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NATIONAL AFFAIRS, POLICY

Problems, Emphasis of Economic Reform in 1992

93CE0278A Chongqing GAIGE [REFORM] in Chinese No 1, 20 Jan 93 pp 68-71

[Article by Xu Dong (6079 2639): "A New Perspective on Reforms of the Economic System in 1992"]

[Text] In 1992, throughout the country, each region and each department conscientiously implemented the words Comrade Deng Xiaoping spoke on his southern inspection tour, and taking the victorious convening of the 14th Party Congress as their motivating force, progressively liberated thinking, transformed ideas, and in accordance with the State Council-authorized "Main Points of Economic System Reform in 1992," grasped the opportune time to really stress doing solid work, taking China's reform and opening up to a new stage.

I. New Developments in Reform and Opening Up

1. A major transformation occurred in conceptual thinking, and there was a striking increase in consciousness about reform and opening up. In a series of major speeches, Comrade Deng Xiaoping penetratingly set forth his views on a number of major theoretical and practical issues having to do with reform and opening up and economic development. Every region and every department, in the process of grasping and comprehensively implementing the spirit of Comrade Xiaoping's important speeches, progressively liberated thinking, transformed ideas, and broke free of the conundrum of calling things "socialist" or "capitalist," and grasped opportunities to accelerate building of the economy and accelerate the pace of reform and opening up. On the basis of the local economic system reform work planned early in 1992, the party committees and governments of a sizeable number of provinces, autonomous regions, and municipalities directly under the central government also progressively drafted specialized documents, and some major reform measures were introduced one after another. Many provincial and municipal leading comrades personally drafted reform and opening up plans, launched pilot projects, and did not slacken their efforts. Such areas as Jiangsu, Hebei, Jiangxi, and Hubei have also strengthened organizational reform mechanisms, and strengthened the position and coordination functions of organizational reform departments.

2. Taking transformation of the enterprise management system as the focal point, there have some breakthroughs in terms of the thoroughness and difficulty of enterprise reform, and the strengthening of related legislative work. 1) According to State Council plans, the National Organizational Reform Committee and relevant departments have drafted the "Regulations on Transforming the Management Mechanisms for Industrial Enterprises Owned by the Whole People," which the State Council has already issued and put into effect. Shandong Province has taken implementing the "Regulations" as its "number one project," and Shanghai, Jiangsu, the China National Petrochemical Corporation, and the Ministry of Commerce have also separately drafted concrete regional and industry regulations. 2) At the same time as efforts are being taken to improve the external environment for enterprises, the country as a whole has 60,000 enterprises, employing 30 million people (or 30 percent of the total workforce, and of this Shanghai has 79 percent), stress is being put on conducting reform within the enterprise of the labor, personnel, and wages systems, and correspondingly on the acceleration of the pace of reform of the social safety system. 3) Share system pilot projects are being actively promoted, and are gradually moving towards standardization. According to State Council plans, the National Organizational Reform Committee and relevant departments have drafted in succession a series of 17 policies and regulations such as "Measures for Setting Up Share System Enterprise Pilot Projects" and "Suggestions for Share Limited Company Standards." In 1992, China approved the formation of 363 new share enterprises (among which 224 were share limited companies, and 139 were limited liability companies). There were also 34 enterprise public stock issues in Shanghai and Shenzhen, with the number of enterprises issuing B shares increasing from one at the end of 1991 to 17, and Guangdong, Hainan, Fujian publicly issued nonmarket shares related to basic work currently being conducted. 4) Experiments are being promoted in enterprise annexation and bankruptcy, and adjustment of enterprise organizational structures is accelerating. In the first half of 1992, in Sichuan Province alone there were 2,288 enterprise annexations, or more than one quarter of the total number nationwide. Various locales, for certain enterprises that have been losing money for a long time, conducted bankruptcy experiments, and between 1989-1991, throughout the country courts at all levels accepted and heard 247 cases, and wound up 124 cases; in the first seven months of 1992, they accepted 260 cases, and resolved 117. 5) In accordance with the demands of enterprise group standardization, for 55 of the largest scale state enterprise groups, standardized organizational and reform work is being done when it comes to production, administration, trade, and finance. At the same time, more than 1,600 enterprise groups are being directed in the adjustment and reform of management systems and operational mechanisms, and already there are 431 development models. 6) In accordance with the directives of State Council leading comrades, the National Organizational Reform Committee along with departments handling economics and trade, on the basis of the summarized experience of the Anshan Steel Works, have drafted new policy measures, and are progressively expanding the autonomy of Anshan, supporting Anshan in the development of aspects of reform and opening in leading to a new stage.

3. Price reform has moved forward at a major pace, and reform of the circulation system and the fostering of market construction has accelerated. In terms of price reform: 1) Following the raising of the grain order price by 18 percent in early 1992, since 1 April there has been

a broad range of increases in grain purchase prices, and an equal pricing arrangement was implemented. There are already 16 provinces and 380 counties where the market fully sets the price of grain, and among these Anshan City has also abolished its grain coupon system. 2) The prices and fees for some basic products and public utilities have been readjusted. The price of 11 millon tons of crude oil has been changed from a par price to a negotiated price. The prices of some steel products and the price of washing and refining coal have been increased. Since 1 July, the state has also increased prices for railroad freight transport, coal and natural gas. After operating for several months, the market price situation is normal. 3) The retail prices of some products are gradually being freed. According to market statistics from nine provinces including Hebei, Shandong and Beijing, in the first half of the year, the prices and fees for a total of 552 products were freed up.

In terms of reform of the circulation system and development of markets: 1) Approximately two-thirds of provinces and cities have issued documents calling for acceleration of market development and progressively invigorating circulation; a set of regional wholesale markets and production material markets including grain, cotton and various types of agricultural and sideline products, and industrial products have been established. Financial markets, in particular, capital markets including various types of negotiable securities and stocks, are developing quite well, while there has been a relatively large increase in bond issues, and business activity has been comparatively brisk. The social labor employment service system has taken basic form, and the labor service companies existing at various levels already total 65,000, with another 10,000 or more employment agencies. Shaanxi Province has benefitted from measures to open markets, dismantling 2,289 tariff barriers, and establishing 143 new markets. 2) Seventeen provinces, on the basis of popularizing the "four opens" experience of Chongqing's state cooperative businesses and enterprises, have also had new development, and now throughout the country pilot project enterprises account for 60 percent of the total number of state cooperative businesses and enterprises. There are more than 200 local, city, and county grain enterprises extending the experience of Tianjin.

4. Real estate system reform has gotten underway in a comprehensive manner. In 1992, with the exception of Tibet, land use rights with right to sell and payback test points were launched throughout the country. Up to now, right to sell land use extends up to 2,000, with a average size of 2,500 hectares. In accordance with the guiding principle of "a unified policy, suiting measures to local conditions, decentralized decision making, and classified guidance," each area has accelerated the pace of housing reform. The central government has put into effect housing reform plans for the Beijing party and government organizations and the military in June and July, respectively. After the 1992 Shanghai housing reform plan came out, the overall plans of 21 provinces, autonomous regions, and directly subordinate municipalities including Jiangsu and Tianjin, have been ratified by the State Council's Housing Reform Leading Group and are being put into effect. Among the remaining nine provinces and autonomous regions which have not yet requested authorization for a plan, Jiangxi, Hainan, and Qinghai have already handed over plans to the government for examination and approval. Throughout the country an atmosphere for housing reform has basically taken shape.

5. County level comprehensive reform has made progress and has greatly expanded in scope. In 1992, throughout the country county level reform has received substantial attention, and overall there are 23 provinces, autonomous regions, and directly subordinate municipalities that have decided on comprehensive reform pilot project counties, and over extensive areas have conducted bold reforms and investigations. Some places that are still in comparatively early stages such as Qionglai in Sichuan, and Zhouzi in Inner Mongolia, under the new situation have had a gradual development; a large number of counties and cities, in accordance with the reform trend of "small organs, big service," have readjusted organizations, and changed functions. In Shandong Province alone in 1992, 31 organization reform pilot project counties were designated. In May, the State System Reform Committee held a conference in Changshu City in Jiangsu to exchange new experiences in county comprehensive reform.

6. Efforts to open up to the outside have achieved new progress, and new structures for opening up to the outside have been formed throughout places located in coastal, riverside, and border areas. 1) In terms of opening up to the outside, coastal areas have developed in depth. At the same time as a set of preferential policies was conferred on the Pudong Economic Development Zone, approval was given for Hainan to attract foreign business investment in establishing the Yangpu Economic Development Zone; along coastal areas the establishment of five customs zones was approved, foreign investment banks and retail businesses have been allowed to enter coastal cities, while Guangzhou has proposed the use of 15 year period to catch up to the "four dragons," and Taiwan businesses and Hong Kong businesses now form a new wave of investment in the southeastern coastal areas. 2) Opening to the outside has rapidly expanded from coastal areas to border and riverside areas and internal areas. In the first half of the year (1992), four riverside cities were opened up, as were 19 provincial capitals, 13 border cities and towns, and according to incomplete statistics throughout the country more than 100 economic development zones, and open zones were established. 3) Foreign economic trade cooperation has been progressively strengthened. In the first half of the year, for the country as a whole some 13,000 businesses were granted permission to use foreign capital, with a negotiated investment total of $14.6 billion, with the effective foreign capital used totalling $3.3 billion, more than double in comparison to

last year. In accordance with meeting the requirements for China to join the General Agreement on Trade and Tariffs, the emphasis is on scaling down the import duties for some products, and eliminating import product regulatory taxes and a number of other such measures to reform the import management system. In the first half of 1992, the overall import/export trade total increased by 20 percent over a similar period the year before. Of this, imports increased by 23.4 percent, some 6.1 percent higher than the increase in exports.

II. Problems Worth Noting

With the situation being very good, we must keep a cool head, and conscientiously analyze the contradictions and problems in reform and opening up. These problems are the primary ones at present:

1. The transformation of the functions of government lags reform of the macro-management system. In the last few years, though this has been investigated to some extent, it seriously lags behind the development of the commodity economy and the new situation involving the continuous acceleration of reform, and to a certain degree has affected the progress of building a new economic system. The major issues are: 1) macroscopic regulation methods such as planning, investment, finances and taxes, and banking, are still not suitable to the requirements of the microscopic reality of economic activity, and it is difficult to have effective solutions to some of the profound contradictions and problems inherent in long-term development, such as improvements in businesses, structural readjustment, financial deficits and inflationary pressures, etc. 2) Some government ministries are still accustomed to administrative type management methods, and continue to interfere with enterprises, particularly in the concrete production and management activity of large- and medium-scale state-run enterprises, obstructing the changeover to an enterprise management system. 3) Thoroughgoing reform requires the implementation of new readjustments in the structure of power and benefits, and some ministries maintain vested power and interests, restricting the substantive pace of functional transformation; government organs are bloated, overstaffed, administrative efficiency is reduced, and this is a factor which affects the overall pace of the acceleration of reform. 4) Because duties are not clear, some ministries go their own ways, administration comes from many doors, and lacks unified leadership and coordination. For example, social security system reform is divided between five ministries, making progressive deepening of this important reform quite difficult. 5) There has been a large increase in the number of specially established organizations, without the required restraining system.

2. The advance of reform has been uneven. In 1992, there were rapid changes in the situation of reform, opening, and development, and in the process of the focus of work and some policy readjustments, a few areas and departments were slower in "changing their way of thinking," understanding was not unified, and there were some who took a wait and see attitude, unilaterally hoping that the central authorities would bestow preferential policies on them, etc.; some ministries have not acted according to State Council issued documents calling for a period of conscientious putting in order and rectifying, and a number have, using policy measures formed under special conditions, still given full play to their inertia-generating function when it comes to real economic activity.

3. Among market pilot projects such as share system enterprises and stock listing, there are a number of problems that should be noted: First, in some places that are implementing share system pilot projects the goal is not clearly defined, and is not viewed from the angle of going through a share system to convert to a management system, and raise economic efficiency, but is only viewed as a way to raise funds, and expand production. Second, the basic type preparatory work of some locales has not been done well, and they have blindly tried to catch the "first bus" of share system pilot projects, and in particular public issue stocks. In August 1992, due to an error in the guiding ideology, there were errors in the stock issuing methods and policy decisions, and as a result the Shenzhen stock market incident occurred, an event which certainly had adverse effects internally and abroad. The relatively large number of share system enterprises are not standard, and do not conduct affairs in accordance with the basic rules of the share system. Third, a few provinces and municipalities ignore the stipulations of State Council documents, and without authorization set up stock exchange organizations, have not yet requested authorization to forestall public issuing of stocks and stock subscription certificates; relevant rules for the period after stock listing have not been perfected, and the management system is not strict, so that some abnormal phenomena have emerged. Fourth, at present the supply and demand contradictions of the stock market are quite pronounced, and the number of stocks on the market is limited, there are many who want to buy stocks low and sell high in order to make a fortune, and the stock market price fluctuations are not sufficiently stable.

4. Real estate management urgently requires strengthened supervision, and close attention to the law. 1) Due to the chaos in real estate management, there has been a tremendous erosion of profits generated by state property. At present, there has been a sharp increase in the number of real estate development organizations under ownership of the whole people, under collective ownership, and even under individual ownership. In the country as a whole, at present there are some 4,000 real estate development corporations, and 5,700 real estate management units, as well as 1,500 real estate exchanges. At present, the land that has nominally entered the transfer market amounts to only 1 percent of the total, which is clearly too little. However, the bulk of the 99 percent of administrative transfer land use rights have in reality already entered into the realm of circulation, and form a "latent market," creating tens of billions of yuan

worth of land income due the state which will flow into the pockets of units and individuals, which will create real estate barons, and in turn will also induce those holding land to continue through administrative transfer to take more land, take better land to obtain favorable land profits, causing chaos in the real estate market. 2) Real estate exchange prices are displaying abnormal fluctuations. On the one hand, in some places, land rental price competition is relatively low and this attracts foreign investment. On the other hand, large- and medium-sized city real estate prices are excessively high, for example, in Beijing the price for each square meter of living space is typically around 4,000 yuan. 3) Real estate has two masters, and the duties of real estate management are not clear. Housing property subordinate construction departments, and real estate subordinate land offices overlap in terms of management duties, with the result that the various departments each do their own thing when it comes to real estate development and use. The above situation makes clear the need to draft real estate management and market exchange regulations.

III. Need To Emphasize Proper Handling of Certain Work

In confronting the excellent situation involved with the rapid development of reform, and having in mind the present situation and considering the long-term mission of reform, there is a need to emphasize properly handling and grasping the following aspects:

1. Expending major effort to continue to disseminate and implement "Regulations on Transforming the Management Mechanisms of the System of Ownership of Industry and Enterprises by the Whole People." The "Regulations" are extremely important documents on transforming the enterprise management system, promoting enterprises to move towards the market, and pushing forward the fashioning of a new economic system. Recently, the party Central Committee and the State Council dispatches on implementing the "Regulations" have pointed to even clearer requirements. Implementing the "Regulations" will involve a long-term period of work, and is a priority task facing enterprise reform.

2. Conscientiously transforming the functions of government, accelerating the pace of macro-scale management system and government organizational reform. In accordance with the requirements of the 14th Party Congress, at the same time as close attention is paid to drafting an overall program for reform of government organizations, government departments at all levels should progressively transform their ways of thinking, and in accordance with the requirements of a socialist market economic system, transform management methods and functions, simplify the administrative structure, and cut excess personnel. It is necessary to continue to carry out comprehensive reform at the county level, particularly organizational reform pilot projects.

3. Strengthening management and legislation, and guide the healthy development of share system pilot projects. First, there is the need to stress proper handling of norms for share system enterprise pilot projects, and do so in strict accordance with the "Views on Standards," first, basic type work involving making good property appraisals, and bounding property rights, and providing conditions through an approval process to be able to publicly issue stocks. Second, there is a need to strictly implement the State Council stipulated examination and approval process, and the organization and establishment of share system enterprises, and issuing of stocks must be strictly in accordance with the procedures for examination and approval. It is strictly forbidden to violate the examination and approval process, and to overstep one's authority and without authorization approve issuing stocks and put them on the market. Third, it is necessary to pay close attention to drafting and as early as possible issuing regulations relating to stock issuing, and stock exchange and market management, and perfect the examination and approval work of the Shanghai and Shenzhen Stock Listing Committees, in regard to the duties of the two cities when it comes to foreign enterprise stock exchange listings. This approach is in accord with international practice, and also makes it possible to avoid having the state bear the bulk of the risks and responsibilities. Fourth, with the exception of three provinces, those provinces, autonomous regions, and directly subordinate municipalities required to publicly issue stock in accordance with State Council requirements, can choose one or two comparatively good enterprises, and reequip them, do preparatory work for issuing and listing, and when the opportunity is ripe, expand the scope of the stock listing.

4. Conscientiously research the basic characteristics and structures of a new socialist market economic system, and pay close attention to revising the 10-Year Program for Reform of the Economic System and the Eight Five-Year Plan program. The 14th Party Congress has already quite clearly pointed out the goals of China's economic system reforms, and pointed to the establishment of a socialist market economic system. This new goal in theory and in practice involves many problems which must be conscientiously probed into and resolved. From now on, within a considerable period of time, it will be necessary to organize forces, research the basic characteristics and structures of a socialist market economic system to promote continuous reform of the economic system.

Developments, Future Direction of Reform

93CE0303A Beijing ZHONGGUO JINGJI GAIGE [CHINA'S ECONOMIC STRUCTURAL REFORM] in Chinese No 1, 1 Jan 93 pp 6-11

[Article: "Building a Solid Foundation for Socialist Market Economy"]

[Text] **Theoretical Innovations and Breakthroughs in Understanding Put Chinese Reform at a New Starting Point**

Nineteen ninety-two, which just ended, was a remarkable year in the history of reform and the open policy in China. Guided by the important speech delivered by Comrade Deng Xiaoping while he inspected the south and the spirit of the plenary session of the Political Bureau of the CPC Central Committee, China was quickly engulfed in a new wave of enthusiasm for accelerated reform, openness, and economic development. The 14th CPC National Congress explicitly established the creation of a socialist market economy as the goal of the restructuring of the Chinese economy. With that as a hallmark, the restructuring of the economic system and the policy of opening up to the outside world entered a new historic era.

Setting the goal of restructuring the economic system is a major issue with implications for socialist modernization as a whole as well as China's long-term development. The 14th CPC National Congress explicitly established the creation of a socialist market economy as the goal of restructuring the Chinese economy so as to further liberate and develop productive forces. This represents another significant ideological liberation in our understanding of the relations between planning and the market, another important breakthrough in socialist economic theory. On the one hand, it is the inevitable culmination of 14 years of practical development and increased knowledge. On the other hand, it is an objective requirement of accelerated economic development and the realization of socialist modernization in China.

After over a decade of market-oriented reform, the economic operating mechanism has changed notably. More and more strikingly the market mechanism has been fueling the rapid development of the economy. What used to be a lethargic market characterized by shortages is now booming. The living standards of both urban and rural residents have improved by an extent seldom seen since the founding of the PRC. What has happened in the post-reform period also proves that the more market-oriented a locality, sector, or enterprise is, and the closer its ties with the market, the more vitalized it will be, the higher its economic returns, and the more rapidly it will develop. Conversely, some of the more deep-seated problems in China's economy, such as resistance of the economic structure to change, low profitability, and severe waste of resources, are all inevitably related to the less-than-full participation by enterprises and labor in the market and to the fact that the market mechanism is not powerful enough. The profound changes that have occurred in the economic system and operating mechanism in the past 14 years have provided a practical institutional base for the adoption of the theory of a socialist market economy.

Many times Comrade Deng Xiaoping has discussed planning, the market, the planned economy, and the market economy since the Third Plenum of the 11th CPC Central Committee. In a key speech he delivered when he was inspecting the south, Comrade Deng Xiaoping was even more explicit, "The planned economy does not amount to socialism; there is planning under capitalism too. The market economy does not amount to capitalism; there is a market under socialism also. Both planning and the market are economic tools. Whether there is a little more planning or a little more market is not an essential distinction between socialism and capitalism." This very important speech by Deng Xiaoping once and for all freed us from the ideological straitjacket that perceived the planned economy and market economy as attributes of basic social systems and guided us to a new understanding of the relations between planning and the market, thus laying the ideological and theoretical foundation for the establishment and development of a socialist market economy in China.

Putting together a market economy under socialism is an unprecedented undertaking. To achieve such a goal, we must first and foremost begin by understanding the essential content of a socialist market economy.

Commodity production and development based on socialized mass production objectively requires the market as an effective tool of allocating resources and regulating the economy. The socialist market economy shares the common attributes of a market economy with the capitalist market economy. For instance, all economic activities are within the reach of market relations directly or indirectly. The market is the fundamental means of driving the circulation of elements of production and expediting the optimal allocation of resources. The market works through the application of the law of value, changes in supply-demand relations, and the operations of the market mechanism. All leading players on the market (primarily enterprises of all forms and shapes) are legal-person entities that have decision-making authority in their operations, are accountable for their own profits and losses, and are capable of self-development and self-discipline through a host of policies and economic tools. The government exercises indirect macroeconomic regulation and control over the market, and through the market, over the enterprises. Indispensable to the market economy is a comprehensive and sound market system, a scientific and coherent body of laws and regulations, and sensitive market signals.

At the same time, a socialist market economy differs from a capitalist market economy because it must embody the characteristics of socialism and China's own special national characteristics. Politically the most salient characteristic of socialism is the firm adherence to the leadership of the Communist Party and to socialism. Our political regime is not motivated by a desire to further the special interests of some groups or individuals but to serve the interests of the whole people. In terms of economic institutions, the ownership structure is dominated by public ownership and supplemented by nonpublic ownership elements. Different

ownership systems can be combined in different ways. Whatever economy they belong to and whatever their method of operation, all enterprises must compete on equal terms on the market and develop together. Concomitant with the structure of ownership system, the socialist distribution system is primarily one of distribution according to work, supplemented by other distribution methods, and puts equal emphasis on efficiency and fairness. The market mechanism is used to create reasonable income disparities to boost efficiency. At the same time, there is a variety of economic and legal tools to prevent polarization and bring about shared prosperity.

