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Progress and
Problems in a
Decade's Reform



Shandong Peninsula
Strengthens
Investment Climate

**CHINA'S VISION
OF A GLOBAL
POLITICAL ORDER**





A wave in the tide of humanity.

by Zhu Suifeng

BEIJING REVIEW

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COVER: For global peace
through the coming year.

HIGHLIGHTS OF THE WEEK

Gandhi's Visit Warms Sino-Indian Relations

□ Indian leader Rajiv Gandhi visited China from December 19-23, 1988 and became the first Indian prime minister to do so in 34 years. His visit was generally considered a genuine starting point for improved relations. Both countries expressed a readiness to solve problems that hinder such progress, especially the boundary one, through peaceful and friendly consultations (p. 5).

The World Enters an Era of Relative Detente

□ With the relaxing of Soviet-US relations, some difficult problems, including regional conflicts, have shown signs of political resolution. The superpowers have begun to shift the focus of their competitive strategies from arms to comprehensive national strength. As the world is becoming multipolar, the international detente will stay on for a comparatively long period. (p. 11).

From 1978 to Now, and On

□ Liu Guoguang, vice-president of the Chinese Academy of Social Sciences, casts a critical eye over the urban and rural economic reforms of the last ten years. As he points out, the gains have been enormous. But if they are to be sustained and continued, then care must be taken in selecting the right policies from the various contending proposals now being put forward in Chinese economic circles (p. 18).

A Headland of Economic Progress

□ Since the Shandong Peninsula was declared an open economic zone in March 1988, its industry and agriculture have concentrated on becoming increasingly export-oriented. At the same time, infrastructural construction has been accelerated and a series of preferential measures drawn up to attract overseas investment and economic co-operation (P. 25).

Director/Editor-in-Chief: Wang Youfen
Tel: 893363
TLX: 222374 FLPDA CN
FAX: 8314318
General Editorial Office Tel: 8314318
English Dept Tel: 831.5599 Ext. 546

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World Pressed for New Political Order

by Our Guest Commentator Wan Guang

The world is faced with a mission to set up a new international political order based on the Five Principles of Peaceful Co-existence (mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence).

This new international political order is to be in contrast with the old one. For centuries, international relations were dominated by power politics in which the large, strong and rich bully the small, weak and poor. Since the end of World War II, tremendous changes have taken place, yet the old international political order still prevails.

The superpowers pursued hegemonism, organized military blocs, engaged in a large-scale arms race and contended worldwide for their sphere of influence. Together these led to the tensions in international relations.

However, the trend of independence since the last world war rolls on irresistibly, giving birth to the independence of a large number of colonies and semi-colonies. These nations have now sprung from being the ruled and suppressed to being an independent force that influences and propels the development of the world. The various small- and medium-sized countries in the world are now all conscious of maintaining their sovereignty, struggling for equality and playing a bigger role in world affairs. Within the military

blocs, a tendency towards independence has also increased considerably, and hegemonism and power politics are getting nowhere.

To strive for a sphere of influence, the superpowers have launched one aggressive war after another, causing enormous damage to the various

To establish a new international political order means to eliminate hegemonism and power politics from international relations and implement the Five Principles of Peaceful Co-existence.

parts of the world. Regional hegemonists have also followed suit, only to find that their aggressive wars, like those initiated by the superpowers, are destined to fail.

In the long course of the arms race and foreign expansion, the superpowers have weakened themselves, and their influence on the world has dwindled accordingly.

Today, the post-war era, characterized by a bipolar military confrontation, is nearing its end, and a new trend of dialogue and detente is appearing. There is also light

in sight at the end of the long tunnel of regional conflicts.

This is a period of transition, in which new ideas are emerging and old powers are resisting. The old and new forces are interlocking and conflicting with each other. Though hegemonism and power politics are increasingly unfashionable, they are nonetheless still on the historical stage. The international situation has tended to ease, but the world is still bedevilled by many problems. Many new conflicts and clashes are likely to arise, and there might be twists and turns in the process of international detente.

Peace and development are the urgent needs of humankind today. Inter-state relations should be handled properly in order to shepherd global peace and guarantee the independence and security needed of the world's various countries so that they may devote themselves to their own development. Therefore, it is now time to advance the concept of setting up a new international political order.

To establish a new international political order means to eliminate hegemonism and power politics from international relations and implement the Five Principles of Peaceful Co-existence.

