the party and among colleagues. Even some deputy branch directors who were old colleagues of Wang Kuang felt chilled.

Wang Kuang and Li Jusheng also collected intelligence on their colleagues, which made every cadre feel threatened. Toward some people, particularly people in whom they had no confidence, they held an attitude of suspicion about their every word and action, filing reports or making insinuations about them to their superiors, or even going so far as getting security and intelligence agencies to set up case investigations. Central Committee regulations provide that cadre administration is to be conducted by the personnel and organization departments of the party and government. Day-to-day work and evidence of ideology are the concern of the personnel and organization departments. Infractions are to be investigated and handled jointly by the personnel, organization, and discipline departments. Intelligence departments have no responsibility for cadre investigations except when a cadre flees or colludes with an enemy. Otherwise, intelligence units are not to conduct intelligence activities against cadres. In reading the pertinent files, I found, as expected, that Wang Kuang and Li Jushen had sent an investigation report about the children of a high ranking cadre in Hong Kong to the Ministry of State Security in Beijing. (Wang Kuang had a daughter and Li Jusheng had a son in Hong Kong, neither of whom were cited in the report.) Regulations provide that such matters may be investigated and reported to higher authority, but this is not intelligence. Making matters that are properly the responsibility of personnel and organization departments a function of security departments is tantamount to the improper mixing of "contradictions among the people" with "contradictions between ourselves and the enemy."

They also built a "special case" against acting secretary Yang Qi, noting that he had a multiplicity of contacts, and that he frequently met with Britishers and people from Taiwan in Hong Kong. They suspected that Yang Qi was relaying intelligence to them. They also built a "special case" against Li Zisong, the director of WEN HUI PAO press, noting that Li Zisong had accepted certain high level tasks from Taiwan, and that they had documents to prove it. Still another person against whom they set up a "special case" was Tan Gan [6223 1626], the person in charge of the foreign affairs department, and even XXX from the Ministry of State Security, who was responsible for intelligence work, was also the object of their suspicion. The basis for their suspicion of this person was that he and Tan Gan took detailed notes when attending Work Committee meetings. Wang Kuang et al ruled that detailed note taking in meetings was not to be permitted; people should only use their memories. If they made notes, they should only do so in outline form. Since the two did not abide by this ruling, they were suspected of collecting intelligence for the enemy, and an investigation case was set up against them. Such a case building attitude was very serious.

How could one do united front work in Hong Kong without contacting the local people and without contacting various different political groups; and in doing foreign affairs work there, could one bring together an overwhelming majority without contacting people in Hong Kong from the governments of all countries? Leaders uneasiness or even suspicion about cadre contacts in doing this put every cadre at risk. How could they do their work if they were worried about being misunderstood or investigated? How could a new beginning be made in the work of XINHUA in Hong Kong?

I decided to cut the Gordian knot. I announced the following at a Work Committee meeting and at a meeting of cadre from all organizations: Henceforth, Central Committee regulations were to be followed; internal intelligence work against party member cadres was not permitted. Violators of the regulation who investigated cadres' work or daily life, no matter whom, would be dealt with. However, should it be found that anyone intended to defect or to betray the party or the country, a report was to be made to the leaders, and a report could be made without going through channels. If an investigation to establish a case were required, a collective discussion and approval of the Work Committee would be required. This was done to bring inward calm to the organization.

There were also very many grassroots level party organization problems. Seventy percent of the local clandestine party members were developed before the Great Cultural Revolution. They were getting on in years; they were not very well educated; many were worker supervisors and leaders, and they did not represent a broad spectrum of the population. In the course of the "Anti-Britain, Oppose Tyranny" struggle, a fairly large number of party organizations had been exposed and destroyed. However, it was not clear just which people had been exposed, and which ones had not. According to the briefing that Li Qixin gave me, the local party organization was divided into two main lines (meaning two large parts, which the Work Committee termed "lines"). These were the industrial line and the school line. The Hong Kong British authorities had installed listening devices in the homes of the principle leaders of both lines. The person in charge of one line had listening

devices not only in his home, but the personnel who worked around him had been "defected" by the Hong Kong British.

[23 May 93 p 2]

[Text] **8. Readjustment, Organization, and Reorganization of Leadership Teams (Part 4 of 4) Hu and Zhao Agree to Reorganization; Li Jusheng Transferred Back to China; Xu Jiatun Concurrently Standing Committee Member and Secretary of the Hong Kong-Macao Work Committee"**

The morale of clandestine party members was generally poor. They felt that they had participated in "Anti-Britain, Oppose Tyranny" out of patriotism only to come under criticism now. They felt resentful; they had no interest in their work; and they did not know to do their work. The task of developing new party members had been at a standstill for quite a few years.

Seeing the Hong Kong party organization and party cadres in such a state with my own eyes, I felt extremely concerned. It would be very difficult indeed to rely on such a corps to carry out the Hong Kong retrocession task that the Central Committee had assigned, and to run the experiment in a "one country, two systems" policy. I made up my mind to conduct a thorough rectification of the party organization.

Rectification began with readjustments of organizational units. Following discussion by the Work Committee, it was decided to change the name of the United Front Department to Coordination Department because people in Hong Kong had a negative feeling about the term united front; and to combine the work of the State Security Department and the Public Security Department in a Peace Preservation Department; and to set up a youth work leadership team and a women's work leadership team to carry out work among youth and women. The most important change was to set up three district work committees, one on Hong Kong Island, one in Kowloon, and the other in the New Territories as agencies of the Hong Kong-Macao Work Committee, these three district organizations and party members to direct work among the masses, social groups, and residents of public housing estates.

The party's grassroots organization was also changed around. The former clandestine party and organization, and business concern party two line arrangement was changed, the two lines merged to permit local party organizations to play a greater role. We guessed that the Hong Kong British already pretty well understood the clandestine party organization, so continued reliance on this organization to develop a new organization. It could not be kept secret; therefore, we changed the Work Committee's former decision not to permit them to operate openly, permitting them to conduct activities and play a role as other than CPC members at open events. For the sake of future struggle, it was necessary to create an absolutely secret new organization. It was decided to screen a number of party members from the clandestine party organization whose status it was felt the Hong Kong British had not learned about to work among the public and at the upper level. These people continued to use the single line leadership system and the strict secrecy of the clandestine party. After the remainder were merged, they came under control of the work committees in each of the three districts.

Accompanying these organizational and departmental changes were corresponding readjustments of the persons in charge of some departments and the appointment of a number of new department heads.

This readjustment brought about some changes in leading organs and in the grassroots organization, but the rectification was not smooth. Several former deputy branch directors really did not want to cooperate with each other. In meetings, Li Jusheng and Luo Keming said nothing when problems were discussed, or they made a few cursory remarks on some issues. They frostily maintained a negative attitude. When the establishment of the three district work committees was discussed in the Work Committee, for example, Li Jusheng said simply: "It's premature." In the discussion about Yang Qi's actual removal as secretary, neither he nor Luo Keming expressed any views directly. They only made some tongue-in-cheek remarks.

The uncooperative attitude of Li Jusheng et al delayed a lot of work. The Central Committee Secretariat also realized that they were not "united" with me. Although I had reported matters, I had not yet raised the need to reorganize. Central Committee Secretariat Secretary Xi Chongxun [5045 0112 8113] asked me: "Why not have them come back to inland China?" With this inspiration, I formally raised the need for reorganization with Hu Yaobang. Hu Yaobang agreed in principle, and he told Xi Chungxun and the Central Committee Organization Department to discuss and draw up a readjustment plan.

Not long afterward, the Central Committee decided that Li Jusheng and Luo Keming were to retire and be transferred back to inland China. At that time, deputy branch director Li Qixin [2621 0796 2450] retired, and Ye Feng [0673 6912] was assigned to other work. The two had already returned inland. Following my request to the Central Committee, deputy branch directors Qi Feng [4359 6912] and Cao Weilian [2580 4850 1670] remained in Hong Kong to help with the work. Internally, they served in the capacity of advisors; externally they functioned as deputy branch directors. Xi Chungxun recommended the transfer to Hong Kong of Macao Branch Work Committee Secretary Zheng Hua [6774] 5478] to serve as deputy secretary of the Hong Kong-Macao Work Committee and as deputy director of the XINHUA branch. This received CPC Central Committee approval. I recommended the transfer of the former deputy secretary of the Shenzhen Municipal CPC Committee and deputy mayor, Zhou Ding [0719 7844], as successors to the Macao Branch Work Committee secretary job. At that time, Zhou Ding had already been transferred out of Shenzhen, and it was rumored that the

Guangdong Provincial Committee was planning to recommend that he be appointed deputy chairman of the Guangdong Provincial CPPCC. I asked Zhao Ziyang for his thoughts. He said happily: "I was just worrying about placing him. I approve your idea." He also said: "Nevertheless, he does pretty good economic work, but he has not been politically tempered sufficiently." I said: "He can be politically tempered." Zhao Ziyang told his secretary to telephone the Central Organization Department to tell them that he agreed with this assignment. The Central Committee approved it. Thus, my team no longer had a second branch director position. The number of deputy branch directors was reduced from the former several (including the No 2 branch director) to four. The average age of the members of the leadership teams, including the ministry and above level, fell from 65 to 55. The specifics were as follows:

XINHUA branch director and member of the Standing Committee and secretary of the Hong Kong-Macao Work Committee: Xu Jiatun.

XINHUA deputy branch directors and members of the Standing Committee and deputy secretaries of the Hong Kong-Macao Work Committee: Li Chuwen and Zheng Hua.

XINHUA deputy branch directors and members of the Standing Committee of the Hong Kong-Macao Work Committee: Chen Daming and Chen Bojian.

Member of the Standing Committee of the Hong Kong-Macao Work Committee and secretary of the Macao Branch Work Committee: Zhou Ding.

No change in the Standing Committee members of China-owned organizations.

Advisors (termed deputy branch directors outside XINHUA): Qi Feng and Cao Weilian.

Secretary General Yang Qi was released and became a nonvoting member of the Standing Committee of the Work Committee. Personnel in charge of various departments were also changed, particularly in the newly established branch director assistant positions. The persons selected were as follows:

Tan Fuyun [6223 5397 5366], Chen Fengying [7115 7625 5391], Wang Rudeng and [3769 1172 4098].

Deputy secretary generals: Qiao Zonghuai [0829 1350 3232] and Mao Junnian [3029 6874 1628].

Several months later, Qi Feng resigned and returned to Guangzhou. Unhappily, Cao Weilian died of a heart attack in Hong Kong. (19)

[24 May 93 p 2]

[Text] **Chapter 3. Ins and Outs of the Sino-British Talks. 1. Talks Resumed (Part 1 of 3) MacLehose Probes Continuation of Agreement. Sino-British Talks Open. Chinese Riposte to the Naming of Sir Edward Youde as Representative from Hong Kong to the Talks.**

On 1 July 1983, the second day following my assignment to Hong Kong, the Chinese and British government announced simultaneously that "the second stage of Sino-British talks on the Hong Kong problem would be held in Beijing on 20 July." For the 5 million Hong Kong compatriots who held extremely mixed feelings about the future of Hong Kong at that time, this was a matter that pleased some people, that some people looked forward to, and that some people worried about. For local and international investors who kept their eyes on Hong Kong affairs, it was also an important matter on which they focused attention.

During the 19th century, the Manchu Qing government capitulated to the British warships. At the conclusion of the Opium War, they signed three unequal treaties with the British for the cession of territory and payment of indemnities. These were the "Nanjing Treaty" of 1942, which ceded Hong Kong Island; the "Beijing Treaty" of 1860, which ceded the Kowloon peninsula; and "The Special Treaty Opening Up the Hong Kong Territory" of 1898, which forced the leasing for 99 years of the "New Territories" and 235 islets off Hong Kong. It was on the basis of these three unequal treaties that Great Britain has ruled Hong Kong as a colony for more than 100 years to the present day.

Following the founding of the PRC, an announcement was made of the nonrecognition of all unequal treaties imposed on the Chinese people by the imperialists. Naturally, this announcement included these three treaties. However, faced with a grim situation of embargo and blockade of China by the western world under American leadership, for strategic reasons Mao Zedong and Zhou Enlai decided not to take back Hong Kong for the time being. They would adopt a plan calling for "a long-range view and full use" of Hong Kong. As a result, Hong Kong became virtually China's sole conduit to the outside world, playing a major role in demolishing the western embargo and blockade.

Following the establishment of diplomatic relations between China and the United States, relations between China and the western nations thawed, and Hong Kong's special status was further used. Zhou Enlai said: "In our building of socialism, Hong Kong can serve as a base for our economic ties with the outside world. We can bring in foreign investment and earn foreign exchange through it." This was the reason that for several decades following the CPC's establishment of the People's Republic that it never took back Hong Kong.

So far as I am aware, China never discussed with Great Britain its plans regarding the Hong Kong issue during the late 1970s and early 1980s. The issue was raised by the British.

In 1979, Hong Kong Governor MacLehose visited China where he said to the Ministry of Foreign Affairs: "Inasmuch as the 'Special Treaty for the Opening of the Hong

Kong Territory' by which Great Britain leased the New Territories for 99 years will expire in 1997, Great Britain hopes that China will continue the lease after 1997." Very clearly MacLehose had come to probe the possibility of continuing the treaty. The Ministry of Foreign Affairs was caught completely unawares. After requesting instructions from the Central Committee, it replied: "China intends to take back Hong Kong." The Ministry of Foreign Affairs also hoped that in his meeting with Deng Xiaoping that MacLehose would not raise this issue. MacLehose insisted on raising it with Deng with the result that Deng Xiaoping told him clearly: "At the appointed time, China will certainly take back sovereignty over Hong Kong." MacLehose said that if this were done, the people of Hong Kong would feel anxious. Deng gave a one sentence reply: "Tell the Hong Kong investors not to worry." He asked him to make a public statement after returning to Hong Kong.

I would guess from Deng Xiaoping's reply that the CPC Central Committee already had the "one country, two systems" idea in mind for solving the Hong Kong problem. Since I took no part in matters pertaining to Hong Kong at that time, I am not very well informed about the historical situation during this period. However, I can say that but for MacLehose's probing of the possibility of continuing the treaty, and but for the British raising the matter of Hong Kong's future first, the talks between China and the United Kingdom on the Hong Kong issue would not have begun at that time. Very likely, they would have been delayed.

Before the second stage Sino-British talks began, Hong Kong Governor Sir Edward Youde returned to Hong Kong from London. Newspaper correspondents were aware that the list of British representatives to the talks included Youde, and that his name was second on the list. Consequently, they asked him at a press conference: "Are you representing the United Kingdom? Who are you representing?" Replying to the persistent questioning of the correspondents, Youde said: "I will represent the residents of Hong Kong at the talks in my capacity as governor." On the following day, a Chinese Ministry of Foreign Affairs spokesman made a riposte to Youde's statement, declaring that Hong Kong Governor Youde represented only the United Kingdom government at the talks.

This was the first time during Sino-British negotiations that China openly opposed the British "three-legged stool" strategy. At the Beijing conference, China brought up this British negotiating strategy, learning that in addition to the representatives of the two nations, the British planned to insert a position for a Hong Kong representative. In the course of the talks, this position in the name of representing the "popular will" of Hong Kong became a bargaining chip. We resolved that the Sino-British talks would be talks between the governments of the two nations. We would not permit participation by the "third leg." In the retrocession of Hong Kong to the motherland, China's honoring of the wishes of Hong Kong compatriots was something that the Chinese government should do. It did not need the help of the British government.

The Ministry of Foreign Affairs also rejected the application to enter China to take part in the talks in the capacity of private secretary to the Hong Kong governor of Ts'ao Kuang-jung [2580 1639 2837], Youde's attache and director of the Hong Kong British government's Press Office. As a result of the intense opposition of China, the British ambassador to China very quickly announced that the British government would not insist on Ts'ao Kuang-jung's participation in the Beijing talks.

So it was, after several twists and turns, that the second stage of talks between China and the UK on the Hong Kong problem finally began at the Diaoyutai National Guesthouse in Beijing on 20 July 1983. (20)

[25 May 93 p 2]

[Text] **I. Resuming Negotiation (Part 2)**

Deng Xiaoping said firmly that Hong Kong would have to be recovered even if negotiations should fail. Margaret Thatcher had to give up the position that "the three treaties are valid."

I began to get involved in the Sino-British negotiations on 22 June 1983, one day after the first meeting of the Sixth Session of the National People's Congress ended. With the death of Liao Chengzhi, Ji Pengfei succeeded him as director of the Hong Kong and Macao Affairs Office of the State Council. Newly at the position of director, he gathered and presided over one of the meetings on Hong Kong and Macao affairs for the first time. Those were small, nonregular meetings attended by officials in charge of Hong Kong and Macao affairs at various agencies. The meetings were supposed to analyze the situations in Hong Kong and Macao, work out policies and measures concerning the work on Hong Kong and Macao, and submit those analyses as well as proposed policies and measures to the center which would then make decisions.

The meeting was held in State Council Meeting Room No. 4 at Zhongnanhai. Apart from the chairman of the meeting, Ji Pengfei, also present were Li Zhongying, deputy director of the Hong Kong and Macao Affairs Office of the State Council, Li Hou (who had by that time been promoted to the position of deputy director, while still holding concurrently the position of secretary-general that he had held till then), Deputy Foreign Minister Yao Guang, head of the Chinese delegation participating in the second phase of the Sino-British negotiations, Chen Chu, secretary-general of the Foreign Affairs Office of the State Council, and I who participated in the meeting in the positions as secretary-designate of the Hong Kong and Macao Work Committee of the CPC and president-designate of the Hong Kong Branch of XINHUA. When shaking hands with me, Chen Chu—making fun of me—joked: "Our Hong Kong governor."