No doubt the triumphant conclusion of a historic transformation that culminates in the creation of a new system requires enormous courage to open up new territory for Marxism. First of all, this requires us to face up to and correct our longstanding leftist errors. Have we not done so, the new socialist achievements of the past 14 years would not have come about. As the report to the 14th CPC National Congress points out, the current socialist reform, openness, and modernization build on the success of the revolution in the past and the massive achievements of socialist construction, take place in an orderly systematic way under party leadership, and constitute the self-improvement and self-development of the socialist system. For these reasons, reform and modernization cannot be a negation of Marxism-Leninism and Mao Zedong Thought but instead affirm and are a successor to them. On the other hand, our reform is more than mere tinkering with the old system but is a fundamental transformation. Our reform seeks to turn the traditional economic system that has hampered the development of productive forces into a new economic order that is full of energy, along with corresponding changes in politics, science and technology, education, and culture. This comprehensive and systematic round of reform will necessarily disrupt the existing pattern of interests and bring about a clash of ideas between the old and the new in public thinking. Only if we appreciate thoroughly the significance of this revolution can we come to terms with the demands of the times and make progress and be creative as reformers. This determines that even as we adhere to the basic tenets of Marxism-Leninism and Mao Zedong Thought, we never stop moving ahead and being innovative ideologically and theoretically by liberating our thinking and updating our ideas.

Reform, Open Policy, and Modernization Entered a New Era in 1992, Reform Scored New Eye-Catching Achievements

As part of an important historic era, 1992 saw continued rural reform. Much new headway was made in reform of the procurement and marketing system of agricultural products, the establishment of socialized service system, and county-level comprehensive reform. Moreover, inspired by the spirit of the key speech delivered by Comrade Deng Xiaoping when he inspected the south, urban economic reform has made significant strides in a number of areas. The open policy gaining in breadth and depth was the most striking new development in 1992.

A breakthrough was made in enterprise reform by zeroing in on the transformation of the enterprise mechanism. Legislative work was intensified. First, the State Council has promulgated for implementation the "Regulations for Changing the Operating Mechanism of Industrial Enterprises Owned by the Whole People" prepared by the State Restructuring of the Economic System Commission in accordance with State Council plans and in conjunction with other agencies involved. Shandong Province has made the implementation of the "Regulations" the government's no 1 engineering project. Shanghai, Jiangsu Province, the petrochemical corporation and the Ministry of Commerce have also drawn up detailed rules specific to their locale or sector. A wave of enthusiasm for implementing the "Regulations" is sweeping the nation. Second, the concerted effort to improve the external enterprise climate has been accompanied by reforms in about 60,000 enterprises (with a total of 30 million workers, or 30 percent of all workers, with a high of 79 percent in Shanghai) involving the labor, personnel, and wage systems, along with accelerated reform in the social security system. Third, an active effort is also under way to expedite experiments in the shareholding system with a view toward gradual standardization. As directed by the State Council, the State Restructuring of the Economic System Commission formulated and issued 17 related sets of policies and regulations in conjunction with other pertinent agencies, including "Measures for Enterprises Experimenting With the Shareholding System," "Opinions on Regularization for Shareholding Limited Companies," and "Opinions on Regularization for Companies of Limited Liability." Since 1992, 363 shareholding enterprises have been approved, including 224 shareholding limited companies and 137 companies of limited liability. Moreover, 34 companies have their shares traded on the Shanghai and Shenzhen stock exchanges. The number of enterprises that have issued B shares has risen to 17, up from one in late 1991. Preparations are under way in Guangdong, Hainan, and Fujian to issue shares publicly that would not be traded on the stock exchange. Experiments in enterprise mergers and acquisitions and bankruptcy have accelerated the structural reorganization of enterprises. By the first half of 1992, 2,288 enterprises have been merged or acquired in Sichuan alone, about one-quarter of all mergers and acquisitions in the entire nation. Across the nation there were experiments in bankruptcy targeting enterprises that had been losing money for years. Between 1989 and 1991, 247 cases were heard by courts at all levels across the nation and 124 cases were closed. Between January and July 1992, 260 cases were heard and 117 cases were closed. Fifth [as published], based on the requirements of regularizing enterprise groups, we tackled the reorganization of 55 state-level large enterprise groups combining industry, trade, and banking. Furthermore, guidance was provided to over 1,600 enterprise groups to

reform and adjust their management system and operating mechanisms; 431 of them have taken shape. Sixth, as instructed by leading cadres on the State Council and after reviewing the experience of Shoudu Iron and Steel Complex, the State Restructuring of the Economic System Commission joined the office of economics and trade and other agencies in preparing new measures to give Shoudu even more decision-making authority and helped the enterprise mount new heights in reform, the open policy, and development.

Solid progress was made in price reform. The creation of a circulation system and the establishment of a market have accelerated. On the price reform front, grain procurement prices were raised 18.5 percent in early 1992, followed by a significant rise in the selling prices as well on 1 April. As a result, the buying and selling prices are now the same. Already over 400 counties and municipalities have totally decontrolled grain prices, of which Anshan City has even abolished the food coupon system. The prices of some basic products and charges of some public utilities have been adjusted. Negotiated prices have replaced low prices for 11 million tons of crude oil. The prices of some rolled steel and washed refined coal were raised. On 1 July, the state increased rail freights and the prices of coal and natural gas. Six months later, the market prices have remained normal. The retail prices of some commodities have been further deregulated. According to statistics on nine provinces and municipalities including Hebei, Shanxi, and Beijing, 552 commodity prices and fees were decontrolled in the first half of 1992. In 1991, the prices or fees of 737 factors of production and transportation were under state management. Now the number has dropped to 89, including 33 set by the government. The number of agricultural procurement prices set by the state has decreased from 15 to 11. Among industrial consumer goods, only the prices of a handful of products such as salt and drugs are still set by the government.

Turning to the reform of the circulation system and market nurturing, about two-thirds of the provinces and municipalities have promulgated documents to speed up the nurturing of the market and further revitalize circulation. A host of regional wholesale markets, including those for grain, cotton, and other agricultural byproducts and industrial products, as well as capital goods markets have emerged one after another. The development prospects of the funds market, particularly the capital market for all sorts of securities and bonds, are very promising. There has been a substantial increase in the volume of bonds issued and trading has been brisk. The social labor and employment service system has basically taken shape. Currently there are 650,000 labor service companies and over 10,000 employment agencies at all levels. Shaanxi Province took strong measures to open up the market, dismantling almost 2,300 checkpoints in the first half of the year alone and establishing 143 assorted markets. Building on their experience in duplicating the "four decontrols" of enterprises in Chongqing, 17 provinces have made new progress. Nationwide enterprises that have launched pilot projects now account for over 60 percent of all commercial enterprises. Grain enterprises in more than 200 prefectures, municipalities, and counties have adopted the Tianjin experience.

Real estate reform has gone under way across the board. Experiments to make land use rights transferable were launched all over the country in 1992 with the exception of Tibet. Guided by the policy of "unifying policy, adapting measures to suit local conditions, decentralizing decision-making, and classifying guidance," all the locales have speeded up real estate reform. Housing reform plans for party and government organs and the military in the capital have been put into effect successively in June and July. In the wake of the introduction of a housing reform plan in Shanghai in 1991, 21 provinces, autonomous regions, and municipalities directly administered by the central government, including Jiangsu and Tianjin, each prepared a general plan for approval by the State Council housing reform leading group. Preparations for their implementation are under way. The remaining nine provinces and autonomous regions are drawing up a plan or have submitted such a plan. A national housing reform macro-climate is basically in place.

County-level comprehensive reform has made progress and is widening its scope. In 1992, 23 provinces, autonomous regions, and municipalities directly administered by the central government selected 290 counties to experiment with comprehensive reform. These jurisdictions reformed boldly in a broad range of areas. Some localities that were latecomers to reform such as Qionglai in Sichuan and Zhuozi in Inner Mongolia have made significant progress. Following the reform principle of "small organs, big services," many provinces and municipalities have reorganized government organs and transformed government functions. In Shandong Province alone, 31 counties were designated as experimental units in organizational reform in 1992.

The open policy has made headway. Among other things, a new situation has emerged where provinces and cities along the Chang Jiang, along the border, and in the interior as well as those along the coast are all open to the outside world. The open policy has developed in depth in the coastal areas. Even as it made a string of special policies just for the Pudong development area, the government also approved the establishment of the Yangpu economic and development zone in Hainan to attract foreign investment. The creation of five tax protected zones along the coast was approved. The entry of foreign capital into the banking industry and retail commerce was approved. Guangzhou has proposed to catch up with the four "mini-dragons" within 15 years. Investment by Taiwan and Hong Kong businessmen in the southeastern coast hit a new high. The open policy has spread from the coast to the border, to areas along the Chang Jiang, and to the interior. Four cities along the Chang Jiang, 19 provincial capitals, and 13 border towns were opened to the outside world in the first half of the year. With the permission of the State Council, over 100 high-tech and

new-tech industrial development zones have been created by the localities involved on their own. Eight cities have conducted experiments embodying economic reform with scientific and technical reform. Foreign economic relations and trade have been further strengthened. The number of newly approved projects using foreign capital has risen sharply, as have the volume of investment negotiated and the amount of foreign capital actually used. As required by the resumption of our status as a signatory to the General Agreement on Tariffs and Trade [GATT], we cut the import tariffs on some commodities, abolished the import commodity regulating tax, and took other measures to improve the import management system. Total imports and exports rose more than 20 percent over the same period in the previous year, with imports growing faster than exports.

1993 Is a Crucial Year in the Transition to the New Order, Comrades in Charge of the Agencies Involved Call for Substantive Progress in a Number of Key Areas

After 14 years of reform and opening up to the outside world, China's economic system and economic operating mechanism have changed radically. Reform is now at a new starting point and the goals and tasks of reform are now even more clear. As instructed by the responsible cadres in the departments involved and given the goal of building a socialist market economy, the focus of reform in 1993 should be on tackling the deep-seated contradictions in economic life and the economic system; speeding up reform; achieving substantive progress in grappling with the key issues in institutional reform; encouraging all localities to proceed from reality, experiment vigorously and boldly, and push ahead with reform, the open policy, and development; and ensuring that the national economy reach new heights more quickly and with better results. By working solidly, we can lay an even stronger foundation for the establishment of a socialist market economy in the early 1990's.

Enterprise Reform

The enterprise is the principal player on the market. Localities must conscientiously implement the "Regulations" as the central task in enterprise reform and come up with notable results in transforming the enterprise operating mechanism and orienting themselves to the market. All localities and sectors must assiduously work out detailed measures for implementing the "Regulations" and turn over to enterprises full decision-making authority in their operations. Enterprises must improve their own quality and use well and with imagination the 14 kinds of decision-making authority granted them under the "Regulations." They must continue to intensify the reform of the labor, personnel, and distribution systems and participate in market competition fully.

Further improve the contract management responsibility system. In the case of enterprises that continue with the contract system, we must firmly separate government administration from enterprise management and replace profit contracting with property management contracting. Improve the practice of linking wages to efficiency. When profits go up these days, wages go up, but when profits go down, wages do not go down. A practical solution must be found to this problem.

Pilot projects in the shareholding system must proceed vigorously and cautiously. Pilot projects in the shareholding system should concentrate on strictly regularizing the way employees of shareholding enterprises that are companies of limited liability can own shares in accordance with appropriate government regulations. The State Restructuring of the Economic System Commission will properly conduct a pilot project involving nine large enterprises including Shanghai Petrochemical Company. In this project, the nine enterprises are to issue shares to members of the public. In each province or municipality, one or two large or key enterprises may be selected to issue shares if approved to members of society and to have their shares traded on stock exchanges elsewhere. Further improve laws and regulations for units experimenting with the shareholding system and the issue of shares for trading on the stock market.

Speed up the structural reorganization of enterprises. Actively encourage lateral economic cooperation between enterprises. Improve and regularize enterprise groups. Enterprise mergers and acquisitions should be promoted through share purchasing. Coordinated measures should be taken to bring about substantial progress in enterprise bankruptcy. A number of small state enterprises may be converted into collective enterprises or individually owned enterprises through leasing, transfer, or public auction.

Price Reform

Price reform is a precondition for market maturation and the establishment of a socialist market economy. Grasp the favorable opportunity afforded us now by a rough balance between aggregate supply and aggregate demand to speed up the pace of price reform by combining adjustment with decontrol, with emphasis on the latter.

As far as the reform of the prices of agricultural products is concerned, we must totally decontrol the buying and selling prices of cooking vegetable oils and let the market regulate them. In accordance with the principle of "centralize the policy and decentralize decision-making," all localities must choose an opportune moment when they are fully prepared to decontrol the buying and selling prices of grain and establish a grain price regulating fund and minimum protection price with a view toward creating a sound reserve system. Pilot projects in reforming the cotton circulation system and in price reform must be successfully conducted in the three provinces of Shandong, Henan, and Jiangsu.

The prices of competitive commodities must largely be decontrolled; let the market set the prices. Concerning

the small number of commodities which are characterized by substantial price differences and whose supply and demand are grossly out of balance, their prices must be gradually decontrolled and brought in line with market prices. When it comes to the prices of products of monopolistic industries and those of basic industries highly restrained by resources, we must combine adjustment, a substantial amount of it, with decontrol.

Nurturing the Market System

Depending on their practical needs and possibilities, the localities must concentrate on perfecting their wholesale market for agricultural byproducts and making an earnest effort to solve the problems encountered in selling grain and cotton as well as other circulation difficulties. Improve the goods-ordering meeting system. Make the development of a capital goods market a priority, particularly the establishment of a high-level capital goods market, and popularize the experience of the materials center.

Review the experience of Shanghai, Shenzhen, and Zhengzhou in setting up a commodity exchange on a trial basis. Develop commodity futures trading in accordance with a plan. Draw up laws and regulations relating to futures trading and develop a management and supervision system for such trading. Develop a number of futures brokerages over time.

Vigorously develop and nurture a funds market for shares, bonds, and other securities, a technology market, a labor market, an information market, and a real estate market. Guided by the concept of "big market, big circulation," we should break down the bounds between commerce, goods, and foreign trade, take effective measures to further dismantle regional blockades and departmentalism, improve market laws and regulations, and regularize market trading behavior.

Social Security Reform

Social security reform should revolve around unemployment and pension benefits. Conduct coordinated comprehensive reform. Sort out the social security management system.

Actively make plans to make provinces responsible for financing the pension system. Expand the scope of pension insurance for enterprise workers. Tighten the management, supervision, and auditing of the pension fund. Improve the unemployment insurance system for workers of enterprises owned by the whole people. Broaden the scope of unemployment insurance. Change the methods of calculating and issuing unemployment benefits. Put together a unified unemployment insurance system for the workers of all sorts of enterprises owned by the whole people.

Establish a unified social security management system in conjunction with organizational reform, and separate government affairs from enterprise affairs. Social insurance management departments should carry out policy, institutional, and standardizing management at a macroeconomic level. Social insurance organs should take up the social insurance business and assume responsibility for ensuring and increasing the value of funds.

Review the experience of pilot projects in Guangdong, Hainan, and Shenzhen that seek to establish a unified social security management system and duplicate such experience.

Changing Government Functions and Establishing an Indirect Macroeconomic Regulation and Control System

This is the main issue currently impeding the transformation of the enterprise operating mechanism and the restructuring of the entire economic system. In accordance with the "Regulations," governments at all levels should take practical measures to change their functions and return power to the enterprises. Do not take advantage of organ reform and personnel transfer to throw together some rehashed companies where government administration is not separated from enterprise management and where. Do a good job in government organizational reform at the central and provincial levels in accordance with the unified plan of the central government. Broaden the scope of organizational reform at the county level.

Accelerate the establishment of a planning system centered on the formulation and implementation of long- and medium-term development plans. Further reduce central and local command planning. Keep goods ordering by the state in some instances but let the market do the regulation even more extensively. Further improve the way investment projects are examined and approved. Investment decision-making power should directly be turned over to the enterprises in competitive industries, particularly processing industries. Expand the investment decision-making authority of local governments in noncompetitive basic industries and public facilities. Key projects should be financed by raising funds in society and issuing shares.

Vigorously push ahead with banking reform. The central bank must fully use flexible and effective regulatory tools like relending, debt regulation, reserve funds, basic interest rates, and the open market to improve banking regulation and control at the macro level. Explore specific ways of separating the policy-related business of specialized banks from their commercial business. Develop the bonds market assiduously. Nurture a standardized stock market. Expand the scale of stock trading.

In fiscal reform, the focus is on improving pilot projects in the tax separation system. Further regularize the existing double-entry budget system. Expand the scope of pilot projects in tax and profit separation. Further sort out the distribution relations between the state and enterprises.

In conjunction with price reform, major moves must be made in tax reform along these lines: Consolidating the enterprise income tax, abolishing the practice of setting

aside a portion of enterprise depreciation as contribution to the key projects in the transportation fund and budget regulation fund, establishing a unified personnel income tax, and cutting tariff rates even further.

Further reform the labor and wage, housing, and land use systems. The labor and wage system must be reformed in a way so as to strengthen the competitive mechanism and emphasize efficiency and fairness. In land reform, the thrust should be law-making and macroeconomic regulation and control with a view toward preventing the loss of land resources. Housing reform must seek to overcome some of the problems in the path of progress. Make sure that the real estate market does not become so overheated that it poses a threat to housing reform so that housing reform can proceed smoothly across the nation.

Make Reform More Coordinated, Work Together To Further Reform and the Open Policy by Gaining Depth

The call for a socialist market economy ushered in a new historical era in economic structural reform. The leader of the department involved has noted that as reform intensifies in breadth and depth, it will affect more and more basic economic relations and need more and more coordination and cooperation from all sectors. This, he says, makes higher demands upon reform in the new era:

First, further liberate thinking, overhaul ideas, and unify understanding. Putting together a market economy under socialism is unprecedented in history. Only through practice and understanding, repeated many times over, can we accurately grasp its basic characteristics and substance, identify clearly the new problems that may occur during the course of practice, and push ahead with the establishment of a socialist market economy successfully.

We need to further study the spirit of the 14th CPC National Congress and Deng Xiaoping's speech, thoroughly understand and grasp the enormous significance and rich content of the proposal of the 14th CPC National Congress for establishing a socialist market economy, and correctly master the criteria—the "three benefits"—for assessing the success or failure of reform. Then we will proceed from local realities, liberate thinking, and experiment and explore boldly. The switch from a planned economy to a socialist market economy is a mammoth change that involves everything. Only by continuously reviewing our ideology, understanding, and concepts can we meet the needs of the new situation and push ahead with the establishment of a socialist market economy solidly.

Second, concentrate on the priorities and carry out the pilot projects successfully. To establish a new socialist market economy, we must grasp the key issues and zero in on the reform of key areas that impact the whole picture. The situation is evolving rapidly and is a highly complex one. Now that we are in the continuing reform stage, we need to select some localities for organized pre-testing, which will provide us with systematic experience for duplication elsewhere. That way people will have a better understanding of reform and will become more confident of success. We must understand that pilot projects in reform under the new situation, whether they are comprehensive experiments or special experiments, should no longer look to the state for any preferential policies. Instead their starting point should be to put to good use whatever power they have been given as an experimental unit, boldly experiment to create experience, break away from the pack, and stay one step ahead of the rest.

Third, classify guidance, move ahead on a regional basis, and strengthen coordination. China is a vast country with significant variations in the market economic foundations and the masses' and cadres' market-economy consciousness. As we build up the new system, we must take pains to classify guidance and move ahead region by region. Some major reforms, such as those involving the property rights system of state enterprises, planned investment system, financial and tax system, banking system, import-export policy, and exchange rate adjustment, must be conducted in a centralized manner in accordance with a plan. With other reform measures, including the nurturing and development of the market, price reform, the transformation of enterprise operating mechanism, and government functions, there should be decentralized decision-making, with each moving ahead on its own under a general plan. As for reforms that are more local in nature, the localities should be free to draw up their own plans and go ahead on their own. We propose that they proceed from the reality, integrate central policies with local conditions, combine the spirit of reform with a scientific attitude, and move forward by adapting measures to suit local conditions. Do not act blindly driven only by a momentary outburst of enthusiasm with no regard for local conditions. At the same time, do not hesitate and take a passive wait-and-see attitude, with no desire to forge ahead. Duplicate across the board those reform measures that have passed organized testing and provided systematic experience. As reform continues, reform must be more coordinated than at any other time thus far. Therefore, we must take greater pains to make sure reform measures are coordinated and comprehensive. All major reform measures must be carefully planned to make them comprehensive and coordinated. At different points in the reform process and depending on the circumstances, we need to carry out coordinated reform focusing on different tasks. The socialist market economy we want to establish, it must be pointed out, is an economy based on the law. As reform continues, therefore, we must step up legal construction to ensure the smooth, orderly, and regularized implementation of reform measures and minimize the risks of reform as well as its friction, costs, and distortions. Reform measures that have proven to be effective and taken shape should be institutionalized or written into law, ultimately forming a body of economic legislation and rules consistent with the socialist market economy.

Fourth, intensify leadership and coordination, and pool forces to promote in depth development of reform and opening up. The establishment of a new economic system necessarily entails the thorough readjustment of the powers and interests of all social quarters and the resolution of these underlying problems only makes reform that much more arduous, complex, and risky. Hence the need for ever stronger organized leadership and closer cooperation between all localities and sectors. Inspired by Deng Xiaoping's speech and the spirit of the 14th CPC National Congress, all localities and sectors have taken reform and opening up more seriously, and put it on the agendas of party and government leaders. This is an important organizational guarantee of continuing reform and achieving the anticipated objectives. System reform departments at all levels are the staff officers and assistants to the party and government. The commissions must win the support and interest of party and government leaders with their own outstanding work. Work hard to do a good job in reform coordination. Further intensify the restructuring of the economic organs and beef up their staff. Cadres in the business of restructuring the economic system nationwide must further arm themselves with the theory of building socialism with Chinese characteristics, acquire new knowledge, study new issues, and courageously meet the challenge of the surging tide of reform. They should work hard to make themselves qualified workers in the business of restructuring the economic system who have a high ideological standard and a solid manner of work and are professionally competent.

