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NATIONAL AFFAIRS, POLICY

Journal on Combination of Planning, Market

HK1109123092 Beijing JINGJI YANJIU in Chinese No 5, 20 May 92 pp 41-45

[Article by Gao Dichen (7559 3321 7115) and Chen Naidao (7115 0035 6670) of the Institute of Finance, Commerce, and Commodities Economics under the Chinese Academy of Social Sciences: "Reflections on the Realized Structure of the Combination of Planning and the Market"]

[Text] 1. The relationship between planning and the market is an old issue and a new one. According to some, it is an old issue because relations between planning and the market have been a "hot topic" in economics since the birth of public ownership. According to others, it is because relations between planning and the market have been the core issue people in the economic sphere have been striving to resolve since the social economy broke through the confines of small production and entered the stage of socialized mass production. It is a new issue because all economic reforms, be they based on private ownership or on public ownership, deal with a common theme, that is, the coordination of relations between planning and the market in the commodity economy based on socialized mass production. This is a common issue confronting both developed and developing countries, although countries with different economic systems and different levels of development may have their specific restrictions, tasks, and objectives. Restricted by its prerequisite private ownership system, the capitalist economy based on the private ownership of the means of production must, while focusing its attention on finding a means of fully and effectively bringing the role of the market mechanism into play, comply with the internal demand of socialized mass production and dynamically exercise planned regulation and control over the coordinated operation of the social economy in order to resolve the contradiction between microeconomic planning and macroeconomic anarchy, eliminate cyclical upheavals in the development of the social economy, reduce the cost of operating the social economy, and ensure stable and sustained development of the economy. Restricted by its prerequisite public ownership system, the socialist economy based on the public ownership of the means of production must, while upholding the planned nature of the macroeconomy, fully bring into play and utilize the effective regulatory function of the market mechanism in the social economy in accordance with the objective laws of the commodity economy in order to eliminate the contradiction between rapid macroeconomic development and the lack of microeconomic vitality, bring about the coordinated operation and development of the social economy, and demonstrate the superiority of the public ownership system and the socialist economy in promoting the development of social productivity.

2. The question of the essence and coordination of the relations between planning and the market may be understood differently when analyzed from different levels and angles. A first interpretation is that it is a combination of "planned economy" and "market economy." The direct basis of this interpretation is that the economic system determines the economic organization. The planned economy is the intrinsic feature of the socialist economy based on public ownership, while the market economy is the intrinsic feature of the capitalist economy based on private ownership. The socialist economy may make use of the market, but should not allow the market to occupy too large a proportion in the combination of planning and the market. A second interpretation is that it is a combination of "planned economy" and "market mechanism." Its advocates belief that the position and role of planning and the market have already been clearly defined in the operation of our social economy. The intrinsic attribute of the social economy is the planned economy, where planning is not only the basic regulatory mechanism in the operation of the social economy, but is an essential requirement of the social economy. The market mechanism, on the other hand, only plays its special regulatory role in the operation of the social economy in order to make up for deficiencies in the planning mechanism and to ensure the healthy and stable development of the socialist planned economy based on public ownership. A third interpretation is that it is a combination of the "planning mechanism" and the "market mechanism." The direct basis of this interpretation is the actual operation of the social economy. Its advocates believe that in socialized mass production, be it under the socialist public sector or the capitalist private sector, the coordinated operation of the macroeconomy and the microeconomy cannot be effectively achieved by a single planning mechanism or a single market mechanism. Constantly probing the approach, method, and degree of combination of these two mechanisms in the course of practice is the common task confronting all countries in their economic development.

Since the birth of the socialist economy, people have gradually deepened their understanding of the combination of planning and the market in the practice of socialist economic construction. A long time has elapsed from the time people totally rejected the commodity economy and negated the role of the market mechanism in regulating the operation of the socialist economy, to the time they over-simplistically viewed the socialist economy as a highly centralized planned economy and equated the planned economy with mandatory planning, to the time they eventually recognized the existence of the commodity economy and conditionally restricted and utilized its existence. It was not until after reform and opening that a historic breakthrough was made in recognizing the socialist economy as a planned commodity economy, and that the combination of planning and the market is needed and also possible under socialized mass production and the commodity economy based on public ownership. Meanwhile, in the course of economic restructuring, there have been different ways of referring to the combination of planning and the

market. These include "the theory of tacking together two systems," "the theory of the primary and the secondary," "the theory of osmosis," "the theory of organic combination," "the theory where two systems both have overall coverage," and "the theory of two regulations," all of which reflect people's understanding of the relationship between planning and the market in different stages of economic development. Actually, the relationship between planning and the market under the commodity economy is an inherent contradiction in the commodity economy, that is, the contradiction between planned requirements and spontaneity. This contradiction is present in all social economies that operate in the commodity-money mode. The only difference is that because their forms of expression differ due to ownership relations, the nature and effects of this contradiction also differ. Today, people's understanding of this question has been raised from the level of generally discussing whether or not planning and the market can and should be combined to the level of probing how they should be combined from the high plane of the integration of theory and practice. In other words, the search for a feasible means and degree of combining planning and market mechanisms and the probing of other concrete issues in the course of actual economic practice have been realistically put on the agenda.

3. The realization of an institutional structure for the combination of planning and market mechanisms. In the operation of the social economy, planning and market mechanisms share the same fundamental objective, that is, to bring about optimum allocation of resources and coordinated economic operation. However, the combination of planning and market mechanisms not only assumes different concrete forms under different economic systems, there are also obvious differences in its concrete form of combination in different countries under the same system. For instance, under the market economy based on the private ownership of the means of production, the market mechanism is the basic coordination mechanism of economic operation and plays a leading role in the course of economic development. The planning mechanism is only an internal coordination mechanism in microeconomic units during the early stage of the development of the capitalist economy. It was only after the capitalist economy had developed from the stage of free competition to the stage of monopolistic competition, when the level of social productivity had increased, the production structure had become more complicated and interlinked, and the economic behaviors of different economic units had become more interrelated and systematized, that it was incorporated into the macroeconomic system. In the course of the development of the capitalist economy, the concrete form of combination of planning and market mechanisms also showed distinct national differences due to differences in economic development between different countries. For example, based on the function of the planning mechanism in regulating the macroeconomy, there is the "classic model" of "active nonintervention" in the macroeconomy, as represented by Great Britain; the "American model" with Roosevelt's New Deal as its starting point and the Keynesian demand management theory as its basis; the "Swedish model" with the planning mechanism as the principal coordination mechanism in the sphere of distribution and the "welfare state" as its objective; the "French model" which is based on the private ownership of the means of production and which takes the "invisible hand" as the macroeconomic coordination mechanism through "planned conspiracy" and "mandatory planning"; the "Japanese model" which takes supply management as its emphasis and "mandatory planning" as its principal coordination mechanism, and which seeks to achieve economic leaps and "economic miracles" through normative industrial policies and rolling economic plans.

Under the planned economy based on the public ownership of the means of production, the planning mechanism is the principal coordination mechanism in macroeconomic operations. However, due to differences in the economic and political conditions between different countries, there are variations in their concrete models of practice. For example, there is the highly centralized "command" economic management system which rejects the market mechanism and adheres to a unitary planning mechanism; the system of "market socialism" which is based on a high degree of autonomy for enterprises and takes the market mechanism as the macroeconomic coordination mechanism; the "Hungarian" model which is based on the public ownership of the means of production and stresses the regulatory role of the market mechanism while giving full scope to the role of the planning mechanism; the model based on the "combination of the planned economy and market regulation," which is gradually taking shape in China in the course of structural reform; and so on.

4. The realization of an ownership structure for the combination of planning and market mechanisms. The ownership structure is the abstract description of the quantitative proportions between different economic forms of the national economy in a given country at a given time. Since China is still in the primary stage of socialism and the planned commodity economy has only just started developing, the coexistence of different economic sectors is generally present in all spheres of the national economy. We must establish an ownership structure with public ownership as the main form of ownership and where diverse economic sectors coexist, coordinate the operating mechanisms of different economic sectors, fully bring into play their combined structural effect, and effectively promote the development of social productivity. This is the direction for the further advancement of structural reform in the future.

The special operating mechanisms of different economic sectors and their special position and role in the national economy condition the choice of basic coordination mechanism. At the present stage, in addition to the economic form of ownership by the whole people, there are various other economic forms of collective ownership, as well as individual, private, joint-venture, and

cooperative economies. Generally speaking, the operation of the economic sector under ownership by the whole people should be guided by a planned regulation mechanism and supplemented by a market regulation mechanism. This is determined by the highly unified operational goals of the economic sector under ownership by the whole people and the socialist economy itself. Compared with the economic sector under ownership by the whole people, the sector under collective ownership is subject less to planned regulation and more to the market mechanism. This is determined by the particular nature of "associated labor" under the collective sector and the "local nature" of its interests. The individual, private, and state capitalist economies, which are based on private ownership of the means of production, should have market mechanism as their leading coordination mechanism in order to give full scope to their role as supplements to the national economy. They must be supplemented by necessary means of regulation and control, such as planning and administrative intervention, in order to ensure their free and healthy development within the large framework of the socialist planned commodity economy.

5. The realization of an industrial structure for the combination of the planning mechanism and the market mechanism. A given national economy is an organic combination of different industries, and an industrial structure refers to the proportionate relationships between different industries in the national economy at a given stage of economic development. Where the operation of the national economy is concerned, the overall level of macroeconomic development is the result of the coordinated development of different industries. However, in the actual course of economic development, perfect coordination between industries with neither surplus nor shortage is but a theoretical abstract. In actual practice, the high probability is coordination where surplus and shortage coexist to varying extents. This is what we usually mean by the relations between the overdeveloped and the underdeveloped. Based on the rule of short-sided balance [duan bian ping heng 4252 6708 1627 5899] between the two, it is obviously the underdeveloped industries that will play the role of the principal contradiction in the development of the national economy as a whole. They are the basis and "crucial points" in ensuring the stable operation and optimal development of the national economy as a whole. In order to resolve the contradictions between overdeveloped and underdeveloped industries, do away with restrictions of structural disparities between industries on the operation of the national economy, reduce the operating cost of the social economy, and ensure and maintain balanced development between different industries, it is necessary to have an effective operating mechanism. "Toward those underdeveloped sectors and areas with shortages, we should mainly rely on direct planned regulation and control. Toward the overdeveloped sectors and areas with excesses, we should mainly rely on market regulation." (Footnote 1—RENMIN RIBAO 6 March 1991 p 5)

Moreover, economic development is a process of the coordinated linkage of different industries, where different industries are mutually dependent and mutually conditional. Practice in the social economy enables us to understand that toward those basic industries that have a direct bearing on macroeconomic development, we should resort to stronger measures of planned regulation and control. The reason is that their development not only has a "systems effect" on economic development as a whole, but also directly determines the pattern and level of macroeconomic development. In the meantime, toward those key industries that can bring about evolution in the industrial structure and are conducive to sustained, coordinated, and stable development, such as the electronic information and the petrochemical industries, we should resort to stronger measures of planned regulation to ensure their rapid growth and development. Toward those industries which do not have a strong bearing on the overall development of the national economy, we should resort more to market regulation mechanisms.

6. The realization of a time structure for the combination of planning and market mechanisms. What this means is that in different stages of economic development, it is necessary to accurately define the "point" and "degree" of the combination of planning and market mechanisms in light of the development of the national economy in order to fully bring into play the functions and roles of both mechanisms and coordinate and promote the benign development of the economy. In different periods of economic development and different stages of cyclical economic fluctuation, the economic structure will undergo a series of variations and reorganization. The place of the tightly controlled or the loosely controlled, the overdeveloped or the underdeveloped, in the organism of the economy will also change. In the wake of changes in the macroeconomic environment, new contradictions will arise as old ones are resolved. This requires that we assess the situation and redefine the "point" and "degree" of the combination of the planning mechanism and the market mechanism. What remains unchanged is the principle. The specific ways of combining the two mechanisms as well as the intensity and scope of their respective roles have to be promptly readjusted in light of differing conditions in different periods. The principled nature of the combination of two mechanisms must be integrated with the actual flexibility of the combination. On the whole, in a normal macroeconomic environment, the scope and intensity of planned regulation and control should be further relaxed in order to give full scope to market mechanisms in regulating economic operations. When the macroeconomic environment becomes abnormal and the normal operation of the economy is obstructed, we should give greater scope to the role of planning mechanisms in regulating economic operations, suitably enlarge the scope of its impact and increase its intensity in order to eliminate structural discrepancies between economic

mechanisms as quickly as possible, optimize the macroeconomic environment, restore normal operation of the macroeconomy without delay, and lower the cost of operating the economy.

Under existing conditions, deep-rooted problems such as contradictions arising from disharmonies within the organism of the economy and structural discrepancies in the industrial system have yet to be resolved, and it is unlikely that the market mechanism can make good the "lack of coordination between systems" within the organism of the macroeconomy within a short time. Thus, a more effective option for long-term economic activities that have a direct bearing on the whole situation is to directly make use of the market mechanism. This will help bring the economic system into coordinated operation without undue delay and will create a favorable external environment for the effective operation of the market mechanism. As shown by the history of international economic development, especially the experience of post-war Japan, South Korea and other newly industrialized economies in their economic development, by suitably increasing the scope and intensity of planned regulation and control in their effort to bring about a transition in their industrial structure and in the course of economic development, up-and-coming countries can effectively organize their limited economic resources, overcome the restrictions of the elementary industrial structure on economic development, and shorten the time necessary to prepare for an economic takeoff.

Meanwhile, structural readjustment pushed by the mechanism is determined by the objective environment of economic operation. The experience of South Korea shows that in the early stage of industrialization, frequent administrative intervention and planned indices in terms of material products were necessary because the market was not well-developed. However, as markets became more developed, the regulatory functions of the market also increased and economic relations became more complicated. Under these circumstances, it was necessary to constantly readjust and change the form of combination of planning and the market, gradually increase the share of market regulation, and effect a change from planning in the form of planned indices for material products to planning as policy guidelines. In the time structure of the combination of two mechanisms, we must pay attention to the stability of mechanism application and avoid improper and immoderate readjustments that will bring about shocks and undesirable consequences in the operation of the national economy as a whole. This requires that we concentrate on working out a proper time distribution for the intensity of planned regulation in practice. Chiefly speaking, we should readjust the extent to which economic operations are regulated by the planning mechanism through readjusting the "details" of commands and parameters, and then proceed to readjust the time structure for combination of planning and market mechanisms.

7. The realization of a spatial structure for the combination of planning and market mechanisms. A general trend in world economic development is to stress regional markets in national economic development and stress the international market in regional economic development. China is a vast country with three distinct economic gradient belts from east to west in its economic development. There are vast discrepancies between the economic environments in which they operate. This demands that we stress the coordinated development of regional economies and work out specific ways of combining planning and market mechanisms according to objective conditions. On the whole, in the coastal areas where the commodity economy is more developed, where the level of economic management is higher, and where the market system is more complete and well-developed, we may resort less to planned regulation and control and more on market regulation. To the contrary, in western China where the commodity economy is not developed, where the level of economic management is low and where factor markets are unsound and not well-developed, we should resort less to market regulation and more to planned regulation.

8. The realization of a decision structure for the combination of planning and market mechanisms. Although the basic aim of both the planning and market mechanisms is to regulate the effective allocation of social resources and coordinate operation of the economy, they each have their own special formation mechanism and law of operation. The operating entity of the planning mechanism is the government, while the operating entity of the market mechanism is the enterprise. The planning mechanism focuses on macroeconomic operation and overall long-term economic results; while the market mechanism focuses on microeconomic operation and the immediate interests of different interest entities. In practice, we should properly handle the realization of a decision structure for the two mechanisms, and make them supplement each other in coordinating and promoting the national economy. Actual economic development in China and the rest of the world shows that decisions relating to a wide range of social objectives, such as the running of public welfare undertakings, the establishment of basic industries and the mapping out of long-term economic development strategies, should have the planning mechanism as guidance. On the other hand, with regard to production decisions such as what, how much, and how to produce, market operation entities, namely, enterprises, should be relied on to make prompt decisions using market mechanisms as guidance. We cannot effectively tackle the question of the coordination of macroeconomic and microeconomic systems by relying on just the planning or market mechanisms as the tool of coordination, regardless of whether we are dealing with goal-directed or production decisions.

9. The realization of a enterprise-scale structure for the combination of planning and market mechanisms. In static terms, the national economy is an organic conglomerate of large, medium, and small enterprises of

different scales and functions. As these enterprises have different economic positions and play different roles in actual economic operation, it is necessary for us to select, in light of actual conditions, the ways in which planning and market mechanisms are to act on enterprises of different scales. Large and medium enterprises are the representatives of the productive forces in different trades and professions, and their development directly condition the operational direction and development pattern of the macroeconomy. Thus, in order to ensure the stable and coordinated development of the national economy, we should in general subject them more to planned regulation and control. Toward the vast number of small enterprises which are limited in their activity and market share, and which do not have too great an influence on macroeconomic development, we may rely more on market regulation.

In dynamic terms, the process of economic development is also the process in which the basic economic units continuously readjust their scale and form. During the period of free competition, the main force in the market is the vast number of scattered medium and small enterprises. Because the overall level of economic development is still low and the space in which different industries operated was still limited, the vast number of scattered medium and small enterprises were able to shoulder the basic tasks of production through their limited operational activities in their given areas. At this time, they operated under the market mechanism. However, as the commodity economy developed and the level of social productivity rose, the highly-divided economic structure achieved integration on an extensive scale. The overall level of economic development increased, and the space in which different industries operated gradually expanded and became interrelated. At this stage, the vast number of scattered medium and small enterprises could no longer sustain the normal operation of industries. Thus, they reorganized themselves and formed mergers in different ways in practice. Under the modern commodity economy, conglomerates and enterprise groups have become the basic organization form and carrier for the combination of planning and market mechanisms. At this time, the planning mechanism tends to play an increasing role not only in the operation of microeconomic organizations but also in the regulation and control of the macroeconomic system.

10. The realization of an objective structure for the combination of planning and market mechanisms. Since the commodity world is a complicated conglomerate, it has to be dealt with on a case by case basis rather than by a unitary regulatory mechanism. From the perspective of the different roles played by commodities, the supply of daily necessities with a direct bearing on the national economy and the people's livelihood is not only an economic but also a social issue at the same time. Toward these commodities, it is necessary to give greater scope to the role of regulation by planning in order to ensure the coordination and basic stability of the production, circulation, and consumption systems. Leisure and consumer goods, on the other hand, should mainly be regulated by market forces. From the perspective of the elasticity of supply and demand, it is normally quite difficult to increase the supply of commodities with a small supply-demand elasticity because the duration between input and output is long or because they are subject to resource or technical constraints. Toward these commodities, it is necessary to rely more on regulation by planning in order to ensure coordination between supply and demand. Commodities with a greater supply-demand elasticity, on the other hand, should mainly be regulated by market forces. From the perspective of the different ways of consumption, public commodities that cannot be quantified on a per-capita basis should mainly be regulated by planning, while general commodities that have individual units as basic consumption entities should mainly be regulated by market forces. From the perspective of the supply-demand situation, when demand exceeds supply in the market, we should rely more on regulation by planning; when supply gradually increases, we should gradually relax planned control and reduce the number of control commands and parameters. When supply exceeds demand, we may rely more on regulation by market forces.

In short, planning and market mechanisms are interdependent; they are basic operating mechanisms inherent in the modern commodity economy. Searching for a concrete form of realization for the combination of these two mechanisms in light of different conditions of economic development is a complicated systems project; it is also a common task of economic development in the contemporary world. The above aspects are by no means isolated. They are in fact interrelated. For this reason, we must conduct concrete studies and make dynamic selections in practice according to the changing objective environment.

State Council Grants More Autonomy to Capital Steel

92CE0682A Beijing JINGJI CANKAO BAO in Chinese 5 Aug 92 p 1

[Article by reporter Yu Huiyin (0151 6540 7299): "State Council Approves Capital Steel's Pilot Program To Expand Reform and Open Wider"]

[Text] Recently the State Council specially approved a pilot program for the Capital Iron and Steel Corporation to further expand reform and open still wider to the outside world. The program, which grants Capital Steel more autonomy in drawing up investment projects, developing foreign trade, and handling financial matters, is aimed at exploring a new way to continue reform of big- and medium-sized state enterprises and develop China's giant enterprises into transnational corporations through the integration of industry, trade, science, technology, and banking.

The following are included in the State Council's approval to further expand Capital Steel's autonomy:

Expand authority to draw up investment projects. In line with the national industrial policy, development plans for the specific industries and regions, and domestic and international market demands, Capital Steel may use its reserves and self-financed capital for productive and nonproductive construction. It may draw up projects on its own accord, provided it can meet the requirements for building and operating the projects. But it has to report its plans to the government departments concerned for the record and subject the projects to their supervision. With regard to overseas investment of less than $10 million, Capital Steel is empowered to draw up projects, make feasibility study reports, and decide on matters concerning contracts, rules, and regulations. The State Council has also agreed to allow Capital Steel to use its equipment as investment or shares in establishing factories abroad. In addition, Capital Steel may approve projects and feasibility study reports on Sino-foreign-funded ventures and Sino-foreign cooperative operations in China, provided the total investment is less than 200 million yuan and no government support is required.