That was the first time that I had ever attended a meeting held specifically to analyze the work on Hong Kong. I said to myself that I was not qualified to express an opinion and that I was there mainly to listen.

The meeting focused on the Sino-British negotiations on Hong Kong. The first topic was a letter that Prime Minister Thatcher of Britain had written to Premier Zhao Ziyang. Yao Guang read the letter. In the letter Margaret Thatcher indicated that she now knew, to some extent, China's position on its sovereignty, that she was not opposed to China's entering the negotiations on the basis of holding to its position on its sovereignty over Hong Kong, and that she herself was willing to ask the parliament to discuss the issue of sovereignty over Hong Kong again.

As I knew, since Margaret Thatcher's visit to Beijing in September 1982 when the top officials of the two countries had held the first phase of talks on the question of Hong Kong, China and Britain had not been able to start formal negotiations. Britain did not want to return Hong Kong, and Margaret Thatcher insisted that the three unequal treaties were valid.

Shortly before she visited Beijing, Britain defeated Argentina in the Falkland Islands war. She came to Beijing in the position of a victor in a recent war, subtly demonstrating the British determination to go to war to keep its colonies. In talks with Deng Xiaoping, she arrogantly said that the British had to stay to maintain the prosperity of Hong Kong, and warned about the disastrous consequences likely to happen in the case of the question of Hong Kong not being handled well.

Deng Xiaoping answered her in a firm manner, saying that China must recover Hong Kong, that China had been confident, not believing the recovery of Hong Kong to be able to lead to disastrous consequences, and that in the case of the happening of such consequences, China was determined to face the consequences bravely. Deng Xiaoping also told Margaret Thatcher: "China hopes that the recovery can be accomplished in a peaceful, negotiated manner. But if negotiations fail, China will still recover Hong Kong." Although he had not said what means would be used, what he meant was clear.

After being "rebuffed" in this manner, in a dazed condition, the "Iron Lady" who was famous for her unyielding way of handling things stumbled while walking down the steps of the Great Hall of the People in Beijing. Although this was an accident, it had in fact shown how seriously Margaret Thatcher had been frustrated. In the news conference held later, she had still insisted on the validity of the three treaties, arguing: "From the perspective of international law, the three treaties are valid, and all of our actions are based on the three treaties." Nevertheless, she had to sign the joint communique indicating that the two countries would begin negotiations on the question of Hong Kong.

After Margaret Thatcher's visit to China, the Foreign Ministries of the two countries held talks on the negotiation procedures. Britain insisted that the issue of sovereignty be a subject of the negotiations, but China insisted that there be no negotiations on the issue of sovereignty and that there be negotiations only on how to transfer sovereignty and on how to maintain the stability and prosperity of Hong Kong. Neither side gave in, and a stalemate occured which lasted more than half a year.

Now this letter from Margaret Thatcher indicated that Britain had finally given in, abandoning, although unwillingly, the "three treaties are valid" position. After Yao Guang finished reading the letter, laughter broke out across the meeting room, and everyone was happy about this outcome.

The meeting did not discuss why the British Government had abandoned the "three treaties are valid" position. After the meeting, I discussed this question with a few friends who had been ambassadors, and we came to a "consensus" on several things:

First, although China had not recognized the validity of the three unequal treaties, China had not, either, taken the initiative in demanding that the recovery be achieved through the abolition of the treaties before the expiration dates. The issue had been raised by the British side first. In the final analysis, the three unequal treaties represented the British Empire's ignominious history of aggression, and were unjustifiable according to international moral standards.

Second, China was not Argentina, and Britain was not capable of using the Falkland Islands approach to achieve the objective of staying in Hong Kong.

Third, the British side had already known China's "basic policy" on the recovery of Hong Kong, that is, the policy of "one country, two systems." This policy would make it possible that Britain could not only maintain its vested interests in Hong Kong, but also gain even more benefits, by making use of the opportunities provided by this policy.

Fourth, Britain would be able to achieve a retreat with honor, by returning Hong Kong to China in a peaceful, negotiated manner and thereby preventing China from using other means.

Yao Guang also briefed the participants of the meeting on the state of the Foreign Ministry's talks with the British on the issues of the time to begin the negotiations and the delegates who would participate in the negotiations. It was agreed among the participants of the meeting that formal Sino-British negotiations could now begin. (21)

[26 May 93 p 2]

[Text] **Resuming Negotiations (Part 3)**

Deng Xiaoping and others worked out the 12 basic principles guiding the negotiations. If negotiations

should fail or if there should occur turmoil in Hong Kong, Hong Kong might be recovered at an earlier date.

Li Hou distributed, among the participants of the meeting, a document prepared by the Hong Kong and Macao Affairs Office which contained the "12 principles" (see footnote)—approved by the CPC Central Committee—on recovering Hong Kong. These were the general principles governing the policies on Hong Kong's return and on Hong Kong after 1997, providing guidelines both on the negotiations with the British and on implementing the policy of "one country, two systems" after 1997.

It was only some time later that I came to know that the 12 basic principles had been drafted under Liao Chengzhi's supervision after top CPC officials Deng Xiaoping, Hu Yaobang, Zhao Ziyang, and Liao Chengzhi—having rejected Murray MacLehose's demand for the renewal of the treaties made during his visit to Beijing—had met with dozens of people of various circles in Hong Kong, and after the agencies concerned had conducted investigation and study on the subject.

The meeting also transmitted Deng Xiaoping's instructions on the strategies to be used in the Sino-British negotiations. Two points were of the greatest importance: 1) In the beginning stage, negotiations should not involve the issue of sovereignty, and should first focus on how to perform the functions of ruling after 1997; with the resolution of the issue of rule after 1997, the issue of sovereignty would be easily resolved. This was the main strategy that the Chinese side used. 2) There should be a deadline for the negotiations, and September 1994 should be the deadline. It was necessary not to allow the British to prolong negotiations indefinitely. It was necessary to let the British side know that if negotiations had failed to produce agreement by that time, China would announce its plan for recovering Hong Kong.

Deng Xiaoping had not stated the specific time when Hong Kong would be recovered. According to the estimates made by the participants of the meeting, one possibility was that if negotiations failed, then Hong Kong would be recovered forcibly on 1 July 1997; another possibility was that if Britain refused to cooperate while the two sides could not reach agreement, if "it is stirring up trouble in Hong Kong, trying to spoil things, or if there occurs unexpected turmoil or riots in Hong Kong, then China may recover Hong Kong at an earlier date, and will not let the situation deteriorate to a hopeless degree" (Deng Xiaoping's words).

Those strategies enunciated by Deng Xiaoping became the main strategies used by the Chinese side in the Sino-British negotiations. The negotiations between China and Britain proceeded largely in accordance with this design.

But some cadres did not understand why the strategy of "setting a deadline"—as enunciated by Deng Xiaoping—should be adopted. When Liang Weilin, formerly president of the Hong Kong Branch of XINHUA, and Qi Feng, now deputy president, said, while answering reporters' questions in Guangzhou, that the negotiation deadline set by the Chinese side was merely advisory, they were criticized, in internal documents, by the relevant authorities in Beijing.

Footnote

The main elements of China's 12 principles on Hong Kong: 1) Establish the Hong Kong Special Administrative Region in accordance with Article 31 of the Constitution. 2) The Hong Kong Special Administrative Region shall be under the direct jurisdiction of the Central People's Government, and shall enjoy a high degree of autonomy, with defense and foreign affairs being handled by the central government. 3) The Hong Kong Special Administrative Region shall have administrative, legislative and judicial powers including the power of final adjudication, and the existing laws shall remain basically unchanged. 4) The government of the Hong Kong Special Administrative Region shall be composed of local residents; the chief executive shall be selected through election or consultation and appointed by the Central People's Government; the principal officials shall be nominated by the chief executive and appointed by the Central People's Government; public servants, whether Chinese or foreign nationals, serving in all Hong Kong government departments, including the police department, before the establishment of the Special Administrative Region may all remain in employment; the government may employ some foreign nationals to serve as advisors or as public servants in other positions. 5) The existing social and economic systems of Hong Kong shall not be changed; Hong Kong's way of life shall not be changed; the rights, freedoms and private properties of the residents shall be protected in accordance with the law. 6) The Hong Kong Special Administrative Region shall maintain the status of a free port and shall be a separate customs territory. 7) The Hong Kong Special Administrative Region shall maintain the status of an international financial center; markets for foreign exchange, gold, securities, futures and the like shall continue; the free flow of capital within, into and out of the region shall continue; the Hong Kong dollar shall be freely convertible, and continue to circulate. 8) The Hong Kong Special Administrative Region shall have independent finances, and the central government shall not levy taxes in Hong Kong. 9) The Hong Kong Special Administrative Region may establish mutually beneficial economic relations with the United Kingdom and other countries. 10) The Hong Kong Special Administrative Region may, using the name "Hong Kong, China," independently maintain and develop economic and cultural relations with other countries and areas as well as relevant international organizations. 11) The Hong Kong Special Administrative Region is responsible for maintaining its own social order and public security. 12) China shall promulgate a Basic Law to give effect to, and provide detailed rules embodying, those basic principles, and the principles and policies concerned shall remain unchanged for 50 years.

Attitudes of the People of Hong Kong (Part 1)

Most people in Hong Kong did not want Hong Kong to return to China, but were unwilling to openly voice their opposition.

To recover Hong Kong, China will need to win popular support. The precondition of doing that would be to truly understand the attitudes of the people of Hong Kong. What is really the image of the Communist Party of China in Hong Kong?

Before coming to Hong Kong, all those briefing me on the situation there had said that most Hong Kong compatriots had supported the motherland's resumption of exercise of her sovereignty, and that only "a very small minority" had opposed Hong Kong's return to China.

Not long after coming to Hong Kong, I began to feel that that estimate was very far from the actual situation. My estimate based on the actual situation was that a large number of people did not want Hong Kong to return to China, but were unwilling to express their opposition openly; and that only a very small number of people would express their opposition openly.

Despite the British colonial rule lasting over 100 years, Hong Kong had always been a Chinese city. Over 98 percent of the population was Chinese, while only less than 2 percent of the population was accounted for by foreign nationals, with the British accounting for only less than 1 percent. From the perspective of national emotions, the people of Hong Kong should have felt happy about China's recovery of Hong Kong. But facts changed my view.

Since the beginning of the 1970s, as the economy of Hong Kong took off, the living standards of people of all strata was greatly improved, and cultural and educational standards were also improved. The British colonial government seized this opportunity to improve its relations with the people of the city, thereby changing its image. Because of its inducement and guidance, many people, especially young and middle-aged people, of Hong Kong developed a feeling of "identity," calling themselves "Hong Kong people." I clearly noticed this phenomenon during my discussions with people of various circles. Many people would use such phrases as "you Chinese" and "we Hong Kong people," as if Hong Kong was longer part of China but an independent entity.

Once, I attended a dinner party given by a business tycoon; his three sons were also present. A hot topic of discussion was the recovery of Hong Kong. I explained to them that China's policy was that of "one country, two systems," that everything would remain unchanged, and that the only changes would be the replacement of the British national flag with the Chinese national flag at the governor's office and the replacement of the governor of Hong Kong appointed by the British monarch with a governor of Hong Kong elected by the people of Hong Kong themselves, with Hong Kong ceasing to be a British colony. One of the sons, who was not persuaded, retorted: "Then it will become a Chinese colony, right?" At that time, he had already come to regard Hong Kong as not being Chinese territory and himself as a member of the independent community of Hong Kong. (22)

[27 May 93 p 2]

[Text] **Attitudes of the People of Hong Kong (Part 2)**

China was not trustworthy; Britain was not reliable. It would be rather easy to recover the territory, but very difficult to win over the people.

The people of Hong Kong had a new definition of "patriotism"—this was also something new that I learned. Once, I had a discussion with some intellectuals with anti-Communist tendencies. They told me that they were patriots, but that what they "love is not the CPC's China, the socialist China, or the KMT's China;" they said: "What we love is the Chinese nation."

About half of the population of over 5.5 million of Hong Kong come from the mainland. There had been mainly two waves of immigration: One took place around 1949 when the KMT government retreated from the mainland. The other took place during the unprecedented, so-called Cultural Revolution; it was said that over 600,000 people had came in that wave. After the founding of new China, many people left the Chinese inland and fled to Hong Kong amidst those political campaigns across the years.

Many of those who moved from the mainland to Hong Kong experienced, before coming to Hong Kong, political, economic or even mental as well physical suffering of varying magnitudes. As a result, many residents of Hong Kong tended to "fear communism" and "hate communism." Over the decades, they established themselves in Hong Kong, and some became rich. Their first reaction to the prospect of China's recovery of Hong Kong was to wonder whether there would come, once more, a "socialist reform campaign," and whether the CPC was going to impose "communization" on them. I was on rather familiar terms with several business tycoons of Jiangsu origin. One of their children said frankly: "Chinese capitalists fear the CPC. Those in the Shanghai gang are the most fearful, because they have already experienced communization once and therefore have lingering fears. You say that under the policy of one country, two systems,' there will be no communization. But did not Mao Zedong say earlier on that there was too little capitalism! However, later on there was communization anyway!" At that time, I could only try to explain that the CPC had learned a lesson, rejected the policy of making class struggle the guiding principle, and adopted the policies of economic development, reform and opening to the outside world.

Some intellectuals who came from the mainland were worried that after 1997 the CPC would launch political campaigns and "settle accounts in the autumn [settle old scores]." Some of them became well-known figures of the news media of Hong Kong. In their publications and

activities, they often criticized the CPC. They received Western education. Thus the second-generation intellectuals of the mainland origin were, in general, worried about whether the free social environment in Hong Kong could continue. Many middle-aged people feared that the CPC would conduct a campaign to "brainwash" them.

I felt that most people at the grassroots (called "proletariat" in Hong Kong) were strongly patriotic, but that not even all of them truly "supported" Hong Kong's return. Even the ordinary people in the "leftist" camp did not totally like the policy of "one country, two systems." They believed that "there should be return but not liberation"; that is, there should not be the practice of "making the working class the master" as had been the case after liberation on the mainland. Similarly, those ordinary people who were not usually concerned with politics were also worried that living standards might fall after 1997, remembering clearly how they had sent food to their relatives and friends on the mainland after the "Great Leap Forward."

Such "fear of communism," "resistance against the CPC," and "anticommunist attitude" permeated Hong Kong society. At the beginning, large numbers of people in Hong Kong hoped that the British would not leave, and that the CPC would not come. Later, when the recovery of Hong Kong seemed inevitable, they hoped that the British would stay longer, or that after China recovered Hong Kong, the CPC would not directly rule Hong Kong, but let the British rule or let the people of Hong Kong rule themselves or even accept "international jurisdiction."

Later, the British Hong Kong Government openly played the cards of "representative system" and "Hong Kong to be ruled by the people of Hong Kong." Then, they added a new item of "practicing democracy and resisting the CPC," that is, to use the popular will in Hong Kong to resist the CPC's interference in the affairs of Hong Kong. After the beginning of the Sino-British negotiations, the people of Hong Kong always wanted to take part in the negotiations, and to have influence on the negotiations between the two countries, so that there would be good prospects for themselves.

During the negotiations, Britain used such strategies as those of "three-legged stool, the popular-will card, and representative system." In my view, Britain was exploiting the aforementioned attitudes of the people of Hong Kong, so as to win the trust of the people of Hong Kong and damage the image of China in Hong Kong, while at the same time strengthening its bargaining position in the negotiations. In the Sino-British negotiations, fighting in a "tit for tat" manner was unavoidable.

The British government would also spread "words" in view of the needs of the negotiating battle, using tactics flexibly. On the other hand, the Chinese side tended to be rather rigid, and held to its "secrecy" rules inflexibly, thereby often finding itself in awkward situations.

I gradually came to understand the attitudes of the people of Hong Kong who had to seek survival and secure their own future in the narrow space between the "two big powers." Consequently, I did my best to let them have more opportunities to get in touch with, and present their views to, the Chinese Government. For instance, I would do my best to organize more delegations which could go to meet with the top officials at the center in Beijing. Nevertheless, because of the confinement of the strategies and secrecy rules used in the bilateral negotiations, we never succeeded in finding more satisfactory ways.

As the people of Hong Kong could not directly participate in the negotiations affecting their own future, many people in Hong Kong not only were distrustful of—and unhappy about—the CPC, but also felt disappointed in Britain. Britain would say publicly: "From a moral standpoint, it is necessary to respect the will of the people of Hong Kong" (Mrs. Thatcher's words); as a result, some people in Hong Kong wanted to use Britain to resist China in an effort to keep the status quo. But in the end, when Britain's own interests conflicted with the will of the people of Hong Kong, Britain disregarded the will of the people of Hong Kong. When Britain abandoned the strategy of "three-legged stool," and agreed that negotiations would be carried out in secret between the two countries, the people of Hong Kong felt betrayed.

Lin Hsing-chih of HSIN PAO concluded in his commentary: "China is not trustworthy, and Britain is not reliable." This sentence succinctly stated the attitudes of the people of Hong Kong.

At that time, many people in Hong Kong felt hopeless about their future and became very pessimistic, regarding the day of Hong Kong's return and the start of Chinese rule in Hong Kong as the last day of Hong Kong. This resulted in an end-of-century mentality, and in speech and writing there appeared such sad phrases as the "final year of 1997" and "countdown to 1997." Whether rich or not, all were trying every means to make some more money before 1997. Some were trying to emigrate and transfer their assets overseas, while making money. Some others would not try to emigrate until they made some money. There occurred the "phenomenon of aimlessness," that is, that as one lost all hope, he would resign himself to his fate and adopt a cynical attitude toward life.