Making the establishment of a socialist market economy the goal of economic restructuring has opened up a new chapter in the history of reform, open policy, and economic and social development in China. In the new year, we must unite more closely around the party center led by Comrade Jiang Zemin and firmly adhere to the path of building socialism with Chinese characteristics, making solid progress toward our new goal.

On Relationship Between Fiscal Policy, Inflation

93CE0302A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 12, 20 Dec 92 pp 50-51, 32

[Article by Dai Guoqing (2071 0948 1987): "Cost-Driven Price Increases"]

[Text] Economists usually look at the impact of the fiscal policy on price increases from the demand perspective. In other words, the impact of the fiscal policy upon inflation is measured by the way in which an increase or decrease in the government budget deficit boosts or contracts the aggregate demand. As far as inflation in China is concerned, however, fiscal measures can be highly inflationary by working at the supply end (or cost-driven end) as well. We call such inflation "fiscal cost-driven inflation."

"Fiscal cost-driven inflation" refers to the kind of inflation that results when the government raises prices under planned management or decontrols prices as part of price reform to cut spending (by reducing subsidies or investment) and increase revenue. For instance, grain and oil selling prices in urban areas were raised substantially in May last year and again in April this year. Many cities increased rents and charges for water, urban transportation, and medical services this year and last, as well as cutting back on subsidies on meat, poultry, eggs, and vegetables for urban residents. The producer prices of coal were increased, as were some crude oil prices and rail freights. Moreover, a special consumption tax was slapped on color television sets and automobiles and a development fund was set up each for the electronics industry and automobile industry a few years ago, driving up the retail prices of color television sets and automobiles. All these are examples of cost-driven inflation.

This kind of inflation differs from what we usually call "demand-led inflation" in the following ways:

1. While this kind of inflation also manifests itself in a rise in the overall price index (whether it be the general consumer price index or GNP index), it is confined to a few sectors, a few products, or a few directly related downstream products, with the market prices of other products hardly affected. For this reason it is essentially a readjustment of the price structure.

2. Cost-driven price increases of the fiscal variety are not mainly caused by any move by the central government to increase the money supply. On the contrary, it is fiscal-policy-led inflation that almost always leads to a corresponding expansion of the money supply; it is a primary cause of an enlarged money supply. For this reason, this kind of inflation is only remotely related to whether the central government decides to tighten or ease the monetary policy, in other words, to the absence or presence of a balance between aggregate supply and aggregate demand. It may occur when the government follows an easy money policy, but it may also occur when the government adopts a belt-tightening policy. It may happen when prices rise on the free market or when they fall.

3. Such inflation also differs from inflation as generally understood in the kind of inflationary expectations it engenders in public thinking. The former normally does not cause a great deal of inflationary anxiety among residents. Nor does it affect consumer behavior in any significant way (unless a large number of prices are decontrolled within a short period of time).

Since restructuring of the economic system went under way, the fiscal variety of cost-driven inflation has played a major role in pushing up the price level. In the last two years in particular, inflation in China has primarily been of the fiscal cost-driven type. For instance, the nation's retail price index climbed to 104.0 percent in December 1991 compared to 100 percent in December 1990. Specifically, it rose to 105.9 percent in urban areas and 102.8 percent in the countryside. During the same

period, the consumer price index in countryside fair trade was a mere 100.8 percent. The price index in urban areas was higher than that for the countryside; the price index for state commerce was significantly higher than that for country fair trade. The principal reason was that the government raised or decontrolled some prices previously under state control in accordance with a plan. The prices of grain and cooking oil consumed by urban residents, for instance, went up 40.7 percent and 44.0, respectively. The situation on the price front in the first half of this year is roughly the same as that in the same period last year.

Most cost-driven price increases have corrected or modified the price distortions of the past and are consistent with the overall thrust of economic reform, which is to let prices more fully reflect market supply-demand relations. In China, prices under state control are still severely distorted. Accordingly, cost-driven price increases of the fiscal variety will continue in the future as rents are raised along with the prices of grain and cooking oils in urban areas, fuels for civilian uses, coal, and crude oil.

Policies and measures that lead to this kind of price increases are primarily motivated by a need to resolve fiscal problems, not a desire to sort out price relations or create the necessary conditions for the establishment of a socialist market economy. This results in two major types of problems, which must be worked out in the course of price reform in the future.

First of all, price reform for upstream and downstream products these days is not being considered comprehensively in conjunction with tax reform.

In the traditional economic system, a distorted tax structure is a natural product of and supplement to a distorted price structure. Going hand in hand with the underpricing of upstream products (e.g., coal, crude oil) is a high-tax policy for related downstream products. For instance, the product tax on refined oil is abnormally high while the turnover tax on electricity is also a high 25 percent, which is totally unjustifiable. It is absolutely necessary to raise the prices of crude oil, coal, and other products. But any attempt to solve the underpricing of upstream products must be accompanied by a simultaneous effort to end the overtaxing of downstream products. However, since the current round of price adjustments is prompted mainly by a desire to unburden the treasury (cut back on subsidies for upstream products or solve their investment needs) and solve the government's immediate problem of balancing the budget, the Ministry of Finance usually balks at trimming the flow of revenue derived from high taxes on downstream industries. When prices are raised for upstream products, costs go up for downstream industries. The present government response is that a rising tide will lift all boats: let downstream industries pass on their higher costs by increasing prices correspondingly. If the downstream products remain competitive even at higher prices, if they are still attractive to consumers, naturally there will be no problems. However, some downstream products are already overpriced as they are, often approaching international levels (as in the case of refined oil). To find buyers, downstream industries must take advantage of their monopolistic position to jack up prices. Alternatively, they must trim price increases for both upstream and downstream products. The result is that the price distortions of upstream products remain unsolved for long periods. All this shows that designing price reform with the sole objective of solving fiscal problems will only delay and postpone the fundamental solution of China's price distortion problem.

The second problem is this: In what sense and to what extent should prices contribute to the development investment funds for China's industries making popular products in short supply?

In China, there is a number of industries making popular products in short supply that urgently need to be developed on a priority basis. Where can we find the investment funds for their development? This is a major issue facing the government right now. In the past two years the government has begun looking to prices to help provide the funds needed for development. There are two major groups of policies. The first group consists of policies that collect "development funds" and raise user fees. Examples of development funds include the automobile industry development fund, electronic industry development fund (since forced to suspend), the power construction fund, and the railroad construction fund. The other group consists of prices that can yield enough revenue to pay off principal and interest. In other words, now that investment funds are not free grants, the products should be priced with a view toward repaying both principal and interest. Instead of protecting user interests by administrative underpricing, we now seek to promote the development of industries making popular products by raising prices. Instead of doling out investment funds as free grants, we now demand that such funds be paid for, even taking into consideration the need to repay principal and interest when pricing products. These changes no doubt represent a major step forward in China's economic policy and are the right thing to do in broad terms.

As we all know, Chinese-made sedans are being sold in China at several times the international prices of comparable products. In accordance with the principle of "paying off principal and interest" for price-setting, the rates some electric power companies charge their users are also way above what many experts at home as well as the World Bank consider a reasonable level. Similar problems exist in some other sectors that follow the same principle. This situation warrants closer examination.

What is causing this state of affairs? There are two main reasons.

First, the opening up of the funds market has not kept pace with price reform. The profit rate of the sectors mentioned above is high enough to enable them to

directly raise funds in society by issuing stocks and long-term bonds in an amount several times what they can get from profits. However, numerous barriers still remain in the way of those companies that hope to raise funds directly. So they have no choice but to pin their hopes for investment exclusively on inflated profits.

Second, in setting prices with a view toward repaying principal and interest, the industries fail to distinguish between long-term fund use and short-term fund use. If the automobile, power, and railroad industries derive their investment funds from the issue of stocks or long-term bonds maturing in 20 to 30 years, then the principle of paying off principal and interest would not cause major problems. Yet the bulk of investment funds these days consists of loans issued by commercial banks that must be repaid within seven to eight years, even sooner in some cases. When prices are required to yield enough profits to pay off (within five to six years, if we exclude the construction period) investment projects like power stations and railroads with an economic life-span ranging from 25 to 30 years and more, the inevitable outcome is that prices will be jacked up to an unreasonably high level.

To solve this variety of overpricing problems, we need to change the existing policy by making it clear that the main use of industrial development funds and construction funds is not as a direct source of investment funds, but as discounts for long-term bonds issued to members of society. That way, a given amount of money from a fund can support more than 10 times its value in funds directly raised in society, enough to meet the investment needs of the sectors in question. At the same time, these sectors should be allowed to issue long-term bonds maturing after 10 years and more or rollover bonds under which existing loans can be paid off with new loans. That way short-term borrowing becomes long-term borrowing. Moreover, we should consider allowing the sectors to issue shares that pay dividends only, not principal. Thus prices that "pay off both principal and interest" would more closely approximate economically sound prices.

PROVINCIAL

Hunan Rural Enterprises Achieve High Output Value

HK0903081793 Changsha Hunan People's Radio Network in Mandarin 2300 GMT 3 Mar 93

[Text] Hunan's township and town enterprises developed by leaps and bounds over the past year, breaking with convention. Their total output value reached 48.4 billion yuan, which exceeded the provincial gross agricultural output value by 1.3 billion yuan. This happened for the first time in the history of rural economic development in our province.

According to a report by this station's correspondent Xu Shanan, last year Hunan's township and town enterprises not only expedited the pace of development, but also achieved great improvement in terms of economic efficiency. Township and town enterprises throughout the province realized a total of 3.7 billion yuan of profits and turned over 1.79 billion yuan of tax payments to the state, registering an increase of 43.4 percent and 33.6 percent over the previous year, respectively.

A number of rapidly developing large profit-earning and tax-paying households which achieved benefits and made great contributions, such as the town of Lanli in Guoyuan Township in Changsha County, had sprung up in the province. On the basis of realizing over 10 million yuan of profits and taxes in the year before last year, Lanli registered a net increase of 29.24 million yuan of profits and taxes last year, which was 250 percent higher than the previous year.

Tianjin Develops Labor Service Exports

HK0903100093 Beijing CEI Database in English 9 Mar 93

[Text] Tianjin (CEIS)—Tianjin Municipality, north China, has signed labor service export contracts worth 297 million U.S. dollars from 1982 to January 1993.

Some 13,480 people were engaged in overseas labor services during the period, achieving a turnover of 135 million U.S. dollars.

The city has shifted the focus of its labor service export to the Middle East, the South Pacific, and the CIS States from the traditional market of Southeast Asia.

With its rich manpower in infrastructure construction, traditional Chinese medicine, and water conservancy, Tianjin signed 11 engineering contracts in 1992 alone.

Besides, 870 technical personnel were sent to over 30 countries and regions during the period.

Report on Qinghai's Efforts To Develop Markets

93CE0271A Xining QINGHAI RIBAO in Chinese 8 Dec 92 p 2

[Text] The first Qinghai Market Development Work Conference, recently convened by the provincial government, conscientiously analyzed and studied the current state of and problems involved in our province's effort to develop a market system and provided explicit preliminary ideas and policy responses. The principal deliberations of the conference are summarized as follows.

I. The Current State of Qinghai's Effort To Foster a Market System

Reform and opening have stimulated development of urban and rural markets in Qinghai. By the end of 1991, the number of such markets had risen from 24 in 1978 to 239, an increase of 9-fold, and annual volumes thereon reached 584 million yuan, up 161-fold from 1978, equal

to 14.78 percent of gross social commodity retail sales. A network embracing such new markets as culture, science and technology, construction, real estate, financial securities, and labor has taken initial shape.

Reform and opening have caused the province's markets to undergo six changes and to achieve one leap. The six changes are: (1) The overall structure has gradually changed from an exclusively generalized retail sales market to a system that is varied in terms of type, level, and function. (2) Participation has changed from exclusively peasants and handicraftsmen to pluralism. (3) The range of commodities marketed has expanded to embrace virtually all types, save producer goods and materials subject to state command-plan control or to state monopoly and a small number of special products. (4) Scale and function have broadened toward macrocirculation and macromarkets involving large lots, interregional trading, and large service areas. (5) Market development has changed from being a departmental concern to that of the entire government, and all of society attaches importance to this work, whose pace has markedly accelerated. (6) Market administration has changed from a simple, empirical approach to a standardized and systematized one that possesses a legal framework and incorporates both management and service. The one leap achieved was that we changed from autarkic markets rooted in natural and product economy to a socialist market mechanism tied to commodity economy, made initial breakthroughs from the circulatory arrangement of traditional planned economy, and embarked on a new path to economic restructuring.

II. Problems Involved in Qinghai's Effort To Develop a Market System

Compared to others across the country, our market system remains rudimentary, which shortcoming is glaringly manifested as follows. (1) While merchandise markets have developed rapidly, those for the means and factors of production lag greatly. Especially serious are the facts that financial, technological, and informational markets fail to meet the demands of economic development and that the regulatory role of the marketplace is limited. Facilities are crude, physical size is cramped, distribution is uneven, and open-air and roadside bazaars account for as much as 63 percent of the total number of markets. (2) Growth of marketers has been slow, and state and collective enterprises have encountered many difficulties in moving into marketing. (3) The general climate is poor, as reflected in the facts that some policies and measures fundamental to the development of markets and of market economy have failed to keep pace, that incentive and social security mechanisms have yet to be established, and that regional and sectoral autarky remain salient. Such shortcomings have inhibited our effort to foster a marketing system.

These problems stem primarily from the facts that Qinghai lies in the interior, is relatively undeveloped economically, and faces many hindrances. Most important, however, are unliberated thinking, stagnant concepts, insufficient understanding of socialist market economy, lack of intensity in developing markets, as well as the intermingling of the new and old systems, which impedes healthy development of markets.

III. Preliminary Ideas for Qinghai's Effort To Develop a Market System

In line with the five economic zones set forth in the developmental strategy for Qinghai's economy, there are plans gradually to create five marketing complexes—for the Xining economic zone; for the Chaidamu basin, centered on Golmud City; for the eastern agricultural economic zone; for the lake-environ economic zone; and for the southern economic zone. For the province's overall marketing system, the Xining complex is to serve as the nucleus, the Xining-eastern-Golmud complexes are to form an axis, and an overall strategy for coordinated development is to be pursued incorporating categorical guidance, region-by-region development, level-by-level advance, and unleashing of the flanks and peripheries.

For now and for some time, we should stress opening of wholesale markets for grain and oil, centered on grain; for farm and sideline-industry products, centered on vegetables; for animal husbandry products, centered on skins and furs; for meats, centered on bovines and ovines; for industrial goods, centered on woolens; for means of production, centered on "the three materials"; and for factors of production, centered on finance, labor, and information.

In accordance with conditions in the province and with the current state of our effort to develop a marketing system, for the next three years we must concentrate forces on the establishment of specialized and wholesale markets, make new breakthroughs in markets for the means and factors of production, intensify effort to transform existing markets, renovate and transform a number of markets and expand their handling capacities and service areas, and aggressively develop bazaars in remote, impoverished regions. Accordingly, 2.5 million yuan should be invested each year throughout the province to build or rebuild markets; markets in Xining, Golmud, Haidong Prefecture and those in counties and towns serving as prefectural seats in herding regions that have exchange volumes of 5 million yuan or more must be renovated and transformed in planned fashion; problems involved in makeshift or open-air markets should basically be resolved; and the aforementioned markets with volumes of 5 million yuan or more and other town and township markets must aggressively be rebuilt or expanded.

IV. Policy Responses for Qinghai's Effort To Develop a Market System

1. We must further liberate and renovate thinking. In conscientiously emulating and implementing the spirit of the 14th CPC Congress, the most fundamental things

we must do are to arm our minds with Comrade Deng Xiaoping's theory of developing socialism with Chinese characteristics; break with the old notion that planned economy is fundamental to socialism; establish the new concept of socialist market economy; resolutely escape the fetters of "leftist" ideology; heighten our sense of urgency, responsibility, and mission with respect to development of markets; truly establish the idea that "in stressing production we must grasp circulation, in stressing circulation we must grasp markets, and in stressing markets we must grasp market development"; and resolutely make new strides in developing Qinghai's market system.

2. We must assist and accelerate development of a market system. While adhering to the general principle of employing a variety of channels and forms to fund market development, governments at all levels should provide assistance in seven areas for this effort. First, proper allocations should be included in annual budget plans at all levels. For the next three years, 60 percent of the fines and expropriations collected by industrial-commercial agencies at all levels should be returned for market development. Second, tax agencies at all levels should return an appropriate share of the levies they collect from markets for this purpose. Third, some of the funds appropriated to assist the poor, to support undeveloped regions, to build commercial networks, and for urban development should be applied to market development. Fourth, banks must incorporate lending for market development into lending to fund building of commercial networks, aggressively arrange such lending, and enforce fixed rates for asset loans. Where possible, interest payments should be paid by local governments. Fifth, tax, urban development, land management, environmental protection, water, electrical, and other agencies should abate taxes and fees for market development as much as possible, and projects devoting market-administration fees and levies on individual entrepreneurs to market development may be funded prior to assessment of energy and budgetary adjustment funds. Sixth, light taxation should be applied to newly opened markets. Some of the revenues from taxes and fees derived from new markets should be allocated to defray market development loans, and marketers should be granted abatements of relevant taxes and fees so as to promote prosperity and conserve financial resources. Seventh, industrial-commercial and real estate development agencies should be permitted to work together to establish markets consistent with housing commercialization, and revenues from the sale of such housing may be used to defray shortfalls in market development funding.

3. We must further strengthen market administration and efforts to provide such work with organization, standardization, and a legal framework. The creation and improvement of a market system entails similar processes for market supervision and control. We must stress both development and administration and integrate the two, so as to invigorate markets. Market supervision and control work must, from a macroscopic perspective, stress the following. (1) Continue to advance reform and steadily readjust the orientation of its work and the ways in which control is effected. In line with the principle of "liberalization within limits, control in accordance with law, and invigoration in proper sequence," we should gradually change from bureaucratic control to guidance by markets, from stress on microscopic to macroscopic management, from serving product economy to market economy, from ensuring principal supply channels to ensuring fair competition, from ensuring state plans to ensuring and developing productive forces, from protecting localities to ensuring macromarkets and macrocirculation, from emphasizing study of how to maintain stifling control to study of how to liberalize, invigorate, and straighten out relationships. (2) Strengthen legislative work. In line with the state's decision gradually to establish a two-tiered market control system for the center and for provinces, autonomous regions, and municipalities, the Qinghai Industry and Commerce Administration Bureau must devote greater effort, and on its own or in collaboration with other relevant departments, draw up regulations and procedural rules that are consistent with local conditions for approval and passage by the provincial people's congress and government and gradually improve local market law. (3) Enhance development of agencies to administer markets for means of production. In this regard, it is essential that the provincial Industry and Commerce Bureau and those of Xining, Haidong Prefecture, and Golmud progressively organize specialized administrative bodies and fill them with appropriate personnel, so as to achieve full complement of staff, functions, and means. (4) Develop a stable and strong corps of market administrators. Industrial-commercial agencies at all levels must emphasize development of their own ranks, improve the overall quality, strengthen law enforcement, enhance development of honest government, ruthlessly suppress unhealthy tendencies and evil practices, and strive to build a corps of diligent, honest, strictly disciplined, and highly unified market administrators. (5) Continue to advance development of civilized marketing activity. We should follow the path of standardization, systematization, and providing a legal framework and advance market administrative work to a new stage.

FINANCE, BANKING

Stock Markets Play Key Role in Reform, Opening Up

93CE0274A Dalian CAIJING WENTI YANJIU [RESEARCH ON FINANCIAL AND ECONOMIC PROBLEMS] in Chinese No 12, 5 Dec 92 pp 37-41

[Article by Yang Jingdong (2799 2417 2639) and Zhang Xiangda (1728 0686 6671): "On China's Stock Market Development"]

[Text] While China used to practice centralized financial investment as our only means of investment for economic change, which was clearly limited by a senior-official mindset and "paternalism," and while we have also tried out the method of domestic financial institutions providing more loans on credit to solve our problem of a shortage of funds for economic development, such methods faced us with the danger of potential inflation. As continuing reform and opening is gradually transforming China's investment order from a centralized, uniform form to a decentralized, diversified one, we have decided not only to make use of foreign government loans, direct investment by foreign enterprises, and international financing, but also to raise as many domestic funds as possible. This is why we have begun to pay attention to studying, using, and developing a securities market as an effective channel for attracting idle private funds. As stock markets in particular, which are an organic component part of a securities market, have already emerged in an embryonic form in China, and as their development is going to be one of the key planks in China's economic development and reform during the Eighth Five-Year Plan and in the nineties, as well as playing an irreplaceable role in China's economic development, China's stock market development can only succeed; its failure would be such a shock to our reform and opening up.

I. The Necessity of Setting Up Stock Markets

1. Stock markets promote enterprise shareholding, which in turn revitalizes large- and mid-size enterprises. Our enterprise reform direction was to sever enterprise ownership from enterprise operation, separate government administration from business management, and turn enterprises into independently operated and developed commodity producers and handlers, so that they would become economic entities with both strong incentives and self-restraints. While we instituted reforms, such as leasing and contracting, to achieve these enterprise reform objectives, they were shown to have a number of defects, such as making enterprise operations more short-sighted, leading to responsibility for profits but not losses, and producing unsound democratic management systems. But shareholding could achieve our desired reform objectives and evolve new operating forces, while eliminating the defects produced by leasing and contracting. So in short, while shareholding was our best enterprise reform option, one of the prerequisites for the existence and development of shareholding enterprises was stock markets, with the two being tightly intertwined and inseparable. It was impossible to evolve stock markets without shareholding enterprises, just as the establishment of joint-stock companies was impossible without stock markets. In particular, the absence of stock markets meant that even after investors bought stocks, they still could not transfer them freely, which kept investors from buying stocks in the first place. Because the absence of stock markets left enterprises with the only fundraising option of selling bonds to the public, stock markets had to be set up to accelerate state-owned enterprise reform.