Expand power to develop foreign economic relations and trade, as well as other foreign affairs. The State Council has agreed to let Capital Steel establish the "China Capital Steel International Trade and Construction Corporation" to do business in six areas: import of equipment, accessories, parts, and raw and semifinished materials required by Capital Steel's subordinate enterprises and export of their products; processing and assembly work using raw materials, components, and patterns supplied from abroad as well as compensatory and barter trade; buying second-hand equipment from abroad for use by Capital Steel or for resale to overseas customers after repair or modification or acting as import agent for second-hand equipment; mining in foreign countries and importing and trading in minerals; technology imports and exports; and overseas contracted construction projects and labor cooperation undertakings. As for Capital Steel's approving power in foreign affairs, it may, within the scope of its operations, approve out-of-country tours composed of its personnel under the deputy-chief level (including deputy chiefs). It may act on its own to invite foreign businessmen, experts, and training instructors to visit China. It may also set up offices or sales organizations overseas and station personnel there. In accordance with operational needs, it is authorized to decided on the appropriate number of economic and trade personnel to be sent abroad. In approving its personnel's overseas business trips, it may give a package approval covering more than one trip within a year. Based on Capital Steel's approval of such overseas business trips and other related documents, the Beijing Municipal Foreign Affairs Office will process the travelers' passport applications and help them obtain visas.

Expand financial authority. The State Council has agreed to let Capital Steel set up a bank, which will be managed according to China's Provisional Bank Administration Regulations and international practices. The Capital Steel bank will have the same financial system and operate along the same lines as the Industrial Bank of the China International Trust and Investment Corporation. Its business will include deposits in renminbi and foreign currencies, trade and nontrade international settlements and remittance, lease of domestic and international banking facilities, capital flow between domestic and international banks and other financial institutions, trust and agency business, credit approval and guarantee, consultation service, and bill discount. It may set up domestic and overseas branches with the approval of the People's Bank of China. It may extend export credit loans, issue securities at home and abroad for itself or on behalf of others, exchange foreign currencies, buy and sell foreign exchange for itself or on behalf of others; serve as insurance agency, receive savings deposits, and with the approval of the authorities concerned, take part in activities organized by the international financial community. The State Council has agreed in principle to allow Capital Steel to establish or buy a bank in Hong Kong when conditions are ripe. Moreover, with the approval of the authorities concerned, Capital Steel may set the prices of its products and collect its service fees in foreign currency and raise capital at home and abroad in foreign exchange. Plus, it may use its own foreign exchange to send personnel abroad on business trips and, in accordance with the international practice, get mortgage loans from other banks and open letters of credit.

With greater autonomy, Capital Steel has set a new target for development by leaps and bounds. It will rely on self-sustaining development to bring its 1994 steel output in the Beijing area to 10 million tons, thus becoming the first 10-million-ton-per-year iron and steel enterprise in China. The total sales volume in 1995 will exceed 22 billion yuan ($4 billion). Of this, the overseas business volume and foreign exchange earned by exports will top $1 billion. With the completion of new steel plants in Jining of Shandong and other localities, the total [annual] steel production will soar to more than 20 million tons by the end of this century. By then, Capital Steel will rank among the world's top 10 steel makers and become a giant transnational corporation.

Urban Income Increased in First Half of 1992

92CE0651B Beijing ZHONGGUO TONGJI XINXI BAO in Chinese 6 Aug 92 p 1

[Article by Wu Jun (0702 6511): "Urban Residents' Incomes and Spending Both Rose Steadily in the First Half of 1992, Bringing Increasing Strength to Their Financial Actions"]

[Text] Along with the overall acceleration of macroeconomic operations in the first half of 1992, urban residents' living standards continued to improve steadily, with their incomes rising more than their expenses,

which brought increasing strength to their financial actions. A data sampling of urban residents in the first half of 1992 shows that average monthly incomes were 144.4 yuan, up 14.6 percent over the same period in 1991, while average spending for living costs was 134.8 yuan, up only 12.8 percent. Excluding inflation, this means that real incomes rose 5.9 percent, while real living costs went up only 4.3 percent, or 1.6 percentage points less than income.

Urban residents' average monthly incomes from wages in the first half of 1992 were 115.8 yuan, up 22 percent and 20.9 yuan over the same period in 1991, making wages the major source of increased individual incomes. Along with the further revitalization and clear improvement in economic efficiency of large- and mid-size state-owned enterprises, employee incomes from bonuses and subsidies rose sharply and faster each quarter. Average montly income from bonuses and subsidies in the first quarter of 1992 were up 39.3 percent over the same period in 1991, and the increase was 60.6 percent for the second quarter. Average monthly income from all types of bonuses and subsidies for the first half of 1992 was 49.6 yuan, up 47.7 percent, or 29.9 points higher than the 17.8 percent increase for the same period in 1991.

Urban residents' consumption in the first half of 1992 was characterized as follows:

Spending for food was up, with an insignificant increase in the Enger coefficient. Average montly spending on food in the first half of 1992 was 72.1 yuan, up 8.6 yuan over the same period in 1991, accounting for 56.2 percent of the 15.3 yuan increase in the cost of living, and being the major factor in higher living costs. In food spending, the increase in spending was highest for grain, where average monthly spending was 10.5 yuan, up 39 percent over the same period in 1991. Driven by the increase in the price of cooking oil, the Enger coefficient for the first half of 1992 rose to 53.5 percent, for an insignificant increase over its 53.2 percent for the same period in 1991. As to food consumption volume, average monthly grain consumption for the first half was down from 1991's 11.2 kg to 9.7 kg, or 13.4 percent.

Consumption of daily necessities rose quickly. Along with the steadily sharpening "business wars" in all areas, daily necessity consumer goods markets clearly heated up in 1992. Average monthly spending on daily necessity consumption in the first half of 1992 was 14.8 yuan, up 25.3 percent, or 9.7 points higher than the increase for the same period in 1991.

Consumption rose steadily for clothing goods, while falling somewhat for recreational goods. Average monthly spending on clothing goods in the first half of 1992 was 20 yuan, up 12.3 percent from the same period in 1991, with clothing consumption continuing to maintain its trend toward more expensive, accessory, and fashionable clothing. But consumption of recreational goods fell somewhat, with average montly spending of 6.3 yuan, down 3.4 percent from the same period in 1991.

Spending increased sharply for medicines and articles for medical use. The medical system reforms that were widely implemented in all areas in 1992, which make residents pay for a fixed percentage of medical costs, sharply increased spending on medicines and articles for medical use. The average montly spending in this area for the first half of 1992 was 2.8 yuan, up 38.2 percent from the same period in 1991.

Possession of expensive durable consumer goods increased further. Urban residents' demand for expensive durable consumer goods continued to pick up in 1992, further increasing ownership. By the end of the second quarter, ownership per 100 families was 73.3 color TVs, up 10.1 percent from the same period in 1991, 51.7 refrigerators, up 8.2 percent, 82.7 washing machines, up 3 percent, 29.5 complete sets of furniture, up 19 percent, 23.4 cameras, up 13 percent, 2.7 motorcycles, up 22.7 percent, and one air conditioner, up 52.3 percent;

Rents rose quickly, but still accounted for a low percentage of spending on living costs. The average monthly rent outlay for the first half of 1992 was 1.03 yuan, up 27.2 percent over the same period in 1991. While the rent outlay percentage of overall living costs for the first half rose from 0.68 percent in 1991 to 0.76 percent, rent still accounted for a small percentage of living costs. Urban residents' spending on housing purchases and construction in the first half of 1992 rose more, with the average monthly outlay being 3.2 yuan, up almost 300 percent over the same period in 1991.

Urban residents' financial actions became increasingly stronger. Along with the promotion of enterprise shareholding and the increased issue of negotiable securities, such as stocks and bonds, in 1992, residents' financial activities became increasingly brisker, which can be seen mainly as follows: 1. Residents' savings withdrawals and deposits both rose sharply. A sampling of the data on average monthly financial activity for the first half of 1992 shows that residents deposited in savings 25.2 yuan and withdrew from savings 22.9 yuan, up 26.1 percent and 27.1 percent, respectively, over the same period in 1991. 2. Private borrowing and lending increased during the first half of 1992, with monthly averages of 4.3 yuan for borrowing and 1.9 yuan for lending, up 11.9 percent and 12.9 percent, respectively, over the same period in 1991. 3. Buying and selling of negotiable securities increased sharply, with purchases far exceeding sales. Average monthly negotiable securities sales for the first half were 0.62 yuan, up 29.2 percent over the same period in 1991, while negotiable securities purchases averaged 1.21 yuan, up 83.3 percent, with purchase volume being twice that of sales. Residents' negotiable securities purchases increased more in the first half of 1992 in Shanghai and Guangdong, where negotiable securities trading was brisker and monthly purchases

averaged 5.49 yuan and 5.34 yuan, respectively, up 270 percent and 170 percent, respectively, over the same period in 1991.

PROVINCIAL

Nanjing Opens Real Estate Market

93P30003A Nanjing XINHUA RIBAO in Chinese 8 Aug 92 p 1

[Summary] Since 6 August, Nanjing has begun opening its real estate market. By the end of 1992, all of Nanjing's institutional real estate development units will be converted into enterprises and participate in market competition.

According to statistics, there are currently over 20 real estate development companies approved recently or now receiving approval (24 companies have already been ranked by capital value), and numerous companies are in preparation; 54 foreign investment real estate enterprises have been established, the construction area of implemented development projects totals 1.9 million square meters, and the investment value of projects will reach 380 million RMB.

Since the opening of the real estate market, large- and medium-size state-run enterprises, enterprise groups, trust and investment companies, and stock companies at the city level and above have been allowed to increase real estate development activities, as have municipal-level state-run construction companies of first-rank capital value. Qualified economic departments relevant to trades can establish real estate development enterprises, and branch offices of successful development companies already involved in real estate can also establish independent real estate development enterprises. Local or nonlocal companies, enterprises, other economic organizations, and individuals that acquire land-use rights can set up real estate management projects. Real estate development companies set up to establish specific economic development zones, given approval by the municipal government, can engage in real estate development management activities within limits set by the government.

After implementing development projects, Sino-foreign joint-ventures and contractual joint-ventures or wholly foreign-owned real estate development enterprises can be established. Enterprises can also be established and then development projects set up to bring in foreign investment focusing on energy, transportation, basic facilities of the municipal government, industry and trade projects and auxiliary projects within economic and technology development zones, and various high-investment building projects. Nanjing encourages enterprises from other provinces and cities that invest in real estate or set up real estate development companies in Nanjing.

Harbin Retail Prices Increase in First Half of Year

92CE0685C Harbin HEILONGJIANG JINGJI BAO in Chinese 1 Aug 92 p 2

[Article by Yu Jinbao (0151 6855 0202): "First Half Year Rise in Harbin Prices Attributable Mostly To Rise in Grain and Vegetable Prices"]

[Text] Retail prices in Harbin for the first half of the year rose 7.9 percent over the same period in 1992. This was less than the 9 percent goal for controlling prices for the whole year. A survey of 344 commodities for which the retail price index was calculated showed a price rise for 144 or 41.6 percent. Prices fell on 20, or 5.8 percent, and remained steady on 180, or 52 percent.

1. Main Characteristics of Price Changes

During the first half of the year, price changes exhibited "three highs, three lows, and one contraction."

a. "High in between and low at both ends." During March and April, Harbin's retail prices increased by more than 10 percent, but in January and June, the rise was 9.2 and 6.1 percent respectively.

b. "Foodstuffs high; industrial products low." During the first half of the year, food prices rose 11.1 percent, which was 7.6 and 8 percentage points higher than the rise in the price of clothing and items used in daily life.

c. "High prices in state-owned enterprises; low prices in country fair markets." Country fair trade consumer goods prices fell 1 percent in comparison with the same period in 1991 versus a 10.5 percentage price rise in goods from state-owned businesses.

d. Continued narrowing of the difference between country fair and state-owned prices. During the first half of the year, country fair grade prices were only 4.6 percent higher than prices in state-owned businesses, the price difference being 11.2 percentage points less than 1988, 8.6 percentage points less than 1989, and 15.2 and 4.1 percentage points less than 1990 and 1991 respectively.

2. Reasons for Price Changes

a. A 53.9 percent rise in grain prices resulted in a 4.7 percentage point rise in retail prices. Following the April grain and edible oil price adjustments, grain prices maintained a fairly high rise each month, thereby causing a 53.9 percent rise in grain prices during the first half of the year. The rise in grain prices alone caused a 4.7 percentage point increase in the overall retail price level, i.e., 59.5 percent of the 7.9 percent rise in retail prices was due to a rise in grain prices.

b. Fresh vegetable prices rose 26 percent causing a 1.9 percentage point rise in retail prices. The first half of the year is the slack season for vegetable production in Harbin, an overwhelming majority of the city's fresh vegetable supply coming from outside the province. A

rise in railroad transportation rates and other fees, as well as considerable losses in the course of long-distance transportation resulted in a rise in the cost of vegetables from elsewhere causing a rise in both wholesale and retail prices. The cold air that invaded Harbin during June also hurt local vegetable growth causing an approximately one week delay in the opening of markets. Although a small amount of locally grown vegetables did reach markets, since the amount was less than in 1991, both the procurement price and the retail price went up.

3. Outlook for Prices During the Second Half of the Year and for the Whole Year

Retail prices in Harbin rose 7.9 percent during the first half of the year laying a good foundation for attaining the price rise set for the whole year. Price data on 35 cities throughout the country show that although Harbin's retail price index occupied 24th place, several major economic indices having a bearing on prices offer no cause for optimism. For example, between January and May, the city's bank deposit balance increased 24.9 percent over the same period in 1991; residents savings accounts increased 21.4 percent; investment in the fixed assets under ownership of the whole people increased 47.7 percent, and urban area social commodity retail sales increased 16.9 percent. Not only were the four foregoing indicators higher than in 1990 and 1991, but they were also higher than, or nearly as high as, during the high price increase year of 1988. The tremendous increase in the four foregoing indiators is, without doubt, a precursor of price increases.

To maintain the price stability of the first half of the year and attain the price control goal set for the whole year, it will be necessary to abide by the laws of value and increase effective supply, giving particular attention to the production and supply of nonstaple foods, primarily vegetables. Then the foregoing goals may be realized.

FINANCE, BANKING

Official on Financial Development After Rectification

92CE0645A Beijing JINGJI CANKAO BAO in Chinese 3 Aug 92 p 4

[Article by Qian Hua (6929 5478) of the Head Office of Chinese People's Bank: "Financial Development Trend After Rectification"]

[Text] After three years of hard work, we have scored remarkable success and basically achieved the goal as expected in improving and rectifying our financial affairs. However, our work in the financial field still has a number of problems. In particular, some profound problems have yet to be solved. We should have a sober understanding of this matter.

I. Conditions Favorable to Financial Stability

A. On the whole, our economic growth rate has returned to a level compatible with our current economic conditions, laying a groundwork for the stable and coordinated development of the economy.

B. The central authorities have decided to raise economic efficiency as the focus of future economic work. This will have a positive effect on improving large and medium state-owned enterprises, solving financial difficulty, and lightening the pressure put on banks by enterprises and the state financial department, thus promoting financial stability.

C. Agriculture and basic industries, such as energy and production of raw and semifinished materials, have been strengthened. As a result, the "bottleneck" restricting economic development has been alleviated. This provides a guarantee for our sustained and stable economic development.

D. Market supply is abundant, reducing remarkably the imbalance between supply and demand. Sales on the market have changed gradually from an overheated state to sluggishness and then returned by and large to normal.

E. The international economic environment has also improved. The United States has continued to extend China's most-favored-nation status, while other Western countries have eliminated step by step the "sanctions" previously imposed upon China. This is a big plus for China's efforts to expand exports, import advanced technology and equipment, and attract foreign investment.

II. Factors Unfavorable to Financial Stability Will Exist for a Long Time

The issuance of currency and the scale of credit have continued to expand in excess of economic growth—a problem which existed even when the retrenchment policy was in force during the period of economic improvement and rectification. This indicates that we still have no effective mechanism at present to regulate and control our currency issuance and credit scale. However, the establishment of such a mechanism cannot be accomplished in one move, but depends on the improvement of our macro regulatory and control mechanism as a whole. It can be asserted that the expansion of currency and credit in excess of economic growth will affect our stable economic development and continue to build up the inflation pressure for a long time to come.

The question of bank risks appeared as early as 1989 when runs on banks forced many grassroots specialized banks to close down. Had it not been for the all-out support of the People's Bank of China, it would have been very hard to remedy the situation. At that time, runs on banks occurred only in certain localities. Now that the banks' asset condition has further deteriorated, if runs on banks reappear in one area, the same problem is very likely to spread throughout the country. The rapid

growth of residents' monetary assets is an inevitable result of economic development, but the growth is too fast. This is attributable in the main to our irrational distribution system, which lays too much emphasis on individuals in the primary distribution of the national income. It is very hard to change this distribution pattern because income distribution is of a rigid nature in that you can only increase the income earned by individuals but cannot reduce it. This means that the banks' liability pattern will remain as it is for a considerable period of time.

The problem of eating from the banks' "big pot" was revealed as early as the initial period of the reform drive. The purpose of "replacing appropriations with loans" is to make better use of money by changing the irrecoverable state investment into recoverable revolving funds. Nonetheless, the specific measures applied have given people a false impression as if this reform were to let banks take over the task of the state financial department. This problem will be even more remarkable in the forthcoming reforms in such fields as the purchase of agricultural and sideline products, the supply of enterprises' working funds, and the liquidation of debt chains. The pattern of everyone eating from the banks' "big pot" has already been established. Any attempt to change it can only be carried out step by step.

The relationship between the central bank and specialized banks should be commensurate with our overall national economic management system. Since all specialized banks are national banks, the state should undertake the ultimate responsibility for their profits and losses. It is, therefore, impossible to cut off the central bank's links with the specialized banks in the supply of funds. On the other hand, however, if the People's Bank is to function truly as a central bank, the specialized banks should be managed in the same way as enterprises. Even as state-owned enterprises, they themselves should be responsible for their profits and losses.

III. Trend of Financial Development

The current situation in the banking field is a cause for deep concern. There are two reasons: First, unfavorable factors will long exist and always threaten our overall financial stability, while favorable factors are only relative and may become unfavorable factors at any time. Second, banking crisis is much more serious in nature than public-finance crisis. Banking may have no problem at all, but once a banking problem appears, it will be nationwide and will most likely affect political and social stability. Such being the case, we should take the current unfavorable factors seriously, put on the agenda the problems affecting financial stability, and solve them as early as possible.

IV. Financial Stabilization Measures

First, we should give proper play to the role of banks and appropriately deal with the relationships between banking and public finance and between banks and enterprises. How to make a real qualitative distinction between credit funds and public financial funds and how to eliminate the current more-than-100-billion-yuan overdraft and loans so as to achieve an overall financial balance and credit balance without loopholes are questions that require immediate solutions. It is suggested that each year the state specify in its budget a certain amount of loans to be repaid and, at the same time, issue more bonds to gradually reduce the overdraft. In actual practice, we may, as an alternative, first turn the overdraft into loans. Now, over 80 percent of the working capital in the hands of enterprises is borrowed from banks. This has not only added to the enterprises' interest burden, but also tied up large amounts of the banks' credit funds. A suggestion is that the proportion of self-provided funds in the enterprises' working capital be raised to at least 30 percent. As for new enterprises, the state financial department should give them sufficient initial working funds to start with.

Second, a part of the purchasing power should be diverted and scattered. We should reform the old-age insurance system. It is suggested that the current practice that the state and enterprises take full responsibility for the old-age insurance be replaced by a system in which the state, enterprises, and individuals share the responsibility. In particular, a certain amount should be taken out of each individual's income and pooled for use in running the old-age insurance. Meanwhile, commercialization of housing should be geared up. It is suggested that we make housing units the biggest commodity, encourage individuals to buy housing units, and raise house rentals to a considerable extent. These measures are of great significance to scattering the purchasing power as well as accelerating housing construction.

Third, it is necessary to develop money markets to diversify monetary assets. Now, there is a total purchasing power of some 1 trillion yuan among residents. Of this, 90 percent is in the form of savings deposits, which are a very unstable form of monetary asset. Like a tiger in the cage, these deposits always pose a threat to the market. Therefore, apart from making continued efforts to stabilize these deposits, we should go all out to develop other forms of monetary assets, especially by boosting the issue of stocks, so as to rationalize the makeup of monetary assets.

Fourth, it is imperative for banks to increase their own funds so as to gradually catch up with the international banking standard. Currently, the capital-abundance rates [capital-to-asset ratios] of the Bank of China, the Industrial and Commercial Bank, and the Agricultural Bank are 6.16, 5.82, and 6.82 percent respectively, all below the 8 percent requirement stipulated in the Basel Accord. To correct this, the following suggestions are offered: The state financial department should make some appropirations to the specialized banks to increase their credit funds. If there is financial difficulty in doing this, government bonds may be issued. Banks should increase the proportion of bad-debt reserves so as to boost their replacement capital. It is suggested that the

current bad-debt reserve rate of 0.1 to 0.2 percent be raised to 0.5 percent. At the same time, efforts should be made to properly reduce the scale of credit so that the pressure to increase capital may be alleviated.