Over the years, I came to feel deeply that it would be easy to recover the land of Hong Kong but very difficult to win over the people of Hong Kong. Recovering the land without winning over the people could not be considered complete recovery. It would be very difficult to do the job in this area. (23)

NATIONAL AFFAIRS, POLICY

Government Called Upon To Limit, Define Powers

HK1507143093 Shanghai BAOKAN WENZHAI in Chinese No 723, 7 Jun 93 p 2

[Excerpt from article written by Lin Ling (2651 0407) and others: "Some Power-Related Issues Must Be Solved in Structural Refrom"]

[Text] The article written by Lin Ling and others published in the first issue of the magazine JINGJI TIZHI GAIGE [ECONOMIC RESTRUCTURING] maintains: To build a socialist market economy, the government must boldly start a revolution of itself, focusing on solving the following power-related problems brought about by the old system. One, the government monopolizes powers. This finds expression in all economic activities being controlled by the governments, the central government in particular. Two, the government enjoys many powers. Apart from administrative power the government also enjoys the power to control state-owned assets and to run state-owned enterprises. Three, there are no laws governing the exercise of powers. It is necessary to define the government's powers under the socialist market economy through legislation. And four, the government's powers have become commercialized. As the old system is being replaced by a new one, government officials give their powers to enterprises in exchange for money and vice versa.

The writers pointed out: We must not lose sight of such a fact: The socialist market economy is most acceptable to the large numbers of socialist commodity producers and dealers while it is hardly acceptable to a few government officials. This is because government officials have jobs and vested interests. Therefore, all government officials should make a revolution themselves out of their sense of responsibility to the country and people, wearing their hearts on their sleeves.

State Figures Show Industrial Efficiency Rising

OW1307135793 Beijing XINHUA in English 1338 GMT 13 Jul 93

[Text] Beijing, July 13 (XINHUA)—The overall economic efficiency of China's 357,000-plus industrial enterprises improved substantially in the first five months of this year, due to the deepening of reforms which give more autonomy to the enterprises.

The latest indices of China's industries show that the economic efficiency of those enterprises rose by 13.39 percentage points in the first five months of this year, as compared with same period last year.

The latest statistics show that industrial enterprises in China concluded sales income of 1,100 billion yuan and realized taxes and profits of 129.6 billion yuan in the first five months, representing 39.7 and 49.7 percent growth over the same period of last year.

The indices, jointly released here today by the State Statistics Bureau, the State Planning Commission and the State Economic Commission, also indicate that the economic efficiency of the country's 17,000 large and medium-sized enterprises climbed by nearly 17 percentage points during the January-May period of this year.

The indices, which refer to product sales, profitability, per-capita productivity and capital flow, attributed the improvement of economic efficiency to steps made in increasing autonomic power of enterprises, growth of heavy industry, an economic boom in the coastal areas and growing domestic demand.

Hou Jie Urges Strict Control Over Real Estate

HK1307142093 Beijing ZHONGGUO XINWEN SHE in English 1305 GMT 13 Jul 93

[Text] Beijing, July 13 (CNS)—Minister of Construction, Mr. Hou Jie, speaking at a conference of directors of provincial construction bureaus, urged all places in the country to unify their thinking on "overheating of real estate development," actively carry out the measures of macro-regulation and control raised by the party Central Committee and strictly obey instructions from higher-level authorities.

According to Mr. Hou, judging from the current development of real estate in the country, there has been too much land supplied for development and construction purposes, overheating of real estate development and too large a development scale, unreasonable investment structure and lack of standardization in behaviour within the real estate market, resulting in a serious seeking of exorbitant profits in this sector, a heavy loss to the state and a bad influence on the national economy.

Mr. Hou said that the party Central Committee and the State Council urged the strengthening of marco-management of this market. Relevant departments and units must adopt effective measures to curb malpractices within this sector in order to turn the situation round.

PROVINCIAL

Xinjiang Loses Funds To Eastern Provinces

93CE0616A Urumqi XINJIANG RIBAO in Chinese 21 Apr 93 p 1

[Article by Ma Chiye (7456 7459 6851): "Xinjiang Loses Funds to Eastern Provinces"]

[Text] If the business community in the autonomous region was troubled by the "peacock flying to the southeast" a few years back, today it has an additional secret worry: the outflow of funds to the east.

During a seminar a couple of days ago on changing the enterprise operating mechanism which was attended by both journalists and people from the business community, the deputy director of a fairly large electrical machinery enterprise called on the press to warn society of the massive outflow of funds to the east.

The deputy director said that one of the worst problems facing enterprises these days is lack of funds. With bank loans drying up, they have already tried to raise funds internally three times, but still have not come up with enough funds to finance new or remodelling projects.

Even worse, some enterprises cannot even get bank loans to keep simple reproduction going.

One cannot simplistically blame banks for the difficulties enterprises have experienced in obtaining loans. All kinds of banks in the autonomous region have their own problems. Not that they don't want to lend to beleaguered enterprises, it is just that the loans they have issued are earning a minuscule profit. When a lot of bank funds is tied up in bad loans, the normal circulation of bank funds is badly hampered and the return on bank loans is also severely squeezed.

To put their funds to good use and increase their margin of profit, banks have been channeling their funds to developed areas along the coast. According to rough estimates by people in the business, banks in the autonomous region have shifted over 1 billion yuan to coastal developed areas, investing in such hot industries as real estate and joint ventures. Banks are not the only ones moving a substantial amount of funds, the agent that binds all elements of production, to the east. To increase the return on funds, some enterprises have also taken some of their own funds to participate in the development of booming industries or to finance cooperative ventures along the coast. How much money is involved? That is hard to say.

Under the law of the movement of funds, funds inevitably go where they can get the highest return. But this is bound to make things even harder for underdeveloped areas. The consequences of the eastward migration of funds are too dreadful to contemplate. What is to be done? At a time when the market system has not fully matured, when the transformation of the enterprise operating mechanism is incomplete, and when enterprise groups are not fully grown, it is imperative that administrative tools be used as appropriate and that macroeconomic regulation and control be carried out as necessary. The most fundamental solution, however, is to accelerate reform.

In the analysis of an individual from the economic community, developed areas along the coast have been attracting a flood of funds from the autonomous region like a magnet mainly because the rate of return here in the region is far less than that along the coast. Leave aside the superior infrastructure of the coast. Just by cutting taxes and allowing enterprises to keep more profits, the coast has made itself enormously appealing. A case in point is the emergence of "tax protection zones" in a number of coastal open cities.

Under its current reform and open policy, the autonomous region merely seeks to emulate what the coastal region is doing. That, this figure argues, only enables the region to ape the coast at every step. The region is still a long way from putting to full and effective use the advanced experiences of the coast. For instance, he says, the shareholding system, a most dynamic way to raise funds, is still in its infancy in Xinjiang but has already been popularized along the coast. If this situation continues, the autonomous region will probably never be able to compete with the coastal region for funds.

Accordingly, this individual points out, if the region hopes to reverse the eastward flow of funds and catch up with the coastal developed areas, it has no choice but to adopt an unconventional leap-frog open and reform policy. In line with the reality in the region, we must act more boldly, more quickly and more creatively to open up a new path of reform and openness. He said: "Can we explore the possibility of turning the autonomous region into something like a special economic zone? Can we set up some 'tax protection zones' in a number of cities? Can we vigorously but steadily push ahead with the shareholding system in accordance with the principle of voluntary participation by enterprises?"

Certainly, improving the investment climate in Xinjiang on a large scale is bound to deal a heavy blow to the government's fiscal policy. In other words, the region will see a drop in government revenue in the short haul. The individual says that while this possibility cannot be ruled out and the concern it generates is understandable, we absolutely must not "refrain from doing something for fear of a slight risk," not to mention slipping back into the old rut of "worrying about minor things while ignoring the big picture."

Xinjiang Enterprises Experience Difficulties

Excessive Fees

93CM0342A Urumqi XINJIANG RIBAO in Chinese 5 May 93 p 2

[Article by reporter Zheng Yu (6774 3842) and correspondent Lu Bochao (0712 0590 6389): "When Will Financial Extortion Come to an End?"]

[Text] Editor's note: Today we are "emboldening" ourselves to make some outcries about the difficulties experienced by enterprises. Recently, whichever enterprise we visited, we heard complaints from its plant director or manager about the problems encountered in operating the enterprise. However, they did not dare to report these problems to the higher authorities for fear of offending the departments involved. We are making the outcries for no other purpose than bringing this matter to the attention of the functional departments concerned in the hope that these departments will help the enterprises to ease their anxieties and solve their difficulties as early

as possible. In the process of replacement of the old systems by new ones, there are bound to be difficulties in pushing the enterprises into the market all at once. Paying no heed to this matter shows an irresponsible stance toward the enterprises. Besides, the enterprises need assistance and support from the government's functional departments by way of industrial policies, financing arrangements, energy and material supplies, and railway transportation. Presently, all localities and sectors are studying and implementing the guidelines contained in documents of the 14th CPC National Congress and beefing up the macro-regulatory and control role played by the functional departments. Now that the enterprises have difficulties, the functional departments might conduct a self-examination to see if they have really played their role of macro-regulation and control and how much they have done in helping ease anxieties and solve difficulties for the enterprises. [end editor's note]

Xiong Fei of the Xinjiang Switch Plant was quickly scanning the newspaper, which carried "Regulations on the Transformation of Operational Mechanisms of State-Owned Enterprises." This deputy plant director was somewhat excited when his eyes fell on the column headlined "Enterprises Have the Right To Reject Financial Extortion." As his enterprise had been time and again annoyed with unexpected solicitations for money, he felt bewildered and was at a loss as to what was really meant by financial extortion. When you say it is a financial extortion, others may say it is not. What can you do? There is no criterion to apply. Even if you can ascertain that it is a financial extortion, what can you do about it?

One day in early April, a representative from the Urumqi Fire Brigade came to this switch plant and asked it to sign a fire protection contract. The condition for making such a contract was that the plant must give some money "out of its own pocket" to support the fire brigade. Otherwise, the contract could not be signed, and if any fire occurred, nothing would be done by the fire brigade.

"Such instances of blatantly extorting money are not at all surprising," said Xiong Fei. "What is terrible is disguised extortion. Examples are those countless meetings. Some meetings are really unnecessary. Their purpose can be served as well by distributing instructions to enterprises and conducting periodic checks to make sure that the instructions are fulfilled. But some departments want to hold meetings. What is more, the meetings are not held in their conference rooms as in the past, but take place in high-class hotels. We cannot refuse to participate. To attend such meetings, we have to bring a lot of money to pay the expense. In this unnoticeable way, our money is extorted."

In early March, the Urumqi City Labor Bureau sponsored a labor safety meeting and demanded that each enterprise send a representative to the meeting and pay a 400 yuan meeting fee. The meeting took place in the Dongfeng Guest House of Xinjiang Automobile Works. Seeing this as an excessive extortion, the Xinjiang Switch Plant tried to ignore it, but could not stand the repeated "follow-ups" by the Labor Bureau. Finally, it gave in.

The deputy plant director seems powerless to do anything about such extortion. He is angry but dare not speak out. "Even though there are regulations to protect us, we dare not act against them. We can only adopt a delaying tactic. We delay satisfying their demands as long as possible. But if they use hard measures, we have no choice but to give in," he said.

Plant Director Zhang Maoxiang behaved differently from Xiong Fei. Asked about financial extortion, Zhang was absolutely unwilling to talk about "those things that would offend certain people."

"Some requests can in no way be rejected. Now, it is very easy to get money from enterprises. Each one asking for money has his pretext, tactic, and reason. Moreover, some fees are established with the approval of the higher-level government. How could you reject them? For example, there are now quite a lot of training programs, examinations, and certificate-awarding ceremonies. Enterprises are requested to send in their related personnel as participants. If we do so, we have to pay certain fees. If we don't comply with their requests, someday at a critical moment we will be 'given difficulties.' If this situation goes unchecked, what a terrible outcome it will lead to! With regard to some kinds of fines, no written rules are disseminated to enterprises beforehand. Once a problem occurs, fines of one kind or another will come. We are always caught unprepared and have to meet the demands in a hurry. It is out of the question to ask for a reduction in the amount." The plant director said this with a deep sigh.

At the conclusion of the interview, we learned the following about this largest enterprise in our region making low-voltage switching equipment and holding "red certificates" awarded by the Ministry of Energy Resources and the Ministry of Machine-Building and Electronics Industry: Two years ago the annual output value of this plant was between 1.2 to 1.5 million yuan, and its gross profit reached about 1 million yuan. But due to the shortage of funds and the rising prices for raw materials, fuel, and electric power, last year's output was just enough to put the plant at the critical point between profit and loss. Now, the plant has to face a new question: the grim challenge posed by the market economy.

Enterprise Debts

93CM0342B Urumqi XINJIANG RIBAO in Chinese 5 May 93 p 2

[Article by reporter Kang Wenhua (1660 2429 5478): "If No Loan Is Obtained, the Factory Will Have To Stop Operations Until Raw Materials Are Available"]

[Text] Blazing a force-six wind on the morning of 14 April, I arrived at the Xinjiang General Electric Equipment Plant (now called the Xinjiang Electric Equipment and Appliances Manufacturing Corporation) in Changji. Unfortunately, Deputy Plant Director Du Fangyuan, whom I intended to interview, had just left for Urumqi to negotiate a loan for the plant.

Getting loans is a first and foremost task in these days for the Xinjiang General Electric Equipment Plant. Ranking among those known for the highest economic efficiency in the machinery and electric equipment industry in Xinjiang and being the No. 1 enterprise in Changji Hui Autonomous Prefecture, this plant is now confronted with an acute shortage of funds. According to Zhao Jingjie, another deputy director of the plant, this year has been designated as a period for investment in technological upgrading. Full-scale preliminary work has been started on a 20 million yuan program, but not a single cent of the money scheduled to be put into the program early this year is now available. Currently, the technological upgrading program is on the brink of being "stranded."

"Debt chains" are another major reason for the shortage of funds faced by this enterprise. As of mid-April, outstanding receivables from sales of goods totaled 10.55 million yuan.

On the one hand, the problems are difficulty in getting loans and the large amount of tied-up funds. On the other hand, this enterprise has to stand the sharp rise in raw material prices. The price of silicon steel sheets required by its transformer sub-plant was 8,000 yuan per metric ton last year. This year it has risen to 12,000 yuan. Recently, after a lot of hard efforts, the plant got 120 metric tons of silicon steel sheets at a price some 1,000 yuan below the market price, but the seller wanted cash payment. When the plant leader rushed to the bank to ask for a loan, the bank replied: "No money!"

Insufficient circulating funds have seriously hampered this enterprise's normal production. In the recent past, its electric motor sub-plant had to suspend operations for as long as a week, waiting for supply of materials. Now, material supply for the transformer sub-plant will soon be exhausted, but so far no loan has been obtained to replenish the supply. If no loan is available in the near future, this sub-plant, too, may have to suspend its operations.

I asked: Why don't you raise some funds from your staff and workers?

Zhao Jingjie replied with a bitter smile: What do you mean why don't we raise funds? Altogether, we raised more than 5 million yuan. Most of the savings of our staff and workers have been invested in the plant. We dare not and cannot increase their burden any more.

In the interview, I learned something about the Xinjiang General Electric Equipment Plant's next-door neighbor—Xinjiang Electric Wire and Cable Plant, which is known as "a big loss sufferer." At the end of last year, when the market took a turn for the better and its sales began to pick up, this plant decided to go full steam to boost production. However, its efforts were hampered by a serious lack of funds. In late-March this year, leaders of the Changji Hui Autonomous Prefecture made a special trip to Urumqi to get loans for this enterprise and the Xinjiang General Electric Equipment Plant. Thanks to the assistance from the prefectural leaders, the Industrial and Commercial Bank in Urumqi promised to lend 2 million yuan to each plant. On hearing this, the leaders of these two plants were overjoyed. The next day they hurried to Urumqi to get the loans. But not until they arrived there did they know that the bank in Urumqi only made the plan, and the actual loans were to be extended by its branch in Changji. They came back to the Changji branch of the Industrial and Commercial Bank, but the response remained the same: "No money." To this date, the loans are still unavailable.

Loan Problems

93CM0342C Urumqi XINJIANG RIBAO in Chinese 5 May 93 p 2

[Article by reporter Fan Xibin (5400 6007 2430) and Jiang Lirong (5592 0448 2837): "Banks, You Should Lend a Helping Hand"]

[Text] Everyone says it is hard to run an enterprise, but it is even harder to be a plant director. This is evident from the anxious expression on the face of Yang Yong, director of Xinjiang Knitwear Plant.

In the daytime, he approaches banks for loans to meet the need of the plant's technological upgrading program. He goes here and there to get money for use as circulating funds to keep his enterprise operating. At night, he works overtime with other cadres in the plant. This is quite a hard job for him. Of course, if he can get some money for the plant, his efforts are not wasted. However, the fact is that he has put in most of his time, but nothing has been accomplished. All he has got is grievance. "Everyone says that enterprises should be pushed to the market. To do this, we can overcome whatever big difficulty encountered within our enterprise. But we are unable to deal with the difficulties coming from outside. So, if an enterprise is to enter the market, it is of crucial importance that all social sectors should support the enterprise and understand its problems."

Since the Xinjiang Knitwear Plant changed its lines of products in 1982, there have been ups and downs in its production. In 1991, production reached a record low and the annual loss amounted to 2.14 million yuan. In the face of sharp competition, the plant's staff and workers were not discouraged but struggled with all their might. Last year the loss declined to 1.14 million yuan. For the first quarter of this year, though its revenue and tax payment totaled more than 100,000 yuan, it still suffered a loss of 100,000 yuan. Compared with last year's corresponding period, however, the loss was down

by 476,000 yuan. If the grim reality has given the plant a lesson, it is no other than this: An enterprise must use new technology and equipment to make new products to gain a foothold in the market.