2. The search for investment efficiency on stock markets leads to the optimum disposition of public resources. Stock market prices change constantly. While many factors affect stock market prices, the most direct and essential one is enterprise economic efficiency. When an enterprise's economic efficiency is good and its stock prices are high, investors are bound to be willing to invest in the enterprise, just as poor efficiency causing low stock prices necessarily leads to investors giving the cold shoulder. As the capital gains rate reflects the disposition of resources, funds are bound to flow toward enterprises and industries with high economic efficiency due to a rational dispositon of resources, which in turn increases the use of efficient resources.

3. Stock markets are a key enterprise fundraising channel. All of the fund demanders—enterprises (limited-liability companies) on stock markets are on a level playing field, meaning that they have to rely on their own might to raise their needed operating funds through competition. While there are many fundraising methods and channels, issuing stocks on stock markets is the best one for the following reasons: 1. Stock markets mobilize all types of funds. Marx pointed out that "exchanges mobilize and attract all completely- or semi-idle capital, quickly centralizing it in the hands of a few people. Capital provided for industrial control in this way contributes to the invigoration of industry (absolutely not confusing such invigoration with commercial prosperity), and once it starts, grows with ever-increasing intensity." (Footnote 1) (*The Complete Works of Marx and Engels*, Vol 35, p 450.) Because China has few types of financial instruments, most surplus money exists as cash or bank savings deposits, the above-mentioned forms of money are incompletely mobilized. When savings interest rates are very low, residents keep more cash, and the little change in consumption leaves this money that should become the "primary driving force" in production completely idle and unable to play any role in production, making it rather a potential threat to markets. But when saving interest rates are very high, while residents keep less cash, it is necessary to keep enough reserve funds and payment reserves as a precaution against runs on banks when inflation occurs and to maintain banking prestige. Raising saving interest rates is bound to cause higher loan interest rates, which are unfavorable to production, higher saving interest rates still leave semi-idle funds. But stock markets can play a "catalytic" role, causing a flow of funds toward production, transforming them into an even greater "primary driving force." 2. Stock markets attract large amounts of idle capital, transforming consumption funds into production funds. As opposed to bonds and savings, stock fundraising's biggest advantage is that it absorbs residents' temporary surplus purchasing power permanently into the production process, turning it into enterprise long-term accumulation funds, which essentially curbs consumer demand and provides the prerequisite for increased effective supply. On the other hand, bank savings and bonds only temporarily put off residents' purchasing power. Moreover, enterprises can raise funds

at a lower cost and with less risk through issuing stocks than through borrowing from banks or issuing bonds.

4. The state and enterprises both profit from stock issues. In borrowing from banks, enterprises can raise only the funds they need for their production processes. In issuing bonds to the public, while the concerned departments can charge certain issuing fees, such fees bring much smaller profits to the state and enterprises than issuing stocks, which can be seen as follows: 1. As demand has exceeded supply on China's stock markets in the last two years, we have eased this supply and demand conflict by adopting a higher-than-face-value premium issuing form for both new and expanded stock issues. For instance, Shenzhen's Development Bank has earned over 80 million yuan in recent years from such stock premium issuing. 2. The state also earns a sizeable income from stock exchange stamp taxes and individual income taxes on dividends. Statistics show that Shenzhen collected stamp taxes worth over 8 million yuan from July through December 1990, and worth 9.86 million yuan from January through September 1991. 3. Once enterprises institute shareholding, their economic efficiency improves sharply, from which both the state and enterprises profit. A survey of the five earliest shareholding companies in Shenzhen, such as the Development Bank, shows that in the first year that they began shareholding, their realized profits were up 215 percent, their net enterprise assets grew 87 percent, and their profit distribution involved a 253 percent increase in taxes and a 63 percent increase in employee income.

II. China's Stock Market Status Quo

China's stock markets developed while the state was practicing a macroeconomic tightening. The Shanghai Feile Acoustics Co, founded in November 1984 by the Shanghai Electronic Sound Corp, became China's first sizeable limited-liability company since liberation, officially issuing its first stock in February 1985. Then on 26 September 1986, the Shanghai Trust and Investment Corp's Jing'an Securities Service under the Industrial and Commercial Bank of China officially hung out its shingle as a stock broker, becoming China's first sizeable stock exchange actor since reform and opening up, and declaring the official establishment of our stock market. But as China had always denied the existence of a commodity economy, causing an extreme shortage of stock knowledge all the way from ordinary citizens to the management sector and economic theorists, it was impossible for the pertinent stock exchange legal institutions to be quickly established or immediately perfected. In particular, as the relevant measures were not coordinated with our stock market development, China's stock market development still has the following problems:

1. Our stock prices are distorted, which divorces stock markets from enterprise operations, misguides the public about investing, and deteriorates our disposition of resources. As stock investors actually are certainly not concerned about the operating conditions of the companies that issue stocks, but rather are interested simply in stock price changes per se and their own equity gains, most stockholders voluntarily renounce their authority and responsibility. This leaves stock markets unable to vigorously stimulate improved enterprise operations. While the public still does not throughly understand new things, such as stocks and stock markets, people have developed an unprecedentedly feverish and frenzied mindset about stocks, pouring money into stock markets like swarms of bees, which leaves stock markets unable to regulate the disposition of public resources.

2. National policy defects have lowered investors' risk awareness, leaving stock market prices and funds inflating rapidly like "foam." As China's shareholding system is still in the testing stage, we strictly regulate the kinds of companies that can issue stocks. For instance, they must have good company finances and operating achievements, with net assets not lower than 10 million yuan, their tangible net assets in the year before they apply to issue stocks must be worth at least 25 percent of their tangible gross assets, and applying enterprises or sponsors must have a three-year record of no violations of law or infringement on the public interest. But while such regulations are favorable to investors, they restrict shareholding system development, by creating a stock shortage and skyrocketing stock prices on one hand, while artificially lowering enterprise and market risks, leaving almost no policy risk at all on the other.

3. Our control is lax. The Shanghai and Shenzhen stock markets are troubled by a bustling atmosphere of rules and regulations either being ineffective or conflicting with each other, stock price manipulation scandals, and a lack of solemnity between buyers and sellers. Our lax control leaves a widespread black market in these two places, with such secret black market transactions being subject to essentially no control at all. Despite periodic black market crackdowns, our ineffective control of the official markets leaves black markets in regular operation. In addition to the Shanghai and Shenzhen stock markets, local stock markets or "pseudo-stock markets" similar to stock markets are appearing and competing with each other. For instance, the handing out of "stock (bond) subscription certificates" in June 1992 in places, such as Liaoning, Chongqing, and Xiamen, suddenly turned a very simple situation into one of money and manpower waste, and absolute unreasonableness. While tens of thousands of local people and outsiders lined up overnight to buy them, drawing in even public-project workers and students, which speculation drove up the price of a subscription certificate or application form to almost 1,000 yuan, the corresponding "stocks (bonds)" were certainly never all issued.

4. We lack the relevant laws and regulations, and do not have a uniform accounting system.

5. We should not have opened our stock markets up to the outside world so soon. On 30 November 1991, the Shanghai Vacuum Electronic Devices Co, Ltd and a consignment group with the Shanghai Shenyin Securities

Co as the major consignee, signed a consignment agreement to sell special rmb B-type stocks to foreigners, which opened up China's stock markets that had been in operation for only five years. To ensure that these B stocks would be sold successfully, the companies selected were high-quality ones with good profitmaking prospects, with the B stock prices being much lower than those of the A-type (for sale in China only) stocks. Because China has such a great stock market potential, the government has decided to stimulate overseas investor confidence by giving special support to B stocks when necessary, which has determined the special nature of B stocks and their success, and finally resulted in these B stocks gaining a fine reputation abroad, becoming hot-sellers, and attracting floods of purchasers. Even representatives of the World Bank have made a special trip to Shenzhen to discuss purchases of Zhonghua Bicycle B stocks, hoping to become one of its stockholders. But while this first batch of B stocks was special and attracted a good overseas response, overseas fund managers as professional investors still objectively and soberly point out the following problems: 1. Because China had not had stock markets and has very few joint-stock companies, certain listed companies and stock-issue companies have published very incomplete data and information. Moreover, stock market legislation in Shanghai and Shenzhen does not mandate the publication and reporting of full data and information, which causes investors considerable difficulties in evaluating these companies' credit worthiness. But as most foreign investors are generally professional groups, which pay great attention to a basic analysis of listed companies, using standardized methods to determine investment direction and amount, instead of basing such decisions on government policy or support, they have expressed many doubts in the investment process. 2. While investors are able to acquire certain data at times, China's accounting and statistics-keeping systems are much different from international practice, so that this data has to be somewhat discounted as to reliability and comparability, which causes further problems in analyzing the conditions of listed companies. 3. China still has no national securities laws. While the Shenzhen and Shanghai governments have legislated rough restrictions on stock transactions, there is still a lack of laws to guarantee investors' interests. 4. Because China's stock markets are still in an initial stage, so that they often seem unreasonable to a certain extent, they have a very limited capability to regulate and restrict company operations, as was pointed out above, with companies having very complex operations without their own mandates, leaving them to do or turn to whatever will make money.

Opening up stock markets to foreign investment requires the following two conditions: 1. Quite a bit of economic clout, with the ability to weather (or at least resist to a certain extent) periodic international economic fluctuations. 2. Fully developed and perfected domestic stock markets that can play a supportive or guarantor role in opening up to foreign investment. While Taiwan and South Korea's stock markets have a history of decades and are very complete domestically (which two conditions China's stock markets do not yet have), they have still not been completely opened up to foreign investment due to a lack of overall economic clout.

III. The Right Development Path for China's Stock Markets

Stock markets are not isolated markets, but rather have close ties to many surrounding sectors. Successful stock market operation depends on a complete peripheral environment, advanced and developed information systems, the force of public opinion, and all sorts of public consumer and service industries. In order to evolve developed stock markets as quickly as possible, we must begin by upgrading our stock market "software" as follows:

1. We need to further improve our securities market system organization, and establish a labor market as quickly as possible. A developed stock market has to evolve as part of an efficient, standardized, and complete securities market. While some years of development have begun to evolve an organizational system for a Chinese securities market, it is still not complete and developed enough, so that we need to perfect and speed up the development of our securities market. In order to evolve a stock market organizational system that is truely open, impartial, fair, and uniform, so as to keep large investors from manipulating our stock markets, we need to modernize our stock market operations as quickly as possible, by speeding up our stock market quotations, transactions, and settlements, and by setting up an efficient advisory center, so that we can straighten out our current carved up, unique system. In addition, as stock markets develop, enterprise bankruptcies and mergers will occur through market competition in response to the deterioration of enterprise operations. While enterprise bankruptcies and mergers are a key condition for stock market existence and development, our socialist system means that they could not occur smoothly without a labor market, and even if they could, they would cause many social and other problems. This means that long-range stable stock market development will require the establishment of a labor market, including the unemployed, those waiting to be employed within enterprises, and those choosing professions. If we reject the necessity for a labor market, our current workers will lack a sense of crisis and pressure, our society's overstaffing and poor efficiency will hardly go away, enterprise bankruptices and mergers will be mere idle talk, and the proper role of stock markets will not be brought into full play.

2. We need to establish national securities laws and regulations. Such laws and regulations should be complete and systematic, as well as being able to spur securities markets to develop in the right directions, and to develop and create an external environment for rapid securities market development. They should include ones, such as a "Securities Law," a "Stock Exchange Law," a "Shareholding System Company Law," an

"Investment Trust Law," a "Shareholding Enterprise Accounting System", and "Employee Regulations." We need to set up as quickly as possible a national securities-credit and enterprise-assets evaluation body, and replace executive orders with transaction laws to ensure the interests of stock purchasers and restrain the actions of stock issuers. Unlike short-term executive orders, such transaction laws could solve the shareholding enterprise problem of a lack of uniformity in areas, such as internal structures, management systems, financial distribution systems, and shareholder rights and interests. Such laws could similarly restrain and eliminate the black market transactions and swindling that have appeared in our stock market development, as well as providing investors with effective rights and committments to prevent the taking advantage of positions and powers to reap exhorbitant trading profits, and effectively protect investors' interests. Operators' actions would be standardized through laws, such as the "Shareholding System Company Law" and the "Shareholding Enterprise Accounting System."

3. We should not have too many national stock exchanges, and should set up a joint fund to broker individual investor market entry. Historical factors have left China's economic system heavily regionalized, so that all areas would like to set up stock exchanges to facilitate local money market development and attract outside funds. But stock exchanges should be national instead of regional to enable them to attract large amounts of funds. We should not have too many national stock exchanges. While international experience shows that two or three stock exchanges are about right for one country, China is so large that four would be more suitable for us. So in addition to our two current ones in Shenzhen and Shanghai, we should set up two more in places, such as Xi'an, Dalian, or Shenyang.

Once we have these four exchanges, we will also need to decide whether small investors should be able to trade directly on exchanges, or should have to invest indirectly through brokers. I believe that indirect investment would be better than direct trading by ordinary citizens because: 1. Stock markets are well received because people of all social strata have a certain amount of savings, bank interest rates are very low, there are no other investment opportunities, and our media is very stock-market-slanted. Stock market risks have been pushed deep into people's subconscious minds, even to the point where it is believed that no risk exists at all. In fact, the economic clout of the average individual (family) is essentially not up to stock market risks. While Chinese residents have a certain amount of savings, they could be completely lost if invested at too great a risk, which would run counter to China's reform needs. This is because these savings are guaranty funds for our housing, employment system, and welfare system reforms, instead of funds that should be actively transferred on venture capital markets. So we should allow only indirect investment to reduce risks. 2. Even four exchanges would reach out to a very limited area and be unable to cover our national needs, particularly since China's transportation and communications are so backward. So allowing direct investment would actually leave these national exchanges still regional.

To solve this problem and enable our national stock exchanges to acquire financial institutions that are qualified members, we should establish joint funds in localities to attract small investors and act as brokers for investor trading. Joint funds would reduce the number of listings, contribute to stock market control, and help to curb outside and black market trading. They would offer more market-entry opportunities for small investors in all areas, by solving the problem of the difficulty in investing funds in stocks at places where stock markets do not exist, helping national stock exchanges to attract and distribute our society's funds, and breaking down local market monopolies. They would spread out investment risks, because they would be operated by experienced professionals, so that even large stock market fluctuations would not harm individual investors too much. This would contribute to level-by-level shareholding system reform, as well as helping to gradually form a public mindset suited to stock standardization.

I would not like to eliminate or minimize our stock markets, but rather hope that they will grow quickly on a standard, normal, and rational basis, instead of expanding as they are now in a one-sided, unchecked, and nonstandardized way. While such expansion might not have much of an impact on our domestically-issued A stocks now or for a long time to come (as stated above, China has few financial instruments and investment opportunities, so that the curiosity and excitement over stocks is not likely to dissipate in the short term anyway), it would be bound to have an impact on the standing of stock markets in people minds in the long run. But due to our domestic stock market chaos and other factors, issuing B stocks abroad will have an impact on our domestic markets, which could lead an overall expression of our reforms—shareholding system reform—into a dead end.

On Freeing RMB Exchange Policies

93CE0272A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 12, 11 Dec 92 pp 30-34

[Article by Tao Shigui (7118 1102 6311), affiliated with the Lianyungang branch of the State Foreign Exchange Control Commission: "On RMB Convertibility and Target Options"]

[Text] The inconvertibility of rmb has long been a major problem in China's economic operations and development. In today's China, where economic reforms are continuing steadily, international economic exchanges are expanding constantly, and China's economic dependence on the rest of the world is increasing daily, a convertible rmb will not only conform to the worldwide

trend of production, market, and banking internationalization, but also will help to link domestic and international markets, enhance the international competitiveness of Chinese enterprises, improve our foreign trade economic efficiency, attract large amounts of international investment, speed up the rationalization of our domestic economy, and raise the international prestige of the rmb, as well as being an inevitable consequence of China's reform and opening policy.

I. The Prerequisites for Making the RMB a Convertible Currency

A country's having a convertible currency has both a narrow and a broad meaning. All domestic manufacturers and private citizens being able to freely and without restriction buy foreign exchange from banks with their own country's currency is convertibility or semi-convertibility in the narrow sense. A country's currency not only being able to be freely converted into foreign currency domestically, but also being able to be be freely changed into other currencies on the international market, is convertibility or full convertibility in the broad sense. When a country's currency is generally accepted and recognized by international society, it becomes an international currency, like the dollar, the Japanese yen, and the British pound. As an international currency, it must be internationally accepted in the three areas of international settlements, credit, and reserves. This means that it must meet the full-convertibility conditions of having 1, a solid economic foundation and normal international information 2, ample international reserves, and 3, people who want to hold it in international circulation.

Because the rmb obviously does not yet meet these conditions, and making it a convertible currency will actually involve a transition from closed to open that will require protracted and unremitting efforts to undergo, it will have to be achieved in planned stages with short- and long-term targets. The short-term target will be to make the rmb convertible domestically by the end of the century, and the long-term one will be to internationalize this domestically-convertible rmb by the year 2020.

The rmb is now equipped with the following basic conditions for making it domestically convertible: 1. The rmb is a stable currency. China has kept its inflation rate below 5 percent for the last two years, showing that we have accumulated a certain amount of experience in controlling inflation and sharply alleviated our situation of highly-estimated exchange rates, which has laid a solid foundation for ensuring future rmb sustained stability. 2. We have reformed our exchange rate system, and now practice a controlled-floating exchange rate system. Our rmb exchange rate system was changed in April 1991 from a fixed, inflexible system to a controlled-floating one, in which the state can make regular small adjustments in the official exchange rate based on changing economic conditions, so that it will slide very slowly toward designated exchange rate targets, and thus approach and better reflect market exchange rates. The rmb exchange value was fine-tuned almost 60 times from 9 April 1991 to 2 April 1992, lowering it from 5.2589 yuan to the dollar to 5.4538 yuan to the dollar, or 3.6 percent, with these frequent small adjustments bringing the official rmb exchange rate to within about 10 percent of the market exchange rate. Bringing the rmb exchange rate closer to the market exchange rate has paved the way for a uniform exchange rate. It may be said that our controlled-floating exchange rate system conforms to the international trend of exchange rate system development, and has been a great push toward the international market for the rmb. 3. An open foreign exchange conversion market has begun to take shape, which is having an increasing impact on our foreign exchange operations. There are now over 90 foreign exchange conversion centers throughout China, with the National Foreign Exchange Conversion Center increasingly becoming the macroeconomic regulation and control organ for the coordination of all provincial and municipal conversion centers, and the central bank having set aside a fixed amount of funds for conversion-market business. Meanwhile, our foreign exchange conversion is steadily expanding in scope, with the permission since December 1991 for residents to buy foreign exchange on conversion markets for private trips abroad having further raised the convertibility of the rmb. This gradually shaping up foreign exchange conversion market shows the initial formation of an rmb convertibility carrier. 4. China's economy has been further opened up to the outside world as follows: A. Our domestic market is better linked to the international market, with a sharp change having taken place in our dislocation between domestic and foreign prices, so that 80 percent of our exports are now market-regulated. B. China's participation in international trade is growing steadily. Our 1991 foreign trade turnover reached $135.7 billion, with Chinese exports and imports ranking 13th and 16th, respectively, throughout the world. Internationally, in comparison to both developed and large developing countries, China's export dependence and openness are higher than those of the U.S., trade-established Japan, and India. Our import dependence is also growing steadily. China's imports during the Eighth Five-Year Plan will reach $350 billion, almost equal to those during the Sixth and Seventh Five-Year Plans combined. Deducting the over $60 billion that we spent on imports in 1991, our imports for the next four years of the Eighth Five-Year Plan will average $72.5 billion a year, for a scale that will be without precedent in Chinese history. C. We are constantly attracting more foreign investment. By the end of June 1992, about 55,000 foreign-funded enterprises had been approved throughout China, with an agreed foreign investment of $63.539 billion, and an actual application of foreign investment of $23.487 billion. Meanwhile, China's overseas project contracting, labor cooperation, and overseas enterprises are all growing by leaps and bounds. 5. China's international balance of payments is good, with increasingly abundant international reserves. China built up a regular balance of payments surplus of $22 billion for 1991 and 1992. By the end of March 1992, China had gold reserves of 12.67 million ounces,

and foreign exchange reserves of $43.47 billion, of which $23.92 billion was in state foreign exchange inventories and $19.559 billion was in BOC foreign exchange balances, both of which were large increases over 1991. A good international balance of payments and ample international reserves are indispensable conditions for maintaining rmb exchange rate stability, practicing a controlled-floating exchange rate system, and making the rmb convertible. 6. China's banking system has further opened up to the outside world. Since 1979, banks from 28 countries and regions have set up 218 branches in 14 mainland Chinese cities. The six cities of Shenzhen, Zhuhai, Xiamen, Shantou, Haikou, and Shanghai have 47 foreign-funded business banks in operation. More foreign banks are now asking to operate on a larger scale in China, and we are in the midst of planning to further ease restrictions on foreign banks in places, such as Dalian and Nanjing. Meanwhile, Chinese banks have also set up 50 overseas business branches and nine agencies, with the BOC having already broken into the ranks of large international banks, ranking 18th among the world's 1,000 largest banks in funding in 1990. This further opening up to the outside world of China's banking industry has paved the way for the establishment of a Chinese fob money market, which will be a bridge for the internationalization of the rmb.