Fifth, we should improve the central bank's regulatory and control measures. It is suggested that reforms be conducted in the following four areas: There should be a reasonable interest rate and an effective mechanism to regulate the interest rate. Standard rates should be established for various reserves. Open financial markets and rediscount business should be promoted and expanded step by step. The central bank's authority over the specialized banks' personnel, materials, and finances should be clearly defined.

Sixth, further efforts should be made to strengthen the management of foreign exchange and external debts. Now, in addition to making continued efforts to improve the export approval system and the follow-up procedure on use of foreign exchange, we should further the study of the exchange rate mechanism and make perfect the "controlled floating exchange rate system." Meanwhile, we should work out a clear-cut strategy on external debts with a view to making more efficient use of these debts while keeping their scale and growth rate at a reasonable level.

QIUSHI Article on Saving Deposits

HK2509145092 Beijing QIUSHI in Chinese No 15, 1 Aug 92 pp 39-42

[Article by Ren Junyin (0117 1498 0995), deputy director of the People's Bank of China Department of Administration of Interest Rates and Saving Deposits: "Several Questions on Understanding Savings Deposits"]

[Text] The balance in personal savings deposits in the bank in China's urban and rural areas had been some 910 billion yuan by year-end 1991; its proportion in various deposits of the bank system rose from 13.7 percent in 1978 to 54 percent, and formed a major channel of the bank's monetary sources. Viewing the volume increased, it broke through 100 billion yuan in 1989, some 180 billion yuan in 1990, and 200 billion yuan in 1991, with an increase range exceeding over 30 percent each year. The rapid growth in savings deposits has increasingly magnified its place in the macroeconomy with each passing day and, at the same time, roused the anxieties of many people. How should we view this issue? Here we should like to make some analysis.

I

Savings deposits play an important role in the national economy in three aspects.

First, expanding accumulation. The newly created national income has eventually shaped into two parts: accumulation and distribution through distribution and redistribution. The accumulation fund originates from social surplus products, and is the basic form of accumulation; besides, the expansion of the actual scope of accumulation has two additional channels—the compensation fund can be used in supplementary investment before the renovation of fixed assets; and the part of delayed consumption in the consumption fund can also be shaped into accumulation through conversion of credits. The peculiar role of savings lies in expanding the portion of national income to be spent in actual accumulation under the condition that the proportion of the consumption fund will not be cut back. The use of savings to convert consumption into accumulation is realized through the "time difference" existing between residents' monetary income and spending, with part of the currency always in an idle state, while corresponding socialist products are lying idle, too. Savings deposits accumulate this part of currency lying idle in the form of compensation with interests, while maintaining their ownership and redistributing the right to its use. Actually, this is to redistribute the part of goods and equipment lying idle, and put them in production or construction; thus, realizing the conversion from consumption, to production funding.

Second, regulating monetary circulation. Regarding income and spending in the plan for credit, cash in residents' hands is immediate purchasing power; the conversion of cash to savings deposits signifies putting off realistic purchasing power. This way, a corresponding volume of realistic consumer goods in purchasing power is not required; then, the state may correspondingly cut back consumer goods production based on the growth in savings deposits. Savings are important grounds for the balance between social purchasing power and volume of suppliable goods in a planned way, while playing the role of monetary circulation as a regulator. Especially when the volume of banknotes on the market is on the high side, to increase the recovery of paper money through savings is of peculiar significance to supply-and-demand balance.

Third, guidance in consumption. Unfolding a flexible and diversified savings operation is an important approach to help the masses make reasonable arrangements and selection in consumption, and an important content in guiding consumption. Guidance of savings in consumption is conducted through production. Usually, when we say that savings put off purchases, it does not mean to totally refrain from purchase, but to divert purchasing power through credit, and convert purchase of consumer goods to that of production materials, while starting the idle production essentials to shape into new production capability. When the purchasing power thus put off returns to the circulation realm to realize purchase, the new products supplied will be simultaneously, correspondingly put in the circulation realm. The guidance of savings in consumption is, in nature, to re-start residents consumption, which has been halted. Under the condition without changing the ultimate employment of consumption fund, the realization of consumption is pushed through the production process. More

significantly, small sums of currency collected through savings originally exist in circulation, and the conversion from the consumption to the production fund is only the change in the forms of cash and currency in savings. This is realized in the approach of accelerating monetary circulation to utilize idle social resources and expanded future supply of consumer goods, thus insuring realization of future consumption.

II

The rapid growth in savings deposits is an important sign of improvement in the living standards of the urban and rural populace, and a pleasing phenomenon at that; however, it also brings people anxieties. Some people proposed that the growth in savings deposits should not exceed a certain limit; otherwise, this "caged tiger" would bring a great threat to the macroeconomy. Then, is there a ceiling to the growth of savings deposits?

The growth in saving deposits is primarily determined by the volume of monetary income of the urban and rural populace. Generally, the two are in direct ratio. The volume of monetary income is a matter of distribution. At a certain level of economic development and distribution structure, the actual ratio between the volume of accumulation and the size of the consumption fund are objective and beyond the bank's control. The growth in saving deposits is restricted by the law of distribution, and no artificial "ceiling" can be set.

From the angle of consumption, the volume of monetary income of urban and rural populace is already set; only the surplus, when immediate consumption is taken away, can be converted to savings (cash in residents' hands is temporarily included in immediate consumption.) Within a certain period, how much will a resident spend in immediate and future consumption is left to the consumer's own decision. What restricts the consumer's decision is the law of consumption, which plays its role in the following aspects: The per capita monetary income of the family members; changes in consumption structure; changes in price levels; condition of goods supply and demand; and changes in social atmosphere and life habits. During the three years of natural disasters, the consumption rate of Chinese residents (monetary income minus spending) was 99 percent; that was the result of social factors that led to residents' monetary income being basically spent on immediate consumption. After 1979, the consumption rate tended to be normal, with savings rate steadily rising; a conspicuous change is the growth range of saving deposits exceeding that of residents' monetary income. That is because residents must primarily resolve the problems of materials for subsistence and would not put off purchase, while suffering from cold and hunger when their monetary income was at a low level. When residents' income arrives at a certain level, especially when the problem of materials for subsistence is resolved, materials for enjoyment and development are placed on the agenda of consumption. This involves the preparation of a certain amount of monetary accumulation; thus the growth range of saving deposits will be greater. Therefore, we can see, the rise and fall in saving deposits is restricted by the law of consumption; and no "ceiling" can be artificially set. Undeniably, changes in interest rates have certain effects on saving deposits and consumption. However, it is unscientific to set a ratio between income, consumption and savings without analyzing specific conditions, while regarding it as a sign to weigh whether or not the savings condition is normal. Because it is the conditions of social income and consumption that determine that of savings, independent of the condition of monetary circulation, for residents always deposit savings on a voluntary basis. The bank absorbs currency lying idle, and there is no limit to the quantity, which cannot be regarded as the grounds for restricting the growth in saving deposits.

Here, a difficult point is how to view the growth in saving deposits under the condition of excessive monetary input. Monetary accumulation shaped through saving deposits will become larger than the accumulation of the value of goods and materials it represents, because money itself is not production essential. This poses a question: Regarding saving deposits, is it the more the better? On this point, it is necessary to clarify the following: First, under all circumstances, currency is issued through the process of credit loans; a large volume in circulation is the consequence of excessive loans, which, in turn, result from financial overdraft, or excessive investment, or overdistribution of national income, or loss of control over the consumption fund. In whichever situation, savings are not the cause, which is the consequence of overdistribution of the national income. Second, in assessing savings conditions, the criterion can only be whether or not it is conducive to regulating monetary circulation and collecting money lying idle. Under the circumstances of abnormal economic conditions and monetary circulation, excessive growth in saving deposits is not a bad thing. Because if excessive money in circulation failed to be absorbed, the harms could be greater; if absorbed, it is precisely an expression of savings regulating money circulation. Here, the issue of a ceiling does not exist.

It is necessary to point out that one view believes that product overstock in recent years has its root in greater savings deposits in recent years, which has checked consumption. Such a view has failed to hit the nail on the head. In savings-and-consumption relations, with greater consumption, there will be less accumulation; with less consumption, there will be greater savings deposits. But when savings are put in the course of social reproduction in observation, they are the starter that links consumption and production. First, it is savings that restrict consumption; people will not cut back necessary normal consumption because of savings; second, savings as a starter links consumption to one end, and production to the other; it is precisely such links that hold back residents from spending the consumption fund. From this angle, savings not only change the nature of the ultimate employment of consumption fund, which is

eventually spent in consumption through the process of production. The difference is that the subjective aspects of consumption will give full play to social resources lying idle by turning delayed individual consumption into production consumption. This being the case, neither the goal nor function of savings will terminate, but will expand consumption. As to slow selling and overstock, the fundamental cause lies in the fact that in the course of production and circulation, the product mix fails to comply with changes in the consumption structure—or consumers shun products of inferior quality at high prices. The co-existence of some products in overstock and slow selling and saving deposits for future purchase with selection cannot explain that savings have affected consumption. On the contrary, it is precisely because some products have failed to comply with market demand that the special importance of savings is revealed, which will realize the purchasing power for future purchase with selection through regulating production.

III

Savings originate from, and will return to, consumption—future consumption at a higher tier. Through investment in fixed assets and supplementary circulation funds, savings help convert the saved consumption fund to production fund. Regarding the employment of savings funds, the following issues need be studied.

First, the issue of comprehensive balance of savings funds. Savings are one of the sources of credit funds, but the employment of savings funds must be subject to comprehensive balance of credit loans, whereas the general scope of credit loans comes under the restriction of production scope. Under the condition of excessive monetary circulation and false deposits, the bank cannot make loans based on the deposit volume, but can place the loan scope under the ceiling of its economic capability, while doing a good job of the balance in the general volume of funds, materials and equipment. Even with the part of supplementary investment, the bank must adhere to the order of priority with circulation funds first, and loans to fixed assets later; production first, and capital construction later.

Second, the issue of time limit construction in employing funds. Saving deposits have stability as well as circulating nature; the periods of its stay in the bank vary, thus revealing different tiers, which are precisely the construction of saving deposits' time limit. How much of saving deposits can be used in long-term, and short-term loans is determined by the time limit construction; namely, its sources and employment must be corresponding and balanced in the time limit. Long-term fixed deposits can be employed in long-term investment; because the production essentials it represents will be redeemed by new products only after a production cycle. If short-term deposits are employed in long-term investment, that will be taking away corresponding goods and equipment from circulation but failing to return them for a long time; when residents draw cash from their deposits, the bank will have to enlarge monetary issuance to insure cash drawing on the one hand; on the other, the expanded purchasing power will lack corresponding supply of goods and equipment. Such a condition is actually forcing excessive input of credit loans with expanded investment scope, with supply-and-demand balance eventually jeopardized.

Third, the issue of foci in the employment of saving deposits. Saving deposits are converted from the consumption fund, and will ultimately be converted to the consumption fund again. This being the case, the foci in employment of saving deposits must center around consumption. The foci are: First, it should be used to support production departments of production materials for production of consumer goods, and provide a material basis for the technological transformation and product renovation of production departments of consumer goods; and second, it should be used to directly support production of consumer goods departments, or provide them with equipment loans, or supplementary circulation funds. Because saving deposits are employed when drawing from saving deposits is being put off, it is imperative to implement the concepts of time and circulation, while employing saving deposits in enterprises or projects with less spending, quick effects, and good economic returns to increase supply through production to recover the loans due and absorb the enlarged purchasing power.

Fourth, the issue of consumption structure and product mix. Consumption is the ultimate goal of production, as well as the impetus of production development. Consumption has set a higher goal on production; production and technology make progress in the course of continuously meeting consumption demand. Here, there is the quantitative issue of products; but more importantly, the issues of varieties, quality, scope and modes. Industrial setup, which includes investment converted from savings, must continuously supply various new products in compliance with consumption structure; only then will it be possible to comply with the expected residents' consumption targets. With progress in production and technology, new consumption will be induced while correspondingly bringing along the development of the savings operation.

Fifth, the issue of enlarging the proportion of direct accommodation of funds to improve efficiency in employing funds. Under the condition of the commodity economy, the surplus of residents consumption is converted to production and circulation through two channels: First, surplus is put in monetary organs to acquire interest as saving deposits, whereas the monetary organ utilizes the deposits as a source of funds, which will be put in production and circulation in the form of loans; and second, direct investment is made through direct purchase of shares or bonds by cash holders, with surplus after consumption converted to production and circulation. These two channels will provide greater convenience to those who have savings, with greater room for their selection. The economic reform in China is

changing the unitary channel of saving deposits to augment flexibility and selection of surplus funds to production and circulation through providing more monetary apparatus to collect funds in an extensive way to support construction. However, there is a view that such "moving of deposits" is unnecessary. In actual fact, indirect and direct funds accommodation have essential differences; the latter has already introduced the market mechanism. As an enterprise, the change in the practice of getting bank loans to direct funds accommodation from the market has already increased pressure and risks in operation; furthermore, the cost of capital gain from the market is rather high; only those enterprises with sound economic returns and a good reputation are capable of obtaining funds. This way, under the regulation of the market mechanism, surplus funds will flow to production enterprises and construction projects with good economic returns, while promoting the rational allocation of production essentials and improvement in economic returns in employing funds. The increase in monetary assets will also provide an apparatus for the state bank to guide the monetary market, and be conducive to marcocontrol. All this is quite beyond indirect funds accommodation.

IV

The current favorable balance in saving deposits is already 1,000 billion yuan. Calculating at the current interest rates, the state has to pay several hundreds of million yuan for the interest. That is quite a burden. Some people are for the idea of cutting interest rates for savings deposits as low as possible when savings are stable, especially when savings deposits increase by a wide margin to cut back the state's interest payment; at the same time, loan rates can also be cut back to lighten enterprises' burden. This issue also calls for specific analysis.

An important aspect in currency policy is to use the interest lever to regulate distribution relations, thus realizing the macroscopic economic goal. Since reform, the readjustment in the general level of interest rates has been rather frequent, almost once every year, on average. Practice has evidenced that this has been extremely effective to the regulation in the general demand and supply volume. However, without a rational level of interest rates, the savings undertaking will not develop as a value-preservation means. This is because interest is a kind of income of monetary ownership. The principle of determining the level of savings interest rates is to allow an appreciation volume for the recovery of currency from money owners; at least, it should not be devalued. Saving interests originate from net income, whereas savings interest rates are determined by the production arena, and changes with the changes in the factors in circulation. To insure an appreciation volume for saving deposits or at least no devaluation when saving deposits are due, the key lies in handling the relation between savings interest rates and changes in commodity prices. When a resident puts part of their surplus consumption fund in the bank, his greatest concern is whether or not those banknotes are still good to purchase volume of commodities of certain value when they are returned to him. To protect depositors' interests, and insure certain income for monetary ownership, the bank must adjust saving deposits interest rates compared to unit product prices or range in changes of currency value; this is the basic means for stabilizing savings. This being the case, the grounds for adjustment in saving deposits interests rates is not the increase range in savings, nor is it the volume of interests the state has to pay, but the relation between interest rate and price levels. On this issue, we cannot allow any subjective arbitrariness.

INDUSTRY

QIUSHI on Developing Tertiary Industry

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[Article by Luo Gan (5012 1626): "Continue Reform, Expand Opening Up, Speed Up Development of Tertiary Industry"]

[Text] **I.**

Speeding up tertiary industry development is a vital strategic task put forward by the Outline 10-Year Program and Eighth Five-Year Plan for Economic and Social Development. Developing tertiary industry in a comprehensive and wholesome manner and at a high speed is of great, practical significance. It is also of farreaching strategic significance to expediting the readjustment of the economic structure; easing the employment pressure; improving the investment environment and social conditions for reproduction; invigorating the urban and rural economy; improving the overall efficiency of the national economy and the quality of the people's livelihood; solving deep-rooted problems in the country's economic development; promoting development of the reform and opening up both in breadth and depth within a broader scope; and intensifying the development of the socialist spiritual civilization.

The 1990's will be a critical period for China's socialist modernization. In China's transition from a developing country to a developed one, it is a strategic need to speed up the development of tertiary industry, to optimize the economic structure, and to upgrade the national economy to a higher level every several years. The past development of the economic structures of developed countries has shown that, in the wake of the development of society's productive forces, the proportion of primary and secondary industries will gradually decrease, whereas the proportion of tertiary industry will increase daily. This is a development trend of socialized large-scale production and the natural outcome of the growth of labor productivity, the more advanced social division of labor, and social progress. Nowadays, both the amount of increased output value of tertiary industry in the GNP and the proportion of personnel employed by tertiary industry to society's total labor force are, on

average, about 65 percent in high-income countries and about 50 percent in medium-income countries. Even in low-income countries these two figures are, in general, about 30 percent. In China, however, these two figures are 27 and 18.6 percent respectively, both lower than those attained by developed countries and also lower than those recorded in other countries with a development standard close to ours. Of course, we must take into account the different development levels of productive forces, different economic structures, and different statistical criteria in different countries, as well as the effect of some factors which cannot be measured. But the undeveloped state of tertiary industry in China is, after all, an undeniable fact. Today, the development standard of tertiary industry has become an important criterion to evaluate the extent of economic development of a modern society. As viewed from the process of economic development in many countries, when a country attains a certain level of economic development, the growth rate of tertiary industry is generally higher than that of primary and secondary industries, and this helps to boost the growth of the national economy as a whole. After more than 10 years of reform and opening up, China has now arrived at this stage. In the wake of the development of socialist modernization in China, the living standards will improve remarkably, the consumption market will gradually expand, science and technology will advance daily, and the agricultural population will begin to flow from one place to another. All these factors will set still higher demands on the development of tertiary industry and, therefore, we must seize the opportunity and make greater efforts to speed up this development. Only in this way will we be able to change the situation whereby the development of tertiary industry lags behind that of primary and secondary industries and lay down a solid foundation for the accomplishment of our strategic goals at the second and third stages.

Speeding up the development of tertiary industry is an objective need which must be met to cause further development of primary and secondary industries and optimize the economic structure. The irrational economic structure is a major problem which badly needs solving. In order to optimize the national economic structure an important task is to speed up the development of tertiary industry and to increase its proportion. We must increase input to tertiary industry; on the other hand, we must take measures to remodel some secondary industry enterprises into tertiary industry enterprises. China currently has an irrational industrial structure. Processing industry has surplus production capacity with some duplicate enterprises operating at a lower technical level, suffering from very poor efficiency, and facing development difficulties. It will take a long time to score results if we are to improve the overall structure through quantitative change alone or, in other words, by increasing input and starting more projects. What is more, as this method is constrained by our national strength, it is very impractical. Some enterprises can hardly survive and need to close down, suspend operations, amalgamate, or switch to other lines of production. The most effective way is to readjust the existing composition. That is, to introduce policies to encourage these enterprises to shift to tertiary industry. This is an important way of readjusting the production structure.

Speeding up the development of tertiary industry is a need that must be met to establish an economic operational mechanism which integrates the planned economy and the market economy. The establishment of a unified socialist market system is one of the three major goals of economic structure reform. Market is the companion of commodities and also the basis for operating the commodity economy. Under the conditions of the commodity economy, not only does implementation of plans (including mandatory plans) and assessment of their effects have to be done through the market, but the formulation of plans cannot go without the market. Given an underdeveloped market and blocked circulation channels, it will be hard to maintain a normal process of social reproduction and to improve the efficiency and accuracy of macroeconomic regulation and control. The growth of the market demands a substantial development of tertiary industry, while the development of tertiary industry can promote the growth and expansion of the market. Therefore, it is necessary to: Speed up the development of tertiary industry, improve the commodity circulation structure, push for the establishment of the markets of means of production, finance, technology, consultation services, information, qualified personnel, labor services, and real estate; promote the development of a new order in the planned commodity economy; and speed up the rational flow and optimal allocation of production elements. All these are important conditions for creating an operational mechanism which integrates the planned and market economies.

Speeding up the development of tertiary industry is a need that must be met to solve the increasingly serious employment problem. The allocation of labor force is a special problem facing China. Over a long period of time, over two-thirds of the labor force has been kept on the country's limited farmland. In cities, we used the method of low wages and high employment to temporarily ease the employment pressure but the costs were very high and this method hindered applying advanced technology and improving labor productivity. In future, in the wake of enhanced industrial modernization and agricultural productivity, a large number of laborers will quit primary and secondary industries. By the year 2000, a labor force of 100 to 150 million will be released from agriculture and more than 10 million redundant workers from existing enterprises in urban areas will be looking for jobs. As a result of government functional changes, a considerable number of administrative personnel will be laid off while the labor force will also grow by more than 6 million annually. It will be absolutely impossible to solve the problem of employing such a large population solely by state investment in industry. The capacity to accommodate the labor force varies tremendously from

one industry to another. With an equal amount of investment, tertiary industry can accommodate a labor force two to three times that of secondary industry. Furthermore, tertiary industry consists of many trades, with labor-, technology-, and intelligence-intensive trades existing side by side to employ personnel at different levels. Therefore, speeding up the development of tertiary industry to explore more ways to offer as many job opportunities as possible to accommodate the labor force from other sectors is a real, urgent task and an extremely important problem that must be solved to ensure economic growth, structural reform, and social stability. Speeding up the development of tertiary industry is a need that must be met to realize the transition from the stage of barely sufficient supply of food and clothing to a well-off living standard. By a well-off living standard, we not only mean a certain income level; a substantial improvement in the quality of food, clothing, and housing; and a remarkable change in the consumption pattern but also the development of tertiary industry, especially in terms of socialized services and the quality of life. In the wake of economic development and the increase in the people's income, the living conditions and environment for the masses will be greatly improved. People will make more and stricter demands not only on material life, such as clothing, food, housing, transport, communications, public health, and living environment but also on spiritual life, such as cultural activities and entertainment, broadcasting services and other audio and visual media, publications, physical culture, public health, and tourism. In order to meet the demands from changed consumption patterns and the improved quality of life, tertiary industry must be developed faster. At the same time, we should also be aware that rapid and healthy development service trades, science and technology, education, and cultural undertakings as part of tertiary industry will no doubt play a positive and important role in the development of the "two civilizations."

