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Return by Shen Tong 'Damages' Hunan Democracy Movement

93CM0155B Hong Kong PAI HSING [THE PEOPLE] in Chinese No 276, 1 Jan 93 pp 54-55

[Article by Li Hsiao (2621 3469): "Shen Tong's Return Seriously Damages Hunan Democracy Movement"]

[Text] After Shen Tong [3088 1749] was arrested, the South China chapter of the Chinese Democracy Foundation that he had founded at Changsha collapsed. Of the 10 members, three safely escaped, two were arrested, one gave himself up, and the whereabouts of the others is unknown. The damage to Changsha's Tongren [0681 0088] Publishers is the saddest. The disaster spread to the general employees who had nothing to do with it....

From the time that Shen Tong was arrested in Beijing in September of this year, this reporter has been following the developments of this situation with interest and I have been fortunate to participate in some of the rescue operations of the human rights organization. So, I more or less know some inside information. This report will lay emphasis on relating the destructive catastrophe to the Hunan democracy movement and evaluating the after effects produced by Shen Tong's public return.

Impure Motives; Much Censure, Little Praise

First it is well worth considering that Shen Tong returned to the country openly flaunting that he was engaged in democracy movement activities. After the sound of gunfire on June 4th, he became a skilled member of the democracy movement. If we were to say that he was not clear on China's political climate and did not understand the political methods of the Chinese Communist, it would simply be a huge joke. I believe that Shen Tong dared to act this way for none other than the following reasons: 1) Shen Tong depended on United States backing. Even if he were unfortunate enough to be arrested, the United States side could not sit by and watch. 2) He dragged along Americans and Frenchmen when he returned to China, so that the Chinese Communists would have some misgivings when they came to arrest him. 3) Before he returned, he wrote an article, recorded a videotape, and released enough rumors to buy media insurance. 4) With the overseas democracy movement at a low ebb, to return to the country and engage in public activity with the gambling mentality of "becoming the hero to defeat the tyrant" revealed to the world that he dared to undertake the heroic feat of publicly challenging the Chinese Communist authorities. 5) Relying on his fame and bearing the title of chairman of the Chinese Democracy Foundation, and shouting the slogan that he was returning to the country to conduct human rights activities, it would truly be a bit of a thorny problem for the Chinese Communists to seize him! It still cannot be seen from the analysis above that Shen Tong had any impure motives, because some defensive measures still were necessary! But we have learned from the mouths of people who have continuously honed their skills in the democracy movement that Shen Tong's motives for returning to the country were really not good. Below we will discuss this reporter's view of some of the public activities that Shen Tong conducted when he returned to the country.

South China Chapter Thoroughly Destroyed

At the end of this July, Shen Tong passed through Guangzhou and arrived at Changsha, Hunan and, based on a list provided by Tang Boqiao [0781 2672 2890], first made contact with the Hunan underground democracy movement. With the help of members of the underground organization, Shen made the acquaintance of several democracy movement people and, with Changsha as his center, became active in several provinces and cities in the South China region. Shortly after that, Shen established the South China chapter of the Chinese Democracy Foundation at Changsha. The chapter had jurisdiction over the five South China provinces and expanded to 10 members in Changsha. According to a person from the democracy movement who safely escaped, Shen Tong at the time promised that if they enrolled in the Chinese Democracy Foundation, they could get a monthly salary of US$300, and Shen personally guaranteed them that this information absolutely would not be publicly revealed to outsiders. But shortly thereafter, when Shen Tong decided to call a press conference in Beijing, he announced the establishment of a Beijing chapter of the Democracy Foundation. After this news reached Hunan, some of the democracy movement people who had enrolled in the Democracy Foundation cried foul. Later, facts proved that when Shen Tong returned to the United States he had decided to write up this trip back to China and publish it. It is rumored that after Shen was condemned, the manuscript still was as long as 8,000 words or longer. Despite the lack of factual material in the manuscript, it could further damage the confidence of the domestic democracy movement. In addition, three members of the South China chapter escaped safely, two have been verified to have been arrested, one voluntarily surrendered, and the whereabouts of the rest of the members is not clear. The two members who were arrested are: Zu Guoqiang [4371 0948 1730], chairman of the Hunan University school self-governing committee in the previous 1989 democracy movement, and Mao Wenke [3029 2429 4430], a female instructor at the Hunan Tan Athletic Academy, who was in jail after the 1989 democracy movement.

Underground Organization Tragically Destroyed

The most tragic damage should be considered that to the Changsha, Hunan Tongren Publishers. The publisher was closed down in October of this year. Despite the fact that all the democracy movement people who were members of the underground organization had safely escaped, the disaster extended to the ordinary employees of that publisher. It is rumored that recently Beijing University physics department class of 86 students, Chen Jianyong [7115 1696 0516], an employee of that publisher, was arrested by the Chinese Communists. In

addition, a former employee on leave, a class of 88 students in the physics department of Normal University, was subpoenaed.

It has been revealed that Tongren Publishers was by no means associated with the underground organization. Because three of the five members of the board of directors of that publisher were by no means members of the underground organization, at a board meeting they used their three to two advantage to veto a plan proposed by the members of the underground organization that had political implications. After Shen Tong returned to the country, because he was active the longest at Changsha Tongren Publishers and he went there the most often, imperceptibly the suspicions of the Chinese Communists were raised toward it and they spread to the innocent. Not only did they close down the publisher, but they also arrested several people who were not at all involved. This is the "magnificent feat" of the democracy movement's returning to the country that the overseas democracy movement shouts about over and over.

In addition, when Shen Tong returned to the country he not only "appealed" to the members of the underground organization to publicly reveal themselves, but also forced members of the underground organization to take him to see the general director. But the general director avoided him, which was extremely embarrassing for Shen Tong. But a friend of this reporter is still concerned for his safety, because an escaped member of the Democracy Foundation inadvertently mentioned the name of the general director. It made this reporter's friend turn pale with fright and he denied it on the spot. We can see from this situation that not only were Shen Tong's motives impure, but Tang Boqiao and his friends in the underground organization lacked experience in handling affairs.

Shen Tong Incident Brought Disaster on Innocent People

Although the affects of the Shen Tong incident were not as tragically damaging as the 1989 democracy movement, the fact that a little bit of vitality cannot easily be restored to the domestic democracy movement is because it was extinguished by Shen Tong's personal motives. No wonder some people say that Shen Tong's returning to the country indirectly did a great service to the Chinese Communists. Put this way, it is not at all strange that Shen Tong was easily released. But the situation is by no means so simple. If we were to say that it was only the democracy movement that suffered damage, it could be restored once again. But the Shen Tong incident also pulled under several units and people who do not have the slightest political connection. For example, the Changsha High, New Technology Production and Development Corporation and some of its staff were subpoenaed; a certain Shaoyang group and those in charge of it were forced to leave to avoid being targeted; a certain Changsha arts academy and those in charge of it were put under surveillance; the people in a certain compulsory education activity center in western Hunan were warned; an assistant department head in the Changsha Battery Factory was dismissed; the 1989 democracy movement Hengyang municipal higher education self-governing association general director was transferred from his teaching unit; and an excuse was found to search the living quarters of Hunan Agriculture Institute instructor Li Shaojun [2621 1421 6511].

Reportedly, a high-level conservative faction in Hunan wanted to throw a long line to catch a big fish in the Shen Tong incident, but the reformist faction, showing more initiative than the conservative faction, advocated quickly arresting Shen Tong.

Flames of War Reach the Sky, Shen Tong Counterattacks

Tang Boqiao and Shen Tong's contention went from the United States to France, and recently the battlefield moved to Hong Kong. Initially, the contention in the United States involved Tang Boqiao accusing Shen Tong of taking the lead and violating cooperation to the point of "individual motives" and disregarding the safety of the democracy movement people in country, causing Shen Tong's image to suffer a disastrous decline. Later, to block the public showing of the film and avoid causing a second injury to the domestic democracy movement, the flames of war burned to France. Finally, the two sides came to terms. The film would be publicly shown and half of the proceeds would be used to compensate the losses to the domestic democracy movement. Now Shen Tong, in an effort to restore his image, is writing a clarification of his good intentions and aspirations for a Hong Kong magazine and accuses Tang Boqiao of exaggeration, launching a constant counterattack on Tang and using the soft to overcome the hard and restore his losing situation. But as this reporter sees it, no matter how Shen Tong explains it, it will still be difficult for him to avoid responsibility. Recently, two democracy movement people, who safely escaped from Tianjin, revealed that Shen Tong told Tianjin democracy movement people who were being interviewed for a videotape, that the videotape would only be supplied to foreign human rights organizations for internal reference and would absolutely not be given commercial use and would not expose them. But before he left Tianjin, Shen Tong told a Tianjin woman that the videotape would be sent abroad to be publicly shown to reveal that the Chinese Communists still are violating human rights. It appears that if Shen Tong really did this, he simply is using any means to accomplish his end.

According to the analysis of a well-known person, Shen Tong thinks that the entire debate hinges on his personal contention with Tang Boqiao. He says that actually the situation is not so simple, because if the flames of war continue, it could have very broad involvement and cause even more behind the scenes exposures. At the same time, some democracy movement people, to avoid suffering two complete losses, are striving to patch up the quarrel and reconcile the parties. We hope that they can achieve their wishes. Otherwise, everyone will suffer.

PROVINCIAL

Hainan Trade, Investment Volume Increases

93CE0270A Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 12, 21 Dec 92 p 36

[Article by staff reporter Chen Zhenzhi: "Trade, Investment Volume Sharply Increases at the Hainan Economic and Trade Talks"]

[Text] The 1992 session of the Hainan Economic and Trade Talks was held on 4-8 December in Haikou; the volume of business for domestic and external trade and the volume of foreign and domestic investment as agreement upon at the talks increased sharply over last year's HETT session. This was announced by Mao Zhijun, chairman of the organizing committee of the current session of the HETT and vice governor of Hainan Province at a news conference on the ninth.

Participating in the trade talks were more than 4,500 Chinese and foreign businessmen from such countries and areas as Hong Kong, Japan, Taiwan, the United States, Canada, Thailand and Singapore, and from eighteen provinces and municipalities in China.

The Volume of Transaction Breaks Record

According to statistics, during the HETT, 531 contracts on import or export were concluded, representing a volume of transaction of US$419 million. Of that amount, the transaction volume for export accounted for US$390 million, involving exports to twenty-three countries and areas. Transaction volume exceeded US$10 million for Hong Kong, Thailand, the United Arab Emirates, Japan, Germany, Singapore and South Korea. The exports included 151 products of 21 categories. The export volume sharply increased for such products as coconut juice produced in Hainan, pepper, sugar, oxhide, hovercraft, wires and cables, and agar. At this HETT session, contracts were concluded on imports worth US$25.75 million, representing an increase of 59 percent over the previous HETT session. The HETT also achieved important breakthroughs in domestic trade for the first time. The Business Group Corporation of Hainan Province, the Supply-Marketing Cooperative General Corporation of Hainan Province and the General Food Corporation of Hainan Province took part in the talks for the first time. The volume of transaction for domestic trade reached 1.48 billion yuan (Renminbi, the same below).

Industry and Real Estate Were the Focus of Investment

The success in attracting foreign and domestic investment at this session of the HETT demonstrated the strong appeal of Hainan to Chinese and foreign investors.

In regard to utilizing foreign investment, 146 projects of foreign investment were approved; contracts were concluded on investment worth US$640 million. In terms of concluded contracts, both total investment volume and foreign investment volume increased sixfold over the previous session of the HETT. Most foreign investment went to industrial projects, which accounted for 53 percent of the total volume of investment. In the second place was the real estate industry, accounting for 35 percent; the next were the tourist industry and agriculture. Five projects had investment worth over US$10 million, and eight between US$5-10 million. Hong Kong, Japan, Taiwan, Malaysia, the United States, Thailand, and New Zealand were the seven countries or areas responsible for the largest numbers of investment projects.

Activities were unprecedentedly brisk on domestic investment. In five days, 132 projects of domestic investment were approved, and contracts were concluded on investment worth 1.17 billion yuan, a 34-fold increase over the previous session of the HETT. Of that amount, out-of-province investment contracts accounted for 860 million yuan, representing 77 percent of the total investment volume in terms of contracts concluded. The largest part of domestic investment went to the real estate industry, accounting for 45 percent of the total volume of investment; in the next places were industry, accounting for 25 percent, and commerce and materials business, each accounting for 18 percent. Eight domestic investment projects were worth over 30 million yuan. The contents of the foreign and domestic investment projects indicate that through five years of efforts to build the infrastructure and lay the groundwork in the process of founding the province and constructing the SEZ, Hainan's investment environment has improved daily, and that conditions are basically ripe for large-scale development and construction. As a result, investment in real estate development and industrial construction has begun, and many investors have already reaped profits from investment in Hainan.