II. The Short-Term Target: RMB Convertibility in China

Just as even a currency whose convertibility is severely limited is still actually convertible to a certain extent, the current rmb can be said to be a currency with low convertibility. There are less limitations on the conversion of foreign exchange into rmb, with all types of retained, and resident-held foreign exchange being convertible to rmb at foreign exchange conversion centers. Rmb conversion into foreign exchange is more severely limited, with the four regulation and control categories of priority exchange, exchange according to one's capability, exchange based on supply and demand, and exchange for strictly controlled purposes, with foreign exchange supply priority being guaranteed for agriculture, large- and mid-size state-owned enterprises, daily necessities, and imported advanced technology and equipment, along with some easing of limitations on foreign exchange for other purposes. Residents can also obtain foreign exchange for private trips abroad through market conversion. While the rmb is more convertible than it used to be, it remains a currency with very limited convertibility. To make the rmb convertible in China, we should act in a planned and step-by-step way based on our current economic might and national conditions, by proceeding in the following stages:

Stage 1. The establishment of a uniform, national, and open foreign exchange market. We need to link our 96 national foreign exchange conversion markets together with modern communications equipment to achieve uniform foreign exchange prices on all foreign exchange conversion markets as quickly as possible. The establishment of a national, uniform, and open foreign exchange market will require the following tasks: 1. We need to make our current foreign exchange market forces sounder as follows: A. We must break down regional barriers against foreign exchange and rmb to achieve national foreign exchange convertibility. B. As to organizational form, we need to select several more-organized large cities as regional foreign exchange conversion centers, link the services of smaller conversion markets with designated regional foreign exchange conversion centers based on region and customs, form a national foreign exchange conversion center out of these regional foreign exchange conversion centers, and link up these regional foreign exchange conversion centers with modern communications equipment to integrate our national foreign exchange supply and demand, and evolve uniform and stable exchange prices. C. All foreign exchange conversion markets should be under the leadership of the central bank, with all specialized banks making up the major market players, and other foreign exchange suppliers and demanders conducting their foreign exchange business activities through these major market players. D. While exchange prices should be announced and listed by the central bank and major banks based on a combination of daily pre-opening, previous-business-day prices and supply and demand conditions, which foreign exchange prices should be allowed to float after the market opening, daily exchange-price fluctuations must be stipulated, including upper and lower limits to prevent sharp fluctuations. 2. We need to gradually expand our foreign exchange market conversion scope to make the rmb more convertible as follows: A. We should gradually reduce the percentage of foreign exchange that is allocated through state planning, along with raising the percentage that is market-regulated to change converted foreign exchange use from graded regulation and control to a gradual reduction of limitations. B. We should expand the use of foreign exchange by residents within our borders, allowing all proper demands for foreign exchange to be met by conversion markets. We could exercise quantitative limitations at first, and then gradually ease them based on foreign exchange supply and demand to make the rmb more convertible within our borders. 3. We need to set up a national foreign exchange equalization fund. The foreign exchange currently being traded on our conversion markets accounts for almost one-third of China's whole foreign exchange balance. The stability of foreign exchange conversion markets plays a decisive role in our overall economic growth. From the perspective of foreign exchange market stability, the operation of the floating exchange rate system, or the convertibility of the rmb, it is imperative that we set up a national foreign exchange equalization fund. Such a fund would have the following channels: A. The rmb would be allocated by the People's Bank of China, with the foreign exchange being provided by state allocation of part of annual local payments to the center of retained foreign exchange. B. All specialized banks would be allowed to handle foreign exchange on foreign exchange markets, with the central bank regulating and

controlling their foreign exchange and rmb money markets to make them operate according to the relevant provisions, and achieve the aim of regulating and controlling foreign exchange trading. C. Both rmb and foreign exchange could be raised through issuing bank bonds to the public. 4. We need to establish a new foreign exchange market system as follows: A. Visible and invisible markets should be combined, with visible markets also being called specific or official markets, with fixed sites, and participants converging at specific times at fixed foreign exchange exchanges for trading. Invisible markets are also called abstract or unofficial markets, without fixed sites, and participants using communications methods, such as telegrams, telephones, or electronic transfers, to carry out foreign exchange transactions. China's current foreign exchange conversion markets fall into the category of visible foreign exchange markets. As such foreign exchange markets have a limited radiation function, generally being suited only to local foreign exchange transactions, and in the long-term becoming increasingly unsuited to the ever-growing objective demands of market economy development and foreign economic intercourse, there is an urgent need for us to establish invisible foreign exchange markets, which would enable us to combine visible and invisible markets. B. Spot and forward exchange should be combined. China's current foreign exchange conversion markets handle only cash- and quota-conversion spot exchange. While forward exchange transactions are being tested in Shanghai, they are not yet occurring nationwide. Forward exchange is also called future exchange. It is business contracted by both parties, in which foreign exchange amounts, exchange rates, and terms are set, so that transactions are conducted on the designated date at the contracted exchange rate. As transactions are settled at contracted exchange rates instead of the exchange rate in effect on the day of transaction, this form of transaction helps to avoid and spread out foreign exchange fluctuation risks to achieve the aim of ensured value over time.

The establishment of a nationally uniform, highly convertible, and open foreign exchange market will be the preparation stage for rmb convertibility within China, which will provide a complete exchange carrier for rmb convertibility.

Stage 2. The establishment of a single controlled-floating exchange-rate system. The formation of a nationally uniform foreign exchange market will pave the way for the establishment of a single floating exchange-rate system, which in turn will be a prerequisite for rmb convertibility within China. China now has a dual-track exchange price system of rmb-foreign exchange list prices and market-conversion prices. As Article 8, Section 3 of the *International Monetary Fund Accord* prohibits member nations from practicing exchange rates discrimination or a dual exchange-rate system. China has already joined the IMF, we should put a single exchange-rate system into effect as soon as possible. This will also pave the way for China to resume as quickly as possible our GATT membership. This transition from a dual-to a single-track exchange-rate system could occur generally in the following two ways: 1. By adjusting the official exchange rate, so that the two rates gradually close up and finally become one. 2. Through steadily increasing the percentage of the parallel-market foreign exchange transactions, and finally making a full transition to market exchange rates. China could achieve a uniform exchange rate by working along both lines as follows: 1. We could change from quota retention to cash retention. As foreign exchange quota conversion prices are also in a certain sense exchange prices, which determine the size of the "track-gap" between official and market exchange prices, the first-stage preparatory work toward a uniform exchange rate should include the elimination of foreign exchange quotas and the implementation of a single cash retention system. Our new foreign trade system in 1991 abolished exchange earnings retention for production-supply enterprises, which has created favorable conditions for reform of our foreign exchange retention system. This could be accomplished in the following two steps: A. We could first turn quotas based on the official exchange rate into cash, through conversion, application, or large-scale state procurement at average foreign exchange conversion market prices to completely do away with our existing quotas. B. We could practice cash retention for all new foreign exchange earnings. This could eliminate the conflict between quota conversion prices and cash conversion prices, while developing a large foreign exchange market in China with real foreign exchange transactions alone (without foreign exchange use rights). 2. We could stabilize our foreign exchange conversion market exchange prices, by steadily adjusting the official exchange price to gradually close it up with the market exchange price. Meanwhile, we could expand the scope and percentage of foreign exchange market exchange price application, by gradually shifting central bank official transactions also to the parallel market to finally make a full transition to a foreign exchange market and achieve a single market exchange rate. Then we could implement a controlled market-floating system. The state would use methods, such as foreign exchange market intervention, capital control, and monetary policy (particularly over interest rates), to indirectly influence and control exchange rates, which would allow them to fluctuate within a target range, but only very slightly. Meanwhile, foreign exchange certificates and overseas remittance certificates would automatically wither away and go out of circulation, to give the rmb a single currency value.

Stage 3. Making the rmb convertible within China's borders into Hong Kong, new Taiwan, and Macao dollars. As Hong Kong and Macao are going to be returned to China soon, and PRC-Taiwanese economic and trade relations are improving steadily, currency convertibility within this "Chinese economic sphere" is becoming the trend of the times and the will of the people. In fact, as the rmb and Hong Kong, new Taiwan, and U.S. dollars are essentially circulating freely in places, such as Shenzhen, Xiamen, and Fujian, being converted at market

exchange prices, we could first establish convertibility between the rmb and the Hong Kong dollar in special economic zones [SEZs], using the Hong Kong dollar to establish rmb convertibility with the new Taiwan and Macao dollars, and then gradually expand this convertibility to open coastal cities, the interior, and finally to all of China. Achieving currency convertibility within this "Chinese economic sphere" will lay a strong economic foundation and create very favorable conditions for future convertibility among the rmb and other foreign currencies.

Stage 4. Making the rmb convertible in China. We should gradually eliminate all of our foreign exchange restrictions, so that the rmb will become a convertible currency within China by the end of the century. This will mean that all holders of rmb within China will be able to convert rmb into foreign currencies without volume or price restrictions and at market-floating transaction prices. The central bank will be able to use the appropriate capital control and indirect market intervention to stabilize economic and price levels to achieve the desired results.

To achieve this, we will also have to take the following steps: 1. We will have to abolish our foreign exchange retention system. All export earnings income will revert to enterprise ownership, and if currency is not used, sales will occur through foreign exchange markets, with all local and central currency being bought on foreign exchange markets. 2. We will have to set up short-term foreign exchange money markets. We could create diversified foreign exchange financial investment instruments to encourage long-term holders of rmb who are not using it to deposit it in banks; open up short-term foreign exchange loans and commercial note discount business at rmb inclusive prices to raise our foreign exchange use efficiency and provide financing for foreign trade enterprises; and allow a few foreign exchange banks to operate short-term foreign exchange money markets, but with service limitations. In addition, to make the rmb convertible within China, we will also have to rely on domestic economic prosperity and growth, foreign trade occupying a very important position in our national economy, ample and solid foreign exchange reserves, rapid banking development, and an enhanced regulation and control capability over exchange rates and foreign exchange markets. As China's economic clout grows steadily, we will become fully capable of achieving these conditions.

III. The Long-Range Target: Making RMB an International Currency

Rmb convertibility within China will be only a transitional stage of China's foreign exchange reform. Our ultimate aim for the rmb is to make it fully convertible, so that it becomes highly internationalized, which will naturally require quite a long process. To turn rmb into a fully convertible currency as quickly as possible, we could plan to take the following steps:

1. Issuing a second currency—a new rmb. This would be a transitional step of "one country, two currencies." This new rmb would have an international remittance function right from the start, acting as a convertible currency for paying international debts and achieving purchasing power transfers, and would be as good as gold abroad, so that foreign holders of it could use it for direct payment of Chinese charges for things, such as trade and labor. When it is first issued, it could be limited to SEZs, to act as a foreign payments currency along with foreign currencies, and then could be gradually expanded to open coastal cities, the interior, and all of China, with foreign-funded banks being allowed meanwhile to handle new rmb services to raise its prestige. Overseas Chinese-funded banks would also be allowed to handle new rmb services, handling direct conversion and business among the new rmb and foreign currencies. On the principle that "the better currency will drive out the worse one," people will compete to acquire new rmb, which will gradually replace our old rmb with new rmb, and finally make the rmb an internationally convertible currency;

2. Linking our domestic foreign exchange market to the international foreign exchange market. To make rmb fully convertible, stopping at the stage of a domestic foreign exchange market will be far from adequate, as it is still a primary foreign exchange market, or a currency conversion market, which can achieve only transfers between rmb and foreign currencies. But a foreign exchange business market is a high-level foreign exchange market, which can handle transactions among foreign currencies. Such a market would have the following major functions: 1. It would have a clearing function, serving as a means of payment and accounts clearance in international economic intercourse to achieve purchasing power transfers. 2. It would be a means of financing, in that banks offering foreign exchange services could use their foreign exchange balance time-lag to provide enterprises with loans for import and export commodities. 3. It would have a risk-prevention function, in that the beginning of futures business and achievement of guaranteed value over time would avoid and prevent the occurrence of foreign exchange risk. Establishing such a foreign exchange business market to link our domestic foreign exchange market to the international foreign exchange market will create the prerequisites for full rmb convertibility.

3. Establishing an internationalized money market. The state of development of a country's international money market is a key factor in the internationalization of its currency. The world's major international banking centers are in cities, such as New York, London, Tokyo, Zurich, Luxemburg, and Singapore, where all currencies are convertible. To further internationalize the rmb, the establishment of an internationalized money market is becoming more important. As a currency's acceptance in international trade and banking has a complementary and promotional effect, we should consider making Shanghai China's international banking center. With Guangzhou and Shenzhen in the south, Dalian and

Harbin in the northeast, Wuhan in the central south, Chongqing in the southwest, Beijing and Tianjin in the north, and Xi'an in the northwest, Shanghai could serve as China's central coastal hub to link these all up with modern communications equipment to speed up our domestic banking development. Meanwhile, we could allow foreign banks to operate fob services in this banking center, i.e., to provide savings and loan services in currencies beyond the boundaries of any country, so that Shanghai could become part of the Asian money market. When we first begin to allow foreign banks to operate fob services, we should ensure domestic money market stability by isolating fob service from that within our boundaries, permitting banks that handle fob business to provide only savings and loan services to customers outside of China's boundaries. To attract foreign banks to provide fob services in China, we should offer them preferences, by drawing on the three Asian money market experiences of Hong Kong, Singapore, and Manila, to steadily improve our infrastructures, such as transportation and communications, while making foreign currency savings interest income tax free, and imposing lower tax rates on bank income from fob banking services. When interest rates can float freely, and capital can flow in and out freely, this is very attractive to borrowers and bankers. We should then at the right time gradually eliminate the isolation of fob from domestic services, and open up our domestic foreign exchange, securities, and gold markets to promote the internationalization of China's money market, which will be another key link in the internationalization of the rmb.

4. Establishing a floating foreign exchange system interlinked with the international market. Once our domestic foreign exchange market is linked to the international foreign exchange market, we will be able to establish an international floating exchange rate system interlinked with the international market. Then the rmb exchange rate will float independently and automatically in line with international market conditions, and the rmb will be convertible with other country's currencies.

5. Improving our international reserves management system. Ample international reserves is a key condition for future rmb independent floating and full convertibility. While our foreign exchange reserves should remain the major part of our future international reserves, they should not be simply deposited in banks to earn interest. Rather, we should draw on the experience of Taiwan, by dispersing part of our foreign exchange reserves to investment in low-risk, liquid international securities, which have a higher earnings rate than the average interest rate from bank savings alone. Moreover, we should select a rational foreign exchange reserves currency makeup and percentage of each currency to reduce our risk of losses due to exchange and interest rates.

6. Establishing a regular network of international information sources. We should set up a modern system of information collection, analysis, and projection to provide customers with accurate market signals. This would not only help to improve our foreign exchange business market transaction efficiency, by lowering transaction costs, but even more importantly could give us a full range of information on all countries' foreign exchange market exchange and interest rate changes and trends, so that we could take prompt countermeasures to stabilize our foreign exchange market and avoid and reduce our economic losses. This is another key condition for the stabilization and internationalization of the rmb.

While full rmb convertibility is a long-range, strategic target, we should strive to achieve it in line with our current conditions in a planned and step-by-step way. The internationalization of the rmb is the trend of the times and an inevitable consequence of China's rapid economic growth. So from either a theoretical or practical perspective, it is no longer simply a remote dream!

INDUSTRY

Light Industrial Output Value by Area in January

HK2502112893 Beijing CEI Database in English 25 Feb 93

[Text] Beijing (CEIS)—Following is a list of the light industrial output value by area in China in January 1993, released by the State Statistical Bureau:

			(Unit: 100 Million Yuan)
Area	**1/93**	**1/92**	**Change Over 1/92 (pc)**
Total	1019.75	981.61	3.9
Beijing	22.18	26.82	-17.3
Tianjin	21.06	24.60	-14.4
Hebei	33.60	36.00	-6.7
Shanxi	9.70	10.26	-5.5
Inner Mongolia	7.64	8.88	14.0
Liaoning	29.27	33.93	-13.7
Jilin	14.52	17.30	-16.1
Heilongjiang	20.29	23.57	-13.9
Shanghai	73.37	77.95	-5.9
Jiangsu	169.40	120.71	40.3
Zhejiang	86.72	77.52	11.9
Anhui	27.15	28.61	-5.1
Fujian	30.09	28.03	7.3
Jiangxi	15.79	16.30	-3.1
Shandong	90.46	84.11	7.5
Henan	35.24	38.92	-9.5
Hubei	36.70	39.39	-6.8
Hunan	20.44	24.62	-17.0

			(Unit: 100 Million Yuan)
Area	1/93	1/92	Change Over 1/92 (pc)
Guangdong	141.61	128.92	9.8
Guangxi	28.70	23.44	22.4
Hainan	4.88	4.59	6.3
Sichuan	45.15	44.83	0.7
Guizhou	5.89	7.02	-16.1
Yunnan	18.89	18.57	1.7t
Tibet			
Shaanxi	12.99	15.19	-14.5
Gansu	5.58	6.45	-13.5
Qinghai	0.91	0.97	-6.2
Ningxia	1.12	1.62	-30.9
Xinjiang	10.34	12.46	16.2

Output of Textiles in January

HK2402123593 Beijing CEI Database in English 24 Feb 93

[Text] Beijing (CEIS)—Following is a list of the output of textiles in January 1993, released by the State Statistical Bureau:

Item	Unit	1/93	1/92
Yarn	10,000t	32.72	33.99
Yarn	10,000pc	182	189
Cloth	100m.m	11.37	11.71
Of:Pure cotton	100m.m	6.34	6.85
Chemical fiber	100m.m	3.78	1.19
Silk	10,000t	0.57	0.48
Silk fabric	100m.m	1.73	1.58
Woolen fabric	10,000m	1902	2283
Knitting wool	10,000t	1.84	1.93
Gunnysack	10,000pc		
Garment	100m.pc	1.86	1.75

Notes: t—ton, pc—piece, m.m—million meter, m.pc—million piece

Output of Mechano-Electronic Products in January

HK2302104393 Beijing CEI Database in English 23 Feb 93

[Text] Beijing (CEIS)—Following is a list of the output of China's major mechano-electronic products in January 1993, released by the State Statistical Bureau:

Item	Unit	1/93	1/92
Power equipment	10,000kw	28.67	48.73
AC motor	10,000kw	405.06	350.31
Industrial boiler	ton	3877	3900
Machine tool	10,000set	1.68	1.40
Including:			
NC machine tool precision	set	785	357
machine tool	set	119	103
large machine tool	set	381	254
Automobile	10,000	9.16	7.29
including: truck	10,000	4.08	3.75
Tractor (20hp/above)	10,000	0.42	0.45
Small tractor	10,000	7.05	10.23
Locomotive	set	67	58
including: diesel	set	40	44
steam	set	2	3
electric	set	25	11
Passenger coach	set	97	100
Freight wagon	set	2002	1764
Internal combustion engine	10,000kw	731.9	545.0
Fishing ship		3	6
Civil steel ship	10,000ton	18.53	4.23
Computer	set	27	5
Micro computer	set	4099	3907
Pocket calculator	10,000set	-	-
Color crt	10,000	40.35	
Program-controlled switchboard	10,000set	26.68	7.95
Film projector	10,000set	-	0.15

FOREIGN TRADE, INVESTMENT

Hong Kong Group To Invest 3.5 Billion RMB in Fuzhou

Booming District Renovated

93CE0236A Fuzhou FUJIAN RIBAO in Chinese 26 Nov 92 p 1

[Text] On 25 November Fuzhou City and the Changjiang Industry Group headed by chairman of the board Li Jiacheng agreed to a project that would renovate the entire district of old town Fuzhou. The agreement was signed by Mr. Zhou Nianmao, director and assistant general manager of the Changjiang Industry Group, Diao Jinping, municipal party committee secretary, Hong Yongshi, mayor of Fuzhou, and Lin Yangchao, director of Hong Kong's Fuhui Jewelry Company, Inc. Secretary Chen Guangyi and Mr. Li Jiacheng attended the signing ceremony held at the Hilton Hotel.

Fujian Provincial Party Secretary, Chen Guangyi, recently led an economic and trade delegation to Hong Kong. During his stay in Hong Kong, Mr. Chen met with

Li Jiacheng to discuss plans for the renovation of old town Fuzhou. Prior to this friendly dialogue between both gentlemen, Fuzhou City and the Changjiang Industry Group also held a series of discussions on the renovation project.

The agreement confirms that 3.5 billion yuan will be invested to protect and restore "Sanfang Qixiang," a 667 mu area which is located in Fuzhou's bustling downtown district. This is the largest construction and renovation investment project that Fuzhou City has ever undertaken. The ambitious and impressive construction plans call for the creation of an area that combines modern urban architecture with existing historical and classical structures. In the next five to seven years, the construction project will turn this area into Fuzhou's largest commercial, tourist, cultural, entertainment, office and residential district. The signing of this agreement, a major breakthrough in the restoration of old town Fuzhou, will strengthen the city's investment environment. Aside from furthering the work of protecting and developing the use of historical cities, the agreement will also improve the urban environment. The signing of the agreement represents a realistic way for Fujian to quicken the pace of liberalization and to realize the spirit of the 14th Party Congress.

During the signing ceremony, Secretary Chen Guangyi and members of the economic and trade delegation were warmly received by Li Jiacheng. Mr. Li, who had nothing but the highest praise for the provincial government's accomplishments in implementing reform, liberalization and economic construction, expressed his confidence that investment and increased development in Fujian was sure to succeed. Secretary Chen enthusiastically described Li Jiacheng's decision to invest in Fujian as a major move which would undoubtedly have a positive effect on liberalization and economic construction. Secretary Chen invited Mr. Li to visit Fujian in the future. His invitation was readily accepted by Mr. Li.

Commentary on Ways To Open Up

93CE0236B Fuzhou FUJIAN RIBAO in Chinese 26 Nov 92 p 1

[Text] An agreement in which Hong Kong's Changjiang Industry Group, headed by chairman of the board Mr. Li Jiacheng, would invest 3.5 billion yuan to renovate the "Sanfang Qixiang" area of old town Fuzhou was signed yesterday in Hong Kong. The agreement represents a realistic way for Fujian to increase the pace of liberalization and to realize the spirit of the 14th Party Congress.

The restoration of "Sanfang Qixiang" is historically and practically significant. "Sanfang Qixiang" is located on a choice piece of real estate in Fuzhou City's busy downtown district. The area is a typical example of the subdistrict zoning system used in ancient Chinese cities. The implementation of this ambitious renovation project will no doubt further the work of restoring old town Fuzhou. In addition to promoting urban renewal and developing city government, the project will also stimulate the rapid development of the tertiary industry, particularly the tourist industry, improve the investment environment in the provincial capital, and strengthen the work of protecting, developing, and using historical and cultural landmarks.