Since the commodity economy was underdeveloped for a long period of time in the past, some comrades have little knowledge about the role of tertiary industry. They believe that only material productive sectors, such as industry and agriculture, can create wealth, while tertiary industry does not. They even count tertiary industry as a part of the bourgeois economy, and misled by this idea, they have attached importance to production but overlooked commodity circulation and service trades. Since tertiary industry has not been treated as an essential economic sector, investment in this sector has been insufficient and the price structure is unreasonable. In consequence, many branches of tertiary industry have survived on financial subsidies and lack the potential for self-development, which has hindered the development of this sector. To speed up the development of tertiary industry, it is necessary to clarify and rectify this lopsided view. We must be aware that apart from such material productive branches of tertiary industry as communications and transportation, post and telecommunications, commerce, and material supply which directly produce value, some other service trades also produce or realize value, and therefore, they are also indispensable to the process of social reproduction. Although services are not rendered in a concrete material form like commodities produced by primary and secondary industries, they do have the attributes of products and commodities. As expressly pointed out by Marx, service-rendering labor, "by its material attribute, provides services to the buyers and, from the point of view of the producers who render such services, consumers and services are types of commodities." (*Complete Works of Marx and Engels*, Vol 26, p 149) With a high investment-return ratio, tertiary industry can provide society with a great amount of accumulation. The proportion of revenue contributed by tertiary industry to our country's total financial revenue was around 20 percent in the 1970's and increased to over 30 percent in the 1980's. For a period in the future, an increasing portion of China's national income and social accumulation will be derived from a developing tertiary industry. The development of tertiary industry will speed up the growth in the GNP. Like industry and agriculture, tertiary industry will turn out to be an important sector boosting the economy, creating wealth for society, and providing capital accumulation.

II.

The lagging behind in the development of tertiary industry in China is directly related to our economic structure. To comprehensively and rapidly develop tertiary industry, we must: Follow the guidelines set by Comrade Deng Xiaoping in his important remarks made during his inspection tour in South China; further carry out the reform in depth; expand the opening up process, actively launch different forms of pilot projects while speeding up the development of primary and secondary industries; and we must boldly explore ways and forms to speed up development.

In order to extensively exploit the resources of all social circles and to draw idle funds in large quantities to invest in tertiary industry, it is necessary to uphold the principle by which different economic sectors coexist with public ownership playing a dominant role and with "the state, the collective, and the individual all making contributions." Those basic trades and backbone projects of tertiary industry which have been listed in the Eight Five-Year Plan and the 10-Year Program, should mainly be run with state investment. Social resources should be widely explored to run many other branches of tertiary industry, such as service trades, entertainment, and labor services. Enterprises should particularly play an active part in this regard and it is necessary to give full play to the role of collective, private, and individual economies. Since most tertiary industry trades need to move around regularly, spread over a vast area, have a smaller investment scale, and mainly render labor services, there is no need, and neither is it appropriate, for the state to take care of the operation of all these trades. It is most suitable for them to be run by collective and private enterprises and by individual investors. The

policies in this regard should not impose too many restrictions. Wholesale trade, for instance, should mainly be controlled by state-run supply and marketing cooperatives but this does not mean that individual traders must keep away from all wholesale operations. Individual traders are allowed to engage in wholesale activities and are actually wholesaling some commodities. The vegetable market, for instance, has been invigorated through individual traders participating in wholesale. Individual traders are also wholesaling fresh meat, live fish and poultry, hardware, daily articles of everyday use, and so on. As far as wholesale by individual traders is concerned, an important point to note is that the boundaries of the policy must be appropriately defined in terms of the variety and quantity of goods. Under unified planning and administration, a competition mechanism can be introduced into some trades, such as communications and transportation, postal and telecommunications services, which are, to a large extent, subject to monopoly and unified operation. By doing so, more of society's resources can be drawn in to invest in these trades. To speed up the development of tertiary industry, the principal method is to extensively exploit the resources of society rather than place undue stress on investments by the state.

In giving a free rein to the collective, individual, and private economies, we need to rectify some existing outdated concepts and prejudices. Due to the historical influence of the traditional concept which regards agriculture as superior to commerce and the theory of product economy, the social standing and income standard for commercial and service trade personnel have been relatively low in China. In consequence, some trades which serve people's everyday needs have been withering. In some cities, the existing commercial service networks are even smaller than those operating during the initial period after the founding of the PRC. This has resulted in a very strange phenomenon—"many things are not attended to, while many people remain idle without attending to these things." Since reform and opening up, individually run commerce and service trades have developed substantially and played an important role in fulfilling the needs of industrial and agricultural production, and the urban and rural residents' daily demands, and in solving the employment problem. They have now become an essential and useful complement to the socialist publicly owned economy. However, due to the unsound legal system, the deficiencies of administration, and the poor quality of some individual traders, there are indeed some malpractices in violation of discipline and laws and some anomalies in the development of tertiary industry. All these problems should be brought to our attention and solved by strengthening administration and supervision. Anyway, we should not deny the necessity of developing individually run tertiary industry simply because of some problems concerning the administration of the individual economy. We should be aware that under the socialist economic system with public ownership playing a dominant role, encouraging and guiding individuals to run commerce and service trades and appropriately developing individually run tertiary industry will neither shake the dominant role of the socialist publicly owned economy nor change the basic structure of national income distribution. Pooling society's resources to speed up the development of tertiary industry will be conducive to the growth of the socialist economic forces and accelerating development of the economy. We must realize the necessity of developing the individually run tertiary industry and affirm its role as an essential complement to the publicly owned economy, upgrade the social standing of personnel engaged in the tertiary industry, and protect the legitimate rights of tertiary industry laborers.

To speed up the development of tertiary industry, we should aim at expanding its industrial scale, further reform the existing administrative structure which does not suit development of the productive forces, and evolve a self-development mechanism full of vitality. Except for some establishments which really need financial support from the state, all tertiary industrial enterprises should exercise decisionmaking power in their operation, assume full responsibility for profits and losses, and operate as relatively independent economic entities. For historical reasons, the tertiary industry has been regarded as comprising nonproductive service units and welfare undertakings for a long period and this has hindered its development. It is necessary to gradually transform tertiary industry enterprises from nonproductive service, public facility, and welfare establishments into business enterprises. In formulating the policy, we should place the focus on establishing a self-development mechanism for the tertiary industry which is full of vitality and can accumulate capital on its own. We should restrain from resorting to reduction and exemption of taxes too often. Before a self-development mechanism is established, local governments may also appropriately reduce or exempt some taxes within the limits of their authority. However, this should mainly be achieved by giving guidance and support in terms of policy, to create a good environment for the tertiary industry units to be run as genuine enterprises and economic entities. To solve the long-standing problem of underpaid value for service, we must observe the law of value and reform the present price structure in the tertiary industry. The state fixes the price and service charge standards for basic trades, municipal services, some public facilities, and welfare undertakings. Restrictions on prices and service charge standards for most service items in the tertiary industry should be gradually lifted and the floating prices, within-trade negotiated prices, and self-fixed price systems should be practiced according to different cases, so that a rational price parity relationship can take shape.

In order to break away from the "large and complete," "small but complete," and closed self-service systems, we should gradually effect the socialization of the logistic services for government organs, enterprises, service units, and other nonproductive establishments, as well as

public welfare, with the focus placed on deepening reform of the enterprise operational structure and state institutions. We should actively encourage administrative personnel to leave government organs and run service trades. At the same time, we should vigorously develop trades serving the needs of production and everyday life to create as many job opportunities as possible for those who quit government organs. This is an important way to speed up the tertiary industry development. We can try to accomplish this goal of socialization by three means. First, we can formulate a set of policies to push government organs, enterprises, service units, and other establishments into opening their internal consultation, information, service, and transport facilities to the public on a paid service basis. Of course, for security and safety reasons, due to limitation of facilities and geographical location, or because of other factors, not all facilities in all government organs, enterprises, service units, and other establishments can be opened to the public. If the required conditions are met, the facilities should be opened to the public as soon as possible and where the conditions cannot be met for the time being, we can strive to create conditions to gradually open the facilities to the public. Every facility that can be open to the public should be gradually separated from its original operating unit, so that the said facility can be run by an economic entity operatimg on its own and practicing independent accounting. Second, we can adopt some feasible policies and measures to encourage tertiary industry enterprises to render logistic services to government organs, enterprises, service units, and other establishments, and to undertake some other services and operational businesses. Some operational work currently undertaken by government organs, enterprises, service units, and other establishments can be handed over to nongovernmental professional service bodies. For example, some financial matters of a notary public nature can be taken over by accounting and auditing firms. Some policy study projects can be done by nongovernmental consultative service organizations who are paid to prepare survey reports or proposals. By so doing, we can reduce the staff in government organs, enterprises, service units, and other establishments; cut duplicate organizations; and increase work efficiency and economic returns. Third, we can vigorously develop service-rendering establishments. So long as the tertiary industry is developed and provides more convenience with higher efficiency, government organs, enterprises, service units, and other establishments will no longer need to run their own closed self-service facilities; on the other hand, we will have more service organizations to take over logistic services for, and some operational businesses of, government organs, enterprises, service units, and other establishments.

In order to speed up the readjustment of the economic structure, we should encourage tertiary industry enterprises to merge with industrial enterprises of other sectors, trades, or localities which should be closed down, operationally suspended, amalgamated, or shifted to other lines of production. For these operations, preferential treatment and support should be given in terms of asset transfers, debt clearings, loans, and taxes. Recently, the Beijing Dongan Group took over Beijing No. 2 Watch Plant and the Beijing Department Store merged Beijing Sock and Stocking Plant. These merger operations have offered some valuable experience in merger of industrial enterprises by tertiary industry enterprises. By so doing, we can speed up the development of tertiary industry which will, in turn, contribute to the readjustment of the tertiary industry structure; on the other hand, we can save surplus, overlapping, and low-level industrial processing capacity, which will in turn contribute to the readjustment of the internal structure of industry.

In order to encourage laborers at different levels, and in particular those who are professional and technical specialists, to run service trades under the category of tertiary industry and those new trades closely related to scientific and technological advance, we must reform the present labor employment administrative structure and introduce an employment structure integrating appointment services, partnership on a voluntary basis, and self-sought employment. Laborers employed in tertiary industry, like other laborers, should enjoy equal treatment in terms of the employment policy, assessment of position titles, and other aspects. To ensure the smooth development of the tertiary industry, we must gradually change the current situation wherein long, complicated, and trivial examination formalities must be gone through before an application to start a business is approved but trade administration thereafter is slack. We can consider letting different trades formulate their own criteria for starting businesses and terms and conditions for business operations, so that the industrial and commercial administration can directly examine and approve applications lodged by organizations or individuals for starting businesses, in accordance with the enterprise registration administrative regulations, specific stipulations governing special trades set by the state, the criteria for starting businesses, and the terms and conditions for business operation. Tertiary industry enterprises will be given decisionmaking power regarding business operations so that they can expand their scope of operation in more flexible forms. At the same time, it is necessary to strengthen the administration and supervision over business operation after starting a business and to curb all kinds of lawbreaking practices in good time. It is necessary to: Reform and improve the means of macroeconomic regulation and control; practice differential policies in terms of taxes, credit, and income distribution; bring the regulatory role of economic levers into play; and to pay particular attention to studying the way to operate the market mechanism more effectively. As for those trades which are likely to produce great profits, while strengthening administration, it is necessary to take measures to introduce competition with a view to equalizing their profit rate, reducing staggering profits, and easing inequality in social distribution.

In order to solve problems concerning funds and sites for the development of tertiary industry, we can make use of society's material and financial resources and raise funds by means of joint-stock systems or issuing bonds. Properties and equipment which remain idle, as well as technology, can be used to make investment. To provide floor space to run tertiary industry, especially various commercial establishments, daily life services, cultural services, sports facilities, and other services, it is necessary to formulate policies to encourage development of these services and to make full use of real estate and space along the two sides of major streets in cities and towns. When building new residential quarters it is necessary to leave some space for commercial and service networks. The extra income derived from rent on these real properties will be retained by investors and users rather than turned over to the state. We can also issue more bonds, stocks, and other negotiable securities step by step and in a planned way, expand pilot projects of stock exchange operation, launch pilot projects on operating financial companies and monetary leasing companies [rong zi zu lin gong si 5816 6327 4436 6324 0361 0674], as well as pilot projects on insurance services for natural disaster damage in rural areas.

To help upgrade tertiary industry and promote its internationalization, we must further emancipate our minds, expand the scope of use of foreign funds, technology, and marketing channels, and establish more Sino-foreign joint ventures, cooperative enterprises, and enterprises run with foreign capital. For example, we can run large shopping centers as joint ventures on a trial basis in special economic zones, reform experiment zones, or a few selected large cities. Like Sino-foreign joint-stock hotels, Sino-foreign joint-stock shopping centers can offer us an opportunity to learn advanced managerial and flexible operational methods from foreign partners, to improve our own management standard and service quality and upgrade China's commerce. We may also consider authorizing state-owned large and medium commercial and material supply enterprises to run import-export business, provided that they go through some examination and approval procedures so that they gradually develop into chains of shops or comprehensive trading companies which are active in both domestic and international markets. They will then be able to extend their operation beyond the border and operate on a transnational scale. We may also start pilot projects to let more foreign-funded banks set up offices and branches in some open coastal cities.

III.

To speed up the development of tertiary industry, we must formulate a plan and fix our development objectives and focus. We should proceed from local circumstances, give specific guidance, implement plans step by step, and do the work within the limits of our ability. As viewed from the needs of the country as a whole, and in accordance with the requirements of the Outline 10-Year Program and Eighth Five-Year Plan for Economic and Social Development, the growth rate of China's tertiary industry will be 9 percent higher than that for primary and secondary industry in the 1990's. So, by 1995 and 2000, the increased value of tertiary industry will be 730 and 1,100 billion yuan respectively and, given a 6-percent average annual GNP growth, the output value of tertiary industry will account for over 30 and 35 percent of the GNP respectively. We will strive to raise the numbers employed in the tertiary industry to about 200 million by 2000, an increase from the current less than 20 percent to about 30 percent of the total number of laborers. What is noteworthy is that the growth rate of the increased value of tertiary industry was only 2.27 and 5.3 percent in 1990 and 1991 respectively. These figures are not only short of the set targets but also lower than the growth rate of the GNP. The proportion of the output value of tertiary industry to the GNP was also decreasing. If the GNP growth rate is higher than 6 percent due to faster industrial development in the future, then the proportion of increased value of tertiary industry to the GNP will have to be raised to about one-third, the tertiary industry growth rate will have to be raised to over 10 percent, and the ratio between the growth rate of tertiary industry and that of the GNP will have to be maintained at 1.5:1. It is obvious that the task we are facing is arduous.

In order to speed up the development of tertiary industry, we must: Concentrate our attention on solving prominent problems which exist in the economic reality; focus on the key task of readjustment of the economic structure and the improvement of economic results; carry out supporting reforms to facilitate the in-depth development of the economic structural reform; make efforts to broaden the scope of socialized services; provide more job opportunities; and enhance the degree of industrialization and socialization of the existing tertiary industry. This will boost economic development, improve living standards, and meet the needs of reform and opening up. Apart from those for which arrangements have been made in the state plan, the following areas deserve special attention and more resources: First, commodity circulation and service trades which support production and serve people's everyday life; second, new trades closely related to scientific and technological advances, for example, trades that promote the development and popularization of science and technology and information and consultation services; third, social service systems for rural areas. The objectives in developing the tertiary industry is to gradually establish a complete tertiary industry development system suited to China's national conditions. In the main, these objectives are:

1. To establish an operational mechanism integrating the planned and market economies and a unified socialist market system complete with a full range of trades under a rational structure. It is necessary to break barriers between different localities, separation between different sectors, and monopoly within individual trades, to ensure smooth circulation of commodities and efficient utilization of resources. It is necessary to build up a market system and to develop all kinds of markets, for

example: Comprehensive shopping arcades, shopping centers, and specialized markets; retail and wholesale markets; spot markets and futures markets; new product markets and old goods market; tangible commodities markets and intangible commodities markets; traditional consumer goods market and capital goods markets; financial market; professional personnel and labor markets; consultation services and information markets; technology markets; real estate markets; and various markets for elements of production. In this way we will be able to speed up the reasonable flow of all kinds of production elements, promote the development of primary and secondary industries, improve economic returns, and pave the way for making an operational mechanism integrating the planned and market economies.

2. To establish an urban and rural socialized comprehensive service system formed by both traditional and new trades, and is mainly suited to the needs of production and everyday life, with intellectual services in terms of information, consultation, and scientific and technological support playing a leading role. This will enhance the degree of socialization and specialization in the tertiary industry and satisfy the evergrowing, diversified needs at different levels in the people's material and cultural life. In order to establish an urban and rural socialized service system, we must first pay attention to the development of new service trades in the tertiary industry, especially those trades which suit scientific and technological advances, help spread science and technology, and promote their application. We must basically establish a multifunctional, multilevel, and comprehensive and sound scientific and technological service system in urban and rural areas throughout the country to provide necessary services promoting the transformation of more scientific and technological achievements into real productive forces. For instance, speeding up development of accounting, auditing, legal service, scientific and technological consultation, and so on, can benefit enterprises and increase their economic returns. At the same time, it can help improve the state's administration over taxation and make the decisionmaking process more scientific. Second, we must actively develop socialized service trades in the interests of urban and rural residents, especially all types of household services; house decoration and maintenance; household electric appliance repair services; medical and convalescent services; cultural services; sports, kindergartens, sanatoriums for the elderly; and other service trades which meet the people's everyday needs. These services can be provided by different kinds of companies or establishments run in some other forms by neighborhood committees. Third, it is necessary to give special attention to the development of the tertiary industry in rural areas where it is particularly underdeveloped in rural China. To modernize agriculture we must not only depend on the development of agricultural production but also the overall, rapid development of tertiary industry. A developing tertiary industry will employ a large number of surplus laborers from the agricultural sector, increase the commodity rate of agricultural products, raise the peasants' education standard and overall quality, increase their income, promote the urbanization standard of rural areas, and enrich the peasants' material and spiritual life.

3. To establish a social security system by which social welfare and social security develop side by side, basic insurance is combined with supplementary insurance and the state, the collective, and the individual share the burden in a reasonable ratio. It is necessary to gradually expand the social insurance system, including old-age pensions, unemployment insurance, medical care, and industrial accident insurance, as well as social welfare, social relief, and other social security systems; and expand disaster insurance pilot projects in rural areas, consolidating and developing economic entities. Once a social security system and a socialized comprehensive service system are established, we will be able to change from the mode of society operated by enterprises to the mode of society serving enterprises and both social benefits and enterprises' economic returns will be substantially improved; in addition, the burden on enterprises will be lightened and this will pave the way for the transformation of the enterprise operational mechanism and the smooth progress of supporting reforms for large and medium state-owned enterprises.

When formulating their tertiary industry development plan, local authorities must identify their major short-term development targets and priority trades in light of their local circumstances and on the basis of careful investigations and studies; on the other hand, they should extend their vision farther, taking both principal short-term targets and long-term development goals into consideration. At the same time, they should formulate corresponding policies and measures to ensure the smooth implementation of the plan. Some parts of our country have attained a certain level of economic development, have all the resources for developing the tertiary industry, and are geographically well located. These areas can set tertiary industry as their focus of local economic development and gradually develop into nationwide tourist, financial, or shopping centers. Hence, the development of tertiary industry will boost the overall economic development of a whole area. Some other areas of the country have rich agricultural and industrial resources. These areas should take agriculture or industry as their focus of development—they should develop branches of tertiary industry that serve agriculture and industry, thus expediting the overall economic development of a whole area. Since different areas have different economic development standards, different economic structures, and different compositions of resources, their foci of attention should vary in the development of tertiary industry. In brief, we should avoid running low-level duplicate projects and developing similar structures that have caused problems to us in industrial development in the past.

Speeding up the development of tertiary industry is a strategic task that must be accomplished before we can fulfill our country's magnificent goal of modernization.

After more than 10 years of reform and opening up, China has arrived at a new stage of economic development and is ready to comprehensively and rapidly develop its tertiary industry. We should seize this opportunity, update our concepts, explore new ideas, draw up plans, strengthen leadership, promote tertiary industry like agriculture and industry, and adopt practical and effective policies and measures to strive for an even greater development of tertiary industry.