Sanya Will Be the Hot Spot of Investment

According to a source, on the eve of the opening of this session of the HETT, the municipal government of Sanya sold a piece of "golden" land located at the city center through public auction. Several investors competed in the bidding, and finally a real estate company won the bid, at the price of 3.81 million yuan per mu, creating the record for land price in auctions in Hainan. This event, from one aspect, reflected the fact that many Chinese and foreign investors like Sanya's investment environment. Recently, the State Council made Yalong Bay of Sanya a national tourism and vacation zone. Consequently, at this session of the HETT, the municipal government of Sanya moved before others, holding a grand news conference on investment at Haikou's International Business Building on the afternoon of the third. The conference hall was jammed with Chinese and

foreign businessmen attending the conference. Not surprisingly, the achievements at the HETT were eye-catching. In addition to concluding contracts on domestic trade and import and export trade worth US$77.08 million, agreements on investment intention were concluded on projects in the tourist industry and real estate development, representing investment worth nearly 3 billion yuan. This was a first in the history of Sanya's development and construction. According to a source, the Hsinhungchi Real Estate Company and Hsiufeng Company of Hong Kong, and Mr. Ho Ying-tung as well as some well-known business conglomerates and personalities have decided on the projects for conducting block development in Sanya. During the HETT session, the municipal government also organized the International Tourism Development Symposium of Sanya, Hainan, and invited nearly 200 delegates from over 150 overseas industrial, commercial, financial, and tourist businesses to conduct on-the-ground investigation on the tourism resources in Sanya City. We may predict that with the beginning of operation of the Fenghuang International Airport of Sanya and the east section of the Haikou-Sanya expressway in 1994, Sanya will become the hot spot for investment in the southern tip of Hainan Island during the nineties.

Mao Zhijun disclosed at the news conference that policies on accelerating the development of the tertiary industry will be promulgated next year. To accelerate the development of the tertiary industry, next year the provincial government of Hainan will promulgate a series of preferential policies, including ones on permitting Chinese and foreign businesses to invest in joint ventures, and to jointly operate airports, air traffic routes, travel agencies and commercial enterprises.

INDUSTRY

Liaoning Implements Rural Telephone Automation

93WT0058C Shenyang LIAONING JINGJI BAO in Chinese 12 Dec 92 p 1

[Article by Wu Yuzeng (0702 3768 1073): "Liaoyang Rural Area Leads in Accomplishing Telephone Automation"]

[Text] Liaoyang City rural area is the first in the entire province to automate its telephones. Not long ago, the provincial government held a rural communications Project "2127" model county on the scene experience exchange conference in Liaoyang, and is requiring that by 1995 the entire rural area of the province have automated telephones to promote rural economic development.

At the end of 1990, the provincial government held a provincial rural communications working conference to pick up the pace of rural communications development and determined that in the Eighth Five-Year Plan, the entire province would implement rural communications Project "2127," that is, by 1995 the total capacity of rural telephone exchanges throughout the province would be double that of 1990 and the telephone distribution rate would be double. Seventy percent of rural telephone exchanges throughout the province would be automated and 70 percent of the townships and towns throughout the province would be able to dial their own telephones internationally and within the country.

Liaoyang City, combining with its own rural situation, proposed that Liaoyang's rural communications develop a new line of thinking, that is race against time and have a high starting point to arrive at the mark in one step and change Project "2127" to Project "2121," that is to arrive at two doubles and two 100 percents, and complete the five year task in three years. In the past two years, the Liaoyang City Posts and Telecommunications Bureau has overcome various difficulties, and has painstakingly organized, painstakingly designed, and painstakingly built. By November of this year, all together they had invested 16.89 million yuan in rural telephone fixed assets and the entire district had rural telephone communications. The total capacity of the exchange experienced a net increase of 2,700 instruments, reaching 7,500 instruments and the percentage of townships and towns with automatic telephones improved from 27 percent in the past to 87 percent. A rudimentary Liaoyang District automatic telephone network has been formed. Within that, Dengta county in only two years automated all its rural telephone exchanges and went from being the last county in the province to throw away their "crank" telephones in the past to being the the first county in the entire province to automate their telephones.

Development of the communications industry brings economic vigor. Dengta County's Tongerbao District had a reputation far and wide for its special manufacture and sale of leather jackets. After the telephone controls were installed, in less than a year 224 telephones were in operation. In the past, because communications were impeded, some people had to go to Liaoyang or Shenyang to make a long distance call, and some individual households sometimes had no choice but to go by airplane to deliver a message. Now they can sit in their homes and telephone to Shishi or Shenzhen and discuss business with domestic or foreign customers.

Telephone Automation in Yunnan Reported

93WT0058B Kunming YUNNAN JINGJI BAO in Chinese 15 Dec 92 p 1

[Article by Luo Dengsheng (5012 3397 3932): "Seventeen District and Prefectural Cities Achieve City Telephone Automation"]

[Text] On 29 November, the 5,000 instrument Spanish telephone control exchange installation installed at the Lincang District Posts and Telecommunications Bureau opened smoothly and entered the national long distance automated telephone net. Up to this point, seventeen district and prefectural cities throughout the province

have bid farewell to "crank" telephones and achieved telephone automation within the city.

Since reform and opening up, although the pace of Yunnan Province post and telecommunications development has been stepped up, because of basic deficiencies and a weak base, increases in telecommunications capabilities have not been able to satisfy the needs of society; telephone communications, especially, between cities remains very poor. By 1987 the entire province had only 35 cities and counties with automatic telephones, total exchange capacity was only 63,000 instruments, and almost all equipment was old, and only nine of the seventeen district and prefectural cities had automatic telephones. Since the middle of the Seventh Five-Year Plan, governments at all levels in Yunnan Province have actively invested or used foreign funds and given post and telecommunications departments preferential policies to step up telephone automation. Post and telecommunications departments at every level provided various levels of telephone automation technology corresponding to the local situation, taking into consideration the level of advancement and feasibility, while overhauling old equipment. Through the joint effort of post and telecommunications departments and various sectors of society, within five years Yunnan Province's city telephones have been able to jump to a new level.

Presently throughout the province as many as 83 cities and counties have automatic telephones, a 140 percent increase over 1987. Total capacity of city telephone exchanges has reached 210,000 instruments, a 230 percent increase, and the telephones that they control went from none to having 110,000 instruments. City telephone subscribers have reached 122,000, a 170 percent increase. Throughout the province, 46 cities and counties have entered the national long distance automatic telephone net and seventeen of these also can direct dial internationally.

Investment in Post, Telecommunications Outlined

93WT0058A Beijing ZHONGGUO JIANSHE BAO in Chinese 15 Dec 92 p 2

[Article by Huang Aiqun (7806 1947 5028): "China Will Invest a Huge Amount To Speed Up Post and Telecommunications Development—By 1995 the Vast Majority of Cities at the County Level and Above Will Have Automatic Telephones, 85 Percent of County Cities Will Have Direct-Dial Domestic Long Distance, 70 Percent of County Cities Will Have International Direct-Dialing Capabilities"]

[Text] In the next few years, China will concentrate a huge investment of approximately 200 billion yuan in post and telecommunications development.

The Ministry of Posts and Telecommunications has revised the plans originally formulated for the Eight Five-Year Plan and the Ninth Five-Year Plan and has proposed advancing by five years the goal of quintupling and realizing the strategic plan of modernization in three steps. After adjustment, 1990's post and telecommunications developmental goals will generally be rather significantly increased over original goals. At an unspecified date in the Ninth Five-Year Plan, we will have attained 96 million telephones and telephone dissemination will have reached 5 percent, and especially in large cities and the principal open coastal cities, telephone dissemination will have reached 30 percent to 40 percent. By 1995 the vast majority of cities at the county level and above will have automated telephones, 85 percent of county level cities will have achieved direct-dial domestic long distance, and 70 percent of county level cities will have international direct-dialing capabilities. Mobile communications nets will undergo rather rapid development and mobile telephone users throughout the nation will reach 300,000.

At the same time, during the Eighth Five-Year Plan and the Ninth Five-Year Plan, digital large capacity optical cable transmission nets will be constructed covering 30 provinces throughout the nation so that every provincial capital and central city in the entire nation can be connected by large capacity optical cable, digital microwave, and satellite communications, forming a multiple method aerial and underground trunk line communications net and improving the automation of the entire country's communications.

The distribution of future key projects will be mainly "coastal, along the border, and along rivers." In the Eighth Five-Year Plan, half of the 22 optical cable construction projects will be distributed in the central and western regions or extending from the east to the west. In the Ninth Five-Year Plan, key construction will be on western digital nets. Regarding international communications, in the 1990's, optical cables will be constructed from China to Japan and China to Korea, and linking Europe to the Eurasian Continent from Xinjiang, China across the Commonwealth of Independent States. For sources of funds, in addition to state provided policy preferences and increased investment, they will rely mainly on funds raised by various localities themselves and large-scale introduction of foreign funds.

Beijing First Telephone Branch in Outlying District

93WT0059B Beijing GONGREN RIBAO in Chinese 29 Jan 93 p 2

[Article by staff reporter Huang Zeqiang (7806 0463 1730): "Beijing Has First Subdivision Branch Telephone Office"]

[Text] The Yongle Subdivision Branch Telephone Office, the first subdivision telephone exchange in Beijing Municipality, was inaugurated and put into service on 22 January, making it possible for residents in the newly developed residential subdivision to have telephones installed within a short time. On the first day alone, 800 subscribers used their new telephones.

The branch telephone office uses programmed digital exchange equipment. All subscribers can apply for the use of direct-dialing international and domestic long-distance calls and other new services.

Beijing has made fairly rapid progress in urban development in recent years. More than 160 subdivisions of 50,000 square meters and more each have been completed in the last 10 odd years. However, the construction of communications facilities has failed to keep pace with the subdivision development. How to enable residents of subdivisions to have telephones installed as quickly as possible and satisfy to the greatest possible extent society's demands for telecommunications services has become a new challenge to the telecommunications workers of the capital city.

Because the Yongle Subdivision, located in the Shijingshan District, is quite far away from the telephone bureau, there was not a single telephone in the more than 10,000 homes, which was extremely inconvenient. In view of the situation, the municipal telephone bureau bought a set of MSL-1 exchange equipment, did its own designing and construction, and in only two months established the "Yongle Subdivision Branch Telephone Office" in two ordinary housing units.

CONSTRUCTION

Nanjing Plans Public Phones Using Magnetic Cards

93WT0059A Beijing GONGREN RIBAO in Chinese 26 Jan 93 p 2

[Article by staff reporter Gu Zhaonong (7357 0340 6593)]: "A Good Idea Is Worth a Lot of Money—Enlightenment From the Development of Magnetic Card Public Telephones in Nanjing"]

[Text] It looks like one of those increasingly popular soft calling cards. Just put it into the "mouth" of a telephone and you can talk with anyone in the world. It eliminates the registration, account settling, and other troubles of making a phone call in the past, and both the user and telephone operator feel easy and relaxed.

This is the magnetic card public telephone, now quite popular the world over.

The Nanjing Telecommunications Bureau plans to install 100 of these telephones first at street corners this year. Each magnetic card telephone costs 4,000 yuan, and its installation will cost 16,000 yuan. Two million yuan will be needed to install these public telephones, and where is the money to come from?

Many business leaders have been heard saying that one of the difficulties in business development is the lack of capital. It is even more so in developing urban public utilities. In the past, the development of all urban public utilities relied on government financing. Now that we are committed to developing a market economy, can we change our way of thinking and use the way of the market economy to develop urban public telecommunications services?

A group of young people in the Nanjing Telecommunications Bureau's operations department found that they were all thinking about this same question, hoping to come up with an idea that can be turned into capital. Some suggested to use foreign capital, but with what can we attract foreign investors? With profit from the business. But, what if they were not interested in the small profit? Wouldn't the telephone booths scattered on the main streets be excellent advertisement carriers? In the course of discussions, someone finally hit upon this potential function of telephone booths.

Having found such a good idea, these young people were filled with confidence. Early in the last year, they did find a cooperation partner, an American company. The American company was interested only in the telephone booths' advertisement potential. It agreed to pay the entire cost of 2 million yuan, but did not want any share or profit. We would install the magnetic card public telephones, and the Americans would use the public telephone booths to run an advertising business. A mutually beneficial contract was thus signed a few days ago.

There is no denying the fact that some of our fellow countrymen are not so well-behaved. A few years ago, Nanjing City had a number of unattended coin-operated public telephones installed on major streets, but before long many of the telephones were vandalized out of service. After this, the Telecommunications bureau certainly cannot again leave the magnetic card telephones, each costing more than 10,000 yuan, unattended on the streets. So the question is who will watch over the telephones? To hire some people? That will be a rather costly and continuing expense. A person can be hired for each telephone booth, who will sell the magnetic cards, while keeping an eye on the telephone, and get paid with a commission from the the magnetic card sales proceeds. This will not only provide jobs for some people, but also solve the problem of the increased expenses for hiring people to watch over the telephones. The idea has no sooner been proposed than approved. Some guesthouses, hotels, and telecommunications agencies, which were once unwilling to have magnetic card public telephones on their premises, are now eagerly applying for their installation.