Attracting increased foreign investment is an important way to expand opening up. It is also an effective and practical way to alleviate insufficient funds for provincial construction projects, particularly infrastructure and urban construction projects. As the socialist market economy steadily evolves and brings itself to completion, it is imperative that the traditional method in which the state allocates funds for construction projects be replaced by a more versatile means of fund raising, which include boldly attracting increased foreign investment for basic infrastructure construction projects.

In the past few years, overseas investors have been increasingly attracted to Fujian's steadily improving investment environment. Mr. Li Jiacheng expressed his confidence in Fujian's rapid development and investment future. Mr. Li is a well known Hong Kong business tycoon. The signing of an investment agreement worth 3.5 billion yuan by his company will undoubtedly motivate more financial groups and businessmen to invest and establish businesses in Fujian. Reflecting remarkable foresight, Mr. Li's decision has been widely praised and welcomed by many people.

Presently, cadres and people throughout Fujian are earnestly and enthusiastically implementing the spirit of the 14th National Congress. The current progress of economic construction is cause for optimism. Tourists and foreign businesses continue flocking to Fujian. It is imperative that we take hold of the timely opportunity which is before us. To create an excellent investment environment, each of us must perform our jobs in a down to earth manner. If we succeed in this, the continued progress of reform and liberalization is assured.

TRANSPORTATION

Civil Aviation Opened Up to Foreign Investment

HK1203072293 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1200 GMT 6 Mar 93

[Text] Hong Kong, 6 Mar (ZHONGGUO TONGXUN SHE)—According to sources from the Civil Aviation Administration of China, with the exception of air traffic control, joint ventures, including those utilizing Hong Kong and Macao capital, will be allowed to run other fields of China's aviation in the days to come, such as airport construction, aircraft maintenance, and airline construction. The construction of boarding-awaiting terminals will even be allowed to proceed in a form of sole investment.

It was learned that the Civil Aviation Administration of China will widen the operational scope of joint ventures

so that airlines can invite foreign companies to become shareholders and airports can be run by joint ventures. Moreover, foreigners can be engaged to act as managers and advisers. The sources said: At present, a Taiwanese enterprise is prepared to jointly invest with the Chinese mainland to construct the Fuzhou Airport, with the total investment reaching 1.8 billion yuan. Another Taiwanese airline is also prepared to initiate, with China Nanfang Airlines, the first joint-venture airline in the Chinese mainland.

The sources said: A number of key airports in Guilin, Nanjing, and Zhengzhou, the boarding-awaiting terminal in the Baiyun Airport in Guangzhou, and other large-scale infrastructure projects are badly in need of reconstruction or new construction, and the Civil Aviation Administration of China welcomes foreign companies to invest. In addition, the Civil Aviation Administration of China will also entrust some renowned foreign administration companies to manage airports. A flying school to be founded this year will invite a number of foreign advisers to give lectures, and a number of pilot trainees will also be dispatched to foreign countries to receive training.

Heilongjiang Province To Construct New Railway

OW0803102593 Beijing XINHUA in English 0954 GMT 8 Mar 93

[Text] Harbin, March 8 (XINHUA)—Tongjiang, a border city in northeast China's Heilongjiang Province, is set to introduce foreign funds to build its first local railway.

It will also be the first Sino-foreign jointly funded railway in the province which borders on Russia.

The line will run for 40.25 km and connect Tongjiang and Fujin City, according to official sources.

The project will cost 70 million yuan (about 12 million U.S. dollars). The city government will contribute 10 million yuan, while 60 million yuan will come from Hong Kong.

The provincial government has approved the project.

The railway is expected to open in early 1994.

Xinjiang Adopts International Transportation Signs

OW0503142993 Urumqi Xinjiang Television Network in Mandarin 1655 GMT 28 Feb 93

[Announcement by the Xinjiang Regional Government; read by unidentified announcer—from the "Xinjiang News" program]

[Text] It is hereby announced that, to further promote transportation cooperation between Xinjiang and neighboring countries, and for the convenience of Chinese and foreign transportation vehicles crossing international borders, and running through the territories of neighboring countries, international highway transportation stickers, issued by the Ministry of Communications of the PRC, have been adopted. All Chinese and foreign transportation vehicles that have a sticker on the upper right corner of the windshield bearing a communications department sticker will be allowed to pass by all departments concerned. (Dated) 28 Feb 1993

AGRICULTURE

Grain Supply Situation Stable, Able To Meet Demand

OW0903140193 Beijing XINHUA in English 1336 GMT 9 Mar 93

[Text] Beijing, March 9 (XINHUA)—Officials and scholars said here today that China's grain supply situation is stable and can cope with the demand.

China's grain output last year exceeded 442.5 billion kg, a slight increase over the previous year.

At a seminar sponsored today by the Chinese Academy of Social Sciences (CASS), Han Jun, an associate research fellow at CASS, said that the problem of basic food supply has been solved nationwide.

As to shrinkage in the cultivated areas for grain, cotton and soybean oil, he said, "this is simply a readjustment of the agricultural structure."

He explained, "more farmers have moved to other fields—fruit planting or the service industry. And this is a normal reaction to market signals."

Farmland has shrunk this year, according to the Ministry of Agriculture.

Du Ying, from the Ministry of Agriculture, stressed the role of market forces in boosting agricultural production.

Foreign Capital To Revive Agriculture in Guangdong

HK0903055393 Beijing CHINA DAILY in English 9 Mar 93 p 2

[Report by staff reporter Liu Weiling: "Province on More Fertile Soil"]

[Text] Guangzhou—South China's Guangdong Province has vowed to foster closer foreign co-operation and inject more money to revive its plunging agricultural production.

Agricultural loans will total 6 billion yuan ($1.02 billion) this year, 9 percent more than last year.

In addition, the province's input in this field is targeted at 2.3 billion yuan ($396 million), 21 percent up on 1992.

The province's agriculture department officials say Guangdong will make fresh efforts to introduce foreign investment to develop high-tech agriculture and upgrade its agricultural products for a larger share of the international market.

Foreign co-operation in agriculture has for a long time been a weak point for the province, which ironically was China's pacesetter in opening up to the outside world.

However, lured by the province's advantageous geographic position and preferential policies, more and more foreign investors are eyeing this field.

Last year, 277 foreign-funded agricultural enterprises registered in the province, investing $490 million, which surpassed the total investment in this field for 1981-91.

Now, the province has 724 foreign-invested agricultural enterprises with a total investment of $950 million.

Most of these investments are in coastal areas, focusing on aquatic products, fishing, forestry and husbandry.

The province wants more foreign co-operation to help revitalize its agricultural production, which is suffering because of a severe shortage of production materials and decreased cultivated areas.

Last spring, seeding in the province decreased by 200,000 hectares, bringing the province's total cultivated areas down to 8.44 million hectares.

Grain yields last year also fell 8.2 percent from 1991's 18.1 million tons.

Worse still, the supply of materials such as chemical fertilizers and diesel oil will be tighter than last year, experts say.

In January, stored chemicals fertilizer totalled only 1.48 million tons, 26 percent down from the same month in 1992.

Agricultural experts predict a grim yield this year owing to the cold weather in January, resulting in an estimated loss of 3 billion yuan ($517 million).

Model 85-II M Prime Tank Described

93CM0176B Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 1, 15 Jan 93 p 2

[Article by Bei Fang (6296 2455): "The Chinese-Made Model 85-II M Prime Tank"]

[Text] The Model 85-II M tank is a new model tank that China's North Industries Corporation has most recently developed. Its firepower is great, its fire control system is advanced, its maneuverability is high, its armor protection is strong, and it is able to fight under modern combat conditions.

The Model 85-II M prime tank is equipped with an advanced 125 mm gun that is able to fire fin-stabilized armor piercing discarding sabots, armor piercing shells, and ordinary shells. The gun barrel is fitted with a light alloy heat shield.

The tank is equipped with a reliable automatic shell loader that can automatically select different kinds of shells, and complete a series of actions including lifting, loading, and firing, thereby increasing shell loading speed.

The tank's fire-control system is of the stable image type that includes a laser range finder, a control box, a trajectory computer, a sensor, and a bi-directional stabilizer. This advanced fire-control system enables the tank to fire at moving targets while underway, and it has a fairly high first round hit rate. In addition, the tank is equipped with an advanced performance image-enhanced observation and aiming device that performs well at night.

The tank's combat weight is 41 tons. In the design process, the protection-weight ratio and the total weight of every tank was designed optimally. As a result the tank is rather well protected.

The tank's power equipment is a high performance water-cooled turbine-supercharged V-12, 730 horsepower, diesel engine. It has a fairly high power-weight ratio (18.5 hp/ton). It is able to fight in plateau, desert, and frigid environments. Its maximum speed is 57.25 kilometers per hour.

The suspension system employs torque bar style suspension augmented by high performance shock absorbers. It has six pairs of weight bearing wheels, and the track is a high strength metal caterpillar tread on which rubber may be hung. These features increase the tank's reliability, stability, comfort, and cross-country capabilities. The tank is also equipped with atomic, chemical, and bacteriological warfare protection, floating, submersion, and automatic fire extinguisher and blast suppression systems and equipment.

Tank operation and crew training are simple.

The optimum designed armor protection, the low silhouette, the large caliber guns, and the excellent performance power system give the tank ideal defense, fire power and maneuverability.

Chinese-Manufactured Model 85-II M Prime Tank Performance Data

Full Combat Weight	41 tons
Crew	3
Length (Gun forward)	10.28 meters
Width (With side skirts)	3.45 meters
Height (To tip of gun turret)	2.30 meters
Main Gun Caliber	125 mm
Maximum Number of Rounds	40
Maximum Angle of Elevation	+14 degrees/-6 degrees
Maximum Angle of Depression	-4.5 degrees/-0.5 degrees
Machineguns	1 7.62 mm antiaircraft machinegun; 1 7.62 mm machinegun
Maximum Power Output	730 horsepower
Maximum Highway Speed	57.25 km/hr
Maximum Grade	40 degrees
Trench Crossing Width	2.7 meters
Traversable Vertical Height	0.8 meters
Fording Depth	1.4 meters
Radio	Model 880B
Communications Range	20-25 km
Atomic, Chemical, and Biological Defense	Yes
Hot Smoke Screen	Yes
Smoke Shells	Yes

Comments on DPP's Unprecedented Election Victory

93CM0149A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 302, 24 Dec 92 pp 37-39

[Article by Ch'en Chien-hsun (7115 1696 0534) and Hsien Chin-jung (6200 6855 5554): "The Small-fry Party Grows Up, Has a Heavy Burden on Its Shoulders"]

[Excerpts] [passage omitted] In the recent general election, the Democratic Progressive Party [DPP] was able to wipe out the shame of the past election, when it was able to garner only 24 percent of the vote. This time it turned in an unprecedented record, winning 50 seats in the legislature with 36 percent of the vote. Of the 37 that are regional district seats, 15 DPP candidates garnered the most votes from the nation's 29 electoral districts. The result of this increase in the success rate of votes received allowed the candidate at large to pull back to 11th place, and overseas candidates to take in two seats.

For the DPP—described by its chairman, Hsu Hsin-liang [6079 0207 5328], as a "small-fry" party—to reap such unprecedented results within this time frame is due in no small measure to voter support. Future development of the DPP will depend on how it conducts itself, whether it can grow from adolescence to adulthood, or whether it will remain in the childhood stage.

There is no question that in this election, the DPP has cast off its opposition campaigns and strategies for working within and outside the system, to come and work completely within the system. For example, the New Tide faction candidates, besides being critical, also showed a softer side in their videotaped appeals to voters. The results show that New Tide candidates won seven of eight seats. Ch'en Wan-chen [7115 1238 4176], an outstanding figure of the Nation-Building faction, also came out with some emotional appeals that netted her voter support, and she was elected for a seat in the legislature.

Hardline figures in the DPP opposition movement changed their posture to participate in an election within the system. While they have been able to demonstrate that elections were only part of the movement, the whole political environment has changed considerably, and that, in turn, may pose many strikes against the DPP.

First, the inherent power center of the DPP has shifted from the party's Central Committee to the national assembly's party factions. A group that can accommodate 50 leaders representing various aspects of the opposition movement has also absorbed too much of the opposition movement's resources, which will cause the party's Central Committee to evolve gradually into an administrative structure. We can discover that while this party group is a strong opposition force, consensus within the group is not an easy matter. While the group was united in its political demands during the election, anyone who deviated from this approach during overall warfare did so at his own risk. However, how these DPP warriors, after their election to the national assembly, will set aside their basic differences and bury their personal animosities that surfaced during the election is difficult to tell. [passage omitted]

Second, while the demand to oppose Hao Po-tsun is a goal, what will the DPP pin down as its next goal after Hao's cabinet has resigned? Actually, the DPP has never been consistent in its regard of Li Teng-hui. Now, as the election has shown, the DPP must reconsider its post anti-Hao strategy based on results of the election.

On the most controversial problem of unification or independence, the DPP was able to overturn the past policy held by the Kuomintang [KMT] last year with a big slap. Results of the election for the national assembly last year showed the DPP suffered a great defeat by the KMT because of the DPP's Taiwan independence policy and the failure of the Taiwan independence candidate Lin Cho-shui [2651 3424 3055], which gave the KMT the excuse to say there was no market for Taiwan independence. But in this year's election, overseas representatives of the Taiwan Independence League who were on the black list returned to Taiwan. Besides the stir caused by the newsworthiness of their return, these figures also made speeches during the election campaign to help their candidates. Slogans such as a "one-China one-Taiwan alliance, greetings to the masters of Taiwan!" became the first line in speeches made by DPP candidates throughout the campaign. The election results showed that Lin Cho-shui was able to win the northern district of Taipei while capturing the fourth highest number of votes cast for all candidates at the same time. Now, how can the KMT say there is no market for Taiwan independence? Actually, elections are strategic moves, and it is not possible to prove and confirm election results using emotion.

As for the quality of the actual legislative makeup in the national assembly, the election of DPP candidates into those seats is more spectacular than that in any previous election. Besides candidates with political and legal expertise, several are compensating for fields in which the DPP traditionally lacked in expertise. They are Chang Hsu-ch'eng [1728 2485 2052] and Ch'en T'ang-shan [7115 0781 1472] in diplomacy and international relations; and Hsu T'ien-ts'ai [6079 3240 6299] and Liao Ta-lin [1675 1129 2651] in finance and economics. Furthermore, the infusion of new blood in persons such as Su Huan-chih [5685 3562 2535], Shen Fu-hsiung [3088 1381 7160], K'o Chien-ming [2688 1696 6900], Weng Chin-chu [5040 6855 3796] etc., who can defeat KMT candidates, and even force some DPP old-timers into secondary positions, is something the people can expect. [passage omitted]

[Box p 39]

15 Winners, An Unprecedented Record

DPP candidates for legislative seats representing 29 electoral districts won top votes in 15 of them. This is an

unprecedented record in Taiwan. These 15 districts and winners are listed as follows:

- In the second electoral district of Taipei, newcomer Shen Fu-hsiung [3088 1381 7160] garnered 73,726 votes, 6,431 more than DPP's Chang Chun-hung [1728 0193 1347] who came in second, and 17,448 more than KMT's super-stalwart Yu Mu-ming [7599 1970 2494].
- In the first electoral district of Kao-hsiung, Li Ch'ing-hsiung [2621 1987 7160] won with 94,323 votes, 43,092 more than the KMT runnerup Lin Shou-shan [2651 1108 1472].
- In the second electoral district of Kao-hsiung, Huang Chao-hui [7806 2507 6540] garnered 58,094 votes, 17,285 more than KMT-backed runnerup Kuo Chin-sheng [6753 6855 3932].
- In Hsin-chu, newcomer K'o Chien-ming [2688 1696 6900] won with 44,318 votes, 14,508 more than KMT candidate Hsieh Ch'i-ta [6200 0796 1129] who had put himself forward.
- In Hsin-chu County, Lin Kuang-hua [2651 0342 5478] won with 70,731 votes, 13,500 more than KMT-sponsored "agricultural entrepreneur" Wu Tung-sheng [0702 2639].
- In Chang-hua County, Weng Chin-chu [5040 6855 3796] won with 91,234 votes, 5,736 more than runnerup and former DPP chairman Yao Chia-wen [1202 0857 2429], and 15,265 more than KMT-sponsored candidate Ch'en Ch'ao-jung [7115 2600 1369].
- In Nan-t'ou County, Peng Pai-hsien [1756 4102 7359] won with 91,526 votes, 37,725 more than KMT runnerup Ch'en Chih-pin [7115 1807 1755].
- In Tai-chung County, Liao Yung-lai [1675 1129 0171] won with 78,148 votes, 233 more than KMT's Shen Chih-hui [3088 2535 1979] who was strongly backed by the military in Tai-chung.
- In Yun-lin County, Liao Ta-lin [1675 1129 2651] won with 66,017 votes, 2,671 more than Social Democrat Party Chairman Chu Kao-cheng [2612 7559 2973], and 916 votes more than KMT-sponsored Lin Ming-I 2651 2494 5030].
- In Chia-I County, Ts'ai Shih-yuang [5591 1709 3220] won with 63,612 votes, 6,437 more than KMT's Weng Chung-chun [5040 6850 6874].
- In Chia-I County, Ts'ai T'ung-jung [5591 0681 2837] won 58,145 votes, 211 more than KMT candidate Ch'en Cheng-jen [7115 6975 0088]. This is the victory with the closest margin.
- In Tai-nan, Shih Ming-te [2457 2494 1795] won with 75,468 votes, 19,340 more than the KMT candidate Shih T'ai-sheng [2457 0669 3932].
- In Tai-nan County, Su Huan-chih [5685 3562 2535] won with 105,073 votes, 21,457 more than KMT's Kao Yu-jen [7559 5148 0088] who was formerly president of the provincial legislature.
- In Kao-hsiung County, Yu Cheng-hsien [7411 2398 2009] won with 104,729 votes, 1,483 more than Yu Hung [1429 1347] of the same party, and 14,177 more than Wang Chin-p'ing [3769 6855 7627], a former legislator on the National Resources Committee who came in third.
- In P'ing-tung County, Su Chia-ch'uan [5685 0857 0356] won with 78,181 votes, 6,622 more than KMT-sponsored Tseng Yung-ch'uan [2582 3057 2938]. [end box]

Undue Influence of KMT Party Elders Criticized

93CM0170A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 305, 16 Jan 93 p 47

[Article by Chi Yen-ling (4764 1693 7117): "Elders Retire But Do Not Rest, They Cannot Keep Their Tongues Still"]

[Text] For quite a few people who were politically prominent for a period of time, retirement is more painful than death. When their good times are over and there is no more applause, it is enough to make their loneliness intolerable when they see the younger generation leap into the breach where they have fallen out, and jump onto the stage making threatening gestures and stirring up trouble, the hearts of these old people are even more filled with bitterness and indignation.

After they retire they are so uneasy at home, the old people often think that they want something to do. They easily take to making comments, criticizing affairs, reorganize the old party, and interfere in government and make matters worse.

In a country that is on the political track, old people interfering in government is at most a bit like "making a feeble gesture to someone who has fallen into the river." It gets people's sympathy, but it does not cause any political waves. But in a country that is not on the political track, for the old folks to interfere in government although perhaps they will be unable to accomplish anything, they are more than liable to spoil everything. At the very least they can have the effect of putting on restraints and causing trouble. The group of Chinese Communist retirees who do not want to retire have this capability and the old people of the Chinese Kuomintang are not at all inferior.

For example before circumstances forced Liang Su-jung [2733 5126 2051] to retire, he publicly indicated that after retirement he would live in seclusion on P'eng-hu, and from then on pay no attention to current affairs, he has become the loudest voice and the most active old retiree in all Taiwan. He frequently grumbles, sings a contrary tune, and recently he even personally organized a group of retired Kuomintang elders, giving themselves the fine sounding name of "senior statesmen advisors" and were prepared to take action to challenge Li Teng-hui's personnel allocation.

The "warning during good times" that Liang Su-jung came out with includes: "This is a critical life and death autumn for the nation"; "the Kuomintang Central Committee is creating antagonism between people of different provinces and antagonism between old and

young"; "the recent political situation makes people anxious"; "the recent situation gives people a strong feeling of a reduced political base"; "total resignation of the cabinet raises the concern of violating the constitution"; and "quite a few party, government, and military people support a Li-Hao system."

Summing it up, Liang Su-jung's warning had three motives: Hao Po-tsun cannot step down, use somewhat fewer Taiwanese, and use somewhat fewer middle-aged people. Otherwise, Taiwan will be facing a critical life and death situation.

In Liang Su-jung's mind, the reason that he was willing to speak out defiantly perhaps had a bit of the feeling of "those who know me will understand that I am worried, and those who do not know me will think that I am seeking something." But when many people heard his frank warnings, in fact it sounded unpleasant. Logically he mistook the means for the end, and in content it was even more of an exaggeration. The warning became a false alarm and caused people to be concerned that this was a signal that the conservative forces were having a major resurgence.

A few years ago, Liang Su-jung and others looked upon Li Huan as a "standard-bearer" for a political force from outside provinces. Whether he was in power or not would determine the stability of the political situation, and whether people from outside provinces would be squeezed out or not. Now Hao Po-tsun has become their new standard-bearer. In the political arena recently it even was rumored that some conservative faction elders "brainwashed" Hao Po-tsun, looked upon him as the descendent of Sun Yatsen and the direct descendent and legitimate successor after Chiang Kaishek and Chiang Ching-kuo, and encouraged him that if even if he could not hold on to his position as premier, he should strive for the position of secretary general of the party Central Committee and go on to campaign for party chairman at the 14th congress to maintain the legally constituted authority of the Kuomintang without decline.

This Yao, Shun, Yu, T'ang, Wen, Wu, and Duke of Chou feudal thinking of the conservative elders by no means is an empty hole inviting the wind, but with time flowing backwards so fast that in a flash they return to several thousand years ago, makes people tremble with fear. That whether one person, Hao Po-tsun, goes or stays, continues or stops, can give rise to such great associations causes people even more to be between tears and laughter.