The five principles were first introduced jointly by China and some of its Asian neighbours in the 1950s as the basic guidelines in dealing with international relations. They were the product of the blooming movement for national independence after World War

II, and therefore were clearly earmarked as a part of the historical trend towards independence. They were proposed in opposition to the old international political order and served as a foundation for establishing a new international political order.

International practices since World War II have demonstrated that the five principles are the best and most durable tools to use in international relations. These principles fairly reflect the fundamental interests of countries all over the world. They apply not only to countries with different social systems but to those with similar systems, too. They can guarantee that a friendly and co-operative relationship will be set up among the world's nations and therefore are in conformity with the world's urgent need for peace and development. This being the case, these principles are being accepted by more and more countries. The establishment of a new international political order must be based on the five principles.

The creation of such a new political order is tied to the movement to institute a new international economic order of equality and mutual benefit. In today's world, the gap between the South and the North is widening, and the world economy is seriously unbalanced. The formation of a new international economic order seems all the more pressing since the world is now intertwined and interdependent.

To found a new international political and economic order is to fundamentally reform international relations. This, undoubtedly, is an arduous task that requires steadfast efforts from countries and peoples all over the world.

Sino-Indian Relations Usher a New Era

The winter wind prevailing in Beijing recently was warmed by an Indian Ocean current brought by Indian Prime Minister Rajiv Gandhi, who told the Chinese government and people that his government will work hard towards the improvement of bilateral relations and the resolution of the border problem.

Gandhi's visit, from December 19-23, 1988, made him the first Indian prime minister to come to China since 1954, when the late Indian leader Jawaharlal Nehru visited. The current talks, according to Chinese senior leader Deng Xiaoping, marked a genuine improvement of the relationship.

The Indian leader also brought a special New Year's gift to the *Beijing Review*. At a press conference on December 21 in Beijing, Gandhi confirmed that, prior to his departure, his government lifted the 27-year-long ban on the distribution of the *Beijing Review*. The ban was an embargo. "It has been lifted and we welcome any papers from China," the Indian leader said.

While meeting with the young Indian leader on the same day, Deng recalled his talks with Gandhi's grandfather, then the prime minister, in 1954 when relations were harmonious. Gandhi expressed hope that such a relationship could be resumed. The last 30 years or so have seen an estrangement, and even border conflict, between the two countries. Deng told Gandhi that China and India should forget the unpleasant

past and set their eyes on the future.

Gandhi said the differences between China and India had not reduced their common bonds. Both countries have waged political struggles to gain independence, and their economic battles are continuing, he said.

Deng said that now people are referring to the next century as the Asian-Pacific century. However, the true Asian-Pacific century will not come unless economic muscle is gained by the developing countries, including China and India, whose combined populations of 1.8 billion exceed one third of the world's total.

Gandhi's first day in Beijing was basically taken up by talks with Chinese Premier Li Peng. Li pointed out that the boundary problem is hindering the improvement of bilateral relations.

The Indian prime minister agreed that the border dispute is the biggest thorn vexing Sino-Indian relations. He said that both sides ought to remove this problem by means of peaceful and friendly consultations. India is resolved to act on this in a spirit of mutual benefit and reciprocity.

Gandhi also said, while both sides are seeking a solution to the boundary problem, a tranquil border atmosphere should be maintained. At the same time, the two countries can increase their exchanges and co-operation in other fields.

During the talks, Li expressed admiration for the Indian government's principled position on the Tibet issue.



Deng meets Gandhi.

LI ZHIYUAN

The Chinese government has noted, Li said, that all Indian governments have stuck to the following positions in this regard: Tibet is part of China; India will not interfere in China's internal affairs; nor will it allow Tibetan separatists in India to conduct political activities aimed at splitting up China.

Gandhi reiterated that the Indian government considers Tibet an autonomous region of China. The Indian government does not allow any political forces in India to engage in any political activities harmful to China's internal affairs.

A joint press communique, issued by the two governments on December 23, said that the five principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence, which were jointly initiated by China and India and which have proved full of vitality

through the test of history, constitute the basic guiding principles for good relations between states. These principles also constitute the basic guidelines for the establishment of a new international political order and a new international economic order. Both sides agreed that their common desire was to restore, improve and develop Sino-Indian good-neighbourly and friendly relations on the basis of these principles. This not only conforms to the fundamental interests of two peoples, but will actively contribute to peace and stability in Asia and the world as a whole. The two sides reaffirmed that they would make efforts to further their friendly relations.