SMALL-SCALE ENTERPRISES

Liaoning Promotes Township Enterprise Development

Accelerated Growth Urged

92CE0667A Shenyang LIAONING JINGJI BAO in Chinese 1 Aug 92 p 1

[Report: "Speed Up Township Enterprises' Rapid Growth, Turn Them Into Most Important Centers for Economic Growth"]

[Text] A summing-up, commendation and mobilization meeting to accelerate the development of township enterprises concluded at the Liaoning Mansion in Shenyang on 30 July, greatly inspiring all the township enterprises throughout the province.

The provincial party committee and the provincial government attached great importance to this two-day meeting. Attending the meeting were principal leaders of the provincial CPC Committee, the provincial government, the provincial people's congress, the provincial CPPCC Committee, the provincial discipline inspection commission and the provincial advisory commission. The meeting was presided by Vice Governor Wen Shizhen. Governor Yue Qifeng made a summing-up mobilization report. At the end of the meeting, units and individuals that distinguished themselves in the development of township enterprises were commended.

In his report, Yue Qifeng came straight to the point, pointing out that the aim of this meeting was to "vigorously mobilize, greatly develop township enterprises, truly turn them into the most important centers for economic growth in Liaoning, and push them to a new height."

For many years, township enterprises in Liaoning have developed well. The total output value of township enterprises already accounts for 24.8 percent of the total product of society in Liaoning. Over the past several years, more than 50 percent of the net economic growth rate in the province came from township enterprises.

In summarizing achievements made by township enterprises, Yue Qifeng pointed out in particular the exciting fine situation that prevailed among township enterprises in Liaoning:

1. Township enterprises have distinctly accelerated the speed of development, and economic efficiency has been distinctly improved. For the first six months this year, the total output value of all township enterprises in Liaoning amounted to 32.3 billion yuan, total revenues reached 27.84 billion yuan, net profits were 1.95 billion yuan, and total taxes paid reached 1.09 billion yuan, up 34.1 percent, 31.5 percent, 18.5 percent and 20.2 percent respectively compared with the same period in 1991. Of which the industrial output value of township enterprises totaled 25.82 billion yuan, a net increase of 6.48 billion yuan over the same period in 1991.

2. Giant strides have been made in developing export-oriented economy, optimistic progress for the tertiary industry, and a booming individual and private economy. From January to June, the value of exports from Liaoning's township enterprises totaled 1.56 billion yuan, up 52.3 percent over the same period in 1991. The number of Chinese-foreign joint ventures, and cooperative and wholly foreign-funded enterprises increased from 212 in the same period of 1991 to 339 during the first six months of 1992, and the value of cumulative foreign investments reached $140 million. The number of township enterprises engaged in export exceeded 1,300, and some started to run enterprises abroad. During the first half of 1992, 465,000 households were running individually and privately-owned establishments, total output value reached 12.52 billion yuan, up 34.5 percent over the same period in 1991. The proportion of the growth rate of the tertiary industry to that of the total output value of all township enterprises rose to 20.1 percent.

3. Scientific and technological strengths have further grown with remarkable results. As of now, there are over 30,000 scientists, technicians and managers of all types working for township enterprises, and there are more than 100 factory-run scientific research institutes in Liaoning. For the past six months of 1992, they successfully solved over 100 difficult technical problems, developed 570 new products, and increased total output value by 200 million yuan.

4. With increased productivity, township enterprises expanded capacity for future economic development. From January to June this year, total investment in fixed assets in various projects reached 1.745 billion yuan, up 164.8 percent over the same period last year. The amount of capital raised by township enterprises themselves increased by 30 percent. In addition, township enterprises increased capacity to promote economic development by establishing horizontal ties with other enterprises, and raised their work efficiency by operating on a large scale. Right now, there are 1,100 rural enterprises which work closely with each other in the form of joint operations.

5. The "2-21" exemplary project developed smoothly, and the economic power in various counties and townships was enhanced.

After the conclusion of Yue Qifeng's speech, the provincial government commended these counties, (cities and districts), townships and units which had fulfilled their targets in developing the "2-21" exemplary project. Twenty-five county leaders and township enterprise administrators were given citation for their exceptional meritorious services in developing the "2-21" exemplary project. Those who received commendation also included 28 national outstanding township entrepreneurs. Leading comrades of the provincial party committee and the provincial government pinned a large red flower on each of them.

At the meeting, the aforementioned 28 entrepreneurs issued a letter of appeal addressed to all township enterprises in Liaoning, calling on all enterprises to further emancipate their thought; forge ahead and try new things with unprecedented courage, insight and boldness; "resolutely fulfill and overfulfill their targets in accomplishing their 1992 tasks and their targets in promoting the '10-Year Program and Eighth Five-Year Plan for National Economic and Social Development'"; and make contribution to rejuvenating the economy in Liaoning and helping Liaoning's rural areas become comparatively well-off with new and even greater economic developments.

Yue Qifeng on Enterprise Development

92CE0667B Shenyang LIAONING JINGJI BAO in Chinese 1 Aug 92 p 1

["Excerpts" of Comrade Yue Qifeng's 29 July 1992 Speech: "Seize Opportunity To Push Township Enterprises to New Height First, Bring About Economic Rejuvenation in Liaoning"]

[Text] (1) Efforts must be made to continue reform, improve policies and create a spacious internal and external environment in energetically developing township enterprises. Comrade Xiaoping pointed out: "Revolution is aimed at liberating productive forces; reform is also aimed at liberating productive forces." To push township enterprises to a new height, it is necessary to continue reform. For this, the most important thing is to continuously improve township enterprises' production and management mechanism. Township enterprises are full of vigor and vitality, because in the course of developing, they have created a much better production and management mechanism than that of the medium-sized and large enterprises. This is their most valuable asset. However, some township enterprises' production and management mechanism has degenerated after a period of time due to excessive administrative interferences and other reasons. This issue merits our full attention. We must continue reform inside the various enterprises, and continuously improve the market-oriented mechanism which conforms with the socialist market economy, the risk mechanism which assumes exclusive responsibility for one's own profits and losses, the distribution mechanism which follows the principle of "more pay for more work," the labor mechanism with which people can be transferred to other jobs, the manpower mechanism with which qualified personnel can be hired outside one's own township enterprise or be trained within one's own enterprise, the development mechanism of accumulating funds by oneself and the control mechanism of self-monitoring and supervision so as to help township enterprises continuously enhance their inherent vigor and vitality.

It is necessary to continuously relax our policies and measures and implement them in a flexible way. In implementing the policy with regard to the development of township enterprises in Liaoning, there are instances which indicate that not enough efforts have been made right now in relaxing our policy in this connection or implementing it in a flexible way. There also are problems of rigidity or inadequacy in implementing such policy. Generally speaking, we mainly fail to exert enough efforts in enforcing this policy. We should say that we had adopted one step after another to relax our policy in developing township enterprises during the past two years. However, many basic-level units and enterprises, for one reason or another, still do not understand or know how to enforce the relaxed policy. Sometimes the implementation of this policy broke off at the middle level, or the policy was only partially enforced. In dealing with the former, we must strengthen our propaganda work and help units and enterprises learn how to enforce this policy. As for the latter, we must straighten out our relations with such units and enterprises, insure the unimpeded implementation of the government decree, and absolutely forbid the middle-level authorities from blocking the implementation of this policy. Meanwhile, various districts and departments must continuously relax their policies and implement them in a flexible way. First of all, they must watch their own behavior. They must control well and in a flexible way the things that they must control, while delegating power to township enterprises or basic-level authorities to handle whatever things that they should not control. They must not indiscriminately control everything or exercise control in a rigid way. According to a preliminary study, all township enterprises that have registered themselves with any economic and technical development zone or with any scientific and technical development district are entitled to the preferential treatments given them by the state for these zones and districts. It is essential to delegate, as soon as possible, the power of examination and approval of any joint venture project under $30 million to the lower levels, or entrust the county and district authorities to examine and approve such projects. We must help large export-oriented township enterprises from all angles to export on their own. For those businessmen who need to go abroad, we should entrust the township authorities to review each application that should be approved by the county or district authorities. Once approved, the businessmen should be given multiple exit and re-entry permits. Township enterprises should be allowed to merge with state-run or collectively run enterprises to

form conglomerates that extend their operations beyond the limits of their respective regions, industries and ownership systems.

We must continuously give the necessary support to township enterprises in terms of capital and taxation. Capital shortage has always been the major contradiction in developing township enterprises. We must adopt various fund-raising forms and broaden all channels for financing. In 1991, the provincial authorities decided to extend loans totaling 1.5 billion yuan every year for the development of township enterprises. The current situation shows that this amount can hardly meet the needs in coping with the rapid growth of township enterprises. We must adequately increase this amount. Banks must remove their barriers set up between the state-run enterprises and collectively-run enterprises and between large- and medium-sized enterprises on the one side and township enterprises on the other. They should support them in the same way as long as they perform well economically. Various districts and enterprises must do away with their outmoded concept of purely relying on banks to increase investments. They must use diversified means and multiple channels for financing. Cities and counties must accumulate capital for the development of township enterprises as soon as possible. They must make rational arrangements to invest the money in the best way, let township enterprises pay for the use of the capital, and use the capital as a revolving fund. It is necessary to bring into full play the role of nongovernmental financial institutions, and pool all the idle money in the hands of peasants. Efforts must be made to boldly promote the shareholding system, and encourage people to invest their money in factories as shareholders. With the approval of the departments concerned, township enterprises with favorable conditions may issue unlisted stocks and shares. Particularly we must boldly use foreign capital and attract some funds from provinces and cities outside of Liaoning. Shandong had used its township enterprises as its mainstay to attract foreign capital which accounts for one-third of the total investment. We must strive to make a breakthrough in this connection within a short period of time. Township enterprises should mainly rely on themselves to raise funds for the development of their production; and correctly handle the relationship of benefits among the state, the enterprises and the workers. We must strictly forbid consuming and using up everything, and should invest more money in expanding reproduction. The tax burden of Liaoning's township enterprise is comparatively heavy. It makes township enterprises difficult to reap profits. The tax authorities must pay full attention to their role in tax reduction and exemption as well as tax collection. In dealing with township enterprises, they must "first give and then take"; and tax the enterprises within limits so that the latter may extricate themselves from the adverse environment of "the poorer they are, the more they shrink in size; and the more they shrink in size, the poorer they become." We must be determined to seize this best opportunity at present to speed up the development of township enterprises. New township enterprises should be continuously exempted from taxes according to relevant regulations. We must not refuse to implement these regulations with the excuse that these township enterprises are supposed to fulfill their financial obligations on a contract basis.

(2) Efforts must be made to become market-oriented in accurately choosing the path for economic development and for the energetic development of the tertiary industry. The experience of those countries and regions with rapid economic development tells us that we must become market-oriented, try our best to perform well economically, give full play to our own superiority, start with the production of intermediate or end products in conformity with the economic characteristics of one's own district, and follow the principle of developing ourselves under adverse environment. This is conducive to raising funds needed during the initial stage for economic development. Thus, we may avoid the malady of starting with the production of raw materials for which we need to make larger investment, go through a longer period of production cycle and yield economic results at a much slower speed. This will help enterprises improve their managerial skills; raise their scientific and technological standards; pay attention to increasing the degree of intensity in technology and the added value of the products at the very beginning; and guide our economy onto the orbit of a virtuous cycle. Liaoning is a heavy industrial base area in China. It has the most favorable conditions in producing intermediate and end products. There is treasure everywhere in the province. If we take out a portion of the large amount of raw materials and primary products for in-depth and extensive processing, we will be able to yield much better economic results, our enterprises will be able to retain more profits for their own use, the financial situation in various localities will be much improved, and the overall economic strength in Liaoning will grow much more vigorously. The various economic departments at all levels must adjust their guiding ideology on economic work with this train of thought. Various enterprises, including township enterprises, must organize industrial production also with this train of thought. Under no circumstances should we repeat our foolish action of working hard to earn a small amount of money. If we continue to hesitate and miss this favorable opportunity, Liaoning's economy will lag far behind that in other advanced areas. It would be even harder for Liaoning to catch up. We must clearly understand this point.

To develop township enterprises, we must also follow this train of thought, and decide on our focal points. We must become broad-minded and far-sighted, and find diversified ways to do things. Those with resources must make full use of such resources, and those without resources must lease land and hire people to make money. In areas where agriculture, animal husbandry and fishery are traditional, we must give full play to the superiority of our plentiful farm, sideline, local, special, lumber, pastoral and aquatic products to vigorously develop in-depth and extensive processing industry,

bring about production changes and keep adding production value; and follow the path of integrating crop cultivation with animal breeding and closely coordinating production with supplying and marketing. Suburban areas in large- and medium-sized cities and those districts in the vicinity of large industrial and mining enterprises must give full play to their superiority in integrating urban areas with rural areas to energetically serve large industries with their auxiliary facilities; serve the urban and rural people; turn out more export-oriented products; do a good job in extensively processing raw materials and primary products; and manufacture end products. Areas with rich mining resources must establish horizontal ties with similar areas to vigorously develop the mining industry and process mineral products. Areas near the coastal and border regions and in the vicinity of highways and cities must give full play to their superiority of having quick access to information and good transport facilities to energetically manufacture, process and assemble products with materials or specifications from foreign businessmen and engage in compensation trade; help opening up more Sino-foreign joint ventures, and cooperative and wholly foreign-funded enterprises; and develop the export-oriented economy. No matter what area we are in, we must pay full attention to increasing added value of our products, turning out more exported-oriented merchandise and upgrading our goods.

It is necessary to energetically develop the tertiary industry. In developing township enterprises, we must not devote ourselves in developing township enterprises only, while ignoring the development of the tertiary industry which has a wider coverage than the secondary industry. The CPC Central Committee and the State Council recently made the "Decision on Expediting the Development of the Tertiary Industry." This is a policy decision of great significance. The rapid development of the tertiary industry not only helps promote the readjustment of the economic structure, alleviate the ever increasing pressure for employment in urban and rural areas, and improve the investment climate and the conditions for reproduction in society, but also serves to further rejuvenate urban and rural economy, and raise the overall efficiency in developing the national economy and the quality of the people's life. The tertiary industry can be developed with little investment, minor risk and quick results. It also covers a much wider sphere. Right now, the proportion of the tertiary industry's added value in the province to Liaoning's share of the gross national product is only 28.2 percent, and that in Liaoning's rural areas only accounted for less than 10 percent, far below the 40 percent level of the developing countries. The internal structure of the tertiary industry is also irrational, seriously impeding Liaoning's economic development. Thus, the development of the tertiary industry is imperative. Particularly continuation of the reform program, we are faced with many new problems in speeding up the tertiary sector development. For example, following the decontrol of the grain and non-staple food prices, how can we strengthen the system of socialized services, solve the problem of "unmarketable products" and rouse the peasants' enthusiasm in production through the development of the tertiary industry. How can we solve the communications and transportation problems that have hampered Liaoning's economic development for a long time by opening up waterways and building small piers and a fleet of small ships and boats. Thus, we must develop the tertiary industry as a pillar industry in developing the national economy. We must seize the opportunity, exert strenuous efforts and accelerate the development of the tertiary industry with a growth rate higher than that in the development of the primary and secondary industries. Right now, we must attach important to developing the following:

Businesses that can offer more jobs and have a close bearing on the nation's economic prosperity and people's lives such as commerce, catering, community services, tourism, real estate and storage.

Trades that are highly technology intensive and related to scientific and technological progress such as consulting services in the areas of information and technology.

Trades that have a close connection with peasants' production and livelihood such as the supply of means of production and the transport and marketing of products. They also include culture, health, education and public undertakings. Particular efforts must be made to develop the market for all kinds of means of production, the wholesale market and the market for specialized products. This will help us promote exchanges of the products we manufacture, and develop other industries, thus rejuvenating a part of our economy and enabling some peasants to become well-to-do.

(3) Efforts must be made to bring into full play the enthusiasm of the scientific and technological departments and personnel, and rely on such progress to develop township enterprises. In addition to good leaders, areas with rapidly growing township enterprises must also offer high salaries to attract excellent professionally trained personnel who are bold and imbued with insight, technical knowledge and managerial and administrative expertise. There is no lack of precedents that an enterprise is saved and revived by a person of ability or a good product. It can be said that those enterprises with well trained personnel have a good future. The population of the Miaoling village in Ganzi District, Dalian City, is only 2,700. However, it had used favorable terms to attract 2,400 highly qualified scientific, technological and managerial personnel and operate five scientific research institutes. Its output value will exceed 200 million yuan this year with the possibility of reaching 500 million yuan in 1995. The industrial output value in Muping County, Shandong Province, reached 3.8 billion yuan and the amount of the county's profits and taxes exceeded 300 billion yuan in 1991 (the county only needs to turn over 30 million yuan to the state treasury). The county achieved this goal by relying on the 12,000 professional trained personnel of all types recruited from

various localities outside the county. Daqiuzhuang regards its professionally trained persons as its lifeline. Whenever it sees one, it often offers him or her a good job with a high pay. It plans to use the "3,000" (makes 1,000 good friends from foreign countries, Hong Kong, Macao and Taiwan, and hire 1,000 professors and experts and 1,000 highly qualified managers and administrators) to fulfill its goal of helping its township enterprises push their total revenues to 20 billion yuan by the year of 2,000. This kind of foresight and courage in investing on qualified personnel poses a fierce challenge to the various departments with surplus trained personnel. Liaoning is a province with a fairly large number of qualified scientific and technological personnel and scientific research departments. It is also a province where well trained personnel are being ignored. Intellectuals are unable to display their abilities in places where there are plenty of them, and persons of ability are being despised in places where there is a galaxy of talent. This phenomenon is nothing new. At a time when township enterprises are offering high salaries to attract qualified personnel, many of us are still not convinced. They would rather let intellectuals attempt nothing and accomplish nothing instead of letting them give full play to their abilities at the basic-level units or township enterprises. Some people believe that specialists and scholars are trained by the state and the people. They should not work in township enterprises, although they are offered high salaries there. This will destabilize the contingent of scientists and technicians. It should be said that it is precisely because they are trained by the state and people that there is no reason to waste and stifle their talents and abilities. The policy which restricts trained personnel from changing jobs is similar to a pool of stagnant water. It will only end in terribly wasting their abilities. This kind of waste is much more serious than the overstocking of goods. If some scientific and technological personnel are allowed to change their jobs among large- and medium-sized enterprises, scientific research units and institutions of higher learning, they will not only bring enormous wealth to society, but also help to insure that the whole society will even more fondly cherish, give fuller play to the role of scientific and technological personnel, and attain the result of killing many birds with one arrow. Various departments and enterprises must once again review their own policies on well-trained personnel and job assignments; and try their best to create fine conditions to help well trained people give full play to their abilities. Meanwhile, we must emulate Guangdong in permitting its workers and staff members look for side jobs. The provincial party committee and the provincial government have already formulated a 33-article policy to ease restriction on scientific research units and scientific and technological personnel. Now it depends whether or not we can do a good job in implementing this policy. Township enterprises must demonstrate their boldness of vision in daring to offer high salaries to attract persons of abilities, promote competition among them and permit them to use their abilities in a flexible way. Whenever we find a phoenix, we will grow a Chinese parasol tree to let it perch. As long as we emancipate our thinking, and implement the policy to give preferential treatments to persons of ability, we will be able to hire qualified people to work even in remote mountainous areas. It all depends on our boldness and sincerity in implementing this policy. Here, we must point out in all earnestness that in implementing the policy worked out by the provincial party committee and the provincial government for easing restrictions on scientific research units and persons of ability, various departments and people of all walks of life may express different opinions, no matter what they are or who they are. However, they must enforce this policy to the letter.

It is necessary to improve the quality of township enterprises in an overall manner by relying on scientific and technological progress. Scientific research institutes and various colleges and universities must actively participate in various activities sponsored by township enterprises to promote scientific and technological progress, and set up various organizations to provide township enterprises with technical, information and consulting services. We must encourage scientific research units and institutions of higher learning to establish association with township enterprises in the form of shareholding in the realm of technology; actively support and energetically urge township enterprises to run scientific research institutes on a trial basis; and help them promote technological progress. We must speed up the technical innovations in township enterprises, and rapidly change the backward situation caused by poor production equipment, outmoded technology, inferior products and low economic efficiency. We must rely on scientific and technological progress to energetically manufacture miscellaneous goods for large and small markets. These products only require limited investments, but they bring quick return and yield high economic results. We must strengthen enterprise management, and train workers and staff members well to help them enhance their ability in developing new products, using new technology, operating and repairing new production facilities, and improve their management skills with a scientific approach. We must continue to speed up the building of enterprise conglomerates, and accelerate the development of small industrial districts and small cities and townships.

TRANSPORTATION

Changchun-Seoul Air Route Goes Into Operation

OW2909034392 Beijing XINHUA in English 0247 GMT 29 Sep 92

[Text] Changchun, September 29 (XINHUA)—A MD-82 passenger plane with 132 members of a Jilin provincial economic delegation aboard made a maiden flight from Changchun airport in this capital of northeast China's Jilin Province to Seoul, capital of the Republic of Korea, marking the formal operation of the Changchun-Seoul air route.

This was the first chartered plane to take off from Changchun airport since it was given approval by the State Council to open to the outside world in August this year.