Although Liang Su-jung's promise to retire in seclusion to P'eng-hu was not realized, before he retired he often made the bold promise "the body is dead but the tongue lives," which has truly been fulfilled. General Omar Bradley, who was equally famous with Eisenhower during World War II, made a famous remark about the tongue before he retired, "I think that the best service that a retired general can make to his country is when he turns in his uniform to turn in his tongue also." Bradley later truly fulfilled his promise. But after Liang Su-jung turned in his gavel, he obviously did not want to imitate Bradley. Moreover, it appears that he is preparing to "use his tongue to maintain his life" and get him through his remaining years. This is a clear contrast in eastern and western retired elders. But if they think that they can depend on the tongues of a few elders to pull down Lee Teng-hui, it appears that it will not be such an easy thing.

KMT Mainstream Faction in Disarray

93CM0171A Taipei TZULI WANPAO in Chinese 15 Jan 93 p 4

[Article by Lao Pao (5071 0545): "Where Is the Mainstream Faction?"]

[Text] A lot of people believe that the so-called Kuomintang [KMT] "mainstream faction" is a gigantic political force. But when they really run into crucial moments of KMT political strife and contention, the "mainstream faction" often is Li Teng-hui alone. Many of the rest are "air ballots," one blow and they scatter, or they essentially do not make a sound, and do not make any efforts. This is a very strange political phenomenon. On the contrary, those who are called "the nonmainstream" from beginning to end their cannons are booming, and their combat strength is vigorous as if they could turn their hand over and there would be clouds and turn it back over and there would be rain. They can confound black and white and loot a burning house. Their power is like a pack of wolves. Whenever they want, they can "carry off the game in their mouth."

At the beginning of last year when the controversy blew up in the KMT over "direct presidential election or election by the committee," early on it was apparent that the mainstream faction could not stand an attack. Almost all the media announced that the mainstream direct election faction held the majority, but the result was that the advocates of "direct presidential elections" could not get it through. Facts proved that the mainstream faction was just a "ball of air," floating in air, apparently everywhere. But thus far no one has seen them, and no one can control them. The mainstream faction can be called the "air faction." On the other hand, the conservative anti-President Li faction overwhelms people. In the palace combat offensive, they are circumspect, and their methods properly combine toughness with gentleness, and they make few statements, but they are directing the entire situation. Take a look at the present major political struggles at the end of the year of the monkey, including total reform of legislative elections. The controversy over reform of the election of the president and vice president of the Legislative Yuan as well as the election of the president of the Executive Yuan also are this type of situation. You can imagine that the mainstream faction has nowhere to go. That there is a KMT "nativist" political force is really deceiving people. The nonmainstream faction will be the winner in the end. Most importantly, "Who after all is the mainstream faction?" In a future allocation of KMT

political forces, who will be the mainstream faction? I am afraid that Li Teng-hui cannot bring up the matter.

A KMT "party representative intention survey" was published yesterday. It is a device to exhibit the nonmainstream faction's real power every time there is a political conflict. This time, 80 percent of those interviewed expressed satisfaction with the Executive Yuan (Hao Po-tsun). Only 50 percent of those interviewed reluctantly showed respect for the presidency, precisely revealing the state of the political conflict. All the data is the exact opposite of civil society, also revealing the anti-reform nature of the KMT. We need not be surprised, because this after all is the KMT.

In the KMT palace system, perhaps we could say that only Li Teng-hui intends to reform. Of the so-called KMT mainstream faction when it comes right down to political contention, only Li Teng-hui is seen. A ferocious tiger also has difficulty contending with a pack of monkeys. In the year of the monkey, it is truly difficult to deal with the nonmainstream faction. Where after all is the "mainstream faction?" Perhaps they are all busy in the shadows dealing with the old forces. They have been routed by everyone and they still accept the situation.

Recent Performance of James Soong Evaluated

93CM0150C Taipei TZULI WANPAO in Chinese 21 Dec 92 p 2

[Excerpt] The use of success or defeat to assess blame after an election is inherent in the cultural style of the Kuomintang [KMT] in dealing with party affairs. This is demonstrated by the resignation offered by James Soong who was responsible for the KMT's defeat in the recent election. Whether it was success or defeat is open to question.

If the failures of this senior KMT official must be counted, they may include the following:

1. When compared to last year's outstanding election performance for representatives to the National Assembly when the KMT garnered 71 percent of the votes and 74 percent of the seats, this year's performance netting 61 percent of the votes garnered and 63 percent of the seats showed a great regression in the KMT's ability to help their candidates in an election.

2. When we consider the KMT's ability to effectively merge and mesh the participation of provincial natives and provincial outsiders in the political process, the help provided by the KMT in the Taipei area in this year's election showed an obvious bias favoring provincial outsiders. This cut off and killed any chance the KMT's native candidates might have, and planted seeds for future conflict between provincial outsiders and natives within the KMT.

3. When the symbolic candidates backed by the KMT are considered, it shows that the KMT still believed that their past strategy of vote buying and factional mobilization would work, but the KMT was fooled because it did not realize times have changed and it underestimated the will of the people.

However, in the elections held during the past two years, James Soong did show a certain degree of success, which at the least, includes the following:

1. Opening up channels of political participation by provincial outsiders which allowed them to occupy close to 25 percent of the seats for the legislature and the National Assembly. This is proportionally higher than the population they represent.

2. Inclusion of party factions, particularly the Huang Fu-hsing [7806 1788 5281] faction which took over the power structure in Taiwan.

3. Training a political force led by provincial outsiders, but including also native provincial figures, and obtaining the support of the military and the right-wing media. The influence of this political arm will be exerted next year to support re-election of Hao Po-tsun as prime minister. It will also deal in the future against "Taiwanization of the KMT," and steer the party toward formation of a so-called "KMT of Taiwan" instead.

4. Eliminating persons who advocated Taiwan first within the KMT. On one hand, Soong guided the KMT toward unification, in contrast to the DPP's inclination toward independence. On the other hand, he was able to persuade native provincial figures within the KMT to give up their strong adherence to "Taiwan First," and to be guided by the unification concept to listen to the KMT central committee, and consume their energies on making money or on running local factions instead. [passage omitted]

Open Letter to DPP's Huang Hsin-chieh

93CM0150B Taipei TZULI WANPAO in Chinese 24 Dec 92 p 14

[Letter by Fang Ch'ing (2455 7230), a 40-year-old housewife from Hua-lien]

[Excerpt] My dear and respected Mr. Huang Hsin-chieh [7806 0207 0094]:

Even though the curtain has fallen on the election for seats to the Second Legislative Session and you have lost by 62 votes, as a Hua-lien resident, I must still thank you.

The political atmosphere in Hua-lien has always been conservative, but now that a bipartisan system is gradually emerging in the capital, I will repeat here what my child said to me after coming home from school one day. He said: "Our teacher told us the Democratic Progressive Party [DPP] is bad." I also have a friend, a public servant, who heard similar comments on the bus. "Who does Huang Hsin-chieh think he is anyway, wanting to be elected legislator from Hua-lien? Does he think we are country bumpkins he can fool?" Do you know that it is

so sad such comments are made. But I must admit I am quite selfish and a coward. I dared not approach the teacher to question the fairness of his remark because I was afraid he would take it out on my child and have him blacklisted at school. Therefore, I can shout and declare that neutrality should prevail in education, but watch by helplessly as we let these Kuomintang [KMT]-brainwashed teachers continue to brainwash the younger generation, and let civil servants supported by our taxes continue their unconditional praise for one party while painting the other black.

It is in such an environment that you, the respected party chairman of the DPP for two terms, have shown up honor-bound to this politically desolate place, and without consideration for your reputation tried to open it up for democratic development. You have stood courageously before a strange audience and subject yourself to its scrutiny. When such openness is compared with that of the KMT chairman who dared not face the will of the people, it is a difference between heaven and earth.

I think there are many people like me who hate the KMT, but dare not speak nor show our anger. [passage omitted]

Politically Biased TV Broadcasting Criticized

93CM0150A Taipei TZULI WANPAO in Chinese 21 Dec 92 p 3

[Excerpt] During the recent election, television broadcasting in the nation was not able to adhere to media principles and hold on to its neutral stance. One morning, at the post-election "Seminar on Election of the Second-Session Legislators" sponsored by the China Association, this performance came under attack by media scholars. Associate Professor Cheng Tzu-lung [6774 5261 7127] from the Department of Advertising of Chengchi University expressed the view that the frequency channel to which the station owes its existence belongs to all the people. It does not belong to the station itself, nor to any one political party. Private use of a public utility or instrument is a sad matter indeed.

Professor Cheng cited an instance on the evening the ballots were counted. The anchor broadcaster at the China TV Station did not remain neutral in his reporting, and expressed great disappointment and sadness when results showed Democratic Progressive Part [DPP] candidates were winning with substantial margins. The station's bias and unfair reporting were quite obvious, and that particular anchor had completely lost the objectivity that should be the province of a reporter.

In discussing the TV station's problem with being neutral, Professor Cheng said that in every election, there had always been communications scholars calling for broadcasting stations to observe their media principles and regard their media role as a public service. But every time there has been an election, what is seen is always unfair reporting. Professor Cheng further cited a report by Lo Wen-hui [5012 2429 6540] and Chung Wei-wen [6945 5588 2429] on TV news reporting based chiefly on the 1991 election of representatives to the Second Plenary Session of the National Assembly, which showed that in 214 announcements made by the three television stations, 86.5 percent of the news originated from the Kuomintang [KMT], and news derived from DPP sources, only 7.1 percent. Of the 32 news announcements that mainly involved the KMT, 24 were slanted favorably toward it, and eight were neutral. The study further showed that "among the three TV stations," there were no news announcements that were unfavorable to the KMT.

Professor Cheng also indicated that monitoring TV reporting of the current election seemed to show no change for the better, with voters watching President Li Teng-hui, Hao Pai-ts'un and Sung Ch'u-yu dashing about on the TV screen, culling votes for the KMT candidates. All this time, what was DPP's Hsu Hsin-liang [6079 0207 5328] doing? Taking a nap at home? The professor showed that on the evening the ballots were counted, the winners interviewed by China TV were obviously KMT candidates mostly, and interviews of DPP winners were mostly for show. He further stated that according to television theory, the frequency channel on which the existence of the station depended, is owned by the public nationwide, and not by the station itself, nor by any political party. Private use of such a public instrument is truly a cause for sadness. [passage omitted]

Editorial on Legislative Yuan Election Results

93CM0128A Taipei TZULI CHOUPAO [INDEPENDENCE POST WEEKLY] in Chinese No 187, 1 Jan 93 p 13

[Editorial: "Commentary on and Analysis of Second Legislative Yuan Election Results"]

[Excerpt] [passage omitted] When the government's and the public's clamor "against bribery in elections" was at its height, and with the bribery situation being more serious compared to former years, election to the Second Legislative Yuan ended successfully on the 19th. Up for election to the Legislative Yuan were 125 regional and aborgine seats, 30 nonregional seats, and six Overseas Chinese seats, totalling 161 seats. The Kuomintang [KMT] won 80 regional and aborgine seats, the Democratic Progressive Party [DPP] 37, the Socialist Democratic Party [SDP] one, and nonparty candidates seven. Among nonregional representatives and Overseas Chinese-elected representatives, the KMT won 61.67 percent of the total votes, respectively 19 and four seats; the DPP won 36.09 percent of the total votes, respectively 11 and two seats; and the SDP, because it got only 1.54 percent of the total votes, did not win any of these seats.

The results of this election were not much different from the results predicted on election eve by the ruling party and the largest opposition party. The KMT's Auxiliary

Election Department estimated that the KMT would get 57 percent of the votes, and the DPP estimated that it would get 32 percent of the votes, both estimates being close to the predicted error value of 4 percent. However, with regard to the number of seats, given the KMT's estimated 88 seats, even if multiseat constituency seats and seats of KMT members who ran on their own without KMT approval are included in the calculation (80), this is still a drop of eight seats. Given its estimated 30 to 40 seats, the DPP got 37 seats, close to the high number (40). From an overall view, although the number of votes and seats obtained by the KMT, in comparison with past Legislative Yuan elections, indicated a retreat after a defeat, the KMT still holds the majority of seats in the Legislative Yuan. In a number of votes, the DPP leaped forward 12 percentage points from its 23.93 percent in last year's National Assembly election, and in number of seats has plenty of scope for scoring a victory. For the KMT, this election result is, without a doubt, a warning bell. It showed that among the people there really is considerable dissatisfaction with the KMT administration, and there really is considerable hope placed on the largest opposition party, the DPP. In many counties and cities the DPP candidates were elected by a wide margin of votes, which for the limited number of members in the DPP is of course a great encouragement. The result encourages the largest opposition party to continue to cultivate the parliamentary line, and to enhance the elevation of its members' structure, organization, and quality.

We think that the result of this election is, for Taiwan at its present stage, cause for our fellow countrymen's gratification. The public's and the government's two main political parties, under circumstances of good competition and abiding by the rules of the democratic game, were examined by the people, made adjustments, and corrected their own faults by oberving the virtues of the other party. The embryo of two-party politics was formed in this Legislative Yuan election. The gradual shrinking of the gap between the number of votes obtained by the ruling and by the opposition parties, and even Taiwan's beneficial move toward two-party politics, the KMT's tiny defeat, and the DPP's leap forward, are not, for Taiwan's 20 million people, very important. What is important is that in this election they won the sovereign right to be the masters who effectively control the future development of the two parties. Of course, the result of this election, under the tense election circumstances obtained between the two parties, also causes the political effectiveness that a third party can display, as before, to be extremely limited. Even if the two major political parties got considerable support from the voters, the voters also place considerable expectations on them, and thus they bear greater and more responsiblity for promoting democratic politics. We hope that the KMT and the DPP will be good at reflecting public opinion, will, in accord with the wishes of the 20 million Taiwan people, go on to revise their programs and strategies, and exercise to the fullest the functions of a political party for Taiwan's democratic development and political stability and for the happiness of its people.

Second, we must point out that the most distinguishing feature of this Legislative Yuan election was the movement against bribery in elections, and this movement had an effect on the election result. In all previous elections, the government and the public made declarations and took actions against bribery in elections, but the actions were not as large and the declarations not as strong as they were in the process of this Legislative Yuan election. Being against bribery in elections almost became the common understanding of the government and the public, and of their political parties. Inspection and investigation judicial units took charge of one matter: They used huge sums of monetary awards and took measures to inspect and investigate in an attempt to put a stop to the evil practice of bribery in elections. However, quite the opposite occurred. This was of all previous elections in the past 40 years the one in which the atmosphere of practicing bribery worsened and was the most serious. This was, completely contrary to satire, an election culture in which, from the the president to the the elementary school pupil knew in the bottom of their hearts that elections in which bribery was practiced were the slayers of the country's politics and society's common practices, but in the minds of some candidates and the majority of their followers, bribery became the only way to win the election. The result was that the clamor against the practice of bribery in elections swept the entire country, but a wave of money also swept the entire country. The only gratifying thing was, in the election result, some people who vainly hoped to win by bribery suffered a setback and paid a price, and some candidates who were seen as having the "power of gold" also were subtly influenced and went down to defeat. We hope the government will, with the renovation of the election culture in which bribery is a common practice as its chief goal, focus on factually proved and precise law cases and without bending or wavering deal with them strictly as a warning to others.

Third, looking at the background of those who were elected in this major election, we discover: Those who possessed a strong province-origin nature, and who had a recognized ideological identity and position, were not, as the media and the two parties predicted, "cast aside by the voters." Precisely the opposite was the case: In several principal electoral districts, the greater part of the candidates who strongly advocated Taiwan's independence, one China and one Taiwan, one Taiwan and one China, and an anti-Hao position were elected. Most candidates who strongly advocated one China, reunification, direct navigation between the two sides of the strait, and the support of Hao were also elected. This phenomenon shows that the conditions for both reunification and independence still exist in Taiwan's social structure, and they are both strongly supported by voters in favor of one or the other. From a look at the bad developments, we see that in the future Legislative Yuan the opposition between reunification and independence

will be more fierce than in the past, and the national identity issue, because of the changes in the Legislative Yuan's structure, formally become the center of the contest of strength between the government's and the public's political parties. With regard to good developments, we see that the forces that before the election were thought to be "radical independentists" and "radical reunificationists," through democratic election, both obtained, in the original position of the popular will, the freedom of thought, speech, and political advocacy, and a foundation in the popular will they represented, and will obtain their due respect in the country's future political domain. Thus, the government's and the public's political parties and political figures have a greater need to study the spirit of democracy in which dissidents are tolerated and compromises are made to get along, so that the country's democracy takes the right path.

Finally, although the powerful electronic media played a role in this election battle that ran counter to the ethics of the profession of journalism and to rational concepts, they were unable to influence the election result. This was a judgment made, through their votes, by the voters on the electronic media. It is a warning to the ruling party and the electronic media that violate the principle of impartial reportage that they need to quickly restore the standards by which the media make known their sources, and play well the impartial role of readers, listeners, and goalkeepers. The ruling authorities should also make the determination to open up as fast as possible, and to make standard, the radio and television reportage, so that Taiwan's media and political environment tend toward normality. [passage omitted]

Reaction to State Department Human Rights Report

93CM0171B Taipei TZULI WANPAO in Chinese 15 Jan 93 p 4

[Article by Ts'ai Ts'ang-po (5591 3318 3134): "Taiwan Human Rights, Structural Problems Still Exist"]

[Text] On 19 January as the United States was receiving important Taiwan people in and out of office who had come to celebrate the new president's inauguration at the Washington headquarters of the Taiwan Coordinating Council and Li Teng-hui's daughter was visiting the State Department, the State Department issued the 1992 Human Rights Report for all countries. The Taiwan portion minced no words about such problems as the Kuomintang's [KMT] monopolizing the electronic media, party-run enterprises, and people from the mainland holding most of the high party, government, and military positions. Taiwan officials did not know how to enjoy this hot and cold situation.

The Taiwan portion of this year's human rights report to a certain extent reflects Taiwan's changed situation in the past year. The first impression that people get from the report is that Taiwan does not have a major obstacle to basic human rights. What remains are rather minor problems, and the rather serious circumstances of structural problems.

One issue the human rights report brings up almost every year is the disproportionate influence of people from the mainland at higher levels of the party, the government, and the military. This point greatly discounts the successes in democratization that the KMT is constantly boasting to foreigners. In recent years people in and out of office who certainly do not lack knowledge have intentionally played down the province issue. But there still are people who continue to use provincial attachments to plunder resources, making province an important mark of Taiwan political life that they would like to forget but it is a fact. The State Department human rights report this year once again makes the statement that is repeated every year that people from the mainland have disproportionate influence and political control, and it certainly does not miss the mark.

The second structural problem is the issue of party-run and state-run enterprises. This year's report especially pointed out that "the KMT has enterprises, and they can receive public funds and assistance from all administrative and security organizations, not separating party and government." These are explained more concretely and clearly than in past years, even bringing up the treasurer who is concurrently the person in charge of party finances and the government's chief of veterans' affairs who is concurrently the person at party headquarters in charge of the Huang-Fu-Hsing party branch that have a major influence at election time. These have already become cliches in Taiwan, and have been attacked without success for a long time by those out of office, exclaiming in disappointment for their failure. Now that the United States is noticing, perhaps it will have a different significance for the KMT authorities.

The third structural problem is the monopoly of the electronic media. The argument is that freedom of the press is also within the scope of political and human rights. Last year's human rights report carried one mention in the summary. This year's emphasized that this is unfair political activity. The KMT's monopolizing the huge electronic media networks and television and radio advertising has been protested by the opposition movement for a number of years and has not been resolved. Expanding the space of the electronic media in political activity has not been liberalized at the same rate. The KMT still considers the channels private property. Internationally this is hard for democrats to tolerate. When the party out of power competes with the KMT on this obviously unfair basis and still can succeed, it is a rather rare and commendable achievement.

Among Taiwan's various progressive voices, complicated changes can very easily leave people with the impression that "it is an irreproachable thing." The authorities also can easily get intoxicated with their success. Face to face Americans are very polite and urbane as if everything is very satisfactory. This report is a good mirror for those in and out of office in Taiwan.

Political Leaders View Current Sino-British Row

93CM0167A Hong Kong MING PAO YUE-KAN [MING PAO MONTHLY] in Chinese No 325, Jan 93 pp 40-43

[Article by Shi Liyi: "Political Parties in Hong Kong Comment on Sino-British Row"]

[Excerpts] [passage omitted] Our reporter visited the seven major political groups in Hong Kong. Some supported Chris Patten's political reform plan, and others disapproved. However, in general, they believe that it is a predicament extremely hard to tackle. Looking forward to the Sino-Hong Kong relationship in 1993, some assume a pessimistic attitude, and others exhibit a guarded optimistic feeling, believing that only placed in a desperate position can soldiers fight for their lives and eventually win the battle. Their views are as follows:

United Democrats of Hong Kong

[passage omitted] During an interview, Yeung Sum, Vice Chairman of the United Democrats of Hong Kong, pointed out that he is basically not so optimistic about the relation between China and Hong Kong in 1993.

Since the 4 June 1989 incident, China regards Hong Kong as a base area for subversion and a frontier position. Its reaction is quite sensitive regarding Hong Kong. Actually Chris Patten's political reform plan is very mild. He only seeks to win the support of the people in Hong Kong in making a breakthrough in some grey areas within the framework of the Basic Law. He even refused to appoint some directly elected United Democrats Legislative Council members to the Executive Council.

The results of the recent 14th National CPC Congress were even more conservative than the 13th National CPC Congress. The 13th National CPC Congress at least decided to separate the functions of the government from those of the party and advocate a multi-party system. The 14th National CPC Congress negated the Western multi-party system, and return to the use of the election system whereby the number of candidates equals the number of deputies to be elected. It adopted the opening up policy in the economy, but it remains conservative politically. In the same way, China seeks to choke to death the development of the political system in Hong Kong by using the Basic Law.