The communique said a joint working group would be established to deal with the boundary question. The two sides also agreed to develop relations in other fields and to set up a joint group on economic relations and trade, as well as science and technology.

The two countries signed three accords on cultural, scientific and technological co-operation as well as civil aviation, the communique said.

Gandhi invited Chinese Premier Li Peng to visit India when convenient and Li accepted with pleasure.

by Li Haibo

'No' to Taiwan's Elastic Diplomacy

The Taiwan authorities, while doing their utmost to push the so-called "elastic diplomacy," are actually trying to create "two Chinas" or "one China, one Taiwan." But they will not succeed, said a Chinese Foreign Ministry spokesman in a statement on December 19, 1988 in Beijing.

Some Taiwan authorities have recently indicated that the Taiwan authorities would

pursue the so-called "elastic diplomacy" with redoubled efforts and have openly stated that they would develop "official relations" with some countries having diplomatic relations with the People's Republic of China (PRC).

Among other things, they would set up the so-called "commercial office of the Republic of China," upgrade some unofficial organizations to "consulates-general," and even establish or restore "diplomatic relations" with these countries.

They have also pressed for a return to the international organizations in an attempt to create "two Chinas" or "one China, one Taiwan." These moves arouse grave concern, the spokesman said.

In the statement, he reiterated that the international community has long recognized that the government of the People's Republic of China is the sole legal government representing all of China and that Taiwan is an inalienable part of the Chinese territory.

In international relations, the Chinese government has persistently stood for the development of friendly relations and co-operation with all other countries on the basis of the Five Principles of Peaceful Co-existence. It has opposed the establishment of official ties and contacts with Taiwan by countries having diplomatic relations with the PRC, the spokesman said. "We have never taken objection to their economic, trade and cultural exchanges of an entirely unofficial nature."

China is further developing and deepening its friendly relations with other countries. "We deeply appreciate the efforts of the overwhelming majority of countries to strictly abide by the agreements or un-

derstanding reached on the Taiwan question when they established diplomatic relations with China, and their refusal to establish official relations or contacts of an official nature with Taiwan," he said. "It is our belief that the Taiwan authorities will not succeed in pushing their 'elastic diplomacy'."

He said that the Chinese government has consistently opposed any attempt to create "two Chinas" or "one China, one Taiwan" in international organizations. This just and clear-cut position has won full understanding and support by governments of other countries. The case of Taiwan being allowed to join the Asian Development Bank in the name of "Taipei, China" is a kind of special arrangement and should not be regarded as a model universally applicable to other intergovernmental and international organizations, the spokesman added.

He pointed out that the Taiwan authorities, while doing their utmost to push the so-called "elastic diplomacy," are actually trying to create "two Chinas" or "one China, one Taiwan." It not only runs counter to their repeatedly claimed position of "only one China," but also goes against the aspirations of all Chinese, both at home and abroad, who are concerned about China's reunification.

"We hope that the Taiwan authorities will get a clear understanding of the situation and, bearing in mind the overall interests of the Chinese nation, stop activities detrimental to China's reunification in line with the trend of the times and popular will, and join us in the endeavour for the peaceful reunification of China," he said. "Only by doing so, can Taiwan enjoy, along with the

mainland, the dignity and status of our great motherland." □

Foreigners Watch Satellite Launching

China successfully launched a telecommunications satellite on December 22, 1988 at the Xichang Satellite-Launching Centre in Sichuan Province.

The instruments aboard the satellite have been operating normally. Remote monitoring and control is being conducted by a monitoring and control centre in Xian, Shaanxi Province.

Premier Li Peng and Deputy Secretary-Generals of the Central Military Commission Hong Xuezhong and Liu Huaqing were on the scene when the satellite was launched. On behalf of the Chinese Communist Party Central Committee, the State Council and the Central Military Commission, Li extended congratulations to the people involved in the satellite's development, production and launching.

Also present at the scene were representatives from government departments or companies of the United States, France, Federal Germany, Pakistan, Iran, Australia, Brazil and Hong Kong. It is the first time that the centre has allowed foreign observers to witness the whole process of satellite launching.