Generally speaking, a belief established after paying a price is most difficult to shake. The plant firmly believes that upgrading its technology to raise the quality of its products is the only way out. As early as two years ago, it drew up a technological upgrading project and began a fund-raising drive for this purpose. Its efforts finally produced results. The department concerned gave a green light to the project and approved the import of an advanced knitwear production line. At the same time, the then Ministry of Foreign Economic Relations and Trade gave the project its support by helping the plant acquire a $2.846 million loan from the Spanish government. The next step was for a bank in the autonomous region to receive the loan and reallocate it to the plant. To get this money, the plant contacted the bank many times, and each time was frustrated by red tape—one day it was told that an additional form had to be filled out; another day it was told that one more seal was needed. When all the requirements had been met, the bank said that because of the plant's poor economic efficiency and inadequate repayment ability, it had decided not to reallocate the loan to this plant. This made the plant very anxious. It could not give up the loan, which enterprises in the interior had tried to obtain but without success. It went around to ask for help and finally got a new textile industry group to act as a guarantor for this loan. The Regional Planning Commission also agreed to issue a letter of guarantee. At this time, however, more than a half year had elapsed. In this matter, the bank changed its attitude to contradict itself—at first, it agreed to reallocate the loan to the plant and issued an appraisal report for this purpose. Afterward, it recalled the report. This perplexed the plant, which was really at a loss to know the bank's intention. On 2 April, beyond its expectation, the plant received a phone call from the Ministry of Foreign Economic Relations and Trade, saying that it should complete the loan procedure within 10 days. If it failed to do so, the ministry warned, the loan would no longer be available to it. At the end of this phone call, the ministry made a scathing remark to Plant Director Yang: "How come you people in Xinjiang act so slowly?"

To bring the enterprise to prosperity and double the income of its staff and workers is a "dream" long cherished by Yang Yong. Why wouldn't he hope that this dream would come true? Nonetheless, all he has now on hand are piles of reports, contracts, and paperwork affixed with countless seals, plus a lot of grievances, and nothing else.

March was an unprecedented "flowering" season for this knitwear plant. Orders came in from France, Poland, and other countries for some 700,000 pieces of knitwear. This would keep the plant busy for three months. Neither Yang Yong nor the more than 1,000 workers in the plant can afford to give up such a good business opportunity. To accept these orders, the first question to be solved is money. The plant needs 2 million yuan in circulating funds to keep its machines running. So all leaders of the plant set out to negotiate loans. They made many visits to the banks, only to be greeted with cold faces. "Factories like yours should feel lucky if your loans are not recalled. It is absolutely impossible to grant any new loan to you."

The banks thus closed their doors to this enterprise. However, cadres and workers alike did not want to give up this opportunity, which would enable this knitwear plant to survive. While continuing to pay the wages for the first-line workers, the plant decided to delay paying the staff and workers on the second and third lines for two months. Meanwhile, it made available 600,000 yuan by tapping internal potentials. This, plus 270,000 yuan borrowed from other units, eventually enabled the plant to buy the required raw materials. To ensure the fulfillment of the orders on time, the workers worked overtime without overtime pay. They worked 14 or 15 hours a day. Some female workers refrained from going home for a week, spending all their time in the shop. Such a scene may be described more appropriately as a might than a dedication. Ms. Zhu Naixiao, a representative from a Paris-funded company, was deeply moved on seeing the workers toiling overtime to fill the orders. In foreign-funded enterprises, she said, workers would not work so hard unless you pay them twice as much.

On 5 April, this knitwear plant delivered the first batch of goods to Poland as scheduled. Shortly afterward, a batch of computer-embroidered knit goods was sent via a civil airline to Paris. The plant's efforts are not wasted. By making on-time deliveries, it will not only eliminate deficits, but can make some profit. All other units in the knit goods industry are admiring the Xinjiang Knitwear Plant for hitting the jackpot. But there is still not the slightest smile on Yang Yong's face. He knows better than anyone else that the plant he has tried to sustain has yet to be brought out of predicament.

Enterprise Closures

93CM0342D Urumqi XINJIANG RIBAO in Chinese 5 May 93 p 2

[Article by reporter Zheng Yu (6774 3842): "If Prices Rise Further, Enterprises Will Have To Stop Operations"]

[Text] The skyrocketing prices of rolled steel and other materials have thrown into difficulty the Shiyue Tractor Plant, which relies on steel as its raw materials. If the magnitude of rise in steel prices continues to soar, this plant may have to suspend production within this year, said Ma Huanwen, deputy plant director in charge of production, in an interview with this reporter on 15 April.

Ma Huanwen pointed out the price hikes for some major steel products: As of the end of March, the price of

carbon nodule steel had reached 4,800 yuan per metric ton as against 2,000 yuan at the end of last year, showing a more than 100 percent rise. The price of cold-rolled steel had climbed from less than 2,000 yuan to 5,000 yuan per metric ton, a rise of 150 percent. The price of steel sheets had soared from 2,000 yuan per metric ton to a level between 3,900 and 4,500 yuan, a rise of 100 percent. The above only shows that tangible material costs have doubled, and does not include the price hikes for those intangible items, such as fuel, electric power, and other materials that constitute part of the production costs. Previously, the enterprise could offset the effect of rising material costs by tapping internal potentials. Now, the loss caused by high material costs is so heavy that it can almost wear down the enterprise.

According to the deputy plant director's calculation, as of the end of March, the cost of each tractor made by this plant had gone up by some 100 yuan compared with the end of last year. In the past, if the plant produced 1,800 small four-wheel tractors a month, it could get enough money to cover the operating cost. Now, it must produce 4,831 such tractors per month for this purpose. During the whole first quarter of this year, however, the plant only turned out 4,920 such tractors. This output was down by some 1,200 tractors from the record registered for the same period last year.

Of course, the plant did not give up. In March, it raised the unit price of Model 150 small four-wheel tractors by 320 yuan from the original level of some 6,500 yuan. Even so, the deficit rate in the production of small four-wheel tractors is still considerable. Accordingly, a "losing battle" was fought for the first quarter of this year. Compared with last year's corresponding period, the total output value was 39 percent less, production quantity dropped 39.3 percent, sales declined 18.3 percent, and profit fell from 3.087 million yuan to minus 2.4 million yuan. This is unprecedented in the plant's history, and what is strange is that this happened in the peak sales season for small four-wheel tractors.

"The material cost for each tractor exceeds 6,200 yuan. This, plus the fixed expenses, energy cost, and tax, brings the per-unit cost to some 7,700 yuan. The adjusted sales price is only 6,800 yuan. The loss is obvious. We cannot raise the price at will because our products are items in support of agriculture and we have to consider the farmers' purchasing power."

The farm machinery industry is a low-profit undertaking. If farm machinery enterprises are forced to switch their production to other lines, the region's agriculture will be seriously affected. Both foreign nations and the inland part of our country have certain protective or preferential policies for their farm machinery industry. They encourage farm machinery enterprises to increase their output in support of agricultural development. We have no such preferential polices. To develop agriculture in our region, we must boost our production. But this is too difficult, and we have done our utmost.

The above words weighed heavily on our hearts.

FINANCE, BANKING

Specialized Banks To Convert to Commercial Banks

93CE0577A Beijing JINRONG SHIBAO in Chinese 27 May 93 p 1

[Article by Qi Baogun (7871 1405 5028): "Abide by the Law of the Market Economy, Go the Route of the Commercial Bank"]

[Text] Entering the marketplace and transforming themselves into commercial banks—this is the historical opportunity now confronting specialized banks. Under the socialist market economy system, the basic method of resource allocation lies in the market, while competition is the fundamental feature of the market economy. The survival and development of any economic organization must be determined by the laws of the marketplace. The financial industry possesses such defining features as high profits, large risks, and rapid growth. In particular, as market reforms intensify, as economic growth quickens, and as demand balloons, there is the strong possibility that the market shares enjoyed by various financial organizations will fluctuate significantly within a short period of time. Thus, state-owned banks must gradually work to achieve asset allocations that accord with the law of the market and must strive for growth within the context of market competition. Moreover, they must consciously control weak and negative aspects of the market while exerting a guiding influence.

They must grasp the special law of currency and credit management and work toward steady growth using the market as a guide. The basic contradiction facing the financial industry lies in improving profits and reducing risks. In the course of business operations, this contradiction usually manifests itself in the struggle for increased quantitative assets and heightened capital quality. In this initial stage of reforms in the socialist market economy system, high speed economic growth provides a wonderful opportunity for growth in the financial industry. Specialized banks cannot stick to a definite rate of growth or they will lose a portion of the market. Also, as the role of the market grows, the contradiction of long-term accumulations becomes more starkly revealed. Competition is heating up, risks are increasing, and the ability of specialized banks to guard against and transform risks restricts the rate and quality of growth. Enlarging the circle of debtors and increasing the quality of assets becomes the principle focus of competition within the financial industry. Currently, although government-mandated credit planning continues to play a major role, as financial assets gradually assume a more commodity-like nature, the law of value will have an increasingly important role in the currency and financial markets. It is inevitable that indirect financial adjustment and control will replace direct

adjustment and control. In the transition phase, specialized banks should actively strive to develop their powers of self-initiative, improving their skills at using market mechanisms to solve long-standing contradictions, and developing new growth areas, even while the policy of going only as far as necessary to meet requirements and planning remain in effect. They must persist in following the principles of safety, circulation, and profits with regard to capital, in using the market as the unitary standard for borrowing, lending, and investment work, in strengthening risk management, and in transforming the focal point of operations from quantitative growth to heightened quality and profits. They must adapt to and put to use the law of asset movement, letting market development dictate organization and network distribution. Planned adjustment and control must conform to the law of greater circulation of assets, with uninhibited flow and maximum use. Rely on traditional business foundations to strengthen such developing areas of business as credit, real estate, and information and consulting, to increase competitiveness, to bolster new areas of operation, and to increase the rate of overall capital profitability.

Raise service awareness and win markets through superior service. Under planned economy conditions, specialized banks assumed many policy and administrative responsibilities. Specialized banks must become more like commercial banks, reassuming the character of financial service enterprises. Enterprise service must replace enterprise administration, heightened operational results must be achieved through expanded service territories, and competitiveness must be bolstered by improved quality of services. Service includes not only such intermediate business items as deposits and account management, but also credit, investment, and other such capital operations. Equality of service will strengthen management initiative, and enterprise development should result from self-initiated choices, inducements, contention, guidance, and promotion. From the standpoint of self-development, as the scope of deposits, remittances, and other such intermediate business operations expands, as quantities grow, and as the amount of currency in circulation increases, profits will grow, costs will fall, and the banks will become more attractive and competitive. In this regard, services should be expanded, and efforts should be made to increase the proportion of total revenues accounted for by revenues from intermediate service operations. Satisfying the requirements of advanced enterprises is a guiding direction from the market, and a developmental direction for banks. Currently, in addition to enterprise funding requirements, there are newer and higher demands in the area of service categories and service effectiveness. Thus, specialized banks should immediately tackle the issue of expanding their areas of service, they should meet the new requirements of advanced enterprises, they should adapt to the latest changes in the financial markets, they should learn the good lessons of western commercial banks, they should improve their creativity, and they should take more rapid steps toward comprehensive, multi-functional growth.

Commentator on Meeting International Banking Standards

93CE0577B Beijing JINRONG SHIBAO in Chinese 24 May 93 p 1

[Commentator's Article: "An Important Step in the Direction of International Financial Practices"]

[Text] Today our paper has published the entire text of "Temporary Provisions Concerning Capital Risk Supervision in the Shenzhen Banking Industry." These provisions demonstrate that Shenzhen financial organizations have taken an important step in the direction of transforming their operating mechanisms, in "making banks run like real banks," and in drawing closer to international practicies, etc. They will provide beneficial experiences from which our nation's banking industry can strengthen and improve the practice of macroscopic financial adjustment and control, and gradually make banks more commercial while achieving enterprise-like management operations.

With "Rules Concerning Transformation of Operational Mechanisms in Ownership by the Whole People Industrial Enterprises" being further carried out and the enterprise bankruptcy law being implemented, with steps toward financial reform and opening up being accelerated, and with China's financial industry taking part in international market competition, effective safeguards against loan risks, heightened financial asset quality, and assurances of bank loan profitability, security, and turnover are things that must be urgently placed on the banking industry's bottom line agenda. By the end of last year, bank loans had hit 2.16 trillion yuan, and a significant portion of this was made up of bad loans, nonproducing loans, and overdue loans. The question of how to reinvigorate these problematic loans that create banking risks is a complex one that requires our painstaking efforts at resolution. At the same time, by the end of last year, banks had a total of 2.42 trillion yuan in capital derived from such sources as deposits, bonds, and free capital. This year, with a total of 380 billion yuan in new loans extended, the question of how to lend this money in the right way so that risks are minimized or even avoided is similarly a vital one that demands our conscientious study. These "Temporary Provisions" for Shenzhen were formulated based on separate management of credit assets and proportional management responsibility for credit capital, major principles of capital risk management in the international banking industry were consulted, and they take into account real-life financial mechanism operations in the special economic zone. This will be extremely important in strengthening and improving macroscopic financial adjustment and control, in gradually putting into effect enterprise-like management of banks, and in avoiding risk and improving the quality of financial capital.

The implementation of capital risk management in the banking industry entails managing the various capital items in the banking industry according to risk principles, restricting the scale of capital in the banking industry through regulations and the assessment of such indicatiors as the capital sufficiency rate and the rate of due loans, gradually moving from a central focus on controlling the overall scope of credit to a central focus on heightened loan quality, and turning banks into true enterprises that operate with autonomy, that are responsible for profits and losses, that assume their own risks, that achieve their own balances, that pursue self-development, and that exercise self-restraint.

The establishment of the new socialist market economy system is a fairly lengthy process. Financial system reforms must abide by and serve the state's requirements for macroscopic adjustment and control, and they must fit in to a degree with the historical progress toward establishment of a socialist market economy. As a special economic zone, Shenzhen can take the lead in this regard. We must follow the rule of spreading these practices layer by layer, adopting the beneficial experiences and methods used at the international level and trying them out first in the special economic zones with reality-based adjustments. Once this has proven successful, the practices can be spread to the coastal region and the interior. As each region works to improve and strengthen macroscopic financial adjustment and control and to move from specialized banking mechanisms to commercialized ones, they must be mindful of the overall goals of financial system reforms and the graduated stages of reform, and they must follow the dispositions of the State Council, the People's Bank of China, and the head branches of the various specialized banks, pushing forward with reform in an active, safe, planned, and step-by-step fashion.

SMALL-SCALE ENTERPRISES

Township Enterprise Policy Pitfalls

93CE0636A Beijing ZHONGGUO MAOCU BAO in Chinese 26 Apr 93 p 1

[Article by Gu Jianzhou (7357 1696 3166): "'Four Pitfalls' in the Current Policymaking of Township Enterprises"]

[Text] At present, various localities across the country have set off an upsurge of vigorously establishing township enterprises. To promote the great development of township enterprises by adroitly guiding action according to circumstances, some knowledgeable people have aired different views over the issue of policymaking in township enterprises, put forward many good suggestions, and played a relatively good and promotional role for the healthy development of township enterprises. Recently, I conducted an investigation of township enterprise policy issues in both southern and northern Jiangsu, and felt that in practice great importance needs to be urgently attached to the following four issues, which can also be called the "four pitfalls."

The first pitfall is that "eyes are wide open when seeing the outside world." Initiating foreign-funded enterprises is a short-cut to enhance the technical level of township enterprises, quality of products, and the enterprise quality as a whole. But in practice there exists the state of rushing headlong into mass action, and of being not choosy about food when hungry. The major problems are: Conscientious inspection and demonstration are not conducted. Many are cheated, for they blindly believe hearsay of some "second passers" and "middlemen." Their eyes often turn wide open when they see the outside world. They fit in easily without conscientious consultation, afraid that the other side may not cooperate and business cannot be done. For example, a county invested nearly 20 million yuan in a joint venture with a foreign businessman to initiate a foreign-funded enterprise with an investment of about 24 million yuan, and the foreign businessman invested 5 million yuan and helped purchase equipment from a third country. The equipment turned out to be a production line that had become obsolete on the international market in the 1960s. Some boxes even contained "waste copper and scrap iron." Neither installation nor production could possibly be conducted. Nationals were very concerned when seeing this with their own eyes. However, the foreign businessman was "indifferent," treating this as nothing important. It turned out that the foreign businessman had earned the amount of investment by purchasing the equipment. Second, the technical quality of the staff was not taken into consideration. After being introduced into the country, the equipment could not be operated, and could not turn out quality products. Quality products could be made with the presence of the other side's technicians, with their departure, there was waste as usual. The reason is quite simple: Enterprise management and the quality of the staff as a whole did not catch up. Third, market research was not done fully. They listened to the statement of the cooperating party, or only paid attention to the market situation at the time of cooperation without making mid-term and long-term market predictions. It was often the case that after the program went into production, the market started to be weaken, thus unfolding little for the future. The reason was that foreign businessmen had predicted that the product's vitality was not great. As the product ought to be declared obsolete, and we were waiting to import their equipment, this unprofitable business fit in exactly with the foreign businessman's wishes. For instance, of the 18 foreign-funded enterprises that went into production in a certain city, only two made profits. This is a very good example.

The second pitfall is "cooking a meal without rice." It takes funds to look for projects and to do research. Initiating programs, however, requires even more adequate sources of fund. We now have quite a few township leaders who were only busy looking for programs without considering whether they were possible in

reality. But this kind of good intentions may be all in vain. For example, a certain township obtained a 50,000 yuan loan for project development. Such spirit and daring are quite good. Half a year later they found two projects with relatively big market potential. While more than 5 million yuan and 10 million yuan were respectively needed as inputs, they did not have a penny of their own. They relied entirely on bank loans. But every year this county could obtain only about 20 million yuan of loans for fixed assets for the township enterprises. Undoubtedly, a one-time investment of 15 million yuan for a township like this was a "astronomical number." The outcome is conceivable: Joy in vain, "suffering a double loss." Circumstances similar to this are common in townships. Last year 21 townships out of 34 townships in a county experienced this kind of circumstances. Though more than 600,000 yuan were spent on looking for programs, none of the big programs was actually initiated due to fund restrictions. Up to this day, the programs that were originally in their hands were either used by others or gradually lost markets.