Philately has become a worldwide public activity. But, have you heard that magnetic card collecting is also very popular overseas? With the gradual popularization of magnetic card telephones, the first magnetic card collectors have also begun to appear in China. It is said that an association of magnetic card collectors has been established in Shanghai. It signifies that a magnetic card's design will determine its value to collectors. We must not overlook the collector value of magnetic cards. We must not lose this market. So the young people in the Telecommunications Bureau started to work on the motif of

magnetic card designs. Someone suggested the use of a series of dragon designs. A discussion followed, and it was felt that something was missing. In the end, an extension was made on the basic design: The people of the dragon in support of Beijing's application to host the Olympic Games. The idea was approved unanimously. Thereby they put up 10,000 yuan to publicly solicit designs on the above-mentioned motif. A design has just been selected a few days ago, and there are already people at home and abroad asking for exclusive rights to market the magnetic cards. Comrades of the Nanjing Telecommunications Bureau told the reporter: Many card collectors abroad like unused magnetic cards, which means whoever can sell more magnetic cards to overseas collectors will make greater profits.

FOREIGN TRADE, INVESTMENT

Problems in Settling Border Trade Accounts

93CE0223A Beijing GUOJI SHANGBAO in Chinese 28 Nov 92 p 3

[Article by Jia Huaide (6328 2037 1795): "Discussing and Analyzing Problems in Settling Border Trade Accounts"]

[Text] In China's Eighth Five-Year Plan and 10-Year Program goals, a strategy for reform and opening up to the outside world was established, which, in a planned manner, promotes opening up inland border regions and nationality regions, as well as border trade. This gives preferential policies to border provinces, enabling them to expand opening to the outside world. In border trade and in the economic development of border provinces, these policies are playing an increasingly important role. While border trade is developing swiftly, some new problems have cropped up. How to understand and solve these problems, such as settling accounts and reversing the drain of renminbi in border trade, are now questions worthy of deliberation.

A. The Current Situation in Settling Border Trade Accounts

At present, there are the following ways of settling border trade accounts are:

1. Using an agent to keep and settle accounts. This way is, in accordance with an agreement between the governments of the two sides and through the opening of cleared accounts by the assigned banks, is one in which, with regard to creditor rights and liabilities of the two sides in trade intercourse, settle accounts by keeping offset sales accounts rather than settling accounts by spot exchange.

2. The spot exchange method of settling accounts. For the creditor rights and liabilites that occur between the two sides—import and export—freely convertible currency is used to settle accounts. For example, the five countries in Cental Asia, spot exchange use is not sufficiently widespread, due to the shortage of free foreign exchange. After the disintegration of the Soviet Union, the foreign trade system began developing toward marketization; trade agreements between the Chinese Government and the former Soviet government were subsequently abrogated; and two sides began to settle accounts using the spot exchange system.

3. Settling border barter accounts. Even if commercial credit between border enterprises of both sides is used as the basis, it is a way of settling accounts which exchanges goods of equal sums and without using the banks. In general, there are two ways of calculating prices in settling border accounts: one way, with the Swiss franc as the currency for calculating prices, that the two sides settle accounts by themselves; the other is, using the renminbi and the ruble as the currencies for calculating prices in line with a specific rate of exchange, without going through the banks, that the two sides to the transaction reciprocally settle accounts.

4. Settling accounts with multiple-use certificates. For example, this method is now used when Xinjiang exports commodities to Pakistan.

5. The method of settling barter accounts. This method is used fairly often in Yunnan's border trade.

6. Settling accounts with cash. This method is used to directly purchase goods and clear accounts with no cash going going through the banks; the other method is clearing accounts by settling loan accounts with cash in foreign currency through the income and expenditure books of banks. In the former way there are fairly few transactions and fairly small sums of money involved; it is the opposite case with the latter way.

B. Main Problems in Settling Border Trade Accounts

1. The development of border trade shows that there are many unsuitable areas in the settling of accounts through banks. First, the original network is unsuitable. On the one hand, banks that have the professional right to handle foreign exchange by themselves and that can directly settle international accounts are concentrated in large- and medium-sized cities, and the organizational functions of banks in border regions are universally incomplete. On the other hand, the coverage of the proxy bank in the other side's country is fairly small, the banks that have the two sides' proxy bank relationship are fairly small in number, and this is particulary evident in the other side's border regions. Second, relevant policies are unsuitable. This is mainly shown in: (a) The settling of the import-export accounts of border trade companies lacks preferential consideration in credit and funds. (b) In the foreign exchange control policy, there are no clear rules for the use and collection of foreign exchange with regard to settling the accounts of border trade companies that set up spot exchange accounts and handle exchange retention and that engage in counter trade and indirect trade. Third, equipment conditions are unsuitable. Intercourse between border ports and local key cities is highly

inconvenient. Some banking organizations in the border regions lack the necessary telecommunications and facsimile equipment to transmit and handle settling international accounts and contacts with their branches electronically. Fourth, the specialized ranks are unsuitable. There is a lack of managerial talents proficient in settling international accounts between bank and company, who flexibly use different methods for settling international accounts, while protecting their own interests.

2. The ways of keeping and settling barter accounts play a positive role in the development of border trade, but certain limitations have also been revealed. First, it is difficult to improve the quality of mutual support. Under the form of keeping and settling barter accounts, foreign currency is just a price-calculating unit, and is not a means of support. The montetary increase of exports can only be achieved through the exchange of commodities, and trade is bound to be limited to the range of ordinary products, surplus, or overstocked products. This will adversely affect the improvement of the quality of economic mutual support. Second, the scope of border trade will be adversely affected. Barter account-keeping trade is predicated on the two sides having a corresponding demand for merchandise. If one side does not need or is not satisfied with the commodities produced by the other side, the transaction will shrink, or "fizzle out." Therefore, the range of trade is restricted. Third, it is difficult to handle account discrepancies, and in border trade one side's favorable balance is too large. In accord with an agreement, accounts should be cleared every year, but in reality the clearing of accounts is only a case of carrying the favorable balance over to the next year's accounts. Thus, the side with the favorable balance is forced to reduce its export volume the next year. Also, no matter what the amount, how long the time, and the existing way for settling accounts is, without exception there is no calculation of interest, thereby causing one side to take gratis the other side's funds and inflicting losses on the side with the favorable balance. Therefore, this way of settling accounts in itself restricts the further development of trade between the two sides. Viewing the current situation in border trade, the demands of peripheral countries for China's commodities has become extensive, and the commodities that the other side can provide are limited. This applies especially to the countries of the Commonwealth of Independent States, which are seriously short of various kinds of light industry products and goods for daily use, export commodities they provide are limited to chemical fertilizer, steel products, and raw materials. Because of our large favorable balance in border trade, to a certain extent the funds turnover and economic efficiency of China's enterprises have been adversely affected, causing our side to bear certain risks and losses in trade, which is detrimental to the further development of border trade. Fourth, the initiative and flexibility of enterprises in carrying out border trade is hampered. Following the demand for the gradual internationalization of the economy, many of China's export enterprises use foreign capital to import technical equipment from abroad, and need to use foreign exchange earned from exports to repay debts, and trade accounts do not pay in spot exchange, thereby restricting the initiative and flexibility of production enterprises and trade companies, and make it difficult for competitive mechanisms to play their role.

3. The circuitous foreign exchange routes make it difficult to use letters of credit to settle spot exchange accounts, and without a doubt, is advantageous to our side. It not only avoids the vexation caused by the problems of keeping and clearing account and of clearing accounts with a favorable balance, but also can, through border trade, increase China's foreign exchange. However, viewing the present situation in actual use, we see that a prominent problem in settling spot exchange accounts is that the exchange routes are obstructed. For example, the banks of the five countries in Central Asia are unfamiliar with the business of settling international accounts. Some technical problems also exist, and these banks need to obtain aid from a third country before they can pass on the foreign exchange.

4. In barter trade between the two sides, there is a lack of necessary supervision, which entails a certain risk. Many regional enterprises, when engaged in trade with various countries, and after the two sides—buyer and seller—come to a price on a commodity, they do not settle the accounts by going through banks. In one respect, this is simple and convenient, but, because there is no payment for intermediary supervision, the transaction is entirely established on the basis of the two sides' commercial credit. If disputes occur, or one side does not honor the agreement, a loss is easily incurred.

Moreover, in reality border trade breaks the prohibition against renminbi leaving the country. For example, border trade between China and Vietnam basically uses renminbi to calculate prices and settle accounts, a large amount of renminbi goes in and out of the country and is circulated abroad.

C. Several Points of Understanding About the Problem of Settling Border Trade Accounts

We cannot lump together the various new problems and new phenomena existing in the settling of border trade accounts, and we should study them in theory and examine them in practice. For this reason, I will discuss several simple points of understanding.

1. Following opening up to the oustide world, and the gradual expansion of border trade, the original single mode of barter transactions became quite unsuited to the demands of the developing situation. Seeing that there now exist economic difficulties in some peripheral undeveloped countries, these countries have not yet come up to par in economic competition with Western countries. They are extremely short of foreign exchange, and their ability to make payments is inadequate. Under these circumstances, it is difficult in foreign trade to solve the inadequate foreign exchange of the two sides—buyer and seller—but this still has a positive effect, which in a

certain period of time will occupy the dominant position. Therefore, local barter trade cannot be eliminated, and we can only take measures for its constant perfection to advance on the path of standardization.

2. The reason that border trade enterprises are now unwilling to let banks handle the settling of accounts are: (a) The bank commission for settling accounts is on the high side. Now, in all banks that do international business the standards for unified collection of fees are stipulated in explicit terms, the account-settling fee for local barter trade (including border barter trade) is 3/1000 of the actual value of the merchandise converted into renminbi, and import and export business is done in accord with this standard fee. Because in import and export a 3/1000 fee needs to be paid, in the barter trade the enterprises must pay a 6/1000 renminbi fee. To a certain extent this adversely affects the enthusiasm of border trade enterprises letting banks handle the settling of accounts. (b) Border trade enterprises lack a correct understanding of the significance of bank account settling, believe that barter trade is a matter for the two sides, and does not need bank intervention. Through bank settling of accounts the account-settling procedures and account-settling fees are increased, ignoring the regulating and supervising functions of banks in settling accounts. This does not reduce the favorable balance in barter trade in some localities. At the same time it causes the frequent occurence of various kinds of trade disputes. (c) Another main reason is that the department in charge of trade and the bank departments that settle accounts do not vigorously publicize the account-settling business of the relevant banks.

3. At present, changes in the way that accounts are settled on border border trade are in accord with the objective laws of a commodity economy. The way of settling accounts is determined by the scale and characteristic of the commodity economy. Following the increase in commodities exchanged in border trade, the increase in the amount exchanged, and the increase in the business establishments and personnel taking part in border trade, there has been a change from making barter primary to making cash transactions primary, a change that is suitable for the development of border trade. The present scale and level of border trade is far from reaching the stage in which the transfer of accounts is mainly used in the settlement of accounts to complete transactions. Admittedly, any way of settling accounts that retrogresses or exceeds the present situation in border trade will be detrimental to the development of this trade.

4. Renminbi is gradually becoming the hard currency of peripheral neighbor countries for settling border trade accounts. Some comrades worry that the large outflow of renminbi will cause insufficient domestic currency. Looking at the situation in recent years, we see there is nothing wrong with using renminbi to settle accounts in border trade. Now, renminbi has become the "lubricant" for settling accounts in trade between border peoples, and they cannot abandon it with one stroke. At the same time, the use of renminbi can gradually gain international prestige; it is gradually becoming the hard currency of peripheral countries. Following the clear enhancement of the transformation of the world economy to groups and enterprises, international economic competition has become more fierce, and a trend toward mutual infiltration and mutual merging has appeared. Each country attempts to develop a strategy of adjustment which will favorable to itself. We should grasp this golden opportunity, change traditional concepts, permit, and encourage the use of renminbi in calculating prices in settling border trade accounts, let renminbi "charge out," and establish "peripheral country renminbi zones," and through peripheral countries, cultivate renminbi into a freely convertible international currency. For this reason, to raise the consciousness of participation in border trade, bank departments are providing a complete line of services for settling credit and cash accounts. When arranging the currency issue, the People's Bank of China should give full consideration to the characteristics of border trade, give priority to the supply of large-denomination banknotes, and make it convenient for basic-level banks and border trade to use existing units, in order for our side to better occupy international markets, and, in particular, create conditions for occupying peripheral country markets.

LABOR

Shanghai Sets Up International Labor Pool

93CE0284A Shanghai SHANGHAI GONGYE JINGJI BAO in Chinese 18 Dec 92 p 1

[Article by Jin Xingrong (6855 5281 2837) and Zhang Xiangjin (1728 4382 6855): "Shanghai Establishes International Labor Pool; Those in the Pool Will Become Shanghai's Candidates for Working Abroad"]

[Text] Shanghai's principle medium for labor export—the Shanghai Foreign Economic International Labor Company, is now referring to the chief international methods of labor export, as it takes the lead in establishing China's first international labor pool. It has also formulated a policy of "be extra-progressive in training, actively build up manpower reserves, choose people according to their abilities, and send them abroad whenever needed," joining international labor markets.

Although in Shanghai the Company has rich scientific and technical manpower, the foreign language level is generally low. Personnel resources are abundant, but the slow rate at which these are dispatched abroad is a weak point, with adoption of the "register volunteers, test them uniformly, qualify them for entering the pool" method. Whoever is trained, tested, and qualified to enter the pool will then become the company's candidates for being sent abroad to work.