The satellite, the same model as the telecommunications satellite which was launched on March 7, 1988, was sent into orbit by a Long March No. 3 carrier rocket. □

Reforms Crack 'Iron Rice Bowl'

Reforms in China's labour, wage and insurance systems have brought about new look in its enterprise management system and boosted the development of the socialist commodity economy, Labour Minister Luo Gan told a national conference attended by directors of local labour departments and bureaus from across the country.

Addressing the opening ceremony of the conference on December 9, 1988, Luo said that in the past 10 years 70 million people have entered the urban work force. In the past two years, state-owned enterprises have employed 8.05 million workers under contract, accounting for 8.3 per-

cent of the total number of workers in the state-owned enterprises.

In their attempts to invigorate the lethargic lifetime employment system, more than 26,000 state-owned enterprises have reorganized their labour force of 9.6 million permanent workers. Surplus labour will now be trimmed by rigorous competition.

These achievements, the minister said, "reflect the fact that China has made an important breakthrough in the reform of its employment system and has shaken the tradition of lifetime employment, called the 'iron rice bowl'."

When talking about shaping up wage distribution, Luo said that all enterprises have decided to link workers' bonuses with their businesses' profitability. Meanwhile, in 26.4

percent of the state-owned enterprises, total wages are already coupled with the economic benefits. These units have some say-so in the dealing of wages, and various avenues are being explored, including floating wages and piece-rate wages.

Now, he said overall social planning for retirement pensions has been realized in more than 2,000 cities and counties throughout the country. And the establishment of regular unemployment insurance and pension systems is afoot for those contracted workers newly employed.

However, Luo pointed out, there is still a snarl of unfinished business. For instance, he said, the labour market system is still imperfect, the competitive employment system is incomplete yet, and the struc-

China's Top 10 News Events in 1988

Editors-in-chief of 11 Chinese national newspapers have reached agreements in most cases in selecting China's top 10 news events in 1988.

The top 10 news events are as follows, listed in order of the number of votes:

- The Third Plenary Session of the 13th Chinese Communist Party (CPC) Central Committee, which approved the guidelines for improving the country's economy, straightening out the economic order and deepening the nationwide reform;
- The first annual session of the Seventh National People's Congress (NPC), at which Yang Shangkun was elected China's president and Li Peng was picked as premier;
- The wreck of a Kunming-Shanghai express train on January 24, which killed 88 people and led to the resignation of minister of railways Ding Guangen;
- Death of Chiang Ching-Kuo, chairman of the Chinese Kuomintang (KMT), for whom General Secretary Zhao Ziyang of the CPC Central Committee expressed condolences and the CPC Central Committee sent a message of condolence;
- The successful testing of Beijing's electron-positron collider on October 19;
- First visit by Chinese foreign minister to the Soviet Union in 31 years and possible Sino-Soviet summit in the first half of 1989;
- Most serious inflation since the founding of New China in 1949;
- First visit by an Indian prime minister to China in 34 years;
- Formulation of strategy for economic development in China's coastal areas, which aims to develop an export-oriented economy;
- Hainan Island officially becoming China's 31st province.

The 11 national newspapers surveyed were: *Renmin Ribao*, *China Daily*, *Guangming Daily*, *Economic Daily*, *Economic Information*, *Liberation Army Daily*, *The Journal of The People's Political Consultative Conference*, *Workers' Daily*, *Farmers' Daily*, *China Youth News*, and *Chinese Women News*.



ZHENG ZHENSUN

Xinjiang Railway Under Construction

Tracks are to be laid for the northern Xinjiang Railway from Urumqi, Xinjiang, China, to Alataw Shankou, a point at the Sino-Soviet border. The entire length will be 460 kilometres, of which 269 kilometres have been laid. This is part of the world famous great project "Eurasian Continental Bridge," which will be completed soon.

The "Eurasian Continental Bridge" is an international railway artery, connecting the Pacific and the Atlantic. When it is finished, large amounts of Chinese, Japanese, Southeast Asian, Hong Kong and Macao goods will be transported from the port city Lianyungang in eastern China to the Black Sea, the Baltic Sea, the Mediterranean Sea and the harbours along the Atlantic coast, through the hinterland of the Eurasian continent. It will save 20 percent on transportation expenses and the transportation time will be half that of sea shipping (via the Indian Ocean and the Suez Canal).

Presently, the section between Urumqi and Usu has been opened to traffic. The track is expected to be laid to Alataw Shankou in 1990 and will be opened to traffic officially in 1991. Then, the ancient Silk Road will have become a modern railway.

ture of employment is not always reasonable. A regular and proportionate wage-increase system is yet to be established, he added, and egalitarianism in the distribution system is still prevalent.