The third pitfall is that "there is smoke everywhere." Pilot programs were started in every village of a township or a county, and there was smoke everywhere. As repeated construction occurred, funds were dispersed. This has long been proved not conducive to economic development. But recently this kind of circumstance gained ground, and became worse and worse. Huge losses have been caused in a great number of townships. The reason primarily is the man-made weakening of the government's control capability, the market mechanism was incomplete, and consequently many localities had a tendency to let township enterprises develop in a laissez-faire fashion. First, there was no consideration of whether funds were available in a region, the same pilot programs were repeated in different places, and half completed projects could be seen everywhere. Funds and actual strength were dispersed artificially. Second, there was consideration of whether there would be any benefits. Owing to repeated pilot programs and dispersed strength, enterprises tend to be small, or do not satisfy the designing requirements due to a lack of funds. Enterprises are not in a position to expand the volume of products, cannot build themselves up to a certain scale, and cannot compete on the market. Third, there was no consideration of the vitality of products. Only when others initiate programs can we also follow as well. A bowl of rice is shared among all of us. The result is that nobody gets full. Later on nobody has anything to eat. Then rushing headlong into mass action will result in breaking up in a hubbub.

The fourth pitfall is that: "The beginning is out of line with the end." This is a problem found common in the current policymaking of township enterprises. Some leaders always place stress on big projects that they want initiated, or emphasize that "creating conditions, if they are unavailable, to initiate" programs. The masses call this disregarding one's feet while taking care of the head only. The outcome is that: Because funds do not get to due places in time, construction cycles of programs are prolonged and costs of investment increase. Some became half completed projects, and the benefits of enterprises were seriously affected. More commonly, after a program was completed, important factors for internal production were not ready, or normal operation cannot be maintained due to a lack of flow funds. Even if operation was started with difficulty, designing requirements may not be satisfied, qualified products cannot be turned out, or operation and suspension interchanged. As normal production and operation cannot be maintained, enterprises cannot maintain their production, and the loss outweighs the gain. For some, the bigger the production, the bigger the burden. The day when they went into production was the day when losses and shutdown occurred.

To sum up, the issue of policymaking for township enterprises is very important. How can correct policymaking for township enterprises be guaranteed? First, we must proceed from realities in everything, seek truth from facts, and act according to our capabilities. In the process of concrete management, we need not only pay attention to the factors of human positiveness, but also consider the factors of objective limitations. We would rather think that more difficulties exist than act blindly, or act with undue haste, and cause man-made losses. Second, we must set up policymaking demonstration groups. Now the practice is that higher level planned economy departments list programs while others give the okay. They no longer check on program demonstrations. This poses new requirements to enterprises or townships. We must organize demonstration groups that are composed of leaders, specialists, project technicians, and managers. We must consult many sides, demonstrate strictly, reduce willfulness, and eradicate the phenomenon of "making decisions by striking one's chest." Third, we must ensure the concentration of energy, material resources, and financial resources. Particularly, we must guarantee the correct use and healthy operation of funds to ensure that once a program is demonstrated it will be constructed and put into normal production.

TRANSPORTATION

Guizhou Improves Communications Network

OW1307021193 Beijing XINHUA in English 0115 GMT 13 Jul 93

[Text] Guiyang, July 13 (XINHUA)—The communications network in southwest China's Guizhou Province, where 87 percent of the land is hilly, has been greatly upgraded in the past few years, official sources here said.

Up to the end of 1992 highways had been extended to 90 percent of the towns in the province, totalling 31,800 km.

In addition, the province now has 0.8 km of railway line to each 100 sq km of land, higher than the national average. And 80 percent of the tracks is electrified.

This capital city of the province is now connected by several railway lines to the surrounding provinces of Sichuan, Hunan and Yunnan, and the Guangxi Zhuang Autonomous Region.

Guiyang is also connected by 17 air routes to major domestic and overseas cities, such as Beijing, Shanghai, Guangzhou and Hong Kong.

The more than 100 rivers in the province now boast 1,172 km of navigable routes.

As part of its strategy of opening to Southeast Asia, the province will strive to build more railway lines and airports, and further improve its river channels, according to Governor Chen Shineng.

By 1995 a large modern airport will be put into use in Guiyang, allowing the take-off and landing of ten flights per hour.

The top priority, however, will be put on highways, which currently handle more than 80 percent of the local passenger and cargo transportation.

The province will invest heavily to build three major roads that will provide it with an exit to the south coast through Guangxi as well as smoother and faster connections with the interior areas of the country.

AGRICULTURE

Agricultural Trade Policy After Joining GATT

93CE0588A Shenyang NONGYE JINGJI [AGRICULTURAL ECONOMY] in Chinese No 5, 13 May 93 pp 1-3

[Article by Yao Yang (1031 3152): "Relevant Responses for China's Agricultural Trade Policy After a Return to GATT"]

[Text] Following China's return to the GATT, the strength of China's agricultural economy will inevitably be subject to blows from all sides. This requires that China's agricultural economy walk the path of internationalization and standardization. This article will briefly examine some responses that must be made by China's agriculture following a return to the GATT system.

1. Increase the quality of agricultural products, and reduce production costs. International trade practice proves that the export of foreign exchange generating agricultural products is the same as other commodities, and in a new period of development, when we are going from a "production volume guided" system and entering a "quality guided" system, on the international market the quality of level of agricultural products (including such things as product taste, safety, nutritional value, processing, packaging, etc.) nonprice competitive factors replace price competitive factors. Similar products, with different quality, can have price differences that reach as high as several times more, and even as much as 10 times higher. For example, on the Hong Kong market, the price of Japanese beef per 100 kilograms is HK$75, while U.S. beef is HK$19 per 100 kilograms, and Chinese beef is HK$5 per 100 kilograms, roughly 1/15 of the price of the Japanese beef. From this it is evident that in promoting the development of China's agricultural product import export trade, it will be necessary to work on increasing the quality of agricultural products, and reducing product costs, to develop in a direction favorable to high yield high quality high efficiency agriculture. One way to increase quality, and reduce costs is to attract foreign advanced science and technology. In agricultural production, a very large proportion of the key crops and advanced varieties have come from abroad. In the 21 year period between 1971 and 1992, China used various channels and methods to bring in various types of crops and varieties from many countries around the world, more than 100,000 nursery stock items, and a large quantity of animal varieties, such as fish species, as well as medicinal herbs. The import of these high quality varieties has increased China's natural resource base, and improved the quality of agricultural products. A second way is to attract the use of foreign capital. Under conditions where China's agricultural base is weak, its infrastructure underdeveloped, its finances lacking, and with production and management levels low, the use of foreign capital will save on the use of funds, and is an effective way to increase product quality. The third way is to pay attention to the exploitation of science and technology. Science and technology are the first productive force, and only science and technology will make it possible to genuinely achieve reductions in cost.

2. Improve the agricultural product export structure, and export more high priced agricultural products. Developed countries have a surplus of agricultural products and according to statistics from foreign news agencies, the European Community has surpluses amounting to 30 percent for wheat, 34 percent for sugar, and 24 percent for dairy products. Developing countries also emphasize self-sufficiency. Looking at the whole picture, competition in low-price primary agricultural products is fierce, and breaking into the international market is very difficult, due to the fact that price reductions make it not worthwhile. For this reason, to increase the economic efficiency of exporting agricultural products, it is necessary to improve the agricultural product export structure, and export more high price agricultural products. Such high priced agricultural products primarily include: unprocessed high nutritional value fruits, vegetables, egg products, unpolluted and safe agricultural products such as cashmere, silk, seafood products, high quality meat products, etc. Agricultural products containing a high technological content and pollution-free "green products" and health food products have the most potential for development in the 1990s, and are products that great numbers of consumers are fond of.

3. Agricultural product circulation enterprises should move towards a group orientation, and continuously

strengthen their competitive capabilities. To further give full play to the primary channeling function of state cooperative businesses in domestic and foreign trade, and promote the circulation of agricultural commodities, China's agricultural product circulation enterprises should develop towards a group orientation, and gradually move towards large-scale operation, functional comprehensiveness, share issuing organizations, diversification, and scientific administration. The establishment of agricultural commodity circulation enterprise groups will make for even larger benefits in terms of scale in production and management for agricultural products, and make for integrated benefits in terms of fund use. With market circulation it will provide a guidance function, and on the international market it will provide even more ability to compete. At present, it will be possible to realize this through the following approaches: First, make state-run large- and medium-scale core enterprises the key organizations; second, take one primary agricultural product as the base, and through production, supply, and sales, and organize an organic whole that is based on science and technology, processing, and trade; third, adopt an organization pattern wherein large-scale enterprises annex small enterprises; fourth, implement share holding systems, adopt an organizational pattern of share participation and share control. In organizing, parties should strictly adhere to principles of voluntariness, fairness, and mutual benefit, and in terms of policy and law, the state must create an external environment that is good for the formation and development of business enterprise groups.

4. The state should adopt policies favorable to agricultural commodity producers. The state must adopt certain supportive policies vis-a-vis agricultural commodity producers. This includes implementing a price guarantee system; in terms of financial credit, the state must provide major support; it must increase subsidies for land and other basic means of production; the state must directly use agricultural funds for subsidies when it comes to natural disaster caused agricultural losses and poor regions. In addition to direct subsidies, the state must also engage in indirect subsidies for the agricultural commodity producer through such things as the construction of basic facilities for agriculture, and the development of agricultural science and technology. For example, since the 1960s, by stages and in groups, Japan has reformed its agriculture, with 45 percent of the required funds coming from the central government subsidies, 50 percent coming from local government outlays, and 5 percent being the responsibility of the farmer household itself. In confronting the international agricultural commodity market, China also has been incapable of choosing to sacrifice agriculture to maintain the well beaten path of a high rate of industrial development. The experience and lessons of the world's developed countries speak to us on this: only by properly maintaining a country's own agriculture will it be possible to have a base on which to develop a modernized industry.

5. Amply use flexible tariffs and nontariff barriers to protect the domestic agricultural product market, and open the international market. At the Eighth Uruguay Round of GATT discussions, though there was an agreement in principle on reducing the level of trade barriers, there was no time limit proposed for eliminating these protectionist measures, and the EC remains unwilling to reduce the scope of its protectionist policies. Worldwide, all countries commonly use tariff barriers to limit the import of agricultural products, and thereby protect their own agricultural commodity market, and by every possible means try to increase the degree of self-sufficiency of their own agricultural products. In terms of nontariff barriers, developed countries use price differential import taxes to protect their own agricultural commodity market; some developing countries then are prone even more to use such methods as import licensing to protect such domestic markets. The GATT has stipulated that special preferential treatment be accorded developing countries, such as having greater elasticity in terms of reduction allowances for tariffs, and while it is not necessary to provide developed countries with such allowances, developing countries can appropriately maintain some limited export subsidies to protect infant industries. We must use these policies well and fully to grasp the opportunity and make great efforts to develop a foreign exchange earning agriculture.

6. Implement a "natural resource transformation, export on a large scale, import on a large scale" development strategy for agricultural products, pushing the development of an agricultural commodity international market. Because China has such as large population, such natural resources as arable land are in short supply, and agricultural labor productivity is relatively low, the prices of some agricultural products are higher than the international market prices. In the wake of reform of the foreign trade system and the expansion in the number of enterprises with autonomous authority, under the current conditions where there are comparatively large price differences between domestic and foreign agricultural commodities and importing is beneficial and can be pursued, for a large quantity of agricultural product imports "there are no barriers to allure." In fully using both the domestic and foreign markets and expanding China's agriculture it will be possible to use the internationally abundant natural resources and advanced agricultural-related technology, and achieve an international circulation system. For some agricultural products China has also implemented a "large-scale export" policy. For example, vegetables and canned goods have both seen a comparatively large increase in the scale of exports. Through importing and exporting on a large scale, China can overcome its inherent deficiency when it comes to natural resources, and become a major player in foreign trade involving agricultural commodities. This will solve the problem for China of efficient supply of agricultural products, increase China's ability to transform natural

resources, expand the scale of natural resource transformation, take China a long way towards the international market, and towards entering the international system of division of labor.

7. Give full play to the advantages China has, enhance strong points and avoid weaknesses, and develop markets amidst competition. China's agricultural production has comparative advantages as follows: first, cheap labor; second, China's overall quantity of resources is relatively preponderant. Giving full play to China's superior abundance of labor power, developing sources of agricultural products, import materials for processing, and transform and increase the value of professional work. For example, the largest exporter of beef in the world is the Netherlands, which imports large quantities of low-priced feed from the international market, and has developed animal husbandry for export to the international market. Through this transformation the country derives tremendous benefit. In accordance with China's advantages in terms of labor, great effort should be put to the development of agricultural commodity processing industries, to exporting processed products made from raw materials, increase the degree of processing, increase the scale grade of products, and increase the added value of products. Cotton and wheat in China are mutually competitive products, and must be imported. On the international market, when the cotton and wheat price ratio is high compared with the domestic ratio, we should increase wheat imports, and allow a portion of arable land natural resources to be used in the development of cotton, and reduce cotton imports. In this way we will give ample play to the use of relative advantages in the overall quantity of China's natural resources, and for the smallest cost obtain the best benefit. In addition, China must actively develop specialty products with distinctive attributes such as name and quality, open them to the international market, and strengthen their competitiveness.

8. Opening up a multilayer, many-channeled, omnidirectional international market. A large portion of China's agricultural product imports originate from the suitability of adopting a strategy of pluralization, using the competitive situation among exporting countries, and in the price struggle obtaining an advantageous position. At the same time it is also necessary to consider the exports of the primary exporting countries, and it is possible to sign single year or multi-year long term supplier agreements with the major exporting countries to obtain a stable and favorable price. China, in addition to preserving traditional world markets, from now on should emphasize opening up markets for agricultural products in places with food shortages such as Eastern Europe and the Commonwealth of Independent States, as well as various countries in Africa, and in the Middle East. Developed countries, with agricultural commodity surpluses, are primarily exporting high value agricultural products. China still should take such neighboring countries and regions as Japan, Hong Kong, and South Korea as its key markets, and open up various types of sales promotion activity. When it comes to such developed countries as the United States and Western Europe, China should focus on the export of such high-priced products as cashmere, rabbit hair, seafood products and fruits and vegetables, feather and down goods with a high degree of processing, fur coats and canned food products. In the process of expanding exports of agricultural products, it is necessary to actively carry out a market pluralization policy.

9. It is imperative to foster an agricultural commodity market system. To meet the GATT challenge, China must in the short term devote major effort to fostering an agricultural product market system, and must progressively lay the foundation for moving agricultural products towards a market system. First, China should establish an system for monitoring feedback from the international market, and in a timely manner transmit changes in the international market information to producers. The value of information must be stressed. China needs to establish specialized foreign economic information markets. There is a need to increase world market conditions research and information collection and transmissions to meet the requirements of a new situation. Second, in agricultural product producing regions, it is necessary to organize standardized central wholesale markets, local wholesale markets and regional type free wholesale markets within an agricultural product spot market system. Moreover, on the basis of agricultural product spot wholesale markets, it is necessary to boldly attract and develop agricultural product futures trading, giving full play to the function of futures markets in keeping prices flat, and reducing risks brought on by price fluctuations. When importing large amounts of products such as grains and sugar to shift price-associated risks, it is necessary to engage in hedging on commodity futures trading to avoid losses, and ensure that our side benefits. At the same time, it is necessary to permit and appropriately encourage speculative trading, in order to as early as possible form a multilateral common shared risk situation. In summary, the establishment of agricultural product markets must strictly abide by the principles of "overall planning, rational distribution, tapping advantages, and paying attention to substantial results," and make it possible finally to form an fully unified agricultural product market with no regional obstacles and one that has not been carved up by various departments.

10. Agricultural product trade legislation must not be allowed to go neglected. The GATT "grandfather article" stipulates: "When there is a conflict between a signatory state's domestic law and the GATT, the signatory country can, within the greatest limits permitted by the existing domestic law, carry out the obligations of the GATT." For this reason, China must as quickly as possible formulate a foreign trade law system that includes agricultural products to safeguard its own rights and interests, and strive for the greatest benefit. The formulation of the "Foreign Trade Law" gives China's foreign trade a legal basis, safeguarding China's trade

rights and interests in accordance with the law. The "Place of Production Origin Law" is also quite necessary. A great deal of processing on order agricultural products, in terms of domestic processing output value only amount to 20-30 percent of the total output value. These products are exported within a short period of time, and other countries inspect Chinese product exports, and from this for China limit import quantities or take punitive measures. This is an unjust thing. The "Place of Production Origin Law" can limit and clarify this situation, and allow parties to make representations. "The Fair Competition Law," " Trade Mark Law," and "Customs Appraisal Regulations," all will have the necessary function of safeguarding China's interests. In summing up the above, first it is necessary to firmly master the formulation of foreign trade law, on the one hand taking the successful experience of China's foreign trade system reform and making it law, reflecting Chinese characteristics; another aspect is the assimilation of international convention and GATT relevant stipulations as law, to put China's foreign trade gradually on the road to internationalization. Second, it is necessary to firmly grasp the reform of relevant law, and bring it into accord with China's entry to relevant treaty agreements, and safeguard China's interests in the process of trade.