Based on surveys and forecasts of the labor markets in such foreign countries as the United States, Singapore, Japan, Thailand, Hong Kong, and South Africa, the

company drew up a program of public examinations. Those specialized personnel admitted by examination will fall into four categories. The first category is electronic computers and their applications: those taking this examination are technical personnel under 35 years of age who have a university degree in this subject and more than one year's work experience with computer software or its applications. The second category is shipping and aircraft maintenance and manufacturing: in this category will be university graduates in this subject who are under the age of 35, senior middle school graduates in such technical school subjects as mechanics, aviation, ship electrical equipment, etc.; it would also include technical secondary school graduates under the age of 30. All of these will be required to have over a year's work experience in their specialty. The third category is operation of electronic semiconductor devices: this will consist of graduates of senior middle or radio and electronic technical schools. The fourth category is construction. Beginning the middle of this month, applications will be accepted at the Shanghai University of Technology, the Second University of Technology, the Shanghai Foreign Economic International Labor Instrument Electronic Training Base, the Instrument Office's Manpower Exchange Center, and the Putuo Area Foreign Job Training Center.

Through extra-progressive training, they will find even more customers and markets for sending labor abroad whenever it is needed.

Jiangsu Daily Editorial on Labor as Primary Force

93CE0248B Nanjing XINHUA RIBAO in Chinese 22 Dec 92 p 1

[Editorial: "Labor Is the Prime Motivator in Reform and Opening to the Outside and in Economic Construction"]

[Text] At a time when 9 million Jiangsu workers, inspired by the spirit of the 14th Party Congress, are militantly throwing themselves into reform, opening to the outside and modernization, to move forward with great strides during 1993, the Ninth Jiangsu Trade Unions Congress has solemnly opened. We extend to them our warmest congratulations!

The 14th Party Congress called upon the entire party and all the people to further liberate their thinking, seize the opportunity, accelerate the pace of reform, opening to the outside and modernization, and strive for even greater victories in the cause of socialism with Chinese characteristics. The Sixth Plenary Session of the Eighth Provincial Party Committee (expanded) revealed to the entire province Jiangsu's heightened public enthusiasm for tackling its objectives: a 3-fold increase in GNP by the end of this century; a per capita GNP of approximately 6,000 yuan; basic achievement of modernization in those places in southern Jiangsu and along the Yangtze River which have the conditions for it; and the guarantee of a comfortable standard of living for localities in northern Jiangsu. To accomplish this strategic mission, the working class is undertaking a glorious historical mission.

The working class is China's leading class, representative of advanced production forces, and the most fundamental impetus behind reform, opening to the outside, and economic construction. Long term experience has proven that, if our cause is to advance victoriously, we must rely wholeheartedly on the working class. At present, reform, opening to the outside, and economic construction are extremely arduous tasks, and without expanded worker understanding, support, and participation, moving economic construction to a higher level will be just so much empty talk. Therefore, in striving for greater victories in the cause of socialism with Chinese characteristics, we must maximize the role of the working class as a main force, continually and with a clear-cut stand implementing the basic policy of wholeheartedly relying on the working class. Ideologically, we must make it clearer that in the integration of the basic socialist system with a socialist market economy, there will be no change in the leading position of the working class and its role as a main force! Under a socialist system, regardless of the economy's composition, the workers' position does not change in relation to the director of an enterprise; enterprise reform is the personal cause of the mass of workers, and working for the interests of the masses is both the starting point and end-result of reform. The workers are the fundamental motive force behind reform: the only way we can fully mobilize, lead, and safeguard our reforms is by relying on their collective wisdom and strength; only then can we promote a smooth transformation of the enterprise management system. The working class needs to strengthen its self-construction and raise its overall quality. In practical work they must resolutely fulfill their various projects; in systems and regulations, they must firmly maintain their positions relative to the directors of enterprises, safeguarding the workers' legitimate rights and interests. Progressively strengthen grass-roots democracy, and fully utilize meetings of workers' representatives, with vigorous commendations of those who have the contemporary spirit. All levels of the party and governments should work together to create a better environment, complete every work project, and promote better fulfillment of this party policy.

The union organizations are a bridge and bond linking the party and the government with the mass of the workers. Wholehearted reliance on the working class requires the fullest utilization of union organizations. The establishment of our goal of a socialist market economy will indicate that reform of the Chinese economic system has broken through to a new stage, confronting the unions with many new situations, new topics, as well as greater and increasingly important missions. All levels of the party must continue to stress the strengthening and improvement of union leadership.

In every province, union organizations at all levels must master every aspect and function of society under their aegis, thereby becoming a vital societal force for implementing the economic development strategy for their regions and units. The number one mission right now is to arm the workers with Comrade Deng Xiaoping's theories on building socialism with Chinese characteristics, and unswervingly support the party's fundamental line. This is in keeping with the development of a market economy, and with such concepts as establishing products and markets, openness and competition, efficiency and benefits, democracy and law. The work of the unions should constantly center on economic construction, the enhancement of enterprise benefits, strengthening management of operations, accelerating the pace of technological transformation and adjustment of the product mix, developing socialist labor competition and mass rationalization proposal activities, pushing enterprises to more quickly enter the market. Appropriate to the new situation in which labor is becoming more diversified by the day, unions must participate more fully in the dynamics of legislated and promulgated policies, organizing the workers and hurling them into enterprises' three-point system reform, satisfactorily handling the various problems relating to workers' benefits, and striving to promote the reform of the system of social safeguards. They must conscientiously put into effect the "Enterprise Law," the "Trade Union Law," and their "Regulations." They must perfect and strengthen the system of meetings of workers' representatives, vigorously promote the common contract system, and move forward in bringing into full play the democratic participation and democratic supervision functions in the system of expanded worker exchange in enterprises.

The Ninth All-Jiangsu Representative Congress is undertaking the task of mobilizing the entire working class of the province to hurl themselves into the glorious mission of reform, development, and modernization. Let us unite with them even closer, and apply both hands in creating an even more beautiful life, striving always to lift Jiangsu's economy to a new level!

TRANSPORTATION

Anhui's Huangshan Airport To Open Overseas Routes

OW1303164693 Beijing XINHUA in English 1333 GMT 13 Mar 93

[Text] Hefei, March 13 (XINHUA)—The Huangshan Airport near Mount Huangshan, a leading Chinese tourism mecca, will soon open to the outside world.

The preparatory work has been completed and approved by the state Friday [12 March].

The mountain, located in east China's Anhui Province, was listed as part of the world's heritage by the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 1991.

To meet the needs of rapidly developing international tourism and the local export-oriented economy, the State Council decided last September to open the airport to the outside world.

So far, the waiting hall of the airport has been refurbished, an international chartered flight company has been set up and a group of trained employees are serving at the airport.

An air route from Huangshan to Hong Kong is expected to open first.

Heilongjiang Opens Qiqihar-Heihe Air Route

SK1303085093 Harbin Heilongjiang People's Radio Network in Mandarin 1000 GMT 12 Mar 93

[Summary] The Qiqihar-Heihe air route opened on 12 March. Four scheduled flights will serve this air route every week.

Air routes from Qiqihar to Shenyang and Dalian will open successively from late March to early April.

AGRICULTURE

Sichuan Inspection Reveals Growing Demand for Materials

93P30031A Chengdu SICHUAN RIBAO in Chinese 16 Feb 93 p 2

[Summary] An agricultural inspection team survey of 2750 farm households in 55 counties shows that the province-wide demand for agricultural production materials will increase in 1993. The inspection concluded that:

1. Overall demand will increase at the highest rate in the last few years. Advance purchases of production materials will equal 113.2 yuan per farmer, an increase of 22.2 yuan (24.3 percent) over 1992.

2. Of 21 products examined, purchases of 15 (71.4 percent) will increase or hold at current levels while only six (28.6 percent) will decrease. Purchases per person of pesticide will increase 12.9 percent over 1992, purchases of plastic film will increase 14.8 percent, purchases of chemical fertilizer will increase 0.01 percent, and purchases of petroleum for agricultural use will increase 26.3 percent. Purchases of agricultural vehicles, tractors, threshers, and 11 other products will increase or hold steady. Advance purchases of cake fertilizer, diesel oil, coal for agricultural use, feed, and seeds will decrease.

3. Demand for productive fixed assets will increase across the board. Demand for plows and harrows will

increase 27.3 percent, demand for draft animals will increase 50 percent, demand for livestock will increase 20 percent, and demand for agricultural vehicles, tractors, and other fixed assets will increase or hold steady.

Official Views Agricultural Products Price Reform

93CE0283A Beijing ZHONGGUO WUJIA (PRICES IN CHINA) in Chinese No 11, 12 of 17 Nov and 17 Dec 92

[Article in two parts by Ma Kai (7456 0418): "Deepening the Price Reform for Agricultural Products." Reproduces 19 August 1992 speech by Ma Kai, deputy director, National Price Bureau, at the All-China Symposium on Price Reform for Agricultural Products]

[17 Nov 92 pp 5-8]

[Text] **1. Fully Affirming the Achievements of 13 Years of Price Reform for Agricultural Products**

As an outcome of the Third Plenary Session of the 11th CPC Central Committee, the state started to reform prices and effected its first breakthrough in the area of agricultural prices. In 1979, procurement prices were raised to a considerable extent for 18 major agricultural products, among them grain, cotton, edible oil, and life pigs. Retail prices for major nonstaple foodstuffs were also raised during the same year. In 1980, the quantities purchased and marketed at negotiated prices, after all plan procurement obligations had been met, were expanded, and these negotiated prices followed the market, but were still lower than the market prices. Beginning in 1981, the state started to gradually reduce the categories of agricultural products subject to state monopoly procurements and purchases by assigned quotas, narrowed the scope for governments at all levels to set fixed prices, and completely deregulated prices for some agricultural products. By 1985, the system of state monopoly procurements was abolished for grain, cotton, and edible oils, and the state shifted to a contract system for the purchase of these products, thus achieving a well balanced state for rural grain marketing prices. In the case of fresh goods, such as pork and vegetables for the cities, a system of negotiated purchasing and marketing prices under state guidance was instituted, while purchasing and marketing prices for most agricultural products were deregulated. In 1988, prices for four categories of nonstaple foods, such as pork, were raised, and a method of paying staff and workers a subsidy to compensate for the price changes in major nonstaple foodstuffs was instituted on a trial basis. In three consecutive years, in 1987, 1988, and 1989, prices were raised in a planned manner for grain purchased under fixed quotas and for a part of the vegetable oils bought under fixed quotas. In 1989 and 1990, cotton procurement prices were raised twice, and grain and edible oil sales at parity prices were gradually cut down, in order to clear the ground for a reform of grain and edible oil prices. In 1991, the centrally controlled sales prices for grain and edible oils—prices that had not been properly adjusted for 25 years—were raised. In 1992, sale prices for grain were again raised; then, procurement and marketing prices became equalized, while several localities were also experimenting at the same time with the deregulation of grain prices.

During the 13 years of price reform for agricultural products, conspicuous successes have been achieved, as mainly evident in the following areas:

A. A more rational pricing of agricultural products.

1) As to the relation between prices for industrial products and those for agricultural products, the irrational, unduly low prices for agricultural products were adjusted, and the price scissors as between industrial and agricultural products were substantially narrowed. Comparing 1991 to 1978, the procurement prices for agricultural products had been raised 168.6 percent. During the same period, the index of retail sales prices for such industrial products that are being used in agriculture rose 77.4 percent, the comparative price index for exchanges between industrial and agricultural products was 66, and the amount of industrial products that peasants can exchange for the same amount of agricultural products rose 51.5 percent.

2) As to the comparative prices between different categories of agricultural products, things now look quite different in respect of unduly low prices for grain and other major agricultural products. Comparing 1991 with 1978, grain procurement prices overall had risen 224.5 percent, which is 55.9 percentage points higher than the average rise of 168.6 percent in procurement prices for agricultural products in general during the same period.

3) As to the price differentials between the same agricultural products produced under differing circumstances and in different settings, these too were allowed to gradually develop in a rational direction. When large increases were allowed in the procurement prices of agricultural products, marketing prices of agricultural products were simultaneously adjusted. Especially in 1991 and 1992, centrally controlled marketing prices for grain were raised twice, equalizing procurement and marketing prices. By means of adjusting or deregulating prices, quality price differentials, regional price differentials, and seasonal price differentials were duly realized.

B. The system of unitary price management for agricultural products, which had been centralized for the transitional period, was fundamentally changed. By narrowing the scope for governments to directly fix prices, and by widening the scope for state-guidance prices and market-regulated prices, the market mechanism has assumed a dominant function in the price formation of agricultural products. At present, only six categories, namely grain (i.e. state procurements at fixed prices and the official urban grain rations), cotton, silkworm cocoons, flue-cured tobacco, rationed timber in North China, and tea sales in the border regions, are items with prices fixed by the state, controlled by the State Price Bureau and relevant departments of the State Council.

Only four items are under the state's guidance-price system, namely sugar, certain native medicinal materials, pine pitch and resin, and sheep's wool. Some particular items are under local control, but market-regulated prices apply in the case of all the rest, which are the overwhelming majority of items. By 1991, the ratio of items for which the state fixed prices in the total number of agricultural products sold by the peasants had declined from the 92.6 percent in 1978 to a mere 22.2 percent; the ratio of items with market-regulated prices had increased from the 5.6 percent in 1978 to 57.8 percent, while state-guidance prices applied to the remaining 20 percent.