The delegation is also the largest one from China to the Republic of Korea since the establishment of diplomatic ties between the two countries.

Liu Xilin, deputy governor of the province and head of the delegation, said that it will attend the '92 Seoul International Fair and introduce the investment environment situation of the province to economic and foreign trade circles in the Republic of Korea. Meanwhile, the delegation will offer co-operative projects and conduct economic, foreign trade, tourism, scientific, technological and cultural co-operation and exchanges with its counterparts in the Republic of Korea.

Changchun airport already has charter flights to Japan, and plans to open similar services to Hong Kong and Vladivostok in Russia.

Peak Railway Construction Planned for Southwest

HK2409100492 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 0802 GMT 11 Sep 92

[Excerpts] Beijing, 11 Sep (ZHONGGUO TONGXUN SHE)—The relevant person in charge of the Chinese Railway Ministry ratified a southwest China railway construction program during an on-the-spot meeting in Chengdu a few months ago. Railway departments will carry out railway construction in southwest China and bring about a third peak of railway construction in this region. [passage ommitted]

To invigorate the economy in southwest China and cope with the needs of joint southwest development, the Railway Ministry has discussed the Eighth Five-Year Plan for southwest railway construction with principal leaders of Sichuan, Yunnan, and Guizhou on many occasions and a feasibility program has been formed. The construction of the Nanning-Kunming and Daxian-Chengdu railways started not long ago, serving as a prelude to the peak of southwest railway construction.

The construction of the 400 km section from Chengdu to Yangpingguan on the multiple track Baoji-Chengdu railway and the 725 km section from Chengdu to Panzhihua on the Chengdu-Kunming electric railway has been scheduled to start at the end of this year and to go into operation in 1995. The electrification project for the Chongqing-Daxian section on the Xiangyang-Chongqing railway will also be completed in 1995.

Guangxi To Build Guilin-Liuzhou Highway

OW3009143692 Beijing XINHUA in English 1254 GMT 30 Sep 92

[Text] Nanjing, September 30 (XINHUA)—Southwestern China's Guangxi Zhuang Autonomous Region is to build a first-grade highway linking its Guilin and Liuzhou cities.

The project has entered the final design stage, and construction will start next May.

Guilin is a tourism city and Liuzhou is an industrial base. At a cost of 1.25 billion yuan, the highway will be the largest of the region's communications projects so far.

The highway, specially designed for motor vehicles, will be 144.5 km long and about 23 m wide. The designed speed will be 100 km per hour. More than 970 culverts, 54 bridges of different sizes and 43 flyovers will be built along it.

The project is expected to be completed by 1996.

AGRICULTURE

Reform of Cotton Procurement System Urged

92CE0687A Beijing NONGMIN RIBAO in Chinese 4 Aug 92 p 1

[Article by Zhang Dexiu: "The Necessity of Reforming the Cotton Purchasing System as Seen in the Experiences of Factories Processing Improved-Variety Cotton in Shandong Province"]

[Text] Cotton was once in the same category as grain covered by unified purchase, and today still remains under "unified purchase." Why? People involved can raise one reason after another, thereby making the matter a virtual "forbidden zone." In view of the problems encountered in getting cotton for the factories that process improved-variety cotton but only use three percent of the total amount of cotton purchased nationwide, especially the problems encountered in the main cotton-producing province Shandong, and in view of the constraints those problems put on cotton production and the textile industry, it is easy to see defects of this monopoly system and the necessity of reform.

As we all know, in the first six years of rural reform, owing to the effect of policies and to the use of improved varieties, China achieved large increases in cotton production in successive years and changed from an importer into surplus producer. But quality did not improve despite high yield, raw cotton and cotton textiles were poor in terms of market competitiveness. In view of the situation, in 1985 the State Council decided that the state and the localities jointly invest 450 million yuan to make 95 counties bases for high-quality cotton production in the main cotton producing regions. The total area of cotton fields in those base counties accounted for 40 percent of the total area of cotton fields nationwide, and for 50 percent of total output for the country. In 1991, those base counties accounted for 58 percent of the total cotton output for the country.

The building of the bases has played a significant role, but only half of the potential has been demonstrated. The key to the problem is seeds. The state has built factories processing improved-variety cotton in all the

base counties, and demanded that over 90 percent of the seeds be covered by unified supply in the base counties; however, less than half of the seeds are now thus covered. In terms of all the cotton-growing areas nationwide, the relevant figure is around 20 percent. For instance, in Gaomi County, Shandong Province, less than 1 percent of all cotton-growing land in the county is planted with seeds supplied by the factories processing improved-variety cotton. As a result, cotton output is declining, and quality is also deteriorating. This is because, as a precondition for increased output, improved varieties of cotton degenerate faster than improved varieties of other crops, with degeneration in the case of cotton becoming obvious in the third year in most cases. The direct causes here are machine-related mixing and natural cross-breeding. In fact, technology to solve cotton variety degeneration is already up to standard, but achieving unified supply involves high technical work and expertise. Because of system-related difficulties, the problem has yet to be solved, thus leading to the exacerbation of problems of "multiple sources, disorder, and disparity in quality." This problem of degeneration has already been solved even in the Sudan and Egypt, but seems to have become a stubborn disease for us.

Why are things like this? The problem has its roots in the unclear, hard-to-rectify relationships between the supply and marketing sector and the agricultural sector with regard to the purchase and allocation of cotton produced in areas that grow improved-variety cotton and account for only 3 percent of the total amount of cotton purchase nationwide. Originally, to solve the problem of crop seeds, the state issued regulations on crop seeds. The State Council explicitly stipulated: "Factories processing improved-variety cotton are entrusted to purchase cotton produced in areas growing improved-variety cotton." To ensure the quantity and purity of improved-variety cotton, the State Planning Commission and the Agriculture Ministry also issued stipulations on "two things prohibited," that is, prohibiting the supply and marketing departments from purchasing cotton produced in areas growing improved-variety cotton, and prohibiting the factories processing improved-variety cotton from purchasing cotton not produced in areas growing improved-variety cotton. However, the actual practice supposedly governed by the rules is very different from what the rules would require. For instance, for three years the Supply and Marketing Cooperative of Shandong Province prohibited factories processing improved-variety cotton from purchasing cotton of quality lower than that of grade four. As cotton farmers cannot distinguish between cotton of different grades, they have to sell cotton produced in areas growing improved-variety cotton to cotton processing factories that buy any kind of cotton. In addition, there have also been situations of setting up purchasing stations in an uncoordinated manner, of giving higher grades than deserved, of raising prices, and of panic buying. Even more importantly, last year the cotton purchasing departments of Juye County, Shandong Province, set up five posts around the factory processing improved-variety cotton to prevent the selling of improved-variety cotton to the factory, resulting in a fight between stick-brandishing groups from the agricultural sector and the supply and marketing cooperative. It was only due to the timely intervention on the part of the county party committee and the county government that the situation did not further deteriorate. Because of all kinds of rule-breaking conduct on the part of those who only care for immediate interests, more than half of the improved-variety seeds produced with hard work in areas growing improved-variety cotton have been lost (used as commodity seeds for oil extraction). In Shandong Province alone, 179 million jin of improved-variety seeds were used for oil extraction in the five years from 1987-91. If used in production, those seeds would have been efficient. Such tragic, heavy losses due to human and system-related causes were really regrettable.

From the situation described above, it is easy to see that the nationally dominant system of unified cotton purchase constrains the development of high-quality, high-yield cotton. With regard to the textile industry, such a system of "monopoly in the middle, no contact between the two ends" constitutes an important factor constraining the improvement of product quality and product upgrading. The system also severs the link between cotton producers and the market, and consequently those growing improved-variety cotton are not able to develop cotton of varieties urgently demanded by the market so as to keep up with the needs of the textile industry. The main reason our textiles are becoming less competitive on the world market in recent years is because of the problem of product quality. To change the situation, it is necessary to improve the quality of cotton itself. Factories processing improved-variety cotton process high-quality cotton, and have therefore aroused great interest on the part of the textile industry. For instance, the "Zhongza 028" cotton produced by the factories processing improved-variety cotton in Huimin County, Shandong Province can be used for spinning fine 60-count yarn, while mixed-variety cotton of the same grade can only be used for spinning ordinary 32-count yarn. While the former gets a price more than double that of the latter, the cost is the same. However, because supply and marketing departments distribute the ginned cotton produced by factories processing improved-variety cotton to different places together with cotton of other varieties, cotton mills have to use cotton of various varieties in mixture, resulting in the waste of fine high-quality cotton. Some cotton knitwear mills specializing in producing exports could have had their need completely satisfied by domestically produced raw material such as the high-quality cotton produced by factories processing improved-variety cotton, but with no contact between the producer and the user, the problem cannot be solved and those cotton knitwear mills have to spend large amounts of foreign exchange on importing cotton. To change this irrational situation, the Textile Department of Shandong Province suggested that allocation arrangements be made to transport the

ginned cotton produced by factories processing improved-variety cotton directly to cotton mills, but the organizations concerned rejected this suggestion. The Textile Department then retreated and tried to pursue a second-best alternative, by suggesting that, under the precondition of not violating the policy on cotton monopoly, the cotton-jute stations under the supply-marketing cooperative allocate improved-variety cotton directly to designated cotton mills. But this suggestion was also rejected. I have tried in vain to understand the reason behind the rejection. A comrade who understands the situation said that if factories processing improved-variety cotton should sell directly to users 3 percent of the cotton to be purchased, the organizations concerned would lose the revenue resulting from the higher price for such cotton, and that it would be the producers and users who would get the benefits. For instance, the relevant organizations in Shandong would reduce revenue by 30 million yuan, but this would be temporary. The establishment of a direct link between the producer and the user in relation to the 3 percent of the ginned cotton would not only cut intermediate links, and reduce cost, but also, more importantly, provide a link between scientific research and production so that cotton mills could provide feedback concerning the properties of the cotton as demonstrated during its use in production to the agricultural sector, thereby facilitating the "timely adoption of new varieties," and promoting the development of high-quality, high-yield cotton. In terms of the entire province, if unified seed supply can be achieved, unit yield would increase by over 15 percent, resulting in an increase of 3.8 million dan of ginned cotton, as well as an increase of 1.2 billion yuan in cotton farmers' income. As for the textile industry, the quality of ginned cotton would thus improve greatly. The organizations involved would also get more benefits because the increase in yield would represent an amount several times greater than that of the 3 percent to be removed from the control of those organizations. Because those organizations can thus also shirk the burden of fines due to the low quality of ginned cotton. This is really a case of sacrificing one hair to greatly benefit everyone and ultimately oneself. Those situations as observed in Shandong also largely exist in other cotton-producing regions. Reform can no longer be avoided. The state has proposed that agricultural products should be commercialized, and managed by the market. Most agricultural products have been decontrolled, and the forbidden zone of grain has also been opened up. Isn't it also necessary to relax the cotton monopoly and carry out some reform? Comrades at both the central level and the grassroots level advocate linking the producer with the user. At present, it may be advisable to start with factories processing improved-variety cotton that only account for 3 percent of the ginned cotton. From an overall perspective, this measure has all the merits without any defects. The adoption of this measure can very well be the start of the processes of achieving new progress in improving cotton yield and quality, and improving the competitiveness of our textiles on the world market. Why shouldn't we do it?

Slight Drop in Cotton Production Predicted

92CE0687B Beijing NONGMIN RIBAO in Chinese 5 Aug 92 p 1

[Report by Li Yongsheng: "Cotton Production Started Well—Drought in the North Affects Output for the Year"]

[Text] According to information provided by the Agriculture Ministry, cotton production started well this year, and there was an increase of 2.06 million mu in the sown area compared with last year; but because of the drought lasting two consecutive months in some cotton growing areas in the north since early May, the total cotton yield for this year is expected to decrease slightly over last year or remain at last year's level.

The total sown area for cotton reached 100.13 million mu this year, the largest since 1984. Compared with last year, cotton growing increased to varying degrees in 12 provinces (and autonomous regions) among the 15 main cotton producing provinces (and autonomous regions). The exceptions were Hebei, Shandong and Anhui. There has also been new progress in the use of science and technology to develop cotton production. Cotton seedlings are growing well in some cotton growing areas in the north and the south.

However, at present some aspects of the situation regarding cotton production cannot but make one pessimistic: In the cotton growing areas of the north, the amount of cotton fields affected by drought has reached nearly 60 million mu, accounting for 60 percent of the total area of cotton fields in the country; and 12 million mu is seriously affected. The lack of water flow in the Huang He has led to sharp reductions in the area of land irrigated with Huang He water. As a result, a large amount of spring-interplanting cotton crop was destroyed, and re-planting became necessary; and summer cotton sowing plans could not be fulfilled. In addition, boll-worm infestation came early and ferociously in cotton-growing areas of Hebei, Shandong, and Henan leading to heavy infestation over large areas, and in all cotton fields infestation has reached the level where treatment is required. Serious drought and worm infestation are extremely bad for cotton crops in the early stage of growth. Even more important is the fact that the cotton farmers' mood with regard to cotton production has become unstable. Cotton farmers of the disaster-stricken areas have devoted large amounts of human, material and financial resources to the fight against the drought and worm infestation, but the results have been less than satisfactory. As a result, some people have become so pessimistic that they have relaxed their work of crop management or even removed cotton seedlings and crops. Cotton farmers everywhere are afraid policies will change, sales will be difficult, and purchasing price and grades will be lowered, which has affected farmer enthusiasm for cotton production. In summary, barring the occurrence of huge natural disasters, the yield is expected to increase in the cotton-growing areas of the

south, but decrease in the north. In view of this situation, the Agriculture Ministry reminds all localities that cotton has a strong regenerating capacity, it is entirely feasible to recover part of the losses if enhanced field management is carried out for the middle and later stages, and urges departments in charge of agriculture at all levels to provide leadership for all the farmers in the effort to fulfill state plans on cotton production by adopting effective measures suited to local conditions.

Ministry Urges Use of Science in Agriculture

HK1709003092 Beijing NONGMIN RIBAO in Chinese 31 Aug 92 pp 1, 4

["Decision by Ministry of Agriculture on Strengthening the Work of Developing Agriculture Using Science and Education"]

[Text] China's agriculture and rural economy have entered a new stage of development. In the 1990's and beyond, agricultural development must shift to the orbit of reliance on scientific and technological progress and improvement of the quality of laborers. Without scientific and technological progress, agricultural progress will be impossible and without the support of science and technology, it will be impossible for agriculture to develop in a sustained and steady way. Accelerating the work of developing agriculture using science and education has become the urgent task of agricultural departments at all levels (including agriculture, animal husbandry, aquatic products, state farms, farm machinery, and township and town enterprises). To strengthen the work of developing agriculture using science and education and to lay a solid foundation for a sustained and steady agricultural growth, we especially made the following decision:

I. Genuinely Put Developing Agriculture Using Science and Education in First Place in Agricultural Departments' Work and Implement It Down To Work in Specific Fields

The principal leaders of departments in charge of agricultural work should personally handle the work of developing agriculture using science and education and conscientiously take science and technology as the primary productive force. In working out the medium- and long-term plans for agricultural development, in particular the annual plan, they should give first consideration to the factor of scientific and technological progress and closely combine economic development plans and science, technology, and education plans. In the course of making major policy decisions and major work arrangements, they should fully solicit the opinions of scientific research, education, and popularization units and ensure the process of policy decisionmaking is made more scientific. In undertaking comprehensive agricultural development, commodity base construction, and family-shopping-basket projects, they should work out specific plans for spreading the extensive use of science and technology and personnel training in coordination with departments concerned, making arrangements for certain scientific and technological demonstration projects in accordance with the spirit of the State Planning Commission's requirement of "including the contents such as the development and popularization of science and technology and combining the improvement of production conditions with the work of developing agriculture using science and education," by fully relying on scientific and technological progress. Moreover, they should also organize the agricultural scientific research, education, and popularization forces to participate in projects by making tasks clear and definite and signing scientific and technological service contracts, ensuring the funding arrangements so as to improve investment returns. In the days to come, in making arrangements for production projects, such as the previously set cultivation [yuan zhong 0626 4429] bases, quality monitoring centers, and personnel training bases, the superiority of the existing agricultural scientific research and education units in talent, technology, and facilities should be brought into the fullest play to ensure the quality of the projects and avoid constructing redundant projects.

II. Strengthen Agricultural Scientific Research and Expand the Technological Reserves for Developing Agriculture Using Science and Education

Agricultural scientific research work must continue to implement the principle of facing economic construction and better submit to and serve the general needs for the development of the rural economy. At present, China's agricultural development is in a crucial stage of moving toward high output, high quality, and high efficiency. Agricultural scientific research must further readjust its orientation and setup to meet the new demands for agricultural development. It must make overall planning for applied basic research, applied technology research, and development research. It is imperative to spare no effort in organizing implementation of the state plan for tackling major hurdles in science and technology and the key ministerial scientific research plans and the construction of the projects, such as key state laboratories and state engineering technological centers, and ensure the overall completion of the targets of the science and technology plans at various levels. In the light of the actual needs of agricultural production, all localities should organize forces to tackle major hurdles in science and technology and provide a steady flow of new scientific and technological research achievements to the work of developing agriculture using science and education. In working out science and technology plans and reporting topics to be undertaken to the higher authorities, agricultural scientific research and education units should take the initiative in soliciting the opinions of the departments in charge of production at the same level. They should attach importance to the research and development of new high technologies, including biotechnology, and accelerate the pace of commercialization and industrialization. Efforts should be made to open ever wider to the outside world, conduct more cooperation and exchanges in agricultural science and

technology with other countries, and do a good job of the importation, digestion, and assimilation of advanced foreign technology.

III. Strengthen Agricultural Education and Provide Guarantee of Talent for Developing Agriculture Using Science and Education

Higher agricultural education must make energetic efforts to popularize the internal comprehensive reforms of universities and colleges centering around the general requirement of improving the quality of laborers and continue to adhere to the school direction in which diversified forms, standards, and channels are introduced in enrollment, training, and employment. In teaching, efforts should be made to strengthen the link of practice, offer more specialities, and train for grass-roots units more agricultural professionals who are willing to stay as required and well received. At the same time, importance should be attached to training qualified personnel of a higher level, with the stress on training people taking the lead in specialized learning fields, the development of key branches of learning, and the construction of key laboratories. It is necessary to readjust the speciality makeup to meet the needs of the readjustment of the structure of agricultural production, and of providing grass-roots units with more qualified personnel, and to offer more specialized subjects in new-type branches of learning which are geared to the needs of the rural economy, township and town enterprises, and the development of the tertiary industry, by suiting measures to local conditions. The key colleges and schools under the jurisdiction of various ministries must: Combine agriculture with science, agriculture with engineering courses, agriculture with liberal arts, agriculture with commerce, and agriculture with forestry, with the stress on agriculture; strive for overall development by suiting measures to actual conditions of different schools and localities; and must gradually turn themselves into universities.

It is necessary to strengthen vocational and technical education; promote the reform, construction, and development of agricultural technical secondary schools; bring the important role of agricultural technical secondary schools in forming a connecting link between the preceding and the following into play; and train large numbers of secondary technical personnel for the basic-level service systems. Continued efforts should be made to run the agricultural management cadres colleges and schools at all levels and agricultural broadcasting and television schools properly. Agricultural universities and colleges, as well as secondary agricultural schools and scientific research units, should strengthen training of the backbone elements for spreading the extensive use of agricultural technology. The agricultural technology popularization organizations at the county and township levels should strengthen the training of peasant technicians and of peasants for the technical qualification certificates (green certificates), continuously raise the peasants' scientific and cultural levels, and enhance their abilities to assimilate and apply advance technology.

IV. Accelerate Implementation of State Council Decision and Strengthen the Building Agricultural Technology Popularization System at the Grass-Roots Level

The contingents of personnel engaged in popularizing agricultural technology of all types constitute the main force for the basic units in charge of the work of developing agriculture using science and technology. Agricultural departments at all levels should make energetic efforts to ensure the smooth building of the basic-level service systems in accordance with the related stipulations inscribed in the State Council circular on strengthening the building of the agricultural socialized service systems. All localities should accelerate completion of the staff setting [ding bian 1353 4882] work and do a good job of engagement and recruitment work. They should guarantee the quality of the people to be recruited and strive to recruit more university, college, and secondary technical school graduates, and through assessment, on-the-job peasant technicians can also be recruited in accordance with the principle of choosing the best candidates. Aside from the above sources, they should not recruit more personnel from society or non-professional personnel. They should actively strive for financial support and try hard to secure the funds. At the same time, with the reform spirit, they should develop various forms of services with compensation, actively run economic entities of all types, and promote development by providing good services.

V. Raise Funds Through Various Channels and Effectively Increase Input in Developing Agriculture Using Science and Education

To increase input in agricultural science and education, it is necessary to take the path of diversified channels and forms and also to gradually establish a diversified investment structure under which the state, the collectives, the enterprises, the individuals, and the units, pool funds through their own channels and strive hard to increase the general level of input in science and education.