GATT's Potential Impact on Agriculture, Trade

93CE0573A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 4, 20 Apr 93 pp 30-32

[Article by Huang Yanxin (7806 1693 0207), affiliated with the Ministry of Agriculture's Policy System Reform Legal Office: "The Impact of China's Recovery of Its GATT Seat on Chinese Agriculture and International Trade in Agricultural Products, and Countermeasures"]

[Text] **I. The Impact of China's Recovery of Its GATT Seat on Chinese Agriculture and International Trade in Agricultural Products**

Once China recovers its status as a signatory to the GATT, the GATT principle of reciprocity of powers and committments will mean that while China will enjoy the GATT achievements of the last four decades in areas such as lowered tariffs and reduced nontariff barriers, it will also be subject to GATT committments. In addition to China having to make tariff reductions and concessions, all GATT signatories will also present China with a series of reform requirements, which are as follows: 1) Our foreign trade policies, laws, and regulations will have to be nationally uniform; 2) our foreign trade policies, laws, and regulations will have to be nationally transparent; 3) our nontariff measures will have to be rational, i.e., we will have to ensure that tariffs are our major means of protection, by sharply reducing our nontariff restrictions on international commodity imports; 4) we will have to promise a price-reform timetable for converting our commodity price-formation forces and making the relations between market supply and demand the true determinant of commodity prices; 5) until we complete our price reforms, we will be subject to optional-guarantee provisions. This shows that recovery of our status as a signatory to the GATT will have profound impacts and effects on China in areas such as agricultural production structure, agricultural-product quality standards, agricultural management system, agricultural-product circulation and pricing systems, agricultural-product foreign trade, and peasant income. These impacts and effects will be as follows:

1. The impact on the government's agricultural management system. Under product-economy conditions, China evolved a whole set of government management systems for agricultural-product production and circulation characterized by departmental jurisdiction. The agricultural sector manages production, the commercial sector manages circulation, and our international trade in agricultural products is under the monopoly operation of the state-owned foreign trade sector, with other sectors not being allowed to operate, and enterprises of other forms of ownership being even less allowed to engage in international trade of agricultural products. This departmentally carved up management system divorces production from marketing, production from consumption, and agricultural-product domestic from foreign trade, with peasants being unable to acquire reliable information on market demand and prices, making it very hard for them to organize production according to market demand. This mean that the peasants who produce agricultural products for export do not know who their products are sold to on international markets, the prices they bring, how much foreign exchange they earn, or the product assessments and quality requirements of foreign customers. Under such a management and circulation system, it is very hard for peasants to organize production based on market demand. Moreover, as it combines authority with departmental interests, it is hard for state regulation and control of agricultural-product production and circulation to be effective due to interdepartmental wrangling.

2. The effect of the deregulation of agricultural-product prices. The deregulation of agricultural-product prices means linking domestic and international market prices for agricultural products, so that domestic agricultural-product prices and agricultural-production operating efficiency changes along with international market prices. So the problems that China is faced with are how to keep changes in agricultural-product supply and demand relations from causing sharp fluctuations in agricultural-product prices, and how to exercise effective government macroeconomic regulation and control over agricultural-product markets when agricultural-product prices are fluctuating sharply on markets to ensure a basic balance of agricultural-product supply and demand relations, thus protecting the interests of producers and consumers, and ensuring the sustained and steady development of China's agricultural production. The status quo is that China's agricultural production has reaped bumper harvests for successive years, with abundant supplies of key agricultural products, increased reserves,

and basically stable but falling market prices. So deregulating agricultural-product prices at this time will mean that grain and cotton prices will fall. As the government's agricultural-protection forces are not perfect, this might cause a fall in peasants' monetary income, which would dampen peasant production initiative, and cause alternate fluctuations in agricultural-product production, supply, and market prices.

3. The effect on the current agricultural-production structure. Once we recover our GATT seat, our agricultural-product operations are deregulated, and international and domestic markets become one, the large flood of foreign agricultural products into our domestic market will undoubtedly have a sharp impact on China's current agricultural-production structure. Through 14 years of reform, China's shortage of agricultural-product supplies has been been essentially changed. Meanwhile, as our economy has grown, our residents' incomes have increased, and our demand for agricultural-product consumption has sharply risen in grade, the conflict of agricultural-product variety and quality mix being unsuited to market demand has become a glaring problem. As to grain, China's per capita holdings are still quite low, so that we have experienced successive years of peasants having trouble selling grain, and the commercial sector having trouble purchasing it, and then trouble storing, allocating, and transporting it once purchased. While this seems to be a general phenomenon, a deeper analysis shows that it is certainly not all agricultural products that are experiencing selling difficulties, but rather only low-quality ones. An example of this is that while early longgrained nonglutinous rice is experiencing selling difficulties and is severely overstocked, high grade rice is high in price and selling briskly. Once we recover our GATT seat, if China does not as quickly as possible adjust our agricultural-production structure and product mix and raise our product quality and grade according to market demand and international quality criteria, not only will it be hard for Chinese agricultural products to break into and occupy international markets, but our domestic markets will also be bound to be impacted by foreign agricultural products.

4. The effect on domestic agricultural-product markets and agricultural-product exports of tariff reductions and concessions and weakened nontariff trade barriers. The Chinese Government has promised to lower China's overall tariff level 50 percent within three to five years, and to gradually reform our import-commodity planned management and administrative examination and approval systems. While tariff reductions and concessions and import-management system reform will make it possible for foreign agricultural products to enter Chinese markets, on the other hand, as China's per capita holdings of agricultural resources are much lower than those of the world's major agricultural-product exporting countries, and our agricultural labor productivity is lower than that of developed countries, China's staple agricultural products will not be competitive on international markets with those from developed countries. As the domestic market prices of certain Chinese agricultural products are now equal to or even higher than international market prices for similar products, this is bound to increase the quantity of foreign agricultural-product exports to China, thus severely impacting our domestic agricultural-product markets. This reduces the international-market competitiveness of Chinese agricultural products, and lowers our agricultural-product export volume. All of these are detrimental to the long-range stable growth of China's agricultural production and our agricultural-product market stability.

While noting the adverse effects of "GATT reinstatement" on China's agricultural production and international trade in agricultural products, we should also see its advantages in these areas. The "recovery of our GATT seat" will play the following positive roles in China's agricultural production and international trade in agricultural products:

1. It will improve the international-trade climate for Chinese agricultural products, making it possible for Chinese agricultural products to enter international markets. a) Once we recover our GATT seat, the bilateral trade agreements on agricultural products that China has signed with other concerned countries will be replaced by the multilateral international agreement of GATT so that China can enjoy the successes achieved by GATT signatories in 40-plus years in the areas of open trade and especially lowering of tariffs, which will undoubtedly be very favorable to the entry of Chinese agricultural products into the international market. b) Through full participation in the multilateral international GATT trading system, China can acquire unconditional MFN trade status, particularly the preferences for developing countries, which will reduce the unfair treatment of other countries toward China's agricultural-product exports, such as nontariff restrictions, and will increase China's agricultural-product export volume.

2. It will contribute to the diversification of China's agricultural-product export market, by expanding the geographic distribution of China's agricultural-product import-export trade. Moreover, it will enable us to make tariff-reduction and concession demands on concerned GATT signatories for products from which we make significant export profits to expand our export markets. It will also allow us to make more use of GATT exception clauses to protect our domestic agricultural production and agricultural-product markets to avoid the impact of large imports of foreign agricultural products. Also, it will help more domestic enterprises enter the international market, thus creating more growth opportunities for our enterprises.

3. It will help to speed up the reform of China's agricultural-product circulation system. It will play a positive promotional role in developing a market economy in China's agriculture, converting our agricultural-product price-formation forces; planning production, adjusting our crop-cultivation mix, and raising our agricultural-product quality in line with international and domesic

market demand; increasing our peasant income, and putting our agricultural production into a good cycle.

4. It will help us to import from abroad fine crop and livestock varieties to better optimize China's crop-cultivation and livestock-variety mixes, and raise our agricultural- and livestock-product output and quality, so that they are better suited to international and domestic market consumer demand for agricultural products to make Chinese agricultural products more competitive on the international market.

II. Countermeasures for Developing China's Agriculture and International Trade in Agricultural Products Once We Recover Our GATT Seat

To ensure that China keeps the initiative in the areas of protecting our domestic agricultural production and agricultural-product markets and developing international trade in agricultural products, China will need to deal well with a series of relations once we recover our GATT seat, as well as taking corresponding countermeasures. Once we resume our GATT seat, China will need to deal well with the following relations:

1. We will need to deal well with the relation between our enjoyment of GATT-provided powers and our fulfillment of GATT-required committments, i.e., while observing basic GATT principles, we will need to also make flexible use of GATT exception clauses to exercise quantitative control over imports of agricultural products at times to protect our domestic agriculture and agricultural-product markets. These exception clauses are: 1) When a country is restricting its domestic production and consumption of certain agricultural products, it can also restrict their imports. For instance, China's restriction of cotton-cultivation area means that we can also restrict cotton imports. 2) When a country is providing domestic agricultural products to a given number of people at subsidized prices or free to solve an agricultural-product surplus, it can also restrict imports of similar products. 3) When China is restricting domestic output of animal products, we can also reasonably restrict imports of similar agricultural products. For instance, when our domestic output of live hogs exceeds our public consumer demand, if our government takes steps to restrict live-hog output, then we can also restrict imports of foreign hogs or pork products.

2. We will need to deal well with the relation between international and domestic markets. Once we recover our GATT seat, China will have to pay attention to the relation between international and domestic markets, by first ensuring that our agricultural-production structure and product quality are suited to domestic-market consumer demand, so that we have full control of our domestic market, while encouraging agricultural-product producers and business enterprises to actively develop international markets to expand agricultural-product exports. We must absolutely not lose our large domestic market in the interests of developing a little international market share.

3. We will have to deal well with the relation between effective competition among domestic agricultural-product business enterprises and a consistent foreign approach. In the development of effective competition among domestic enterprises, we should adhere to the principle of a consistent foreign approach, instead of allowing mutual competitive-price marketing. If our business enterprises compete with each other by forcing down prices to acquire sales, this will not only harm them and help foreign firms, but may also be seen by other countries as a case of dumping, so that they will impose anti-dumping tariffs on our exports of agricultural products. This would affect our agricultural exports on one hand, by making China lose some international agricultural-product markets, while creating huge and unrecoverable economic losses for our enterprises and for China on the other. Similarly, in agricultural imports, domestic enterprises should also take a consistent foreign approach, instead of competing to force prices up through panic buying. In addition, the government could also consider setting minimum constrained prices for some exported agricultural products, and maximum constrained prices for some imported ones.

4. We will have to deal well with the relation between subsidies and antisubsidization. Once we recover our GATT seat, China will no longer be able to subsidize agricultural exports. To ensure that our domestic agriculture and agricultural-product markets are not affected by large imports of foreign agricultural products, there will be an objective need for our government to provide the necessary protection to our domestic agriculture and agricultural-product markets. So China will have to subsidize our agriculture in appropriate forms, such as providing price subsidies to agricultural-production capital goods or peasant income subsidies, which will play a protective role for our domestic agriculture and agricultural-product markets, while avoiding lawsuits by other countries over the matter of agricultural-product export subsidies to reduce international trade disputes. As to exports of agricultural products to us by other countries, we will have to distinguish whether various countries provide export subsidies for the agricultural products they sell to us. Once we discover such export subsidies, we should immediately either make a case of it with the exporting country or start GATT litigation, as well as promptly taking steps, such as imposing antisubsidization tariffs on Chinese imports of agricultural products that involve export subsidies.

5. We will have to deal well with the relation between dumping and antidumping. Fair competition in international tarde is a basic GATT principle, meaning that the dumping of commodities is not allowed. As China's agricultural production is carried out by the basic unit of peasant households, with a smaller scale of operation, low degree of modernization, lower agricultural labor productivity, and our key agricultural products going mostly to meet domestic demand, most of our agricultural products are still not equipped with foreign-dumping conditions. So what we mostly have to prevent

is improper dumping caused by domestic enterprises competing with each other by cutting prices for overseas sales. But as to sales of agricultural products to us by other countries, we will have to distinguish whether other countries are dumping commodities on us. Once we discover such dumping, involving exports of agricultural products to China at lower than domestic prices or below cost, we should immediately start GATT litigation, as well as taking prompt antidumping measures against agricultural products dumped in China, such as imposing antidumping tariffs on agricultural products determined to be dumped in China. As to developing China's agricultural production and protecting our domestic agricultural-product markets once we recover our GATT seat, in addition to dealing well with these relations involving foreign governments, we will also need to adpot a series of feasible countermeasures. The government's role in these countermeasures will be: To speed up reform of our agricultural-product circulation and pricing systems to convert our agricultural-product price-formation forces; to establish mechanisms to protect agricultural production and peasant income; to diversify our organizations that handle international trade in agricultural products; to improve our current agricultural-, forestry-, and specialty product-tax and agricultural-tax policy to promote the production and export of agricultural products, such as agricultural, forestry, and specialty products; and to speed up the establishment of market laws and regulations, particularly competition-protection and antimonopoly ones to adapt to the needs of a modern market economy and acting in accordance with international practice. Along with these government countermeasures, all concerned sectors will also have to do a good job in the following areas: Organizing their forces to translate and edit the agricultural-product trade policies, laws, and regulations of concerned countries; establishing a projection and forecasting system for changes in agricultural-product supply, demand, and market prices; and doing a better job of quarantining animal and vegetable products that enter and exit China's borders.

Hubei Increases Farm Machinery Sales

93CE0580A Beijing ZHONGGUO NONGJIHUA BAO in Chinese 15 May 93 p 1

[Article by Gao Youqing (7559 0645 6153) and Li Guoxiong (2621 0948 7160): "'Agricultural Mechanization Fever' in Hubei Continues To Rise; Peasants' Purchasing Power Increasing, Demand for Farm Machinery Is Up"]

[Text] The "agricultural mechanization fever" in Hubei Province continues to rise, with one type of agricultural machinery and another gaining favor among the peasants. In one quarter this year, the total value of farm machinery sold in Hubei was 350 million yuan, a nearly 20 percent increase over that in the same quarter last year.

In the beginning of the 1980s, farm machinery used by rural collectives in Hubei was dispersed, some 1,000 township and village agricultural machinery stations in the province were disbanded, and agricultural mechanization hit a low point. Subsequently, however, individual peasants were allowed to purchase machinery not only for agricultural production but also for rural transportation, and the use of agricultural machinery operated by the government, collectives and individuals became widespread; the "agricultural mechanization fever" began to spread throughout the province and shows no sign of abatement even today. At present, tractors, agricultural machinery attachments, machinery for processing sideline products, semi-mechanized vehicles, agricultural transport vehicles are much welcomed by the peasants; peasants in mountainous areas such as Xianyu, Sishi and Enan have even greater demand and need for farm machinery than those living in the plain; in the Xianyu region and Sishi City, for example, the total value of agricultural machinery sold in one quarter this year increased 1.4- and 2-fold respectively over those in the same quarter last year.

According to analysis, there are three reasons why the "farm mechanization fever" in Hubei continues to rise: With the government giving emphasis to agriculture, and the peasants being able to cash in their IOUs, they have increased purchasing power for farm machinery; with various capital construction projects speeded up and their scope enlarged, the need for agricultural mechanization has also increased; with farm machinery departments in the various locations striving to provide high-quality service, they have kept the "agricultural mechanization fever" on the rise.

Centering on the "agricultural mechanization fever," departments in Hubei engaged in managing and sale of farm machinery have started to build a grass-root system for managing and servicing agricultural machinery; they seek to insure safety in mechanized production and quality control over products; and they try to promote the growth of five types of markets for supplying or improving materials needed in agricultural mechanization, agricultural engineering, rural energy needs, agricultural mechanization technology, and training of operating personnel. At present, some 1,400 stations for managing and operating agricultural machinery have been established, and over 20,000 specialized service teams have been formed to serve townships and villages in Hubei. These agricultural mechanization service units and organizations target their work to the farming season; they organize drivers to help peasant households in transportation, in mechanized plowing, harvesting and processing, and they contract with the peasants and extend mechanization which now accounts for 45 percent of the total agricultural production in the province.

Agricultural Mechanization Spreads in Hunan

93CE0580B Beijing ZHONGGUO NONGJIHUA BAO in Chinese 15 May 93 p 1

[Article by Shi Tao (4258 3447) and Zhan Yuwen (6124 3768 2429): "A New Force in Market Economy: Mechanization Becoming an Economic Pillar of Rural Areas in Hunan"]

[Text] By developing the system of agricultural mechanization in Hunan Province toward the direction of bringing agriculture into the market economy, agricultural mechanization has become one of the important economic pillars in the rural areas of Hunan. At present, the standard of farm machinery and equipment in Hunan has been raised notably, and about one half of the labor input in agricultural production is from mechanization.

Due to the lack of focus on science and technology, development of agricultural mechanization in Hunan suffered: In 1980, to implement a crash program of mechanization, the party and government exerted a great deal of effort, but the result suffered from haste; when the household contract responsibility system was launched, the effort went to the other extreme: farm machinery was allocated to individual households, some farm machinery stations were taken over and the land used for farming, and with every household purchasing its own machinery, the burden on the peasants increased considerably.

After over 10 years of trial and error, Hunan finally discovered the effective methods to develop agricultural mechanization which matches the special characteristics of Hunan as a large agricultural producing province. First, use smaller machinery, which fits in with the smaller scale and more dispersed farming under the joint households contract system. Second, put the emphasis on grain production, and by increasing mechanization in the paddy fields of the entire province, solve the contradictions created by the rush in harvesting coinciding with the rush in planting and thus greatly alleviate the seasonally created labor shortage in many locations. Third, break up the pattern of state and collective monopoly, and rely on the peasants' own initiatives to mechanize. At the end of last year, 90 percent of the farm machinery in Hunan was owned and operated by individual enterprises, and the amount the peasants spent each year to purchase agricultural machinery exceeded some 400 million yuan.