C. A system of regulation and control of agricultural products has gradually been established. What has gradually taken shape is:

A market system for agricultural products, with wholesale markets for agricultural products as its core; the initial establishment of a system of reserves of major agricultural products, mainly grain, to be used to protect agricultural production and to stabilize market prices; and establishment in 10-odd provinces and municipalities of a system of price-regulatory funds for major agricultural products.

We thus see the initial formation of a new system of regulation and control of agricultural products, which is predominantly using indirect regulation and control, but which rather comprehensively uses economic, legal, and administrative means.

The 13-year agricultural price reform has stimulated agricultural production, enlivened circulation of agricultural products, increased supplies to the cities, improved the living standards of the masses, raised the income of the rural population, and given powerful impetus to agricultural development and to the development of the national economy. The gross value of agricultural output in 1978 was 135.7 billion yuan and reached 845.17 billion yuan in 1991, this was 628 percent of the 1978 value at comparable prices, an annual average progressive increase of 15 percent. In 1991 the gross per capita income of a rural household was 1,046.10 yuan, its net income 708.60 yuan. These were 589 percent and 430 percent increases, respectively, compared with the 151.79 yuan and 133.57 yuan incomes in 1978. Even deducting the factor of retail price increases for farm-use industrial products, they have still been almost triple and double increases, respectively. Of these increased incomes, 40 percent must be attributed to larger production, and 60 percent to increases in procurement prices, which to an extremely large measure stimulated the production enthusiasm of the huge number of peasants, and which are also the major reason for the remarkable progress achieved by China's agricultural production in the 1980's.

2. Full Awareness of the Necessity and Urgency of Moving On With the Price Reform for Agricultural Products

The agricultural price reform of the last 13 years has achieved successes which have had the attention of the whole world. Prices for most agricultural and sideline products have already been deregulated, and it is only for a small minority of products that prices have not yet been deregulated. In the case of grain, an item which very much affects the national welfare and the people's livelihood, the portion for which the state still fixes prices accounts for only about one-third of the total commodity grain that is sold by the peasants. Agricultural products for which the state controls prices also had their prices repeatedly adjusted upward in recent years, and in some localities the prices set by the state for some products are higher than their market prices. If one would now, under these circumstances, assume that the task of agricultural price reform has been basically fulfilled, and that there is not much more to adjust, and also not much more to deregulate, that in fact not much is left to be done, one would be guilty of a lack of awareness of the necessity for the further improving price reform for agricultural products, and ideologically one would lack the due sense of urgency and of mission in this matter. Is it then true that the agricultural price reform has been completed, and that there is nothing more to be done? The answer is in the negative. The agricultural price reform is posing new and higher demands, be it under the aspect of economic development or under the aspect of reform and opening to the outside world.

China's agriculture has undergone huge changes economic development in the course of the 40-odd years of arduous struggle since the founding of the PRC, especially during the 10-odd years of reform and opening to the outside world. An important indication of it is that such major agricultural products as grain, cotton, and oil are produced in quantities basically sufficient to satisfy the people's needs for "warmth and sustenance" and to satisfy the demands of national economic development, developments also indicate that production has successfully resolved the food and clothing problems of the entire nation. The next task is to advance from a state of just "meeting the needs of warmth and clothing" to the stage of a "modest level of prosperity." It is a general law of economic development throughout the world that people will at this stage change in their consumption from mere quantitative demands to heightened qualitative demands. Taking this into account, the focus of agricultural development must be redirected in its main emphasis from striving for larger quantities, to an equally strong emphasis on both high yield as well as high quality, while nevertheless ensuring, as a precondition, a continuous increase in the overall quantity of agricultural production. This will be the only way to satisfy the developmental demands of the national economy and the demands of the people for higher quality and greater variety in agricultural products for their livelihood. It will also be the only way to increase

the incomes of the rural population and to gain better opportunity for the "modest level of prosperity" for the peasants, who make up 80 percent of China's population. This major turning point in the historical development of China's agriculture demands that we effect a radical shift from a "subsistence agriculture" to a "modestly prosperous agriculture," from a "product agriculture" to a "commodity agriculture," and from a traditional agriculture to a modern agriculture. Correspondingly, it demands further price reform for agricultural products and a transformation of all price control measures that are incompatible with agricultural development and that would obstruct the transformation. During the last few years, problems have repeatedly occurred every year in that a certain agricultural product or certain groups of agricultural products became overstocked or in short supply, i.e., problems of large fluctuations in the quantity of production. Even many low-quality agricultural products, such as early nonglutinous rice, became overstocked, so that some peasants increased production but did not increase their harvests, or increased production but increased their harvests only very little. There are many reasons for this to happen, but one of the reasons is the inflexible character of the price formation, and the unsound system of price regulation and price control.

Viewed under the aspect of reform and opening to the outside world, we see that with further practical experiences the objectives of China's economic structural reform are becoming increasingly clear, namely to establish a new structure of socialist market economy. Correspondingly, it must be the objective of price reform to establish and perfect a new system of market prices under government regulation and control. Since the mid-1980's, China has deregulated aquatic products, fruits, vegetables, livestock and poultry, eggs and milk, and similar agricultural products, one after the other. This ultimately led to greatly increased production, a continuously increasing ratio of higher quality products, abundant market supplies, stabilization of prices, and to a lightening of the burden on state finances. Practice has proven that a well-planned and gradual deregulation of prices for agricultural products, promoting the use of markets, fully endorsing and utilizing the functions of the market mechanism, allowing the market to regulate production, exchanges, distribution, and consumption of agricultural products, and allowing production and demand to directly link up with each another, will be beneficial not only for the state, the producers, the consumers, and the dealers, but will also be a fundamental motivational force which will accelerate the development of China's agriculture as one of high yield, high quality, and high efficiency. We are still faced with the important task of how to conform to the overall objectives of the entire economic structural and price reform, the task of more efficiently utilizing the market mechanism, of optimizing the structure of China's agriculture, of regulating supply of and demand for agricultural products, and of how to promote high quality and high efficiency. In the case of agricultural products that have not yet been deregulated, but should be deregulated, we must actively create conditions favorable for their gradual deregulation. As to prices of major agricultural products that have already been deregulated, we must establish a sound system of indirect regulation and control. Our tasks in these respects have become even more pressing.

In short, China's agricultural development is facing a major turning point, and China's price reform is entering a new stage. Comrades manning the front line of agricultural price reform must definitely integrate the study of Comrade Deng Xiaoping's speech in connection with his southern tour of inspection with the spirit of the Politburo of the Central Committee, must adapt to the new situation in agriculture, and in the development of the national economy, must further accelerate and improve price reform for agricultural products, to arouse and maintain the production enthusiasm of the rural population, to ensure the continued stable and harmonious development of agriculture, to promote agricultural production and development throughout the entire national economy, to gradually form an operational mechanism of a benign cycle, and to have agriculture rise to a new and higher level of perfection. In these respects, we should feel a sense of urgency and a sense of mission.

There are at present many circumstances favorable for a further price reform for agricultural products; some of the main circumstances are:

1) China's agriculture has had good harvests for several successive years, abundant supplies of agricultural products to the markets, and amply sufficient reserves of such agricultural products as grain, cotton, edible oil, and sugar.

2) In the case of some not-yet-deregulated agricultural products, many years of adjustments have greatly reduced the differential between list prices and market prices. Especially, through two years of continued adjustment of the sales price of the official urban grain rations, procurement prices and sales prices for grain and edible oil have been basically equalized. Deregulation of prices will therefore not cause anymore steep price rises.

3) Awareness of commodity economy among the urban and rural population has been enhanced. Their incomes have been going up continuously, and price reform for agricultural products has become much more acceptable, psychologically as well as economically.

4) Markets for agricultural products have been expanded on a great scale, the market system has gradually taken shape, and necessary preconditions have been created for a more commercialized production of agricultural products and for increasingly market-oriented trading operations. The market system for grain has initially formed a framework of three levels: a central wholesale market, local wholesale markets, and rural country markets. There has also been considerable progress in the formation of wholesale markets for other products, such as meat, vegetables, and sugar, the auction market for

sheep's wool, etc. All these activities have provided an excellent foundation for the advancement of price reform for agricultural products.

However, at the same time as we observe the above-stated favorable conditions we must also fully take into account some of the unfavorable factors working against intensified agricultural price reform. It would indeed be better to give more thought to these difficulties, so that we might devote more painstaking effort to the task, gain more benefits from agricultural price reform, and lessen even more the risks involved. The main unfavorable factors are:

1) As it does happen that for some agricultural products supplies may occasionally exceed demand, deregulation of trading and of prices will have prices decline, and this will have some peasants suffer declines in their incomes.

2) At the same time that prices may come down for certain agricultural products, prices for the means of rural production may show a rigid rising trend, thus squeezing the peasants from both sides, and this will certainly adversely affect agricultural production.

3) Markets require a transitional period for their establishment, and the state-run commercial departments will require a certain transitional period for shifting tracks, so that after deregulation of prices and abolishing state subsidies, the problem of finding certain types of products "difficult to sell" could remain conspicuously in evidence.

In short, in a further deregulation of prices for major agricultural products, the risks are not threatening the urban population, but rather the rural population. Of course, a price will have to be paid for price reform of agricultural products, the question is whether the price can be held within the limits that will be felt acceptable by the rural population and in all other respects. It is therefore necessary in the further improvement of agricultural price reform, that in all supporting measures the focus of attention and the direction of efforts be toward protecting the interests of the peasants and toward stabilization of agricultural production.

3. Guiding Ideology and Policy Objectives in the Intensification of Price Reform for Agricultural Products

In the intensification of the agricultural price reform, in gradually straightening out price relations among agricultural products, in promoting the shift in agriculture toward high yield, high quality, and high efficiency, and in promoting the shift from traditional to modern agriculture, it is necessary to ensure at least the following few points in the guiding ideology of this undertaking:

First, as demanded by the socialist market economy, it is necessary to develop toward a broader and more efficient functioning of market regulation. Recently, Comrade Deng Xiaoping clearly pointed out in a speech in connection with his southern tour of inspection: "Planned economy is not tantamount to socialism, there is planning also in capitalism; market economy is not tantamount to capitalism, there are markets also in socialism." The overall objective in China's reform of its economic structure is establishment of the new system of socialist market economy, and consequently the objective of price reform is to establish and perfect a new system of market prices, subject to government regulation and control. This has already become common knowledge. To improve the price reform for agricultural products, it is necessary to make it clear, as far as its guiding ideology is concerned, that its orientation is toward the market, that we are to commercialize production and increase the market-orientation of trading, that we are to fully utilize the market mechanism, rationally allocate resources, and that we are to adjust and optimize the structure of agricultural production. To supplement and check certain deficiencies and negative effects of market regulation, we must at the same time give full play to planned regulation and conduct effective macroeconomic regulation and control.

Second, we must persist in narrowing the price scissors between industrial and agricultural products. Since 1979, the overall price scissors between industrial and agricultural products have been narrowed quite substantially. Comparing 1988 with 1978, assuming a price of 100 for agricultural products, the overall parity of prices for industrial and agricultural products dropped 43.4 percent, an average annual drop of 5.5 percent. Since 1989, there has been a new change in the price scissors between industrial and agricultural products. During the three years of 1989, 1990, and 1991, procurement prices for agricultural products have risen a total of 9.8 percent, while retail prices for farm-use industrial products have risen 27.8 percent, and the overall parity of prices between industrial and agricultural products, when assuming a price of 100 for agricultural products, has risen 14.1 percent. Of course, the widening of the price scissors in these three years must be further analyzed in detail. A few years ago, under the onslaught of currency inflation, there had been an excessively steep rise in the prices for the major agricultural and sideline products, resulting in too rapid a narrowing of the price scissors, but in the last two years when market prices for agricultural and sideline products again largely receded, it led to a certain degree of widening of the price scissors, which is in these circumstances a normal factor. However, if the trend of a widening of the price scissors continues, it would be most detrimental to strengthening the agricultural foundation, increasing peasant incomes, and the realization of modernization of agriculture, and to the achievement of a modest measure of prosperity for the rural population. It is therefore still necessary to persist in the principle of gradually narrowing the price scissors between industrial and agricultural products, but the speed of this narrowing must be in accord with China's national condition and capacities.

Third, the reform must give equal consideration to the capacity for endurance of the state, of the enterprises, of

the peasants, and of the urban population. Major agricultural products directly affect the livelihood of the urban population, and are also main raw material for some important branches of the light and textile industries. It is therefore necessary, when adopting certain measures of price reform for agricultural products, to fully consider the effects on the livelihood of most of the urban and rural masses, and also consider the capacity for absorption and endurance of industrial enterprises, and also to implement such measures in combination with a salary and wages reform and the establishment of a social security system, so as to ensure stability in the livelihood of the people.