As the principal channel, state and local financial departments should increase investment in science and education in accordance with the Finance Ministry's policy that "state finance will tilt toward science and education." Departments in charge of agricultural work at all levels should actively contact the department concerned and strive hard to boost input into developing agriculture using science and education. They should further implement the party Central Committee and the State Council relevant policy stipulations on increasing input in agricultural science and technology and education and ensure the operating expenses for agricultural research, education, and popularization at various levels will increase steadily at a rate higher than the growth rate of financial revenues. All agricultural departments must support capital construction investment in scientific research and education units on a selective basis and gradually increase investment in instruments and other

facilities. Except for normal capital construction investment, a certain proportion of funds invested in projects, such as commodity base construction and comprehensive agricultural development, should be invested in the construction of basic-level agricultural technology popularization units. Constructing a popularization system should be accelerated.

Aside from striving for more investment from state and local financial departments, it is necessary to open up more channels and avenues to raise funds for developing agriculture using science and education. 1) A certain proportion of the funds invested by the state and local financial departments in large-scale agricultural development and construction projects can be used in technology popularization and technical training. 2) A portion of the funds offered by township and town enterprises for supporting and developing agriculture can be used for the purpose of developing agriculture using science and education. 3) Enterprises are encouraged to invest in science and education units by entrusting the latter to conduct the manufacture and development of new technologies and new products. 4) The peasants are encouraged to invest in science and technology. 5) A certain proportion of technological improvement fees can be drawn from the sales link of major agricultural products and it should be made clear that current funds already collected will be put at the disposal of agricultural departments and genuinely used in developing agriculture using science and education. 6) Part of the income earned by science and technology and education units in their development can be retained and continue to be used in scientific and educational undertakings. 7) Active use should be made of bank loans for science and technology.

VI. Further Deepen Reform in the Agricultural Scientific and Technological Structure and Actively and Reliably Guide the Rational Exchange and Flow of Science and Education Units and Personnel so That They Will Do Their Utmost and Have a Role To Play

In the days to come, according to the principle of competition on an equal footing, the state will support a number of selected units with sound foundation and adequate resources in strengthening applied basic research and applied technology research. Most of the other units should gear themselves to the needs of the market, with the stress on development research, and seek efficiency and development through market competition by undertaking the tasks entrusted to them by producers or enterprises or by relying on their own research and development efforts. Ministerial-run large institutions and institutes and provincial-level agricultural scientific research units should vigorously streamline their administrative structures and strengthen the forefront forces of scientific research and development. Some institutes and offices no longer in keeping with the needs of the new situation should be boldly readjusted or merged. As far as the internal operation of agricultural scientific research units are concerned, apart from ensuring that some personnel strive to undertake research topics from the state and undertake the research tasks entrusted to them by department and units concerned and do scientific research with single-hearted devotion and that all necessary working and living conditions are secured, a considerable number of personnel should be transferred to strengthen the development units to accelerate the transformation of various research achievements.

While doing a good job of teaching and scientific research in accordance with their teaching, scientific research, development, and popularization functions, agricultural education units, in particular, higher-learning institutions, should strengthen scientific and technological development work in selected fields and organize some of their personnel to set up, as quickly as possible, new high-tech industrial businesses and popularize the research achievements in agricultural science and technology.

Agricultural scientific research and education units should further deepen internal mechanism reform, strengthen internal management, smash the practice of everybody eating from the same big pot and egalitarianism in distribution, bring the enthusiasm of scientific and technological personnel for economic construction into full play, and enhance their strength and vitality.

VII. Devote Major Efforts To Strengthen Scientific and Technological Development

While accelerating the transformation of scientific and technological achievements to turn science and technology into the primary productive force, scientific and technological development is an important way for science and technology and education units to enhance the ability to develop themselves. Agricultural scientific research and education units should adapt to the situation, emancipate their minds, have hands and feet unfettered, and quicken the pace of scientific and technological development.

Scientific and technological development must be first based on the superiority of specific units in technical and human resources, and at the same time, meet the needs of rural economic development and expand to all fields and levels, such as pre-production and post-production. It is necessary to put the separate and scattered development activities under a well organized and highly capable body, accurately select the projects which promise quick results and good social benefits, set up development and operation entities to form their quality products, and move toward the integration of technology, industry, and trade. Those entities where conditions are ripe can gear themselves to the needs of international and domestic markets and form large industrial groups. Departments in charge of agricultural work at all levels should enthusiastically support scientific and technological development and help solve the difficulties cropping up in policy and fund terms. Agricultural departments should allocate scientific research

and education units' scientific and technological development funds and help them get access to science and technology loans. Agricultural departments at all levels should further implement the State Council's "Decision" on developing agriculture using science and technology, allow scientific research and education units to operate their own materialized scientific and technological research achievements according to the law, such as improved varieties and fine breeds, vaccines, pesticides, compound fertilizers, fodder, and farm implements and protect their legitimate rights and interests. At the same time, scientific research and education units are encouraged to transfer technological achievements to production and operation departments in accordance with the principle of equality and mutual benefit and develop lateral associations so that the two will promote each other and achieve common development.

It is necessary to adopt a preferential policy to mobilize the enthusiasm of scientific and technological personnel's for engaging in development and to commend and reward the units and individuals making outstanding contributions in developing science and technology and popularizing research achievements. Efforts should be made to continuously popularize the successful experience evaluating job titles for the engaged popularization-type professors and development-type researchers. Appropriate technical titles are to be given to those personnel engaged in scientific and technological development and technology popularization through public evaluation. Scientific and technological personnel who have made outstanding contributions in the development and popularization fields should be categorized as candidates for special government subsidies and treated equally without discrimination as research personnel. Egalitarianism in distribution should be abolished and scientific and technological personnel are allowed and encouraged to earn more income and get rich through their own hard work in the different fields of science and technology.

VIII. Continue To Organize Implementation of Agricultural Technology Popularization Programs, Including the "Bumper Harvest Program" and Speed Up Spreading the Extensive Use of Research Achievements in the Vast Areas of Endeavor

The national agricultural, animal husbandry, and fishery bumper harvest program jointly implemented by the Ministry of Agriculture and the Ministry of Finance is an important measure taken to develop agriculture using science and education and greater attention should be paid to its further implementation. Continued efforts should be made to take popularization of advanced applied technology as the main contents, such as the new varieties and breeds of crops, domestic animals and poultry, and aquatic products, new cultivation, farming, and breeding techniques, and medium- and low-yield farmland comprehensive management, and continuously popularize more new technological achievements. Localities should also properly organize their bumper harvest program and other technology popularization programs and try to link them with the state's bumper harvest program. In the course of dividing the tasks of projects and implementing them specifically, the scientific research, education, and popularization forces should work together in close coordination.

IX. Actively Promote Scientific and Technological Progress in Enterprises

As reform and opening up keep on developing in depth and the socialist planned commodity economy develops, enterprises of all types engaged in agricultural work should shift the starting point of survival and development to reliance on scientific and technological progress in sharp market competition. Agricultural enterprises of all types should all implement the spirit of the CPC Central Committee's resolution on invigorating large and medium enterprises, set up special technological development organs, raise technological transformation funds through diversified channels, make good use of the new product development funds, and expedite the research and development of new products and new technologies. At the same time, it is necessary to promote enterprises to form lateral associations with scientific research and education units, make use of the latter's superiority in technical and human resources, continuously import new technology, increase new varieties, improve product quality, and boost economic efficiency.

X. Strengthen Leadership Over Developing Agriculture Using Science and Education and Promote Close Integration of "Three Agricultures [san nong 0006 6593]"

Departments in charge of agricultural work at all levels should give play to their administrative function and are duty bound to undertake the responsibility to lead, organize, and coordinate developing agriculture using science and education. The scientific research, education, and popularization units engaged in agricultural work are three forces for developing agriculture using science and education. They should proceed from the overall situation of developing agriculture using science and education, unify their thinking, coordinate and cooperate with each other, and work together to contribute to the work of developing agriculture using science and education. It is necessary to explore various effective forms of integrating three agricultures, such as working together to tackle hurdles in science and technology, to join bases construction and comprehensive agricultural development, and to carry out technological development. Departments in charge of agricultural work at all levels should actively create conditions for the integration of three agricultures; guide, support, and arouse the enthusiasm of the three aspects for agricultural development in terms of funds and policies; bring the functions of organizations engaged in the farming industry into full play as a whole; and work together to create a new situation in developing agriculture using science and education.

With the deepening of reform and opening up and the development of agriculture and the rural areas, departments in charge of agricultural work at all levels, and scientific research, education, and popularization units, should continuously study the new demands in the new situation; upgrade their conceptions; emancipate their minds; boldly explore and practice what is conducive to developing the productive forces, thereby boosting the socialist state's national strength and improving the people's living standards. They should promptly sum up the successful experiences of specific units and other units, further deepen reform, vigorously develop productive forces, and make contributions to the sustained and steady development of agriculture and the rural economy.

Agriculture Ministry Wants Higher Quality Machinery

92CE0661A Beijing ZHONGGUO NONGJIHUA BAO in Chinese 1 Aug 92 p 1

[Report by Yi Bian: "Ministry of Agriculture Issues Circular, Urging Localities To Control Quality of Agricultural Machinery and Strengthen Appraisal Work"]

[Text] On 29 June, the Ministry of Agriculture issued a circular, urging the farm machinery management departments in all localities to strictly control the quality of farm machinery, and to strengthen the appraisal work to ensure the safe operation of agricultural production and the interests of the vast number of farm machinery users.

The "Circular" pointed out: The quality of farm machinery and their main components and parts sold on the market has dropped to some extent recently. The acceptable quality rate of hand-held tractors, medium-sized and small diesel engines, tricycles for farm use, and some components and parts are poor, and the quality of some superior-quality products has dropped in grade. Some machinery, such as threshers and winnowers, which do not have any safety and protective devices, has brought certain losses to the vast amount of users, hampered safe agricultural production, and even endangered personal safety.

The "Circular" urged issuing "farm machinery popularization licences" to the farm machinery that has been appraised as up to standard, and priority should be given to the popularization of superior-quality products. For products that fail to pass the appraisal, departments in charge of production will be required to improve the products within a specified time. If the improved products are still not up to standard, production should be suspended. Farm machinery marketing departments should not market unqualified products, and the farm machinery management departments should not have them registered and supply them with oil. Farm machinery that ought to be appraised according to the plan but fails to do so, farm machinery management and marketing departments should cease product popularization and marketing. The "agricultural machinery popularization licences" issued by the ministry are valid throughout the nation, those issued by a province are valid in the province, and if they are applied in other provinces, they should get the approval of the farm machinery appraisal stations of the provinces (prefectures and cities) concerned.

Interview With John Kuan on Primary System

92CM0396A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 282, 8 Aug 92 pp 18-22

[Interview with John Kuan, by Lin Yingqiu (2651 3853 4428); place and date not given: "Critique on the Advantages and Disadvantages of the KMT's Move To Dismantle Intra-Party Primary Elections"]

[Excerpts] John Kuan, the architect of the KMT's primary system, takes exception to the reasons given by high-ranking party officials for not holding primary elections. The following are excerpts from our interview with Mr. Kuan:

[Question] The KMT Central Committee feels that in the interests of allowing more candidates to take part in elections, and in preventing an unnecessary waste of money, and because the nomination of a candidate is bound to reflect the consideration of a broad diversity of interests, a primary election, which is merely a system or method going to provide a basis for a nomination, is not an absolute requirement. What are your thoughts on this?

[Answer] I base my objection to this on principle. Does the party seek to become more democratic or more systematic? The main feature of the primary system lies in its fairness and openness. The corruption we see can only be reduced by allowing for fairness. If you are cooperating and rigging things these days, how can you go out and swear that you are being fair? If you get together in the backrooms with the local party factions and rig the nomination, and then you go out and say that you are not corrupt, that you have not cheated others, who will believe you? It puzzles me how decisions made by a minority can be preferred over decisions made by the majority.

[Question] The KMT Central Committee says that the decision whether to hold a primary election is fully based on the views of the local party headquarters which has surveyed the situation as a whole. What are the implications of this? Is this a slick way of turning over the real decision-making power to the local party factions, while the local party headquarters is left with only nominal power?

[Answer] Absolutely, absolutely. Back when I was doing local party work, many senior officials told me that in the old days the KMT had absolute power, it had run the government for a long time, elections were for winning victory, one did his best to meet the demands of the different factions, the whole KMT culture had been inextricably woven together with local factions since the beginning. This is understandable. But with society opening up and becoming more democratic, hand-holding with the local factions has its advantages and disadvantages. The advantage is that KMT leaders find it easy and convenient to win elections. Over time, the local factions became the driving force for the party in the local areas and soon the party found itself unable to survive unless it relied on the local factions. Once the local factions had come to monopolize the political resources in the local areas, it became less likely that good, capable leaders would be elected and that the old generation would give way to the new one. Given these conditions, how can the KMT maintain its idealism and encourage new leaders to come forward? [passage omitted]

Some local factions have even come to acquire more power than the local party headquarters themselves. One local faction in the south-central area controls the party headquarters chairman to the extent that the chairman must follow the faction or cease to exist. Given such a predicament, how can the KMT not engage in a little self-critical introspection? If a party has principles, positions, and is not selfish, it can act and it can win even more supporters. It need not yield to the factions. Cooperation between the party and the factions is a good thing. A faction must adopt the ideals and doctrines of the party such that there is a melding together rather than boycotts. Under certain circumstances it is appropriate for the party to put a rein on the bluster of the local factions so that they do not get ahead of the party. The current tactics of the KMT only serve to make the local factions more arrogant.

The way I see it, many of the current KMT members either a) are involved in the local factions, or b) are people's representatives who are simultaneously engaged in party work. Thus, these folks have already determined the primaries for the party, and the party had better accept the nominations they have made. What remains of the party's ideals and concepts of rationality?

[Question] In the primary system you originally designed, the decision to not hold a primary was a "flexible option." But today, upwards of 18 electoral districts are not holding primaries, which makes a primary an "exception to the rule." How do you feel about this change of affairs?

[Answer] It does not bother me a bit. Some say I am "pedantic"—they are entitled to their views. Having long assisted in campaigns, I understand the rigorous road of an election and the feelings of the candidates. I am not one to cast aspersion on another. [passage omitted]

I feel that a primary can be held in Taipei. Some people say that the question of whether to hold a primary must take into consideration the differences between the cities and the rural areas. I simply do not agree with this. With communications now so well-developed in Taiwan, what is the difference between the cities and the rural areas? There are indeed factional differences, however. In Taipei there are none of the local factions. If you wanted to rig a nomination in Taipei, you would be hard pressed to find anyone to work with you, so you may as well engage in fair competition like everyone else. This, in my view, is quite a laudable electoral district.

I can understand the Central Committee's thinking in carrying on with primaries in places like Taipei and Kaohsiung where there are no local factions to assemble in the backrooms to rig up a nomination. However, in failing to hold primaries in districts where there are local factions that will help rig the nomination, I feel the Central Committee is committing a grave error. Do we not hear the party Central Committee continually railing against the local factions? How can it now suddenly acknowledge the local factions? To not hold primaries today is tantamount to affirming the legitimacy of the local factions. We must not sacrifice our stance for any single thing, and this is a clear example of such an erroneous sacrifice.

[Question] In 1989, when the first primaries were held, 98 percent of the grassroots level party workers approved of the primary system. Now, however, many of them have differing views on the primary system. Why do you think that these workers are not afraid that, if by chance they assist in a losing campaign, they will be forced to take the blame?

[Answer] Power is highly centralized in the heavily bureaucratic structure of the party. All of the local party chairmen are chosen by the top party officials, and their functions and powers are also delegated from above. In other words, when the central party says "jump," you jump. When it does not allow you to jump, you cannot jump. So, the local party chairmen must understand what the higher-ups want and then act accordingly. If it is clear today that the higher-ups do not want primaries held, why would a local party chairman want to force a primary to be held?

Yesterday, someone in the central party Standing Committee said that not holding a primary was a display of ethical courage. Does this mean that if we advocate primaries we are failing to display ethical courage? As for the local party headquarters, not holding primaries is the best choice. First, it cuts down on work because primaries are busy, tiring affairs. Second, they can earn political chips that can be traded with the local political hacks. Third, for those of a Machiavellian bent, the absence of primaries is fertile soil for corruption. As for the grassroots party workers, if they have no political ideals, then primary or no primary, it does not matter to them.

When we first started holding primaries, I would repeatedly sit down with the local cadres and analyze the changing times, the mood of the electorate, and the future of the party, and I would emphasize that primaries are a matter of rational political ideals. [passage omitted]

Of course I deeply regret the fact that today the local party headquarters are not holding primaries and that they cannot uphold the rational political ideal. I do, however, understand their predicament and considerations. Basically, they do not care whether a primary is held or not. If a clear expression of will comes down from the top, how can the local party headquarters act in a contrary way? Of course, today the party Central Committee clearly says that the decision not to hold primaries is being made at the local level. In my opinion, this is an attempt to alter the facts that stems from an unwillingness to become the subject of rumor. Cadres involved in party work do not emphasize democracy, the system, or the party's image—they only care about winning. That pretty much sums it up. However, I recall President Chiang Kai-shek repeatedly saying that gaining victory in people's hearts, in image, and in the future of the party, is not simply a matter of winning a temporary battle.

[Question] Lately the party's Central Committee has been repeatedly saying that primaries do not equate to democracy, and they bring up the point that the current crop of legislators oppose primaries. When a powerful opponent emerges to present a challenge, then a primary is appropriate, but the issue of whether to hold a primary begins with the question of "what is in the best interests of a given individual?" They say that this so-called democracy argument is nothing but a false front. What are your thoughts?

[Answer] This is wrong, plain and simple. If you do not set up a system, and you make people feel that they had better oppose the primaries, you can then shift your position. The first time we held primaries, many top-notch peoples representatives within the party opposed the system, saying that if the Central Committee felt they were doing a good job, then they should be nominated directly rather than making them compete in the preliminary fray with a crop of new competitors. They felt highly embarrassed to have to do this. I feel they totally missed the boat as far as the democratic spirit is concerned. A peoples representative, regardless of how well he does his job, is elected by the people, not by the high-ranking officials in the party.

The Taiwan political culture basically has not evolved beyond the "culture of subjugation," yet, the development up to the present day should point to a "participatory culture." In this age of exploding participation, to still be stuck with a subjugation mentality is a disgrace to democracy.

In 1989, when I proposed holding primaries, I noted the fact that the Democratic Progressive Party [DPP] had not been formed for very long and it had few members. All of their candidates were capable of running in primaries, but if the KMT did not hold primaries, then just as the DPP says that "the KMT is not democratic," if the KMT fared poorly in comparison to the DPP, how could we then face the voters?

[Question] The Central Committee says that if primaries are not held, candidates will be formally nominated by the county and city party committees which are made up of influential local persons and elders, and if the candidates all accept this process, then this conforms to democratic procedure and the party cannot force a

primary to be held. What do you feel are the differences between this sort of democracy and the democracy involved in the primary system?

[Answer] The KMT is not willing to delegate power. The Central Committee tightly clutches its power in coordination with the local factions. In this way, the local cadres become rubber stamps. Let me tell you a joke: The chairman of the party working committee on culture says the process is absolutely democratic since all of the districts that have decided not to hold primaries have reached their decision after discussion and approval in the local party committees. Originally, the local party headquarters said that they could decide the matter, but Secretary Song made it perfectly clear that this was impermissible, that the decision would have to be made by convening the full local committee. To those of us in the know, is this not a joke? The committee is a rubber stamp! Which local party committee is going to violate the will of the Central Committee or the local party committee chairman? I have never seen such a thing happen.

[Question] Some in the Central Committee have indicated that since the mood of the voters is not good, there is no way to avoid election bribery. So, if the primaries are not held, there will be one less opportunity for election bribery, and this will preserve the party's image. What are your thoughts?

[Answer] Let me turn the question back on you. If primaries are not held, does this mean that there will be no bribery in the elections? Primaries are open competitions that give the poor, idealistic, learned, and capable candidate an opportunity to compete fairly. It allows him to gain the party's recognition by succeeding at the grassroots level. If you do not hold primaries and you open the door for the local fatcats to decide who the candidates will be, which method is more likely to facilitate bribery in the elections? [passage omitted]

[Question] Faced with the second session of legislative elections, in dealing with the question of whether to hold primaries, the party's work organizing conference can decide not to hold primaries, after considering the local voter mix and the political balance in the district, either because there are not enough registered voters, or because the electoral district is only prepared to put forth one candidate, or because there are not many candidates registered and the circumstances in the district are highly amenable to coordinated nominations. How did you provide for and solve these sorts of situations when you set out to design the KMT's primary system?

[Answer] The most important issue I kept in mind when designing the primary system is one that people intentionally or unintentionally ignore, namely, the issue of the party's constitution. Back when I was teaching, and back when I was involved in the young workers conference and in policy conferences, I devoted myself to studying the issue of renovation within the party. I made thorough studies of Taiwan society, the mood of the voters, and of the drawbacks in the constitution of the KMT. The first time I addressed the central Standing Committee I pointed out a few of the weaknesses of the party, the underlying crux of which was the fact that the party is disorganized, there is a shortage of centripetal holding force from the party members, and the party has lost its appeal to the younger party members. I feel these points are quite serious. The party cannot alter its constitution in response to the changing times. The party still holds to an authoritarian, top-to-bottom management style with oligarchic-type operations. This is true when we talk about nominating candidates, as well. It puts the party out of synch with society.