"These problems, which obstruct the establishment of normal economic environment and order, should be resolved through further reforms," Luo added.

The minister unwrapped a new measure, which beginning this year will allow enterprise directors to dismiss workers and workers to resign for other jobs on an experimental basis.

in some selected cities. This would be a major turnabout from the traditional practice of life-long employment.

Luo said that the ranks of employees in state-owned enterprises will be thinned out in 1989 through cutting down the capital investment scale, closing or merging a number of enterprises and readjusting the industrial structure.

China will face a serious unemployment problem in the coming years, he warned. It is advisable for the unemployed to organize and ferret out jobs for themselves, and individual and private economies should

be further developed, he said. "Labour departments at all levels should study the new situation and render better service in this regard."

The government is prepared to expand the scope of unemployment insurance, he said, which is now limited to such groups as contracted workers and those from bankrupt enterprises or enterprises going bankrupt.

Luo said enterprises cannot be expected to shoulder the entire burden of dealing with labour surpluses brought on by regrouping or adopting a labour contract system to im-

prove efficiency and productivity. The options open to enterprises include transferring the surplus workers to new economic entities or training them for new jobs.

The labour reform will trundle ahead despite the difficulties, according to the minister. Regrouping will be popularized nationwide this year in places where conditions permit.

In his speech, the minister also dealt with the general principles guiding the reform of the wage system. Wage hikes for business employees will depend on productivity and economic returns. This principle will see action in 1989 in state-owned enterprises, which could affect 70 percent of the nation's workforce. Wage increases for those in government organizations and institutions will depend on the general level of social economic development.

At the same time, controls on wages and individual incomes should be improved and supervision of wages strengthened, he said.

Luo said pension reform in enterprises will mean that funds should rely on a transfusion of payments shared by the state, enterprises and workers themselves. Pilot projects in this area will be conducted in some cities this year.

Retired workers now enjoy pensions provided by the state and enterprises. Their living standards should not be dwarfed by inflation. Pension reform over the next five years will focus on the establishment of a social insurance fund and various forms of social insurance that will reach all of China's retired workers, Luo said.

Luo said the government will take measures this year and next year to check the flow of rural labour into cities. □

Weekly Chronicle

(December 19-24)

POLITICAL

December 21

□ At the meeting with Phao Bounnaphol, minister of economy and trade of Laos in Beijing, Chinese Vice Premier Yao Yilin expresses his heartfelt gladness over the restoration of economic and trade relations between China and Laos.

He says: "The important thing is not the volume of trade but the restoration of bilateral economic and trade ties after a period of suspension." He also expresses conviction that such relations will expand in future.

□ Commenting on a recent news report from Taiwan that the Kuomintang (KMT) authorities will give up the "three nos" only under certain conditions and that the Revolutionary Committee of the Chinese Kuomintang (RCCK) must be returned to the Central Committee of the KMT in Taipei, a spokesman for the RCCK says that this is not a matter of 'return', but one 'recognition.' The RCCK will not 'return' to the KMT in Taiwan.

December 22

□ At a weekly news briefing, in response to a question about whether China believes Viet Nam's claim to have withdrawn its troops from Kampuchea, the Chinese Foreign Ministry spokesman says that without strict and effective international supervision, it is impossible to confirm whether or not the pull-out is genuine.

He says: "We hope that Viet Nam is in fact withdrawing its troops and will do so completely and as soon as possible." □

ECONOMIC

December 20

□ The Ministry of Foreign Economic Relations and Trade has recently decided to ban exports of six commodities next year.

Effective as of January 1, 1989, the banned exports include copper, and copper-based alloys, aluminum and aluminum-based alloys, nickel and nickel-based alloys, nickel products, platinum and yellow phosphorus.

December 21

He also says that an organizing committee for the WTCA annual meeting has been set up with Vice Premier Tian Jiyun as its honorary chairman and Beijing Mayor Chen Xitong as chairman.

□ The Datong Locomotive Plant in Shanxi Province, the largest of its kind in the country, turns out its last steam locomotive today, marking the end of the country's 107 history of steam engine production.

The 31-year-old plant is expected to shift its production to diesel and electric engines.