Fourth, maintaining a realistic attitude, starting out from true national and provincial conditions. When pursuing the agricultural price reform it is necessary to maintain a realistic ideological line. It is most important to start out from the fundamental conditions now prevailing in China, and to start out from the special characteristics of the agricultural products themselves. One of the major aspects of China's present basic national condition is its huge population and the limited per capita area of arable land, the low level of its agricultural productive forces, the great disparity between regions, and the state of "depending on the forces of nature for sustenance," a state of affairs that has not fundamentally changed. Agricultural products have peculiarities of their own; they are much affected by natural factors, are very much seasonal, and thus susceptible to two risks: one is the risk of changes in the supply-demand situation in the market, and the other risk is presented by changes in natural conditions. Changes in the supply-demand situation can be fairly well regulated by means of the price lever, a lever which is ineffective against the natural risks. It is therefore necessary that the agricultural price reform, according to needs and feasibility, and based on the principle of specific analysis of specific problems, maintain a realistic attitude, proceed in all actions from the realities of the situation, take the whole situation into account, coordinate well all component elements, be energetic in all arrangements, act according to prevailing abilities, judge well the suitable time, accurately size up the situation, and smoothly accomplish the transition.

Improving the price reform is not an objective in itself. The ultimate objective of price reform is promoting the development of the social productive forces, and determining the criteria for what is right and what is wrong, what is advantageous and what is disadvantageous, in the various reform measures. It can only be as expressed by Comrade Deng Xiaoping in his "three questions to ask to establish whether a thing is beneficial or not," namely "whether it is beneficial to raising the productive forces of the socialist society, whether it is beneficial to enhancing the comprehensive national strength of the socialist state, and whether it is beneficial to raising the living standards of the masses." Criteria for judging the right or wrong and the advantage or disadvantage of ideology, plan, and measures in the price reform of the various agricultural products must therefore also be the said "three questions to ask." To be more specific, we must at least ask the following:

1) Will it be beneficial toward stabilizing production, maintaining the enthusiasm of the peasants, avoiding large fluctuations in production; will it promote agriculture, achieve faster and more effectively a new and higher level of perfection?

2) Will it be beneficial toward adapting to the market, promoting market development, promoting market-orientation among the peasants, and toward production according to requirements?

3) Will it be beneficial toward structural optimization, including optimization of the production structure in agriculture, of the product mix, and of the distribution of the productive forces?

4) Will it be beneficial toward raising quality, toward promoting an agriculture of high yield, high quality, and high efficiency?

5) Will it be beneficial toward stabilizing order, i.e. on the one hand, will it be for unimpeded circulation of goods and, on the other hand, will it work to avoid all kinds of "large fights"?

6) Will it be beneficial toward coordinating the various interests, appropriately handling of the relations between the state, the peasants, and the consumers, between industry and agriculture, between cities and countryside, as well as between different regions?

We may well say that these six questions of "will it be beneficial" indicate the policy objectives which the agricultural price reform is most eager to achieve.

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4. Active Exploration of Ideas on the Price Reform for Major Agricultural Products

According to the above-stated guiding ideology and policy objectives, we must now study ideas on the price reform of certain particular products among the major agricultural products, namely of grain, cotton, tobacco, silkworm cocoons, and sugar.

1) Thoughts on the Reform of Grain Prices

Grain is an important commodity that affects the national economy as well as the people's livelihood; it is, on the one hand, a most fundamental means of subsistence, but, on the other hand, also an important strategic material. How to reform the grain price more effectively is one of the crucial questions of the price reform, and whether this reform will prove successful is a question of utmost importance.

At present, the state of grain production is excellent, supplies of grain are sufficient and basically satisfy the livelihood needs of the broad masses of the people as well as the needs of industrial development. The year

1989 signifies a breakthrough in the fluctuating state of grain production that existed since 1985, because that year's yield constituted a historical record. The yield of 892.5 billion jin in 1990 created another record. In 1991, a year of great calamity, a bumper harvest was brought in, and this year's summer grain harvest will again exceed the highest levels formerly achieved. Grain stored in the main granary has reached 230 billion jin. However, there also exist some problems, mainly the difficulties the peasants are having in selling their grain and in selling some types of grain. Among various types of grain, there exist supply-demand imbalances of a structural or regional nature.

In a medium-long and long-renge outlook, there is, on the one hand, an evident tendency of a gradually receding area of arable land and of land sown to grain. At present, the total area of arable land throughout the entire country is receding at the annual rate of about 7 million mu, and, furthermore, in the wake of economic developments, the tendency is one of accelerating decline. The decline in grain fields is particularly rapid. During the period from 1978 to 1991, the land sown to grain has receded at the average rate of 9.55 million mu per year. Considering the fact that returns from grain are unduly low, and in view of the tendency that the area sown to grain will decrease faster than areas sown to other crops, it is estimated that the decrease will be in future at the rate of about 10 million mu per year, and as a result annual grain production will decline by about 5 billion jin. On the other hand, the population will increase at the rate of about 16 million per year. By the year 2000, even if total grain production will reach 1,000 billion jin, the average per capita grain will only be 774 jin, i.e. lower than the world's average per capita level of 824 jin. With the reduction of area, an increase in production could only be achieved by reliance on a higher yield per mu, but the difficulties to increase yield per mu by 82 jin are quite considerable. Larger increases in the income of the citizens up to the end of this century will demand improvements in the composition of available foodstuffs and improvements in foodstuff quality, but the limits on the amount of food grain available per capita will also put restrictions on any increases in meat, poultry, eggs, milk, and other foodstuffs, in the production of which grain is used.

In view of the way in which grain is produced and marketed in China, there are on the whole two different opinions as to what the next step should be in the reform of grain prices:

One opinion holds that purchasing and marketing prices of grain should be completely deregulated, that the state should no more directly intervene in grain prices, and that this should be accompanied by necessary measures to stabilize the market prices for grain and to ensure increasing supplies of grain. Proponents of this opinion argue that a complete deregulation of grain prices would be beneficial in inducing grain peasants to arrange production according to the requirements of the market, also beneficial toward adjustment of the composition of different grain species, and that it would also resolve the "difficulty to sell" and "difficulty to buy" problems that have occurred at different times. Furthermore, as China has by now attained a certain capability in grain production, as the differential between grain list prices and grain market prices is now very small, adding the fact that the reserve system has already been well established, any further deregulation of grain prices will not entail great risks.

According to the other opinion, the "dual-track system" should be perfected, continuing the "win one, lose one" system, which should then be gradually perfected. In concrete terms it would mean "controlling all purchases, but deregulating all sales": continued retention of fixed quotas and fixed prices for grain purchases, introducing the differential of the "trifold linked-up" materials evaluated prices into the fixed quota purchasing prices, and observing whether market prices will thereafter gradually rise; deregulating all grain sales prices. At the same time, supplementary measures should be further perfected, such as the market circulating system for grain and the grain reserve systems at different levels, and in one's policies one should show a favorable inclination toward the main grain producing areas. The key points of this opinion are that although deregulation of purchasing and sales prices for grain has many advantageous elements—if there are bumper crops for several years in succession, the differential between list and market prices will be small, the capacity for endurance of the population will be strengthened, the general atmosphere for reform will be enhanced—after deregulating grain purchasing prices, however, the market price will fall, and it is to be feared that this will lead to a steep decline in grain production.

In view of the fact that conditions differ in different regions, there are also differences in the understanding of the situation. We are inclined to suggest that in order to improve grain price reform we ought to adopt a policy of "firmly favoring deregulation, exerting great efforts on supplementary measures, decentralizing decisions, rendering guidance in a classified way, and gradual implementation." This policy has three fundamental points:

1) Firmly favoring deregulation. In the long-range view, grain prices should be market-regulated with certain state interventions. The grain producing units are the millions of households, and there is a great multitude of grain trading units, grain is traded through a multitude of channels and in many different ways. It follows, therefore, from their very nature that grain prices should be regulated by the market. However, due to the importance and special nature of grain, the state cannot possibly altogether withdraw and refuse to have anything further to do with the matter. In case of necessity, the state will still have to intervene appropriately. The state should intervene, of course, primarily by economic means, mainly by stocking government reserves, and it should restore price stability in the grain market by regulating, i.e., by buying in or by releasing stocks of grain.

2) Exerting efforts on supplementary measures. Grain prices must be deregulated on certain conditions. In the end, it is necessary to at least establish and perfect the following four supplementary measures: 1) perfecting a system of grain reserves; 2) establishing a grain price regulatory fund; 3) in case of necessity, instituting a system of minimal protective prices for grain purchases and of ceiling prices for grain sales; 4) promoting market development, perfecting the grain market system.

3) Decentralizing decisionmaking, rendering guidance in a classified way. There must be no "cutting everything with one and the same knife," and no more following always one and the same model, there must also not be any emphasis on "marching in the same step," it should rather be allowed to have a variety of models and experimental projects. There is possibility here for four different forms: (a) "complete deregulation of quantities and prices," i.e. complete freedom as to the quantity of fixed quota purchases and for purchase and sales prices; (b) "restrictions on quantity, but deregulation of prices," i.e., maintaining a certain recorded relation between quantities for fixed quota purchases and for grain rations, but deregulation of purchase and sales prices; c) "controlling purchases, but deregulating sales," i.e. continuing the practice of having prices for fixed quota purchases determined by the state, but allowing the market to regulate sales prices; d) "controlling purchases, but raising sales," or "controlling purchases and enlivening sales," i.e. continuing the practice of having prices for fixed quota purchases determined by the state, and have prices for fixed quota sales determined by the state, but raising them to safeguard original costs, or to institute state-guidance prices. In consideration of what one may expect in the grain situation in the medium-long and long-range future, we suggest that the fixed quota procurements and the recorded relation between the grain basis and official grain rations should not be abolished lightly.

After deregulation of grain prices, the crucial question—and a great difficulty—is now how to protect the interests of the peasants and at the same time protect grain production. In this respect we believe that after deregulation of grain prices, the subsidies, which state finance will reduce, shall not altogether be cut down, but that a price regulatory fund be established and left to the local governments as an economic means to protect prices. As to how to protect prices, one may choose one of the following two forms: 1) If the market price falls below the protective price, procurements shall be effected at the protective price. 2) Pay the peasants the difference between protective prices and market prices as a direct subsidy. This may have to be further studied and experimented with in the various localities.

2) Thoughts on the Reform of Cotton Prices

The present cotton situation in China is, on the whole, very good. Cotton production is going up; in 1991 procurements of ginned cotton amounted to 103 million dan, only second to the record harvest in 1984. Procurements proceeded at a normal pace, and there was a definite improvement in some localities where cotton procurement had been somewhat chaotic. Cotton quality has improved, and state standards have been effectively upheld. There have been abundant supplies in the market, and the problem that had seriously troubled the textile industry for several years, namely that they had found themselves short of raw material, has been resolved. The favorable situation that presently prevails is the result of many years of joint effort by all sectors and has not come about easily.

However, there still exists some unfavorable factors, which are mainly:

1) stagnant demand in the textile market will still last for quite some time; 2) the mood in the market for cotton-padded clothes is unstable, and there is fear that policies may change, prices may fall, and nobody will buy. Because of the price increases for the means of production and the strict enforcement of grading criteria in cotton procurements, although no changes were made in the cotton procurement list prices, income from the sale of cotton-padded clothes has already declined. 3) There is still no way to foresee the risks due to the forces of nature. Natural calamities, such as early frost, insect pests, and inundations due to rain, are very difficult to forecast and to avoid.

An estimate of the short-range and long-range supply-demand situation for cotton is a precondition for any accurate cotton policy. In the near future, total production and total sales of cotton will basically be in balance, with merely a slight surplus. For 1992, the estimated procurement quantity was set at 105 million dan, and the estimated sales quantity was 91 million dan, leaving a surplus of 14 million dan. If the state would appropriately replenish its reserves, cotton production and sales would basically be in balance in 1992. In the long-range view, based on the plans of the State Planning Commission and the Ministry of Agriculture, the textile industry will increase its production by the year 2000 from the present 25 million pieces of yarn to 30 million pieces of yarn, in addition there are also other uses for cotton, as e.g., for the war industry and for wadding clothes, so that the demand will be for 100 million dan of cotton, and the area growing cotton will be 90 to 100 million mu. This year, 104 million dan of cotton will be procured, and the target set in the Ninth Five-Year Plan will thus be fulfilled in advance.

With regard to the reform of the cotton circulation and cotton pricing systems, it is basically a common understanding in all sectors, from the local districts up to the central authorities, that the present state monopoly for purchases and sales cannot possibly be continued. However, since cotton is an important commodity that affects the national economy and the people's livelihood, since it is the main source of income of the peasants in the cotton-growing districts and the main raw material for the textile industry, being produced in certain regions

and consumed all over the country, there are here natural risks and market risks involved. The policy governing the reform of the cotton circulation and pricing systems must therefore be one that ensures stability and safety. It must be beneficial for the structural readjustment of the textile industry, beneficial for the promotion of a shift in the operational mechanism of the industrial textile enterprises and in the textile trading enterprises, and must be beneficial for the improvement of the state's financial situation. In the long-range view, the ultimate objective of reform is: deregulation of business operations, of markets, and of prices. The steps to be taken in the implementation of the reform should adopt the method of "first conducting experiments and gradually moving forward," striving to basically accomplish the objectives in two or three years.