Truly unleashing the productive force of agricultural mechanization and speeding up its development is prerequisite to creating a market economy in the rural areas; to treat agricultural machinery as a market commodity, the agricultural mechanization management in Hunan is also changing from simply that of administrative management toward a model which includes management, operation and services. With mechanized production effectively replacing human labor in agricultural production, the rural labor force is rapidly turning to seek opportunities in the secondary and tertiary industries; and after rationalizing and improving the quality of the agricultural production system, the agricultural mechanization units can, in a timely manner, provide complete services to production specialists and collectives specializing in certain crops on one part of the land. In terms of the scope of utilization, agricultural mechanization in Hunan has been extended from agricultural production to uses in transportation of processed products, aquatic production, opening up new arable land and other aspects of rural livelihood.

Within the mechanism of the market economy, use of agricultural machinery in rural areas in Hunan is being changed from individual household ownership and use toward a market operation. At present in the province, there are some 60,000 agricultural mechanization enterprise units of various kinds, including machinery for plowing, fighting drought, and for group contracts. There are also service teams to handle plowing and irrigation, and there are some 47,000 specialized mechanized households. In the province, plowing contracts cover 24 million mu of land, and irrigation contracts 19 million mu. The expanding market for use of agricultural machinery is solving the difficulty of nonmechanized households, and increasing the benefits accruing to mechanized households. At the same it enables the contract use of the machinery which results in lowering production costs and increasing profits.

Water Conservancy Construction Achieves Good Results

93CE0580C Beijing ZHONGGUO NONGJIHUA BAO in Chinese 15 May 93 p 1

[Article by Yi Ban (2496 6708): "Given Leadership's Focus, Guideline Emphasis and Increased Investment, Agricultural Water Conservancy Construction Achieves Notable Results"]

[Text] Water conservancy construction in China has achieved notable results. According to statistics from the relevant departments, from 1 October last year to the end of March this year, the cumulative grand total of laborers engaged in water conservancy tasks exceeded 5 billion, who completed 6.3 billion square meter of earth and stone work, brought 8 million mu of land under effective irrigation, repaired or improved the irrigation of 44 million mu of land, added 8 million mu of lowland by preventing waterlogging, improved 96 million mu of lowland with saline-alkali soil, corrected soil erosion on 17,000 square km of land, and solved the drinking water supply problem for 6.9 million peasants and 3.4 million heads of cattle; these results are encouraging compared with those of recent years.

As concerned personnel point out, there are five special points to be noted in the water conservancy construction tasks on agricultural land from last winter to the spring of this year: First, the importance assigned to the work by the leadership resulting in an early start. Ever since August last year, responsible government departments in the 30 provinces, autonomous regions and centrally administered cities held meetings to discuss the winter-spring water conservancy construction tasks. A majority of provinces have established command structures for such tasks. In particular, important party and government leadership cadres in provinces such as Henan,

Shanxi, Jiangxi personally led cadres of their departments to participate in water conservancy labor, and to a considerable extent mobilized the enthusiasm of the masses to engage in water conservancy construction. Second, an earlier starting date and priorities were clear. A majority of the provinces (cities and regions) respectively determined the key issues to be tackled in the winter-spring water conservancy construction projects based on actual local situations. In Shandong Province, for example, the special focus was on the inadequate water supply as a result of the succession of droughts, and they specifically concentrated engineering projects to store and conserve water. Jiangsu Province, aiming to greatly raise the standard of agricultural land in the economically developed areas, proceeded on a coordinated development and management of mountain, water, farm land, forests and roads; in the northeast area, because last winter's water storage was notably below the level of the year before last, they emphasized construction and repair of facilities to draw and store water. Third, various measures were adopted to increase investment in water conservancy. In various jurisdictions, practical efforts were made to explore and encourage investment in capital construction for water conservancy. Some places, using the "whoever reaps the benefit bears the responsibility" principle, assigned the investment, construction and management responsibilities based on the level of benefit which may accrue; other jurisdictions increased their own financial input, even bravely drawing on loans and actively seeking to attract participation by foreign capital; some jurisdictions established developmental funds for rural water conservancy construction; still others promulgated measures for joint financing of water conservancy projects; all of these have achieved notable results. Fourth, the firm insistence on coordinating rural water conservancy construction with management of major rivers and lakes, coordinating their economic development, and on cities and villages being jointly responsible for water conservancy development. In this regard, joint development and management of the Yongding River by Beijing, Tianjin, and Hebei have made a good beginning. Fifth, the new development in water conservancy and maintenance work. The first stage of engineering work to correct soil erosion in eight key projects in China has been completed, which has resulted in notable economic, social and ecological benefits for people in those areas.

But compared with results of former years, one can see certain new phenomena and problems in the last winter-spring cycle of water conservancy construction. Of importance are three areas: First, after the severe drought of the last few years, the relatively easy part of engineering work has been completed, and what remains is engineering work with a greater degree of difficulty. Second, the real estate price inflation in some areas and the fast developing tertiary industries are drawing considerable amounts of capital and labor which in turn affect the investment in water conservancy construction projects. Third, price increases for cement, steel, wood, diesel oil and gasoline have lead to shortfalls in the already inadequate capital for water conservancy construction.

Sales of Party Publication Opened To Public

OW1007042493 Beijing XINHUA Domestic Service in Chinese 0530 GMT 28 Jun 93

[Text] Beijing, 28 Jun (XINHUA)—Beginning on the 72d anniversary of the founding of the CPC, DANGDE WENXIAN [PARTY DOCUMENTS], a magazine jointly published by the CPC Central Party Literature Research Center and Central Institute of Archives, will be distributed to the general public at home and abroad instead of internally.

Since its first publication in 1987, the magazine, with its name inscribed by Deng Xiaoping, has published a large number of important documents from the party's archives and valuable manuscripts by Mao Zedong, Zhou Enlai, Liu Shaoqi, Zhu De, Ren Bishi, Deng Xiaoping, Chen Yun, and other revolutionaries of the older generation. It has also published a number of articles explaining and studying their lives and thoughts as well as articles on the party's major policy decisions and events. It has played a positive role in publicizing and implementing the party's basic line of "one center, two basic points" and in arousing readers' interests in party history, particularly the history of party leaders. The magazine has received broad attention and acclaim from experts and readers alike.

With its distribution to the general public, the magazine will continue to pursue its original publication goal while striving to increase readership.

The next two issues will publish such important historical documents as "Transcript of Mao Zedong's Talk on Reading the Soviet 'Political Economics' (Textbook)," Liu Shaoqi's 1949 talk in Tianjin, and the two reports sent by Pan Hannian to the party Central Committee on the second cooperation talks between the Kuomintang and the CPC.

Intensified Activities of Transport Bullies

93CM0330B Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 20, 17 May 93 pp 12-13

[Article by Cheng Chih (6774 2304): "An All-Out Crackdown on Transport Bullies"]

[Excerpts] Cases of theft and burglary that have been occurring frequently on mainland Chinese trains and passenger buses in recent years have aroused the widespread concern of the Chinese Government and people in all walks of life. [passage omitted]

Since 1990, the PRC Ministry of Public Security has joined forces with the ministries of communications and railways in a running battle, launching a series of special offensives, such as the "Central Plains Campaign," the "Western Lines Battle," the "Railway Hawk Action," and the "Joint Fujian-Guangdong Attack," in a severe crackdown on these "transport bullies." Incomplete statistics from only 10 provinces and municipalites for 1991 through the first half of 1992 show that over 10,000 cases of "transport bullies" were cracked, including 3,500 major cases broken, 1,100 criminal gangs of "transport bullies" broken up, and 13,200 criminals arrested, which has rather effectively curbed this type of criminal activity.

The great tide of commodity economy has left some criminals willing to take risks to slake their selfish desires by becoming "transport bullies." Just take a look at these cases of highway robbery that occurred in the last half of 1992:

In the small hours of 27 June, a passenger bus of a certain joint passenger and freight transport company from Shantou, Guangdong was en route to Guangzhou, passing through a neighboring stretch of highway with gas stations, when three onboard scoundrels threatened the driver and passengers with knives, robbing four tourists (one Taiwanese and Macao compatriot) of 6,600 yuan and three gold rings.

On the evening of 18 October, a small passenger bus in Fujian returning to Fuzhou from Shishi reached a stretch of road in Xinxi Township, when three armed ruffians robbed the driver and passengers of over 10,000 yuan in cash, two gold rings, and a beeper, and insulted a female passenger.

In the early hours of 23 October, a long-distance bus en route from Jianli County, Hubei to Wuhan was passing through the town of Zhouzhi, when several bullies blocked and boarded the bus, after which they threatened with knives and looted the 22 passengers, cutting 19 of them and making off with over 10,000 yuan in cash... ...

Railways are great arteries of the national economy and social life, to which the "transport bullies" have also extended their tentacles. Many railway trunklines, such as the Beijing-Guangzhou, Gansu-Qinghai, Beijing-Harbin, Chengdu-Kunming, Hunan-Guizhou, and Zhejiang-Jiangxi lines, and their stations are occasionally subject to cases of burglary. During the three months of September through November 1992 alone, theft by "transport bullies" of railway transport property caused losses of 4.4718 million yuan.

Just take a look at the following cases:

On 16 November 1992, 10 criminals, including Wu Rende an escaped offender from Sichuan, formed a gang and were looting passenger baggage on the No 188 train from Lanzhou to Pujiang. When they were discoverd by the owners, they swarmed in and stabbed five passengers, causing the death of one.

On 23 February 1992, the No 179 train from Shanghai to Xining was on the Zhejiang-Jiangxi line headed for Tangxi Station, when six bullies armed with knives forced passengers to buy drinks on the Nos 7 and 8 cars,

forcibly searching those who did not comply, resulting in the death of one passenger and the theft of 4,000 yuan in cash.

On the evening of 17 February 1992, the No 297 train from Chongqing to Nanning had just left the Guiyang Station, when a gang of ruffians on Nos 3 and 4 cars forced passengers to buy counterfeit "Red Pagoda Mountain" cigarettes at the high price of 20 yuan a pack. Those who refused to comply were beaten up, with three passengers injured and a dozen or so robbed of cash, watches, and tickets. Even worse, these criminals beat up a transit cop who had come to stop them, stealing his "4 June" pistol with which they shot and injured a passenger.

Such open burglary right in front of everyone is certainly alarming. During the "two congresses" in 1992, the Sichuan delegation asked the Ministry of Railways about the frequent cases of burglary on the Chengdu-Kunming line, calling for steps to be taken to ensure passenger security. During 1993's "two congresses," delegates from some provinces and municipalities also gave speeches calling for a severe crackdown on "transport bullies."

In 1992, railway security organs concentrated their crack forces in the general range of 99 key stations, 87 key trains, and 82 key sections, with their focused action to surround and annihilate "transport bullies" being called the "Railway Hawk Action." Incomplete data for a month-plus of this action show 358 criminal gangs smashed, 4,229 criminals arrested, 36 guns and 1,374 bullets seized, and 5.58 million yuan worth of loot recovered. A number of escaped criminals who had long been stealing from passengers on trains were netted. [passage omitted]

In correspondence with the "Railway Hawk Action," the "Central Plains Campaign" was also launched and focused on Zhengzhou and the key battlefronts of the Beijing-Guangzhou and Gansu-Qinghai lines. The four participating public security bureaus from Zhengzhou, Guangzhou, Beijing, and Jinan cracked 1,547 cases, and broke up 194 criminal gangs.

Later, in a transprovincial action to surround and annihilate railway "transport bullies," the Fujian and Guangdong public security organs worked in close cooperation, with a tacit agreement on coordinated times and steps in 11 cities in the two provinces to enhance patrols, set up roadblocks and interrogations, and intercept criminals, winning an outstanding victory. In Guangdong alone, this joint action cracked 475 cases of "transport bullies," breaking up 145 criminal gangs and arresting 446 gang members.

While the crackdown on "transport bullies" has won certain successes, the task is still enormous. On 12 March 1993, the CPC Central Committee Public Security Comprehensive Control Commission made a resolution to launch a thorough nationwide struggle to surround and annihilate "transport bullies," which could be called another step in the all-out crackdown on "transport bullies."

Vice Minister of Public Security Bai Jingfu [4101 2529 1381] told a LIAOWANG OVERSEAS EDITION reporter in a recent interview that: The crackdown on crimes committed by "transport bullies" is one of the priorities of 1993's public security work. The Ministry of Public Security has called on public security organs in all areas to take firm and effective steps that will bring certain results in 1993. [passage omitted]

The nationwide battle planned by the CPC Central Committee Public Security Comprehensive Control Commission on 12 March 1993 to surround and annihilate "transport bullies" has launched a new powerful offensive against the criminal actions of "transport bullies."

The most recent statistics from the 17 provinces and municipalities of Gansu, Liaoning, Hebei, Xinjiang, Beijing, Shaanxi, Guizhou, Sichuan, Shanxi, Heilongjiang, Jiangxi, Guangxi, Yunnan, Hunan, Guangdong, Ningxia, and Hubei and railway public security organs show 2,426 cases cracked, of which 935 and 106 cases were major and exceptional ones respectively, with 6,639 criminals arrested.

Bai Jingfu points out emphatically that: As the factors involved in the formation of the criminal actions of "transport bullies" are complex, and there is much recidivism, it is not something that one or two special attacks or concentrated actions can root out thoroughly, but rather a matter that will require protracted effort. Crimes by "transport bullies" are still quite severe, being more glaring in a dozen or so provinces, such as Henan, Jiangxi, Hubei, Guizhou, Guangdong, Fujian, Zhejiang, Hunan, Sichuan, and Heilongjiang, and growing more in scope in ones, such as Fujian, Guangdong, and Hunan. As railway "transport bullies" also exist to varying degrees in some dozen railway lines, such as the Beijing-Guangzhou, Beijing-Shanghai, Gansu-Qinghai, Beijing-Harbin, Chengdu-Chongqing, Chengdu-Kunming, and Hunan-Guizhou lines, crimes by "transport bullies" are generally increasing. While most such crimes were committed at night in the past, they have now developed to open action in broad daylight. In addition, most crimes by "transport bullies" are gang-related, with data from seven provinces, such as Zhejiang and Jiangxi, showing gang-related crime making up over 70 percent of such cases that were cracked in 1992. Almost all major vicious crime cases are gang-related. In particular, certain recidivist gangs combine gang robbery, burglary, homicide, injury, prostitution, and gambling, regard "eating off of the railways and highways" as "a way to get rich," and commit crime after crime causing great harm. [passage omitted]

Rampant Phenomenon of Illicit Prostitution

93CM0330A Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 20, 17 May 93 pp 15-16

[Article by Chou Li-hsien (0719 4539 2009): "China Is Firmly Suppressing Prostitution"]

[Excerpt] [passage omitted] Statistics from the Ministry of Public Security's Public Control Bureau for 1992 show that over 240,000 criminals engaged in prostitution were tracked down throughout China, up 20.3 percent from 1991, with over 5,000 prostitution gangs involving more than 28,000 people being ferreted out.

Since 1992, prostitution in China has continued to proliferate from places, such as hotels, restaurants, and public parks, to movies and theaters, dancehalls, bars, barber shops, rented rooms, streetside stalls, and other trades. The over 80,000 prostitutes arrested in 1992 in public places, such as hotels and restaurants, made up one-third of all prostitution arrests. In the unified anti-prostitution drive conducted by the Beijing Public Security Bureau during the three months of June, July, and August 1992, the 685 prostitutes arrested in hotels and restaurants made up 34.1 percent of all prostitution arrests. Not long after the Shenzhen Public Security Bureau carried out a lightning raid on the Dihao Hotel in the early hours of 9 May 1992, it raided the four high-class Shenzhen hotels of Jingdu, Huadu, Xindu, and Yangguang during the two days of 17 and 18 May, seizing on the spot 177 prostitutes.

Pornography and obscenity, which are closely tied to prostitution, are also rampant in China. Theaters in some places drum up business by openly staging low-class obscene literary and artistic programs, which leads to prostitution. Certain service trades, such as barber shops, bars, massage parlors, and streetside stalls, as well as cultural recreation sites, earn high incomes by soliciting business through means, such as "three companions" (sitting, drinking, and dancing) and opposite-sex massage, even to the point of taking a laissez-faire attitude toward, covering up, and condoning obscenity and prostitution. Girls who engage in sexual obscenity classify obscene actions and charge for them according to the degree of obscenity. Clients can take prostitutes out with the boss's consent, for which they are charged by the hour, and the boss takes a cut. A private survey specially organized by the Guangdong Public Security Department in 1992 found that while the average masseuse or barber shop attendant earns no more than 300-400 yuan a month, their additional income from sexual obscenity and prostitution can bring in 3,000, 4,000, 5,000 or even up to 10,000 yuan. This is not to speak of the bosses' income.

Such high income stimulates abnormal growth of barber shops, streetside stalls, and other places. Shenzhen's Baoan County once had over 2,600 barber shops, one street in Buji Town only a little over 100 m long actually had over 20 barber shops in operation.

The high income to be earned from prostitution make some completely lose their sense of character and shame, there are mother-daughter prostitution teams, and husband-wife teams, with husbands pulling in the trade, daughters working on the side, and some even take children along as cover. The Public Security Bureau in Shijiazhuang, Hebei arrested in 1992 a prostitution gang run by a mother-daughter team of Yang Lan and Yang Lili, seizing 56 offenders. The mother and daughter each ran a number of girls, with regular operations at train stations and taxi stands under cover of selling books and train tickets, even buying two taxis to transport prostitutes and clients.