Whether Chris Patten's plan can be adopted or not directly affects the 1993 Sino-Hong Kong relation, he said. If the Hong Kong governor loses, it is obviously because of the Chinese pressure and the fact that China exerts influence on Hong Kong ahead of schedule. If Chris Patten's plan is adopted at the Legislative Council, the Chinese side would "start all over again," and the Sino-Hong Kong relation will become even more strained. Therefore, looking forward to the year 1993, he is not too optimistic about the Sino-Hong Kong relation.

If Chris Patten loses, Hong Kong will suffer even greater losses, Yeung Sum analyzed. It will show that the Chinese side has fully participated in Hong Kong's internal affairs and in the development of the political system prior to 1997. It will be even more difficult to expect council members to fight for Hong Kong people ruling Hong Kong and for a high degree of autonomy after 1997.

If Chris Patten's plan is adopted, there will be shock waves, said Yeung Sum. The Chinese side will use the media to pour out a stream of abuse everyday, but it is nothing if one is accustomed to hearing such background music, he pointed out. As for the Chinese side's threat to "start all over again," Yeung said that it is no big deal. If worst comes to worst, members of the United Democrats will not work as council members. There is still a legal basis for the administration of Hong Kong prior to 1997. The people in Hong Kong will only be psychologically affected.

If the people in Hong Kong give up because of China's threat for the moment and try to seek only temporary ease, it will be difficult for them to adhere to the principle of "one country, two systems" and seek a high degree of autonomy in the future. In addition, China may even open up even more widely following its own social and economic development. Therefore, he suggested that the people in Hong Kong stand firmly for the next four and half years.

Meeting Point

[passage omitted] Acting Chairman of Meeting Point Li Zhiyue [2621 2784 1878] basically has an optimistic attitude toward the Sino-Hong Kong relation in 1993.

He said that the Sino-Hong Kong relation in the next year will be affected by the following three factors:

1. We must see how Western English-speaking nations (headed by the United States) reshuffle the world order and readjust their strategy after the end of the U.S.-Soviet cold war. Particular attention must be paid to the relation between the Western English-speaking group and China. Due to the fact that Britain has always closely followed the United States, the China policy of U.S. President Bill Clinton who took office in January will affect the whole situation.

2. We must study China's own development. Li said that China's senior leaders have gradually selected their successors in the political realm. In the economical realm, they choose to develop opening up market economy, and draw on managerial experience from abroad. Following this path, they apparently believe that China needs to share a common language and become a member of the international community.

Li said, the United States is considering whether it should still give China MFN status or impose punitive tariffs on imports of Chinese products under Section 301 of the U.S. Omnibus Trade Act. This shows that the

United States seeks to link economic and political affairs with human rights. Therefore, the question is whether China wants to clearly separate political affairs from economic affairs. From this point, we believe that if China wants to further rely on foreign countries in developing its reform program, it must have dealings with them. Therefore, he believes that the Sino-British confrontation will not last long.

3. It all depends on the internal political and cultural developments within Hong Kong and the situation in linking Hong Kong's economy with that in South China.

Li said, both sides understand that strained relations are harmful to everyone. He expects that Chris Patten's political reform proposal will be adopted by the Legislative Council. There will not be any major shock wave, even if the Chinese side "starts all over again." Possibly there will emerge another type of consultative organization on Hong Kong affairs. The Chinese Government will act realistically when it needs to pay an exorbitant economic price for something. Therefore, he remains optimistic for 1993.

Association for Democracy and People's Livelihood

[passage omitted] Chairman Fung Kin-kee of the Association for Democracy and People's Livelihood of Hong Kong said, the political system will affect the Sino-Hong Kong (Sino-British) relations.

He believes that there are several possibilities in solving the problem on the current political reform plan. (1) Chris Patten's plan is adopted by the Legislative Council untouched. (2) The plan is passed after being revised. (3) The Hong Kong governor accepts another plan, submits it to the Legislative Council and is adopted. (4) Many plans are submitted by public figures of all walks of life and referred to the Sino-British Joint Liaison Group for discussion. A final plan accepted by the people in Hong Kong is derived. (5) The worst situation is that Chris Patten must withdraw his plan.

He said that he hates to see possibilities listed as (1), (2) and (5). Possibilities listed as (1) and (2) symbolize the adoption of Chris Patten's plan, which will make the Chinese Government intensify its efforts for confrontation, lead to the emergence of a shadow government, and the rise of the conservative force. All this will not benefit 1997. The fifth possibility reflects the complete surrender of the British side to the Chinese side. The Hong Kong government will remain absolutely obedient to the Chinese Government. That is not so good either.

Fung said, the fourth possibility is the most ideal choice. However, if both China and Britain refuse to accept such a plan, there is nothing that Hong Kong can do. He strongly urges China to take into serious consideration its economic development, its principle of "one country, two systems" and Hong Kong's role in raising money. He deeply believes that only being placed in desperate position, will it be possible for soldiers to fight for their dear lives and win the battle, and that only when a crisis occurs will the situation improve.

Democratic Alliance for Betterment of Hong Kong

[passage omitted] Chairman Tsang Yok-Sing of the Democratic Alliance for Betterment of Hong Kong said, China has no intention of destroying good and bad alike and try to topple Chris Patten at all costs. On the contrary, he believes that China will try to win the cooperation of the people in Hong Kong.

He thinks that during the past two months, the British side has always taken the initiative, while the Chinese side only tried to cope with the changes. Some of the measures adopted by the Chinese side were only aimed at getting the British side to return to the negotiation table.

He deeply believes that at a later date, the Chinese side would adopt more positive measures aimed at winning the support of the people in Hong Kong instead of trying to lessen the prestige of the British Hong Kong government. He said, the morale of civic servants is low and problems crop up in public security and financial affairs because of the poor efficiency of the British Hong Kong Government in administering Hong Kong. All these are negative signs that the Chinese side does not want to see.

He said, right now neither side sees the need to back off. He believes that the Chinese side will become more active, and make some preparations to ensure a smooth transition.

He said, China's favorable factor lies in its own economic development, while businessmen in Hong Kong still pin their main hopes on their investments in China. Right now, there is no panic in Hong Kong like the one in 1983. All sectors are unwilling to see Hong Kong's interests harmed. He believes that both China and Britain are trying to find out the cards in each other's hands. They will solve problems after they know the cards.

Although Cheng Jienan, secretary general of the alliance, said that he is guardedly optimistic, he calls on people in Hong Kong to do their best while preparing for the worst. When economic principles run against political ones, China is definitely forced to choose the latter, he said.

New Hong Kong Alliance

[passage omitted] Chairman Wei Jishun [7279 1015 5293] of the New Hong Kong Alliance believes that it is impossible to break the deadlock in the foreseeable future.

He said, even when the domestic economic situation is poor, Britain is willing to give up the last money-making opportunity on Hong Kong's new airport project. It shows that Britain places its political interest above its economic interest. It regards Hong Kong as a base to subvert China, and the political reform plan is only an

excuse to create disturbances. This is a sanction which the English-speaking nations try to impose on China, he again pointed out.

He said, Hong Kong is not that important in the eyes of the Chinese. China will not make concessions. It will develop Shanghai to reduce the degree of its reliance on Hong Kong.

He believes that Britain's national policy is to overturn China. He predicts that only when its domestic economic problems crop up, will Britain change its attitude.

Cooperative Resources Center

[passage omitted] Convener of the Cooperative Resources Center Lee Peng-fei believes that the political reform disturbance is Britain's wrong appraisal of the Chinese side. The lack of a joint announcement after the three-day meeting of the Sino-British Joint Liaison Group shows the seriousness of the matter. This implies that the Joint Liaison Group set up to discuss transition problems was unable to calmly hold discussions. These discussions should be held at the leadership level between the two nations to solve problems.

Lee Peng-fei, a former member of the Executive Council who went to Britain with Lydia Dunn to persuade Britain to agree with the two councils in Hong Kong said that right now both China and Britain have deviated from the path of maintaining the relation of friendship and cooperation and of ensuring smooth transition of the administration as they promised in the Joint Declaration. The Cooperative Resources Center plans to make separate trips to London and Beijing. It is hoped that the leaders of the two nations would understand Hong Kong people's anxieties and return to the original path.

Lee Peng-fei said that the Chinese are accustomed to trying peaceful means before resorting to force. He fears that China is not making any empty threat. If it forms an organization such as a shadow cabinet, it will deal a blow at the prestige of the Hong Kong administration prior to 1997.

As a group of the Legislative Council members who are capable of making trips to China and Britain, the Cooperative Resources Center has the responsibility to explain to the British prime minister and the Chinese premier about Hong Kong's predicament, he said. He also urged the two signatories of the Joint Declaration to fulfill their duties.

Lee believes that it is difficult to determine, at the present stage, the chances in solving the problem. However, he himself remains optimistic. He thinks that both countries would solve the problem together, when their interests are at stake.

Liberal Democratic Federation

[passage omitted] Wu Wai-yung, vice chairman of the Liberal Democratic Federation, said that things are very complicated when they develop to such a stage. He himself feels pessimistic about the future of the Sino-Hong Kong and Sino-British relations.

He said that the Sino-British relation would never return to the harmonious period between the announcement of the Joint Declaration and the 4 June incident. He also hopes that China and Hong Kong will gradually establish a work relation on the basis of mutual trust. However, the series of events have already made people doubt whether or not Britain gives top priority to establishing such a work relation, he said. There is really nothing that Hong Kong can do. Right now, we only hope that the "war" will not be further intensified and "casualties" be reduced.

Refuting Beijing's Case Against Constitutional Reform

93CM0168A Hong Kong TANG TAI [CONTEMPORARY] in Chinese No 22, 15 Jan 93 pp 18-20

[Article by Li Kuang-ch'eng (2621 0342 4453): "Hong Kong People, Hong Kong Affairs—Who After All Represents Hong Kong Public Opinion?—Refuting Recent Chinese Communist Absurd Talk"]

[Excerpt] [passage omitted] The Chinese Communists this time are saying over and over that P'eng Ting-k'ang has violated the Basic Law and not a single word of the Basic Law can be changed. Who is right about this? The Chinese Communists also know that the constitution and the party constitution are changed whenever necessary. Why can't the Basic Law be changed? Knowledgeable Hong Kong people early on appealed for the Basic Law to be subject to change, which has all along been seen by the Chinese Communist as a thorn in the side.

The Basic Law is the Hong Kong people's law and should respect Hong Kong people's desires. If Hong Kong people all say that they want it changed, it should be changed. The Chinese Communists consider this Basic Law that they concocted with their single-handed control and using a high degree of political pressure the magic weapon for them in the future to order Hong Kong about as they please. They do not pay attention to the dissatisfied cries from the Hong Kong people, and they have repeatedly warned the Hong Kong people that they should not become "an anti-communist base." Obviously Chinese Communist interests fundamentally conflict with the interests of the Hong Kong people. Now there is still four years until 1997, the Hong Kong people should not stop at the limited constitutional reform of the Hong Kong governor. They also should make even deeper efforts—revise the Basic Law.

The Chinese Communists claim that "the constitutional plan" could destroy Hong Kong's prosperity and stability. Are these fearful consequences, such as a loss of confidence, social turmoil, and the disappearance of democracy, that everyone is talking about after all the consequences of the plan itself or the consequences of

Communist Party counterattacks and reprisals? Obviously they are the consequences of the reprisals threatened by the Communist Party. The plan itself increases people's confidence, and quickens the pace of democratization. Those who say that it destroys prosperity and stability do not know what they are talking about.

Quite a few people, who have been taken in by Communist Party logic, believe that this is a universal principle that everyone can accept and the consequent reprisals should be born by the troublemakers. So, if it really creates turmoil, P'eng Ting-k'ang should be held responsible. There are a few points in this that have not been made clear. First, how did P'eng Ting-k'ang break faith? According to my understanding of the documents, he did not. Second, in considering using loopholes in the Basic Law to add some reforms that the Chinese side did not expect, the responsibility is not on those availing themselves of the loopholes, but in the law itself. This is common knowledge in the legal field. Third, taking another step back and just considering making a few modifications, if these modifications get the support of public opinion, they also have a reasonable stand. For the slightest reform to accelerate the pace of democracy, the Chinese Communists threaten to abolish all democracy. This is like two people quarreling; just because A believes that B is a little bit wrong, A kills B. But some onlookers do not blame A, the murderer. On the contrary, they blame B, saying, why did you want to make this mistake? Did you not know that A would kill people? You have to be responsible for your own murder. This is the Chinese Communists' high-handed logic. And those onlookers are yielding to this overbearing use of power.

Another argument of the Chinese Communists is that speeding up democratization would be harmful to Hong Kong. They bring up the former Soviet Union and Eastern Europe as examples. This is confusing one thing with another. Hong Kong and the former Soviet Union and Eastern Europe are not at all alike. How can they be lumped together? The chaotic situation in "the Soviet Union and Eastern Europe" after political democratization can essentially be attributed to the aftereffects of the communist system. The economy totally collapsed under the communist system so that there was no way to revive the economy in a short period of time. Actually life was equally poor in the past. The reason that they did not have the present chaos, however, is that they were suppressed and could not publicly resist in the past, but now they can come out in the street and demonstrate.

Right, democratic politics should come step by step. This can be said of the mainland. In Hong Kong modernization has reached the level of advanced nations, and there is a rather high degree of freedom and the people's demand for democracy is even more urgent. Speeding up democracy in Hong Kong would be a smooth and orderly thing. What harm could that be to Hong Kong? The truth is that the Chinese Communists believe that speeding up democracy would be harmful to their dictatorship.

Another criticism of the "constitutional plan" is that the plan establishes a government and a Legislative Council affairs committee and makes all government policy decisions public before the fact, affecting the efficiency of policy decisions. This also is a brand new "concept of efficiency." We all know that the administration must emphasize efficiency, but we have never heard that policy making also should emphasize efficiency. The most efficient policy making is a dictatorship. The Chinese Communists are precisely the representatives of this concept of efficiency that runs counter to the people of the world. In that administrative sector that emphasizes efficiency the Chinese Communists can be said to have layer upon layer of organizations that wrangle with one another and in the decision making organization that emphasizes caution, the directives of one or two top leaders have the final say and are the final decision. They plan to indiscriminately copy this whole thing in Hong Kong. So, of course they cannot tolerate democratic decisions making processes.

Another reason that the Chinese Communists oppose constitutional reform is that they say that the change is too great. "The less we change the better. The original intention of the Basic Law legislation was to be fully attentive to the Hong Kong people's attitude of seeking stability and dreading change."

That is right. The Hong Kong people do seek stability and dread change. But what do they dread? It is the dictatorial rule of the Communist Party. It is not that they fear changing into a democratic society. If they become a democratic society, how could we fear that they might be able to quicker still refuse it to seek stability. The fact that public opinion supports the "constitutional plan" is proof of this. Those who fear that going to fast they might not attain it, actually are afraid of infuriating the Chinese Communists. They are afraid that the Communist Party will wipe out democracy completely. They are not afraid of picking up the pace of democratization. This threat precisely confirms this fear. The Chinese Communists should know that the Hong Kong people did not suffer from this phobia in the past, but since they heard about 1997, they have had "1997 phobia." But now the Chinese Communists have the effrontery to say that it is precisely the Chinese Communists' willingness to accept Hong Kong "that injects momentum into democratic development and guarantees Hong Kong's prosperity and stability." It really leaves people speechless.

This time the Chinese Communists blame P'eng Ting-k'ang for "taking up the banner of public opinion and not hesitating to lead Hong Kong in opposition to China." This is a bit of a self-confession. Why can just wanting to get the support of public opinion lead to opposing the Chinese Communists? The Chinese Communists early on lost public opinion and became synonymous with anti-democracy and anti-public opinion. But the Chinese Communists also often defile public opinion and regard themselves as the representatives of Hong Kong public opinion to the point of saying that the

currently published public opinion survey supporting the P'eng Ting-k'ang plan does not count. If this is the case, why do the Chinese Communists not propose that we have a ballot of all of the people of Hong Kong to see what is truly public opinion.

The Chinese Communists have one more move, to say that P'eng Ting-k'ang's report is a British challenge to Chinese authority. This move really puzzles people. It is designed to incite the nationalist sentiments of the Chinese and change the nature of this dispute to a dispute over Chinese and British authority. Actually the nature of this dispute is the clash between the Chinese Communists who represent anti-democracy and the public opinion of the vast majority of Hong Kong people who are demanding democracy. The British are only acting to represent Hong Kong to win democracy from the Chinese Communists. The Hong Kong people are certainly clear on this point. They definitely cannot believe that their support of P'eng Ting-k'ang's plan is supporting the British Empire in challenging Chinese authority. But this point can very easily be overlooked by mainland people (including overseas mainland people). If we just look upon it as a dispute between China and Britain, the point of the Hong Kong people's interest playing a central role is lost and we are tricked by the Chinese Communists. We could use a narrowly nationalistic sentiment to support the Chinese Communists and blame England for causing trouble. Doing this would result in damage to the interests and the feelings of the Hong Kong people. [passage omitted]

Pro-Beijing Groups Prepare for 1995 Direct Elections

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[Article by An Dingrong: "Leftist Groups Energetically Coordinate Their Activities With 1995 Direct Elections"]

[Excerpt] [passage omitted] The XINHUA Hong Kong Branch, an organization of the Chinese side stationed in Hong Kong, has adopted a policy of active participation, and assumed the airs of a shadow government. Recently, XINHUA officials appeared on various public occasions and contacted mass organizations of all types in high contrast with their low profile in the past.

Among the XINHUA officials, several deputy branch directors such as Qin Minjun, Zheng Guoxiong and Wang Pinqing even showed magnanimity by granting interviews to the media. This is a new development.

The most welcome target of the media is naturally branch director Zhou Nan. The only problem is that he seems to resist the media a great deal. Unless he has something to say, he generally will not give an interview to any reporter. Even if there is one, it is usually a new year interview by electronic media. Reporters from newspapers or journals can hardly get to interview him. On the contrary, the spokesman "appointed by the emperor himself"—Deputy Branch Director Zhang Junsheng—remains quite active. He speaks just like the spokesman of the Chinese side stationed in Hong Kong. He is certainly seen on every major occasion. He regularly does his utmost to criticize Hong Kong Governor Chris Patten. Recently he was also seen at the scene of tragedy in Lan Kwai Fong. After expressing his grief, he also did not forget to flay the Hong Kong government for improperly handling the incident. He assumed the airs of a supervisor.

In recent days, the Democratic Alliance for Betterment of Hong Kong has also been very active. Beside visiting the mainland, calling on Chinese leaders and quoting what Foreign Minister Qian Qichen's said, it sees itself as an important group in Hong Kong. It stands up to the United Democrats of Hong Kong and the Cooperative Resources Center as equals, and finds itself more united than the latter.

In recent days, chairman and vice chairman of the Democratic Alliance for Betterment of Hong Kong often met media to express their views. To meet the needs of English media, they often answered questions in English. This is a major breakthrough among pro-Chinese political figures. In the past, only a few pro-Chinese public figures such as Liu Yiu-chiu would act in such a manner. With the rapid approach of 1995, the Chinese side has paid considerably greater attention to the reports of the English media.

Since the beginning of 1992, the Federation of Trade Unions had made plans to strengthen its membership campaign, and tried to recruit more new members. Aside from its efforts to attract new members through the Chinese-funded institutions in Hong Kong, it has also tried to expand its membership by providing more material benefits for its members. It had already attained good results in 1992.

The federation indicates that its current membership already exceeds 190,000, up 10 percent over the 170,000 figure over a year ago. Although Zheng Yaotang, chairman of the board of the federation refuses to make public the objective behind the related actions, he only said that it is still too early to say that they have something to do with the 1995 direct elections. However, there are only two years left before 1995. Now is the time to make preparations.

The failure of the two pro-Chinese candidates in winning seats in the previous Legislative Council election gives a bitter lesson to the Chinese side. In addition to blaming the "effect of joint votes," they recalled the painful experience and placed emphasis on training a large number of its own "soldiers" and deployed them in various relevant electoral districts so as to mobilize them in casting votes for the Chinese side during the 1995 direct elections.

Another strategy of the federation is to win the votes of the workers by showing great concern over their well-being. Recently Liang Fuhua and Chen Wanxian of the federation have actively participated in managing workers' affairs. They form alliance with workers to oppose imports of foreign labor, and even cooperate with the rightist factions in criticizing the Hong Kong government for continuously introducing foreign laborers into Hong Kong. In addition, it also takes the initiative to get involved in labor-management disputes such as the recent hotel strikes so as to win the support of the working class.

Meanwhile, various branches of the federation have also forged ahead towards this direction of great unity. They take the initiative to put forward some issues that trouble the related trades. For example, they seek Sino-Hong Kong bilateral cooperation to solve the problem of long waiting hours for container trucks to load and unload on the mainland. Due to the cooperation from the mainland side and the support of the Hong Kong and Macao Affairs Office, such problems are readily solved.

Other groups of construction workers and taxi drivers have also expressed views recently on their problems. Their attitude has become much more positive. Their aim is obvious.

The Federation of Trade Unions also said that the number of complaints it received on labor problems is rapidly increasing. This shows that the federation has changed its low profile in the past; and taken initiative to maintain ties with people of the middle and lower social strata, and help them solve problems in the hope that at the appropriate time, there will be a group of basic-level people to support the federation.

Right now, among those pro-Chinese public figures who may possibly campaign for the 1995 direct elections are Cheng Jienan and Chen Wanxian who suffered a setback in the 1991 election. Other pro-Chinese figures such as Liang Fuhua or Pan Duquan may also possibly campaign for the elections. Even incumbent Legislative Council member Tam Yiu-chung is an important chessman for the direct elections. It depends on how the Chinese side divides its forces at that time.

Naturally, the arrangements of friendly organizations such as the Democratic Alliance for Betterment of Hong Kong must also be taken into consideration, because its chairman Tsang Yok-sing is also a good candidate for the direct elections. The question of how key candidates can coordinate with each other in launching the attack will be determined at a later date.

However, it is difficult to detect the behind-the-scene activities of the leftist factions and Chinese-funded organizations. It is reported that many public figures, even Legislative Council members, have maintained very close ties with the Chinese side. It is more possible that some of them are party members. They are not going to expose themselves at ordinary times. They would only show up when there is such a need. [passage omitted]

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