The National Cotton Conference has already decided that after the new cotton will come on the market, there will be no change in the general policy, but that at first only some small adjustments and reforms will be instituted. The specific policy with regard to prices is:

1) As to price formation, the system of state-fixed prices will not be changed, but prices will be free, i.e. left to market regulation, for such quantities that are in excess of fixed quota procurements and procurements for reserves. 2) As to the price level, prices for purchases within the plan will not be changed, but prices for transactions outside the plan shall be free. In the present supply-demand situation, a lower price limit shall be set to prevent undue declines in the income of the cotton peasants. The lowest protective prices must not fall below 10 percent of the state's list prices. 3) Price differentials for grades will also not be adjusted for the time being. 4) In the matter of material premiums for sales, there will be no change in the relation of the central authorities to the local authorities. In honoring their commitments to the peasants, the provinces may pay in goods, and may also convert the values into cash, but must not include such payments in procurement prices or supply prices; 5) adding prices on top of regular prices, as practiced in various localities, should in principle be abolished. In particular cases where it is not abolished this year, it must figure as in-kind payment in the production process, and must not be included in the procurement prices or supply prices.

Next year, reform of the cotton price and circulation systems can be stepped up somewhat.

3) Thoughts on the Reform of Prices for Flue-Cured Tobacco

Since 1989, production of flue-cured tobacco has continuously and greatly increased. This has had a positive effect in alleviating the shortage of tobacco leaf that had existed during the last few years, has increased turnover and storage of tobacco leaf, and has ensured the natural maturing of tobacco. However, as a consequence of the continuous increase in tobacco leaf production, supplies have gradually become conspicuously in excess of demand. During the tobacco production period in 1991 (from July of 1991 to June of 1992) an area of 21 million mu was sown to tobacco plants, and 46.66 million dan of tobacco were bought up, i.e. 8.92 million dan more than the 37.74 million dan bought up the previous year. Adding to this figure the 4 million dan of air-cured tobacco, the total supply of tobacco leaf amounted to over 50 million dan. During the same period, 32 million cases of cigarettes were produced, which means, at the rate of 1.1 dan of tobacco leaf for each case of cigarettes, that the cigarette production consumed 35.2 million dan of tobacco leaf. If we add to this figure the 5 million dan going into reserve, the 1.4 million dan exported, and another 5 million dan wastage, the total demand had been for 47 million dan of tobacco leaf, and this again means that the supply of tobacco leaf by far exceeded demand. It is estimated that production of flue-cured tobacco during the 1992 period will show an even larger increase. The area sown to tobacco plants to obtain flue-cured tobacco will be 23 million mu, the quantity that will be purchased will be somewhat over 51 million dan, to which 4 million dan of air-cured tobacco should be added, so that the total purchases of tobacco leaf will be somewhat over 55 million dan, which indicates that the excess of supply over demand will in future become even more conspicuous.

In the medium-range and long-range view, because of the increasing health awareness of the people, the increase in smokers will gradually slow down, so that there will hardly be any increased demand for cigarettes and tobacco leaf. In January of this year, Vice Premier Zhu Rongji [2612 6954 1015] pointed out at the National Tobacco Conference that cigarette production "shall strictly conform to the state plan...This year's state plan provides for 32 million cases, and this level will probably be maintained for the next five years, and even if there would be any small increase, it would only be limited." According to the estimates by relevant quarters, the average rate at which smokers will increase from now on until the year 2000 will be 1.4 percent per year, so that up to the end of the century, production will be required of 36 million cases of cigarettes, which would consume 40 million dan of tobacco leaf, and if we add the quantity going into reserve, going to exports, and being lost as wastage, the total demand would be for about 55 million dan. According to the present situation, production of tobacco leaf is already coming very close to the levels required in the medium-long and long-range future.

As we understand, people in various localities, when studying how to improve the reform of the price system for flue-cured tobacco, have two ways of thought on this question: One opinion would have business operations and prices decontrolled and would institute complete market regulation. The other opinion has it that the present price control system should be perfected and control methods further improved. Whether prices for flue-cured tobacco should, in the long- range view, be freed or controlled is still debatable. However, as things are this year, prices should presently not, for the time

being, be decontrolled. Main consideration should be that although the total supply of flue-cured tobacco presently exceeds demand, there are here very conspicuous conflicting factors of a structural and regional nature; supplies of high-grade flue-cured tobacco are insufficient to meet demand, and under these conditions any decontrol of prices can possibly draw forth "a big fight." It would, at the same time, only be possible to smoothly carry out the price reform for flue-cured tobacco if it would be supplemented by a reform of the state monopoly and of the taxing system.

The short-range policy may first consider regularizing the question of cigarette prices, so as to provide favorable preconditions for the subsequent resolution of the flue-cured tobacco price problem. We should regularize cigarette prices, adopt a method of combined action on prices and taxation, integrate deregulation with government control, adequately compute the basic prices for tax purposes, and decontrol actual ex-factory prices. In computing basic prices for tax purposes, we must not set up just one rigid price, but must allow adjustments at proper times, according to changes in production and market conditions, so that there will be a comparatively stable source for the state's tax revenue. The principle in our policy with regard to flue-cured tobacco shall be not to effect comprehensive changes, but only some small adjustments. The key point here is that high grades should command high prices, and that we should promote qualitative improvement. In suitable districts, experiments should be conducted on a larger scale with 40 different grade standards. At the same time, decontrolling should be started with prices for low-grade flue-cured tobacco, and structural readjustments should be promoted for tobacco leaf; prices should be decontrolled for "fragrant" [xiang liao 7449 2436] tobacco and Burley tobacco.

4) Thoughts on the Reform of Prices for Silkworm Cocoons

The present state of silkworm cocoon production and procurements is, generally speaking, good. Local comrades are reporting that this year, spring cocoon production and harvests have been more plentiful than ever. The situation may be summed up as one where we have had "three highs, two stable factors, and three satisfying aspects." The "three highs" means that this year, spring silkworm production was high, quality was high, and profits for the silkworm peasants was high. The "two stable factors" means that spring silkworm procurement had proceeded in a "stable," i.e., orderly way and procurement prices had been stable. The "three satisfying aspects" refer to the fact that the silkworm peasants were satisfied, the silk manufacturers were satisfied, and the government was satisfied. This was the result of arduous work and close coordination by all levels of government, from the central authorities down to the local authorities, and by all other relevant sectors over many years of endeavor.

However, in all this happiness there is also concern, mainly that it is becoming gradually evident that silkworm production exceeds sales, and that this situation is, furthermore, getting worse. Main indications of this state of things are: Looking at the recent supply and demand situation, we see that the increase in silkworm production exceeds by a quite considerable margin the relevant demand. On the one hand, production is continuously increasing on a large scale. Silkworm and mulberry production throughout the country has for the last four consecutive years grown at the progressive rate of over 10 percent. Even last year, when some of the main producing districts had suffered calamities, there was still a 15 percent increase. This year the figures for production and for harvest of spring cocoons were up 20.7 and 21.5 percent, respectively. On the other hand, demand did not increase much, and there had also been some declines. Eighty percent of China's silk is being exported, and when considering the changes on the demand side, it is therefore necessary to look at the international market. In the case of raw silk, exports started to decline in 1990. In good export years, total exports amounted to 11,000 tons, but last year exports were only 7,919 tons. In the case of silk cloth, exports also showed a stagnating or receding trend. Last year, 120 million meters were exported. This year, from January to June, exports had declined by 12 percent, compared with the corresponding period of last year. In the case of silk garments, although exports improved slightly, competition is rather fierce, and as louder voices are heard abroad asking for anti-dumping measures and clamoring for restrictions, one cannot be optimistic about future export prospects.

This situation of supplies exceeding demand clearly shows up in mounting stockpiles and continuously falling prices. Normal stocks of silk at the factories are about 4,000 tons, but present stocks have already reached 6,000 tons. Normal stocks of silk cloth and semifinished silk had been about 50 million meters, but present stocks have already reached 88.27 million meters. Up to May of this year, the Silk Import-Export Company has 12 of its provincial branches operating in the red, and the area of unprofitable operations is still expanding. Prices for raw silk have fallen on the international silk market, compared with last year, from $43,000 to $32,000 per ton, a decline of about 25.6 percent; domestically, the price for extra-plan silk has dropped from over 200,000 yuan to about 150,000 yuan per ton, and has basically become even with the state's list price. In some particular areas, such as in Sichuan Province, the silk price has dropped to 130,000 yuan per ton at some factories.

Looking at the medium-range and long-range supply situation, it is assumed by persons connected with this issue that by the year 2000, if we convert all of China's silk and silk garments to raw silk, and figure at a total requirement of 50,000 tons, this quantity would require 10 to 11 million dan of cocoons. If we then again figure that the yield of whole mulberry orchards and sundry

mulberry trees may be estimated to yield on the average 50 kilos per mu, it follows that an area of 10 to 11 million mu of mulberry orchards would be adequate. However, up to the end of last year, silkworm production and the area occupied by mulberry trees had been 11.01 million dan and 16.59 million mu, respectively (in which figure the area of whole mulberry orchards was 10.89 million mu, with 5.7 billion sundry mulberry trees, making for a total of 5.7 million mu), which is coming close to or even exceeding the medium-range and long-range requirements.

Under these conditions, there are two lines of thought as to how to reform the price of cocoons, and how to adjust the standards: One opinion is for price deregulation and market regulation. Another opinion proposes that the state should continue to control prices, but that prices should reflect changes in the market and be flexibly adjusted at proper times. For instance, as supply presently exceeds demand, prices should be lowered appropriately, so as to give the peasants a signal to reduce production. These two ways of thought were fiercely argued over at the recent symposium on cocoon and silk prices, held at Qingdao. Reasons in support of the former opinion were that is would enable compliance with the supply-demand situation, that market regulation would be automatic, leading to a balance of production and sales, and that it would avoid losses due to the slowness of administrative interventions. Comrades who were of a different opinion believed that since cocoons are brought to the market within a certain condensed period of time, and must be promptly "roasted" [hong 3530], as it would otherwise adversely affect the quality of the silk, all this could not be easily done once there would be complete deregulation. At present, the state has no means of regulation and control, so that an ineffectual automatic market regulation could lead to large fluctuations in production. Especially at the present time when the market is weak and prices are falling, a deregulation of prices would inflict too severe losses on the peasants, and the risks of the market should really not be borne by the peasants alone. The main argument of the second opinion is that it would be able to reduce indiscriminate production and ensure stability in production and incomes of the peasants, that this would be beneficial for unified exports and would increase foreign exchange earnings. Comrades who disagreed with this opinion, however, believed that if the government would fix prices, there would be limited flexibility in reactions to the market and very limited realism in the price structure.

As to the future, there is no general consensus what form should be adopted for the pricing of cocoons, and further exploration of the question is needed. As far as this year's situation is concerned, since the autumn cocoons will very soon be brought to market, we would favor to adopt forceful measures to ensure stability, not to decontrol prices for the time being, but to adapt to the present supply-demand situation, and to act with greater flexibility. In concrete terms:

A) As to the method of pricing, the state should change from fixed prices to guidance-prices with greater flexibility. B) The price levels should be appropriately lowered, taking 480 yuan as basis and not go below 440 yuan. Within the stated margin of decline, specific prices shall be determined according to the capacity of endurance of cocoon peasants and silk factories. C) Prices should first be decontrolled for lower-grade cocoons.

5) Thoughts on the Reform of Sugar Prices

Because of the state's recent policy to encourage sugar production by means of pricing and premiums for the sale of sugar, the peasants had earned increased actual incomes from growing sugar crops, which in turn had the effect of stimulating their enthusiasm for enhanced production. The area planted to sugar crops has grown from 25.187 million mu in 1990 to 29.208 million mu in 1991. In these figures, the area growing sugarcane increased from 15.132 million mu to 17.456 million mu, and the area growing sugar beet from 10.055 million mu to 11.752 million mu, in all cases exceeding past records. At the same time, scientific and technological progress improved per unit area yield and contributed to the large increase in overall production. In 1990, the total production of sugar was 72.145 million tons, an increase of 16.7 percent, and in 1991 it reached 84.187 million tons. In this figure, sugarcane production had risen from 57.62 million tons to 67.892 million tons, an increase of 17.8 percent; sugar beet production had risen from 14.524 million tons to 16,289 million tons, an increase of 12.2 percent. At the same time, due to the fact that imports had not yet been effectively controlled, saccharin and artificial sweeteners exerted a considerable pressure on the sugar market, especially so because the sugar reserve had not yet been completely set up, so that sugar appeared to be very much in abundance, while its sales experienced difficulties, and the situation finally ended up as one in which "consumption squeezed circulation, circulation squeezed industry, and industry squeezed production." It frequently happened that sugar mills would not pay the peasants for their cane, merely handing them promissory notes instead, and also pressing them for lower prices. In some localities they even altogether refused to accept more sugar raw materials.

The present glut of sugar is a temporary phenomenon. In the long- range view, following strict state control and reduction of imports, increases to the sugar reserve, reduction of saccharin production, and with other supplementary measures to alleviate the discrepancy in the sugar supply-demand situation taking effect, the situation of sugar being in oversupply will change. Besides, there is still a great potential as far as the demand for sugar is concerned. At present, the average annual per capita consumption of sugar in China is only 6.8 kilos, very far below the average world level of 21 kilos, and wide apart from the 40 kilos in the developed countries. With the rapidly rising living standards of the Chinese people, especially also with the opening up of the vast

rural market, there will be an increase in the consumption of sugar, and that will mean an increased demand for the raw materials of sugar.