Party members have long felt that their powers and their duties are not balanced, that they have all duty and no power, and that they lack even the slightest degree of opportunity to express an opinion. If you want a party member to help you out in an election, but you will not even let him participate by expressing an opinion about the nomination, why would he want to help you out in the election?

[Question] Can you be a little more specific—when you set out to design the primary system, did you consider how to simultaneously provide for the local political moods?

[Answer] It is irrational to criticize the primary system for not having taken into account local political moods. It is precisely because this issue of local mood comes up that we have to hold primaries. These days, anything that you do will be less likely to involve corruption if you do it out in the open rather than in the backrooms. If I am out working in front of the people and you are sitting in the backroom working, which of us is more likely to fall prey to corruption? Who today is willing to brazenly flaunt the law or do bad things? Everyone is trying to preserve his face!

The second point is that despite the problems with local factions and rigged nominations, politics basically involves communication and coordination. Communication and coordination, however, must be done within a system, it must be worked out through the mortar and pestle of the party member's experience until coordination is nearly complete, and then the party members must be allowed to express their opinions. In democracy, substance and form are equally important. If you feel that having party members express their opinions is not a very thorough approach, that the voting rate for party members is not too high, that the mix of party members is not too good, well, in the end, the party member is the party, and so, when it comes time for the party to make important decisions, you must let the party member express his opinions.

Also, I encourage fair competition. If the KMT does not have a way to provide for fair competition within the party, then the party's candidate will be incapable of competing fairly with outsiders in the election. Because the choice of this candidate is made through coordinated

rigging and because he does not have to compete for selection, he can continue to let the party spend money and effort to pave the way for his victory! [passage omitted]

[Question] Please make a diagnosis—has the primary system that you support died an early death?

[Answer] It exists in name only. In the real world, it has ceased to exist. Yet, to say it "exists in name only" may be overstating the facts, for there are still some areas that continue to hold primaries.

Beijing's Reaction to Cross-Strait Statute

92CM0395A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 281, 1 Aug 92 p 7

[Text] Exchanges between Taiwan and the mainland are becoming closer and closer. At times the situation seems as excellent as a sunny day, but at other times it's like walking on a bumpy back road, full of hidden obstacles.

After two or three years of debate, the Legislative Yuan finally passed the "Cross Strait Statute," which serves as a legal reference for future administration of exchanges, however, very much against our expectations, the CPC, has not only shown hostility towards the regulation, but directly denies the existence of the legally constituted authority of the Republic of China [ROC]. The Kuomintang [KMT], rebuffed by the CPC, can do nothing but encourage itself, demanding its members to be self-respecting and self-improving, and not to be upset by the mainland's response.

This regulation cautiously avoids the argument of unification versus separation, and employs a flexible mandating of legislation to leave plenty of room for future cross-strait exchanges. This type of act, without following any precedent, involves legislative skill and political intellect, and can be considered an exceptional performance by the Legislative Yuan. Though both sides of the strait had many intense arguments and were deadlocked at some impasses during this legislative process, they were able to reach some common views. The regulations deal with the topic as emerging from a new legislative realm, one vast enough to include Mainland China, while the more difficult point is that it must reflect the fact of separation as well as hope for a future reunion. People are not pleased by the regulation yet finally, reluctantly accept it.

The CPC Office of Taiwan Affairs said, "The ROC's legislation was finished as early as 1 October 1949." This statement, while intimidating to the KMT, is PRC national policy, and is common knowledge to Mainland Chinese. Sometimes the CPC deliberately ignores the title "Republic of China" in its belief that the ROC is something long ago obsolete, and so it doesn't care if Taiwan rejoices once in a while for something that no longer exists.

Although the ROC's legislative power in Mainland China did vanish a long time ago, the ROC has never been destroyed. Instead, it has become more prosperous than ever before. At present, the CPC's denial of the ROC definitely encourages the movement towards Taiwan's independence.

On the one hand, the CPC refuses to recognize the ROC, on the other hand, it insists on the principle of "one China," which certainly means the People's Republic.

We have been proposing an equal political system to the CPC. Sometimes, the CPC feigns ignorance, letting us explain the meaning of "one China" according to our wishes to tantalize us, but from time to time there must be some true words from the CPC. If we Taiwanese don't hold a feeling of common fate, but wish to share "one China" with the CPC, we are really playing a rhapsody.

Importation of Foreign Labor Opposed

92CE0668C Taipei CHING-CHI JIH-PAO in Chinese 6 Aug 92 p 2

[Article: "The Current Rise and Fall of Society Seen in Terms of the Importation of Foreign Labor"]

[Text] Despite the great increase in the amount of money in the country resulting from the long and rapid growth of the domestic economy and the tremendous expansion of foreign trade, by contrast, labor seems to be in short supply occasioning a steady rise in wages and a gradual increase in production costs. In the construction and manufacturing industries, in particular, labor is especially difficult to come by. Consequently, the number of difficulties encountered are also numerous. At the same time, however, because their economic development lags behind ours, and because they have large populations, plentiful manpower, and low wages, one after another other parts of southeast Asia, including all of the ASEAN countries, the China mainland, and Vietnam, have recently adopted policies for opening to the outside world. Driven by these circumstances, various Taiwan industries that are able to transfer their operations abroad, have invested in the foregoing countries to make fullest use of their cheap manpower. However, since some industries cannot move elsewhere because of their special character, they have gradually begun to make appeals in the hope that government might permit them to import foreign laborers to make up for the domestic manpower shortage. Government has several times considered and studied the matter, analyzing the advantages and disadvantages, finally making a policy decision based on the desires of captains of industry to permit the importation of foreign labor under certain conditions. It has also drawn up laws as a basis for examination, approval, and control. It appears that the importation of foreign labor will become systematized in the future.

We have always maintained a cautious attitude about the importation of foreign labor, because this is not purely a matter of the hiring of production manpower and production costs that the entrepreneurs suppose. Rather it is

one that has many ramification, and from which the side effects are great. Furthermore, once the side effects occur, they become difficult to resolve; consequently, we do not advocate removal of restrictions on the importation of foreign labor, but rather hope for the adoption of other means to solve the problem. However, since the government has already decided to remove restrictions, we are unable to oppose this policy. Nevertheless, we have various views, that stick in our throats like bones and will not let us rest till we have coughed them up. Therefore, we intend to state frankly that although this need not become a preoccupation, we hope that in the importation and administration of foreign labor, the units concerned can pay more attention to the following matters:

In a country of small size and great openness such as ours, sooner or later a labor shortage will occur as the economy grows rapidly and trade steadily expands over a long period of time. However, the way to solve this problem is to substitute capital and technology for labor, i.e., to develop capital- and technology-intensive industries to take the place of labor-intensive industries. In light of this, our government long ago established the development goal of revamping the industrial structure to accelerate an upgrading of the economy. Thus, this revamping of the industrial structure must be gone through for the economy's thorough remolding and rise to a new level. Smooth completion of this revamping of the industrial structure will benefit not only the economy as a whole, but individual industries as well. Furthermore, the labor shortage provides this turning point for us to seize. Unfortunately, many industrialists in the country cannot see this correct orientation clearly; instead, they cherish the outmoded and preserve the outworn, hoping to maintain industry in its present state. Faced with a domestic labor shortage they do not go outside the country, but rather they hope to import labor from outside. Revamping of the country's industrial structure is very difficult to complete in this way. Just as soon as the wages of foreign laborers rise, and the importation of labor has to be discontinued, the opportunity for a revamping of the domestic industrial structure will have been lost forever.

Of course, when one is in the position of an individual industrialist, one cannot consider these problems. This is because, for him, the importation of foreign labor is positively beneficial. Low wages, reduced costs, no possibility of strikes means ability to maintain his profits. However, every action has its internal benefits, but it also must have external consequences, and the external consequences have an advantageous and a disadvantageous aspect. For example, although an industrial plant can save on costs by burning raw coal, the environmental pollution this causes harms others, which is a disadvantageous aspect of the external consequences. On the other hand, if one has flower pots everywhere in one's own garden, they are both pleasing to oneself, and also provide a fine living environment for others. The external consequences stemming from the importation of foreign labor have broad ramifications. They have a bearing on society, culture, public order, and even racial issues. One of the most serious issues is that it is easy to import foreign labor, but frequently difficult to get rid of it. As the numbers increase with time, serious social problems arise. America's negro problem is rooted in history, but in recent years the Mexican labor problem has even more disturbed the American government and society leaving them in a quandary. Because of the manpower shortage following World War II, Germany imported foreign laborers from eastern Europe. Today they number more than 20 million and have become a minority nationalities problem for Germany. These cases in point merit our careful consideration. Sex offenses and public order problems resulting from the importation of foreign labor are particularly to be guarded against!

Actually, if we delve more deeply, we find that the country's labor shortage is not all that severe since some young labor is languishing in voluntary unemployment. With proper guidance, this can also be an ample work force. However, as industrialists note, nowadays young people in Taiwan like to avoid dirty jobs and they like to enjoy themselves. Once employed, they lack a spirit of hard work, thrift, virtue, and respect for work; thus, they are not as advantageous as the importation of foreign labor. Superficially, this criticism seems reasonable, but closer examination shows it is not necessarily the full story. Who doesn't like to avoid dirty work? And who doesn't like to enjoy life? After all, economic progress is for the purpose of enjoyment. The problem is that one certainly should enjoy himself when it is time to enjoy, but he should also work hard when it is time to work. Just what is the reason that some young people lack a spirit of hard work, thrift, virtue, and respect for work? It seems that certain rich people in Taiwan's society, including some industrialists, should bear responsibility. As the country's income level has risen during the past decade, the concentration of wealth has given rise to an atmosphere of extravagance and waste, which has led to gambling and speculation, a craze for money games, avarice and selfishness, and a seeking after material enjoyments. Certain "big tycoons" are worse than the "Shanghai Bund" personages seen on television. They are miscreants through and through. As a result of speculation and monopolization of real estate and stock markets, their wealth increases astronomically. Since money comes easily, Taiwan has become an important market for the sale of the world's name brand products. People drink XO brandy like water, and the streets are filled with Rolls Royces and Porsches. The sex business is everywhere. How could such an atmosphere not serve as a model for youth? They are unable to take part in the money game, but they hanker for material enjoyments. The social elite is unwilling to engage in self-examination, so how can one bear to criticize young people severely? Can it be that we ourselves have lost the virtues of bearing hardships and working hard, diligence, thrift, and respect for work, but demand that young people maintain this lofty virtue? Is it not a case of the

chickens coming home to roost? Today's politics and social atmosphere is truly a case of "just a few people controlling everything."

In addition, there is the contention that most families today have old relatives and young children who require a lot of care, or that have chronic illnesses requiring round-the-clock looking after, but that domestic help cannot be found in Taiwan today. The man and wife in every family have to go away to work every day, and they cannot get away to look after those at home, so they hope to bring in some foreign labor for domestic employment to divide up the work. Such a view not only makes us feel sorry that the country's social welfare system is not yet perfect and that we must urgently rouse ourselves to catch up, but we cannot but secretly worry that the family concept has changed. The family is the foundation for the social structure. Only when every family is able to look after itself can society remain stable. We cannot get rid of the lofty theory that one has to be able to tend a family before ruling a nation. This might be criticized as "shallow and pedantic," but in today's world of completely electric households, looking after a family is no difficult task, not to mention how one could have peace of mind if he or she turned over young sons and daughters or old relatives to the care of a foreigner who could not speak the same language, and who had different customs! This represents a step backward and regression for society. Is American more advanced than we? How many people there can afford to hire servants? In Taiwan, various people having a political and social position who succeeded economically, such as former Vice President Hsieh Tung-min, said that doing everything oneself instead of blithely having someone else do it is the rule in Chinese culture. The entrepreneur, Mr. Sun Fa-min [1327 3127 3046] is able to afford servants, yet he and his wife, who are successful and famous, are in the habit of taking care of themselves.

On the basis of the foregoing analysis, we would like to raise several hopes:

(1) Even though the importation of foreign labor has become government policy, we hope that it will be limited to just several trades, particularly those that can be closely controlled, such as the construction industry for the Six-Year National Construction Plan, and ordinary manufacturing industries requiring workers having physical strength. Service industries should be positively off limits, and domestic servants must also be strictly controlled.

(2) Once imported, they must be strictly controlled. When their time is up, they must return home; on no account should they be extended.

(3) The period of their stay in Taiwan must be strictly regulated; they should not be allowed to enjoy the full rights of citizens.

(4) A maximum must be set each year for the total number imported, and a maximum limit must also be set for the total number of foreign workers. If this maximum has already been reached, unless some leave Taiwan to return home, on no account may others be imported.

If the foregoing points can be implemented, the external consequences of the importation of foreign labor can, it is hoped, be reduced to the minimum. Not only will it be possible to ensure the right of the domestic work force, but the domestic economy will also not be greatly harmed.

In short, the development of our society to its present state offers unbounded hope and extreme dangers. The rise and fall of Rome provides a historical mirror. Naturally, if we are to follow the road of prosperity, we will have to begin with concrete matters such as hard work and thrift.

Banks Play More Important Role To Further Reforms

92CE0690A Hong Kong CHING CHI TAO PAO [ECONOMIC REPORTER] in Chinese No 30, 3 Aug 92 pp 10-11

[Article by Li Kuopao (2621 0748 1405), director and chief administrative officer of the Bank of East Asia: "The Role of the Hong Kong Banking Industry in China's New Round of Reform and Opening Up"]

[Text] **Special Policy Features of the New Round of Reform and Opening Up**

In the past, Hong Kong's banking industry has always played an active role in China's reform and opening up. Since the mid 1980's, as the production facilities of Hong Kong's manufacturing industries moved northward on a large scale, and China increased its use of foreign financing, the circulation of funds between China and the Hong Kong banking system has grown even more rapidly (see accompanying table).

Table: Total Claims Against China and Debts to China of the Hong Kong Banking System

Year	Debts to Chinese Banks	Claims Against Chinese Banks	Claims Against Nonbanking Organizations in China
1984	23,204	10,703	1,822
1985	22,034	24,409	6,276
1986	27,139	30,602	11,521
1987	48,415	43,549	22,298
1988	59,879	60,527	39,404
1989	79,126	42,755	48,600
1990	116,539	70,386	50,420
1991	140,244	104,198	47,411

Units: Millions of Hong Kong Dollars. Note: All figures are year-end balances. Source: Banking Section, Government of Hong Kong

China's economic growth has been rapid since the start of this year. It is estimated that China's gross national product could grow nine percent for the whole year (in 1991 the growth rate was seven percent). Reform and opening up has also entered a new stage. Briefly, the policies of the new round of reform and opening up have the following special features:

(1) Geographically reform is no longer limited to the five special economic zones, but is extended to the Changjiang River basin. Since 1979, China's opening up to the world has gone through several stages. First, starting in 1980, four special economic zones were established successively in Shenzhen, Zhuhai, Shantou, and Xiamen, with Hainan added in 1988. Next in 1984, it was announced that 14 coastal cities were being opened up. In May of 1990, the State Council of China announced that Shanghai and the east bank of the Pu River would be opened up, causing the focus of opening up to shift to the Changjiang River basin. In June of this year, China decided to open 28 cities and eight districts in the Changjiang River basin, straddling an area that stretches east to Shanghai and the east bank of the Pu River, and west to Chongqing in Sichuan, and that accounts for one-fifth of China's entire gross national product. By now, a pattern of comprehensive opening up has taken shape.

(2) The lines of business opened up to the outside world will include tertiary industries, including banking, insurance, finance, retail sales of real estate, accounting, legal and consulting services of various kinds, etc. In a document concerning accelerating the development of tertiary industry, released at the end of June of this year, China's State Council pointed out that this action will help to increase production capacity and further attract foreign capital. China is planning to raise the proportion of gross national product accounted for by tertiary industry, from approximately 27 percent at present to 33 percent by the end of the century. At present, among the main open cities and provinces, the proportion of gross national product accounted for by tertiary industry in such places as Shanghai, Guangdong, Fujian, (31 percent, 34 percent, and 29 percent respectively) are all higher than in China as a whole. This reflects the fact that the level of tertiary industry is relatively high. Accelerating the development of tertiary industry fits in perfectly with their economic direction for the future.

(3) From now on, with the spread of the stock share system and enterprise reform, China will speed up the introduction of the market mechanism to solve some deeply rooted problems in its economic system, such as losses at state-run enterprises. Also, in keeping with the development of tertiary industry, China will need the aid of foreign capital even more to establish the management framework, legal regulations, and distribution channels that service industries require.

As far as Hong Kong's banking industry is concerned, the development described above implies new business opportunities and even greater room for action, and is a positive sign.

Expanding Networks of Branches in China

By the end of March 1991, there were 47 branches and commercial offices established in China, by banks and financial organization from 29 countries and districts. In addition, the 14 open cities on the coast had a total of 218 agencies representing banks and financial organizations. China's policy of comprehensive opening up will allow foreign banks (including Hong Kong banks) to expand the scope of their activities to the special economic zones, and to districts outside of Shanghai. The People's Bank of China is already preparing to open seven coastal cities to foreign banks, including Nanjing, Tianjin, Dalian, Fuzhou, Ningbo, Qingdao, and Guangzhou. It is estimated that there are already more than 30

foreign banks applying to open branches in China. From this, we can get an idea of how eager they are.

Accelerating the Import of Foreign Capital and Improving Financial Facilities

In the past, the Hong Kong banking industry has always served as a channel for China to raise funds abroad. It is estimated that 70 percent of commercial loans to China are syndicated loans, and more than 60 percent are raised in Hong Kong. Looking to the future, as China's need for funds increases, the role of Hong Kong's banking community in raising funds will become even more important. Officials at China's Ministry of Foreign Economic Relations and Trade once indicated that, in the next five years, the plan is to bring in $25 billion in foreign capital, surpassing the $23.3 billion in capital that China used between 1979 and 1991. Besides this, Guangdong Province which borders on Hong Kong, is also preparing to bring in $11 billion in foreign capital during the Eighth Five-Year Plan (1991-1995). If you stop to think that the amount of investment needed to develop the east bank of the Pu River (a plan extending into the next century) will exceed $10 billion, then China's capital requirements are truly enormous.

It is worth noting that private enterprises also have a need for capital, not just the state and state-run enterprises, and its growth cannot be ignored. There are more than 26,000 privately-run enterprises in Guangdong alone, about one-fourth of the total number for all of China. They cannot borrow from foreign banks, which is a tremendous loss for both sides. In the past, Hong Kong banks could not fully realize their potential in raising capital, because of restrictions that prevented them from doing business in renminbi [RMB] or providing services to foreign-related enterprises, and certain limitations that still apply to the financing of projects in China, where loans must be made in hard currency. Recently, the People's Bank of China has been considering allowing foreign banks to do business in RMB on a limited scale. This is happy news for the Hong Kong banking community.

Most individual lines of business within the tertiary industry, such as food and drink, services, and retail sales, are handled by private businesses. If they could obtain funds from Hong Kong banks, then we would expect them to develop at a tremendous pace. At the same time, this would stimulate development of tertiary industry as a whole.

Aside from this, as China establishes a bond market to absorb personal savings, the Hong Kong banking community can also actively participate. For instance, it can assist in establishing the framework for a capital market in China and in perfecting its operation, or it might participate in the issuance exchange of financial instruments, thus bringing Chinese banks, and financial organizations, to serve as financial intermediaries in the transformation of personal savings into constructive investment.

Sharing Experience in Management and Service

In the area of bank management, there is even more work for Hong Kong banks to do. In the past, the Chinese banking system mainly used administrative orders to regulate and control the economy, but recently it has begun to make more use of monetary levers, such as interest rates, and at the same time, has tried to improve relations between the People's Bank of China and local and specialized banks. In the past, the People's Bank of China regulated credit mainly by allotting quotas, but recently it has worked to establish a self-restraint mechanism. For instance, the banks in Shenzhen have begun to compile "enterprise credit ratings" to investigate the credit histories of enterprises, and to establish procedures for review of loan applications. At the same time, in Guangdong Province, an interbank loan market is taking shape to improve the circulation of capital. Hong Kong banks have more than 40 years of experience in interbank loan markets to offer.

As economic reform enters a new stage, Chinese banks will also develop new services to adapt to the needs of their customers, such as mortgage loans for housing, trade in foreign currency and bonds, etc. Taking the example of mortgage loans, the Guangdong branch of the Chinese People's Bank of Construction has provided mortgage loans for housing since the beginning of 1990, and by the end of March 1992, had already provided 300 million RMB worth of mortgage loans to 7,000 families. The Shenzhen branch of the Chinese People's Bank of Construction has also learned from Hong Kong's experience. In 1991, it introduced real estate loans for multi-unit buildings, with a maximum term of 10 years. Mortgage lending for real estate is one of the main items of loan business for Hong Kong banks, accounting for more than 20 percent of loans made within Hong Kong. In the last few years, because the Hong Kong real-estate market has been hot, growth in mortgage loans has been more than 30 percent per year. Therefore, Hong Kong banks also have valuable experience to offer in the area of mortgage loans.

To sum up, during the new round of reform and opening up, the Hong Kong banking industry will play an even more active role in China, and it will have even more business opportunities. The banking industries of China and Hong Kong should improve their cooperation to assist in the development of China so that both sides can benefit.

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