Faced with constant raids and crackdowns by public security organs, prostitutes have shifted in style from the public security crackdown targets of hotels and restaurants to rented rooms and streetside stalls, becoming even craftier in style. Some have switched to daytime operations, some use phones and beepers to provide call-girl services, some work as prostitutes under the cover of private secretaries, and others offer prostitutes as "public relations ladies" as a stepping-stone to business success. To counter public security investigations, some install secret doors and rooms in barber shops and streetside stalls, some hire thugs to patrol as lookouts in hotels and massage parlors, and others even install electronic alarm devices. The Lijing Hotel in Foshan, Guangdong covered up and condoned prostitution, openly installing an anti-police network of "three lines of defense, two secret passageways, and one ironclad rule" to counter public security raids.

A marked development in the last two years is toward criminal prostitution gangs, which has touched off a vicious crime cycle. Gang members made up 11.68 percent of prostitution arrests in 1992. These criminals use mostly baits, such as "introduction to work," "job recruitment," and "tourism," to entrap young girls, forcing the good into prostitution. They have specific schemes and divisions of labor in all links, such as entrapment, reception and delivery, transfer, and customer solicitation. The young girls entrapped by such criminal gangs are stripped of everything and forced into prostitution. Those who refuse to submit are subjected to forms of tyranny, such as rape, drugging, beating, and starving, to force them to submit.

In recent years, open coastal zones in provinces, such as Guangdong, Fujian, and Hainan, have seen the appearance of regionally-operated criminal prostitution gangs. For instance, gangs, such as the "Sichuan Gang," the "Northeast Gang," and the "Hunan Gang," are often involved in crimes, such as prostitution, gambling, drug taking and dealing, extortion, burglary, fraud, and even homicide, with nothing that they will not do, and having a clear mafia flavor. Some criminal gangs have tight organization, collaborating with foreign mafia organizations to abduct and sell women to brothels or obscenity sites in certain foreign countries or regions. Yunnan public security organs recovered over 160 women in 1992 alone who had been abducted and sold to certain neighboring countries. [passage omitted]

Hao Po-tsun Interviewed on Politics, Society

93CM0336B Taipei CHO-YUEH [EXCELLENCE] in Chinese No 105, 1 May 93 pp 21-24

[Interview with Hao Po-tsun (787 2672 2625) by CHO-YUEH reporters in Taipei on 19, 20 Apr: "Fight for Principles, Not Power"]

[Excerpts] "Power has not been seized, keep on trying." Hao Po-tsun gave a lecture at Taiwan University on the evening of 19 April. Some students unfurled banners and protested. A shouting match and a scuffle broke out. On the eve of the KMT's 14th National Congress, the future movements of Hao Po-tsun, who may yet become a major political player, are again being closely watched by all quarters in society. [passage omitted]

Hao Po-tsun granted this magazine an exclusive interview in his dual capacity as counselor in the Office of the President and member of the KMT Central Standing Committee. The interview took place in his office at Tahuying District on Chungshan N. Road in Taipei and lasted almost two hours. [passage omitted]

Following is the full text of the exclusive interview with Hao Po-tsun.

[CHO YUEH] It is generally believed that the KMT's coming 14th National Congress occurs at a critical juncture for party reorganization and reform. Based on your recent observations of the political scene, can you give us an analysis of the historic mission of the 14th congress?

[Hao Po-tsun] Party reform, I may say, is now a matter of utmost urgency. The key to reform lies in our ability to bring about a change in party members' caliber. The reason is that right now party members' caliber is such that it is impossible to democratize and institutionalize policy-making within the party.

Another major topic would be how to achieve intra-party unity. Unity must rest on common thinking, principles, and emotions. It cannot be wrought through a marriage of power and interests. If there are all kinds of interest groups within a party squabbling with one another over their diverse interests, then the party will be in danger.

As a political party the KMT of China belongs to the entire nation, including overseas members and those on the mainland who have the same ideals and goals. It should not be confined to just Taiwan. If we overemphasize the party's "Taiwanization," the KMT of China would turn into the KMT of Taiwan, would it not? The KMT of China is now the ruling party of the ROC. Naturally, Taiwan is more important than the other areas, but if we limit the KMT to Taiwan alone, if we Taiwanize it while ignoring other areas besides Taiwan, we would in effect be downgrading ourselves. That would be inappropriate.

[CHO-YUEH] If no consensus is reached in the so-called KMT of China versus KMT of Taiwan debate within the party, is it possible that the party may eventually break up?

[Hao Po-tsun] If differences deepen and lead to a split, that would be a tragedy for the KMT of China as well as the ROC. I have always believed that as a political party the KMT belongs to all China. Party members must be united by a common perception of democratic political development in the 21st century. I don't want to see a breakup.

[CHO-YUEH] Is there a struggle within the party between the so-called mainstream and nonmainstream faction?

[Hao Po-tsun] That is hard for me to answer. I don't know who belongs to the so-called mainstream and nonmainstream. You cannot say everybody who is in power in the party automatically belongs to the mainstream, that everybody who does not exercise power belongs to the nonmainstream. There may be some differences of opinion on a number of issues within the party, but these are differences in thinking, not factional differences.

[CHO-YUEH] Do you agree that the distinction between mainstream and nonmainstream differentiates between people with dissimilar thinking?

[Hao Po-tsun] I don't agree. However, I must point out that comrades in the party do differ in their interpretation of democratic constitutional rule. On the constitutional amendment issue, personally I advocate going back to the constitution. Presidential power must not be increased and the countersign power of the prime minister must not be weakened. Right now the constitution is being amended to augment presidential power. I don't agree with that.

I am not a student of law or constitutional law. However, I do believe China's constitution is a fairly democratic constitution which properly regulates the relations between the president and the government. The prime minister's countersign power, as stipulated in the constitution, is one of the checks and balances designed to prevent a presidential dictatorship, so we must not talk about weakening it lightly. The prime minister is absolutely not a ceremonial head of government in our constitutional framework. I am no longer prime minister today, but I still think that those who insist on weakening the prime minister's countersign power are in effect destroying the constitution.

[CHO YUEH] Reportedly the KMT is going to amend its constitution at the 14th National Congress by adding a number of vice chairmanships, among other things, with you being one of the candidates for vice chairman. Is there any truth to these reports? What are your personal feelings on them?

[Hao Po-tsun] The vice chairmanship issue was raised by Chairman Li Teng-hui back when I quit the prime ministership. I said at the time that such a scenario is based on two suppositions. First, there is no vice chairmanship in the existing party constitution. If the delegates to the coming 14th National Congress approve the creation of a vice chairmanship, the party constitution must be amended. Second, even if a constitutional amendment goes through, it does not necessarily mean that the party chairman can name whomever he wants to the job. The person must be chosen through an election. Would the delegates be willing to vote for me? That is an unknown.

[CHO-YUEH] There are recent reports that some people, not happy with the mainstream controlling the party machinery, want to put you at the head of a maneuver to marshall resources from all sides and flex their muscle at the 14th national congress. Can you comment on this?

[Hao Po-tsun] I am not aware of any "maneuver." What do you mean by "maneuver"?

In a democratic society, a couple of people who think alike exchange opinions and discuss issues. Is this what you call "maneuvering?" Let me give you an example. Recently several comrades and I were talking about whether or not we should approve the creation of a vice chairmanship in the party. Ideas were exchanged. Unexpectedly people outside blew it all out of proportion. The students at Taiwan University asked me to give a lecture, which should have been a routine matter. Yet again some people got overly excited and saw in it some kind of "maneuvering."

Judging by these incidents, I think we all fall short in terms of democratic bearing. When people in power talk, that is democracy. When others express a different opinion, they are criticized for "maneuvering." That is not right. In Taiwan, democracy is still in the "sloganeering" stage. We still have a long way to go before we achieve true democratic politics.

[CHO-YUEH] You are scheduled to give a series of lecturers on university campuses at home and to overseas Chinese communities in the United States. What is the gist of the message you want to convey?

[Hao Po-tsun] I did not put together these activities myself. The students and overseas Chinese communities invited me.

I would like to convey my democratic thinking, patriotism, and love for the ROC. When I got the invitation from the overseas Chinese community, I found myself in a dilemma. On the one hand, I was worried that some people would make an issue of it, accusing me of "networking" and waging a power struggle, and characterize those who support me as anti-President Li Teng-hui. On the other hand, I felt that overseas Chinese are patriots too and should be encouraged and have their morale boosted. I am still considering whether or not to go.

Some newspapers say I am laying the groundwork for a bid for the vice chairmanship. The media really work hard to find a job for me ahead of time! Such is our democracy! Such are our media! When did I say I wanted to run for party chairman? This is very strange. In democratic politics, it is routine to express different opinions. If you do so in Taiwan, however, people would think you are engaged in opposition. Now to oppose is to be antagonistic and, ultimately, to wage a power struggle and even break up the party. I don't expect CHO YUEH to practice casual speculation, will it?

[CHO YUEH] Consider this scenario. Suppose some disaffected individuals who do not see eye to eye with the people in power use or misuse your prestige to engage in some activities, causing your patriotism and your concern for society to be misunderstood.

[Hao Po-tsun] Are you saying I could be used? I would not be used by others. I have my own thinking.

Today, I can say, I don't want to jockey for power or position but must abide by my own philosophy. The party should move toward the democratization and institutionalization of policy-making. This is something I have adhered to all along. I have raised these points with President Li Teng-hui in the past. It is not something I started believing in today.

The KMT Central Standing Committee should be the highest decision-making body. However, what are its functions? We all know it is a mere formality, a rubberstamp. Although it has over 30 members, ultimately the decisions are not made by it but by a handful of people. I propose a true democratic political party where the entire decision-making process is institutionalized.

[CHO-YUEH] How does your governmental philosophy differ from that of President Li Teng-hui?

[Hao Po-tsun] There are no basic differences between us in our thinking. National unification, democratic reform, economic development. We see eye to eye on these issues. Certainly there is no denying that we do not think alike when it comes to certain decision-making procedures.

For instance, the claim that the president should control foreign policy, national defense, and bi-coastal affairs...well, I beg to disagree. I have never expressed my views on this matter in the past; this is the first time. I think the president and the prime minister should work together. You cannot divide their functions and powers the way you cut a watermelon and say, this half belongs to the president, this half to the prime minister. To do so violates the spirit of the constitution regarding the functions and powers of the government and Executive Yuan. If the president is interested in foreign policy, national defense, and mainland affairs, let him go

through the prime minister instead of shoving the latter aside. That would raise institutional problems.

[CHO-YUEH] We know that "inter-generation succession" is the keynote of the president's recent personnel arrangements. Do you expect President Li Teng-hui to continue to work toward that goal at the 14th National Congress and end the phenomenon of "geriatric politics" on the KMT Central Standing Committee?

[Hao Po-tsun] I would not like to comment on this statement. Nor do I know what "inter-generation succession" means. Does this mean that I was too old to be prime minister and should be replaced by someone younger? Is that what "inter-generation succession" means?

Let me give you a light-hearted example. If Lien Chan [6647 2069] and I have a race or compete in a swimming event, whom do you think would win? Following this concept, does it mean that all administrators and cabinet members over 70 years of age should resign. In that case, why did they keep Wang Chao-ming [2769 2507 2494] in the Executive Yuan? I don't think President Li Teng-hui himself has said anything like that. Most likely they just put words in his mouth.

How do you define "inter-generation succession?" It is difficult to arrive at some standards. It is not very fair either. Defined too loosely, it degenerates into a slogan. Defined too strictly, it becomes an excuse to get rid of dissidents. It is not viable as a government personnel policy. "Appoint only those who are competent." This is the most basic method.

[CHO-YUEH] Among party affairs, reform of party-run enterprises has always been the focus of concern among people outside government and in the business community. The KMT has numerous party-run enterprises, a rare phenomenon in other democratic nations. In your projection, where are state-run enterprises headed for in the future?

[Hao Po-tsun] When it comes to party-run enterprises, I think with the exception of a handful of people in charge, nobody has a clear idea, not even me. This is because no report on their financial status and operating results has ever been presented to the KMT Central Standing Committee.

If their existence is absolutely imperative, they should be run in accordance with the same methods that are used in the private sector, instead of resorting to privileges. Their financial status too must be made public. These days very few people in the party know how much money party-run enterprises are making or losing. This is a serious problem that must be brought up for discussion at the 14th National Congress.

This country has no party law or other legislation that could stop political parties from operating enterprises. Be that as it may, party-run enterprises must still be required to develop in the same way as private corporations. They simply cannot rely on privilege for survival. Certainly I would like to believe that our party-run enterprises currently enjoy no privileges.

[CHO-YUEH] Because you did not have any ties to the business community, when you were made prime minister three years ago, people outside the party were hopeful that you would straighten out law and order, clean up the government, and check the worsening money politics. How would you rate your own performance in these areas?

[Hao Po-tsun] As far as economic development is concerned, my policy was one of incubation, which means using the power of government to create a sound investment climate where enterprises can develop better. I have always had a good deal of admiration for enterprises in the manufacturing industry, knowing that it is hard for a manufacturing enterprise to make money these days. So I am ready and willing to maintain contacts with any enterprise and listen to its views. But there is no monetary relationship between us at all.

I consider myself a fair-minded and selfless person who is above politician-businessman collusion. Perhaps I have been too honest. A while ago the government was criticized for having an "anti-business complex." I don't have an "anti-business complex." The reason I straightened out law and order and maintained social order during my tenure was none other than to create an even better investment climate for the business community. The fact is that law and order did improve. Businessmen are no longer afraid of driving famous brand sedans. Fewer doctors and lawyers are migrating overseas. The entire national economy has become more mature. Could this have come about if I had an "anti-business complex?"

On the other hand, I am opposed to speculation, monopoly, and unhealthy "money politics." Party and government officials should avoid illegal monetary dealings with big business if at all possible.

In terms of party affairs, the present system of naming candidates for public office has something to do with the rise of money politics. Some party functionaries look at supplementary elections this way: To get elected, you need votes. So the first thing they consider when they go about drawing up a list of candidates is their financial resources. Things have gotten to the point that it now takes at least $10 million on average to get elected to the Legislative Yuan. Reportedly somebody spent between NT$500 and NT$600 million in parliamentary elections late last year and was still defeated.

The government cannot but shoulder the blame for the corruption of electoral practices and rampant vote-buying. The reason is that party functionaries know better than anybody else who has been or has not been buying votes. I really should not be making this kind of criticism, but the party should not turn a blind eye to electoral bribery.

You cannot stop electoral bribery by amending the election law or other laws. The prevention of electoral bribery must start with political parties practicing self-discipline. If political parties do not lean over backwards to tolerate bribery, it will not occur.

[CHO-YUEH] You pushed hard for the "Six-Year National Economic Plan" during your term of office as prime minister, hoping that the plan would have a positive effect on reviving the economy and improving the investment climate and serve as a long-term economic strategy. Hit by a lack of funds and endless problems, the succeeding administration may have to scale back the plan. Are you ready to defend one more time the soundness and rationality of the plan?

[Hao Po-tsun] The basic idea behind the formulation of the plan was that a government cannot govern by thinking just one year ahead. It must have a long-term national construction plan.

Money. So far I don't think funding is a problem. The problem is inefficiency, administrative inefficiency. This has nothing to do with the plan per se. Given administrative inefficiency, no plan will work, will it?

The problems are not caused by the Six-Year National Construction Plan. They are the outcome of a poor administrative style. To reject the Six-Year Plan on these grounds is not tenable.

Needless to say, I absolutely do not believe the national construction plan is perfect. I think it should be reviewed each year to ascertain and adjust progress and nail down funding sources. I agree that right now there are just too many administrative barriers. For instance, land acquisition is enormously difficult and interest groups are getting very powerful. However, the notion that if you "don't do anything, you will not make a mistake" is absolutely wrong.

The Six-Year National Construction Plan is a major project that will impact Taiwan's future development. It must be completed, if not 100 percent, then at least 70 percent, 50 percent. If we do nothing, it would be zero. Right? Never hesitate to move forward for fear of problems. Suppose the national plan is scaled back or scrapped. Will national politics clean up instantly? No. Don't turn the causal relationship between the two upside down.

[CHO-YUEH] At the beginning Chairman Kuo Wan-jung [6753 1238 1369] of the National Construction Commission and Minister of Finance Wang Chian-hsuan [3769 1696 3551] had a different opinion about the Six-Year Plan. Looking back now, whom do you think was in the right?

[Hao Po-tsun] In a democracy, it is normal for people inside government to exchange and express different opinions during the policy-making process. No cause for alarm. It is OK even if there is a lot of arguing back and forth in the process. In the end it was me who had to make the decision. Right? If you just look at that part of the process and make an issue of it, you will be over-politicizing it. The decision was mine. They could have resigned had the differences remained unresolved. The fact that they did not resign shows that once the policy was made, everybody closed ranks and the situation was no longer one of us versus them.

[CHO-YUEH] What other things do you hope to accomplish most in your future political career?

[Hao Po-tsun] Even now I don't think I can rightly be called a political figure. Nor do I want to form a political force. However, there are some political principles that I have always adhered to.

Politically, I would like to make the entire China the main shaft, instead of limiting it to Taiwan. Economically, I call for healthy economic development, bridging the gaps between the rich and the poor, and emphasizing social welfare. Turning to the daily lives of ordinary people, I advocate improving the people's quality of life so that they can enjoy dignity and be free from want and fear. After leaving the Executive Yuan, I am now a private citizen with more maneuvering room and greater freedom of speech to monitor the people in power. I am always mindful of these principles.

Finally let me emphasize this: Don't scramble for power and position, but abide by your principles.

BULK RATE
U.S. POSTAGE
PAID
PERMIT NO. 352
MERRIFIELD, VA.

NTIS
ATTN PROCESS 103
5285 PORT ROYAL RD
SPRINGFIELD VA 22161

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, military, economic, environmental, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available sources. It should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed. Except for excluding certain diacritics, FBIS renders personal names and place-names in accordance with the romanization systems approved for U.S. Government publications by the U.S. Board of Geographic Names.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Central Eurasia, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735,or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.