There are also two lines of thought concerning reform of sugar prices. One opinion is for deregulating of prices and for market regulation. This will bring down prices for sugar raw materials and very rapidly restrain production, also reduce sugar production costs, and mitigate the difficulties of the sugar industry. However, this may entail the problem that prices may fall too low, which in turn may dampen the enthusiasm of the peasants for sugar production and cause a decline in the production of sugar raw materials, with unfavorable consequences in the long run. The other opinion is for improving the current system of controlling the prices for sugar raw materials, and for changing from state-fixed prices to state-guidance prices. This would mean that the current state-fixed prices would be the central standard prices, but that the local authorities would be allowed to appropriately vary the prices within a prescribed parameter. By this method consideration could be given to the weakness of the market and to changes in the supply-demand situation, as the method would also ensure maintaining enthusiasm among the peasants for production of sugar raw materials, stabilize their production, and at the same time would make allowances for differing conditions in the various localities.

In consideration of the fact that supplies of sugar at present exceed demand and of the long-range trends in supply and demand, it is our opinion that as far as next year's sugar raw material prices are concerned, procurement prices for sugarcane and sugar beets should be changed from state-fixed to state-guidance prices, that the price level should take the current state-fixed prices of 140 yuan and 155 yuan per ton, respectively, as basis, and that provinces and autonomous regions shall arrange prices, which, however, must not fluctuate downward more than 10 percent, and, if necessary, the local authorities may determine the lowest protective prices within this scope.

5. Establishing Sound Macroeconomic Adjustment and Control Measures for the Price Reform of Agricultural Products

There are particular peculiarities to the supply and demand of agricultural products. On the one hand, agricultural production is intensely seasonal, at the same time very much affected by natural factors, and there are comparatively large fluctuations in agricultural production. The supply of agricultural products is therefore of a very strong seasonal and fluctuating nature. On the other hand, the demand for agricultural products is relatively stable for many items; for some products there are hardly any substitutes. It is for these reasons that it easily happens that gaps occur in supply and demand, that supply cannot meet demand, or that supply exceeds demand, all this can happen, and the imbalance, to certain extents, in the supply and demand of agricultural products can also easily lead to even larger rises and falls of market prices. For this reason many countries have adopted policies of agricultural subsidies. Agricultural subsidies of the European Community in 1990 amounted to as much as $81.62 billion, which is almost half of the value of the agricultural products concerned. Agricultural subsidies of the United States in 1986 were as high as $88.1 billion. If the developed countries act in this way, China, being a developing country, is even more in need of implementing a policy—backed by state finance—that will protect and support its agriculture.

When pursuing the further advancement of price reform for agricultural products, with an increasing use of the market mechanism to regulate production and consumption, it is at the same time necessary to give attention to the macroeconomic regulation and control of the market for agricultural products. After deregulation of prices for major staple agricultural products, it is absolutely impermissible for the state to withdraw and take no further active interest in this matter.

1) Establishing a sound reserve system for major agricultural products. The central authorities as well as the local authorities should establish a reserve system for major agricultural products, to serve as the material foundation for governments to exercise macroeconomic regulation and control. The state-run trading and marketing cooperatives must maintain a certain contractual procurement quantity and an obligatory reserve quantity of grain, cotton, edible oil, etc.; they should buy up or dispose of these products to regulate and stabilize the market and to stabilize prices.

For grain, the reserve system should be established at three levels, namely at the central authority, provincial and county levels, and the total quantity to be held in reserve should be not less than the nation's half-year turnover of grain. For cotton, the reserve system should be established at two levels, namely at the central government and at the provincial level, and the quantity held in reserve should as a rule be around 40 to 50 million dan. For edible oil, the reserve system shall be at three levels, namely at the central authority, provincial, and county levels, and the quantity to be held in reserve should be not less than 1.5 billion kilos. For sugar, the reserve system shall be at two levels, namely at the central government and the provincial levels. For flue-cured tobacco, pork, etc. the current reserve system should be further perfected.

For reserves of the major foodstuffs, the producing districts and the marketing districts should bear a certain responsibility. According to the current organizational system of public finance, the central government finances should be responsible for expenses for reserves at the center; for reserve expenses in the provinces and counties, the public finances of the provinces and counties should be responsible.

2) In case of need, price limits should be set for major agricultural products. In case of abundant production, when market prices decline, the government should set

lowest protective prices to protect the interests of the producers. If production is inadequate, and market prices rise too high, the government should set ceiling prices to protect the interests of the consumers.

3) Establishing a system of funds for the regulation of agricultural prices. If the necessity arises to implement measures to limit prices, it is necessary to have established a system of funds for the regulation of agricultural prices. These funds shall serve the government as an economic means to exercise macroeconomic regulation and control, i.e., they shall be used to stabilize agricultural prices during temporary price fluctuations. The funds for the regulation of prices for agricultural products shall be raised through a variety of channels. Where these funds are under the control of the central government, the relevant departments of the central government shall use them for any nationwide regulation of agricultural prices. Where such funds are under the control of local governments, the local authorities should use them for the regulation of agricultural prices within their local districts. Judging by the experiences made in present trials in some localities, every locality that has established such funds has also benefited from them; every product that had such price-regulating funds established could count on stability in production, in its markets, and in its prices.

4) Establishing and perfecting a system of markets for agricultural products, with wholesale markets as the core components of the system. We should develop multiple forms of basic-level markets for agricultural products and should in a planned way establish wholesale markets for certain major agricultural products, so as to gradually build up a system of markets for agricultural products, with wholesale markets as the core components of the system. In the case of major agricultural products, such as grain, there should be a gradual development from spot transactions as basis toward contracting for future delivery, and a further development toward transactions in futures. We should exert efforts to perfect the supervisory and control system, set up a complete set of various rules and regulations, and have the market transactions of agricultural products normalized. We should, at the same time, establish a sound information network for agricultural products, through the publication of price information, render service to producers and traders helpful to their decisions, guide the price formation in the market, promote circulation of agricultural products, and at the same time provide the government with data for macroeconomic regulation of the market.

5) Strengthening the development of the legal system, prices to be administered according to law. The state's regulation of prices for agricultural products must be founded in law; prices shall be administered according to law, and government administration shall be exercised according to law. There are mainly three tasks that have to be effectively accomplished:

A) Determining the jurisdictional limits in price administration of every level and sector; clear implementation of the rule that the market shall regulate prices, and truly having pricing powers transferred to the traders. When implementing state control over prices, we must strictly uphold the state's sincerity in price determinations, and "administer decisively and administer well." B) Exploring methods of price administration for different trades, protecting legitimate competition, guard against price monopolies, protect the interests of the producers and of the consumers. C) Study and normalize methods of administrative control of prices at specialized markets and wholesale markets, so as to meet the needs of the market system for agricultural products.

6) In case of need, effecting right-scale administrative intervention in market prices. In case the necessity arises with regard to a small group of major agricultural products whose prices have been deregulated, the commodity price agencies may, through prescribed pricing methods, exercise administrative control by such means as setting ratios for price differentials, ratios for profits, and in other, similar ways.

MACAO

Article Outlines Economic Prospects for 1993

93CE0269A Hong Kong CHING CHI TAO PAO [ECONOMIC REPORTER] in Chinese No 1, 1 Jan 93 pp 49-50

[Article by Ma Wan-Chi (7456 5502 4388), President, China General Chamber of Commerce, Macao Office: "Macao's 1993 Economic Prospects"]

[Text] Macao's economy grew slightly while maintaining stability in 1992. Figures from the first three quarters showed that the economy did slightly better than during the same period in 1991. Even though its two main export markets, the European Community and the United States had not fully recovered, Macao's foreign trade managed to top M$19.81 billion (Macao dollar; same below), 7.8 percent more than in 1991 for the same period. The construction business continued to prosper. In the first three quarters, there were significant increases both in terms of the number of units completed and in terms of total construction area compared to the same period a year ago. Between January and September, more than 4 million visitors arrived in Macao, 2 percent more than in 1991. The banking industry remained stable and healthy. Both unemployment and inflation fell by about 1 percentage point compared to the same period a year earlier. It is estimated that the GDP grew by 4 percent for the year, compared to 3.1 percent in 1991.

In the first three quarters of 1992, the two main markets for Macao's manufactured goods, the United States and the European Community, were still in a recession or in a state of slow-growth, and Macao's manufacturing industry was also running into growth-related problems. As a result, although exports still showed some increase, compared to imports, it produced a deficit. It is expected that in 1993, as the U.S. market further recovers, as purchasing power increases, and demand for overseas products increases, they will have a positive effect on Macao's exports. As for the European Community, because the German, French, and British economies are still in a slump, the outlook for Macao's exports to the EC markets is less bright. Meanwhile, the EC will be switching to the unified quota allocation system in the new year; its impact on Macao's textile exports is still uncertain. In 1993, Macao's export of manufactured goods will still be dominated by textile goods.

In recent years, the government and Macao's manufacturers have been exploring ways to restructure industries. Some manufacturers have organized groups to tour neighboring regions to observe and learn from their experiences, and in the near future the government plans to announce a new provision to encourage investments. Primarily, it will provide interest subsidies to manufacturers who purchase new plants and equipment. It is believed that these measures will help the manufacturing industry develop.

The tourist industry, which includes sightseeing, tourism, entertainment, and gambling, will continue to play a leading role in Macao's overall economic growth. It is expected that when the project to overhaul Macao's road system is complete, when the plan to build more parks and to beautify the rest areas is fully implemented, and when the new Hong Kong-Macao ferry terminal and customs inspections station are completed and put to use, Macao's transportation system and urban structure will be much improved, which will benefit the tourist business. However, the government will be raising the poll tax on tourists in the new year, which will increase the cost and will test Macao's true ability to attract tourists. It is expected that in 1993, the tourist business and other related trades will improve service, add new facilities, and step up promotion and advertisement in order to become more competitive.

The construction industry flourished in 1992. In the first three quarters, more than 12,000 units of buildings of all types were completed, with total construction area exceeding 1 million sq m—these represent increases of 127 percent and 80.4 percent, respectively, compared to the same period in 1991. Several sites are still under construction, and it is expected that development will slow down in 1993. As for real estate transactions, after the market upsurge early on and because several mainland localities have been selling real estate in Hong Kong and Macao, the Macao market has slowed down, but it is expected that after a period of digestion and readjustment, the market will bounce back.

In its 1993 administrative report on financial and economic policies, the Macao government has made infrastructure and transportation projects its priority. It is anticipated that when the two large-scale construction projects, namely the new Hong Kong-Macao passenger ferry terminal and the second Macao-Taipa bridge, are complete and put to use, they will play a very positive role in improving Macao's internal and external transportation system and in developing new, off-shore cities and towns.

Macao's banks lowered their interest rates several times in 1992. The current interest rates are very low. In August, total bank deposits fell for the first time in two years. Those in banking circles believed that the low deposit rates and the several large real estate deals promoted by Mainland China had diverted some of the funds. The Macao dollar is pegged to the Hong Kong dollar and its interest rates also fluctuate with Hong Kong's, and so in 1993, interest rates will still be affected by outside factors. Macao's financial budget for 1993 is M$7.97 billion, the largest in history. However, the government's revenues will still come mainly from the gambling monopoly, which proves that government revenues remain heavily dependent on a specific trade.

As Macao's economic structure undergoes readjustments and changes, commerce and services will play an increasingly bigger and more important role. The development of department store retail sales and telecommunication

business in recent years has been especially striking. At the end of 1993, for the first time, Japan's Yaohan Company will open a large department store in Macao. The retail business has responded with enthusiasm. It is expected that within the year, other department stores will strengthen and improve management, and competition within the industry will heat up.

The year 1993 will be critical to Macao's future development. After four years of drafting and negotiations, Macao's Basic Law will be finalized and formally announced this year. Henceforth, Macao's political, economic, and social affairs will be guided by the Basic Law. Economic development requires a good investment environment, and political stability is the most important factor. Since the Sino-Portuguese governments held talks on the question of Macao in 1986, since the signing of the Sino-Portuguese Joint Declaration in 1987 and the drafting and the subsequent negotiations over the Macao Basic Law which began in 1988, for several years, the Chinese and Portuguese governments have been able to solve problems in a cooperative and conciliatory atmosphere, and so the political situation in Macao has remained stable, which has provided a very important safeguard for Macao's economic development. It is hoped that this situation will continue during the transition period.

Another positive factor in Macao's economic development is that Macao is situated in a newly developed region and benefits from the economically thriving Hong Kong and from rapidly growing Mainland China in the neighborhood. In particular, the Zhujiang Delta area has been prospering in recent years, and its economic and trade contacts with Macao have been growing, creating an effective, driving force behind Macao's economic growth. In 1992, the Macao government took a very positive attitude toward forging closer economic and trade relations with its neighbors. It has sponsored a series of major economic conferences and business symposia to explore Macao's future economic and trade relations with the EC and China's Zhujiang Delta. At the same time, the government departments and civilian trade associations have been busy traveling abroad or inviting trade delegations from other regions to come to Macao for talks in order to find new ways and means of cooperation. Some of these efforts will produce tangible results in 1993 to make Macao's economic development even more vigorous and more diversified.

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