CULTURAL

December 19

□ Once being classified as confidential, a series of five documentary films on the nuclear tests conducted in China since 1965 and nuclear protection measures will be made public soon.

Wang Ruifa, the films' producer and a professor at the Industrial Health Testing Institute under the Ministry of Public Health, says that the film's value lies in the fact that they have recorded nuclear impacts on living things and possibly will give a clue to protection against such damage. □

Relative Detente Befalls the World

by Huan Xiang

US-Soviet relations have begun to ease with the signing of the treaty on elimination of the intermediate nuclear forces (INF), producing a catalyst for significant global changes. Corresponding to the detente between the West and the East, disputes in many "hot spots" are showing signs of political resolution. The never-ending arms race has become less of a policy obsession with the two superpowers, while a comprehensive national strength, which tags much importance to the development of economy, science and technology, will play centre stage in future world struggles. Confrontations between social systems and ideologies, though still locked in, are tending to become less fierce and more obscure. While the world's political pattern is becoming multipolar, the global economy is going to be divided into different groups. All countries, especially the big nations, are now shifting gears in regard to their foreign policies in order to adapt themselves to new curves in the world situation. While improving its economic environment, adjusting its economic order and deepening the reform, China also has to make a sober survey and profound study of the changing world order.

A New Period

US-Soviet relations, which have been playing frontline in international affairs since World War II, are now under-

going a significant alteration. The two superpowers had been eyeing each other warily since President Ronald Reagan came to power. Initially, he was prepared to match guns with the Soviets in a race for arms and a regional rivalry, which dropped the world into a long period of severe tension. But relations waxed fairer after Mikhail Gorbachev became general secretary of the Communist Party of the Soviet Union (CPSU) and announced his strategies of accelerating domestic development and pursuing foreign detente. After the INF treaty was signed, the two superpowers agreed to shake hands rather than to continue butting heads. Although antagonism still exists, dialogues between the two superpowers, more often and more systematic, have gradually strengthened.

In the three years since 1985, when Gorbachev took office, the Soviet Union and the United States have orchestrated four summit meetings. This is unprecedented in the history of US-Soviet relations. And Soviet Foreign Minister Eduard Shevardnadze and US Secretary of State George Shultz have had more than 20 meetings. Mutual visits by the two countries' defence ministers have also been realized. To prop up mutual confidence, the Soviet Union even showed US Defence Secretary Frank Carlucci some of its secret military facilities during his visit.

With the relaxing of US-Soviet relations, those "hot spots" where disagreements between the two superpowers

festered have been cooled by the salve of political solutions. This, in turn, has created a chain reaction among other "hot spots" and preliminary agreements are being reached. If the trend continues, the world will embark upon a long phase of relative detente, which will probably last at least until the end of this century.

This entire international situation was initially triggered by a sag in the two superpowers' economic potency and a rise in the development of a multipolar pattern in world politics. Both superpowers have an urgent need for detente in order to improve their economic status. To this end, Gorbachev is promoting his "new thinking." The United States will also have to get on the bandwagon with corresponding strategic adjustments.

Power Redefined

Both US domination of the post-war world and the rise of the Soviet Union have been backed by their strong military forces. For a long time, the two scrappy powers competed to establish overseas military bases and scrambled for strategic points. They pumped up their military budgets and accelerated the development of new strategic and space weapons. Military confrontation was thus highlighted as an important contest in US-Soviet relations.

The rivalry between these two leading countries has also given impetus to a situation of

severe tension where daggers have been drawn between the North Atlantic Treaty Organization (NATO) and the Warsaw Pact.

In the new phase of relative detente, however, a race for comprehensive national strength will replace the arms race as the principal form of international confrontation. This contention will focus mainly on economy and technology, but will also include military, political and cultural factors.

At present, such a process has begun. All countries are tuning up their economic structures, replacing worn-out parts and mapping out new roads to economic development. It may take 10 years for the world economy to gather enough momentum to overcome its low growth rate. However, by the end of this century a sizeable breakthrough will probably be noted in the new technological revolution, and the world will enter another period of rapid economic strides. This, in turn, will surely lead to a shift of status among the world's big nations.

Of course, on the other hand, it should also be noted that the arms race between the two superpowers is still in progress. With the rapid development and extensive application of high technologies, they are cranking up military forces of high efficiency, which will be targeted for use in future warfares. They are pushing hard to develop space weapons and revamp their strategic and conventional weapons. At the same time, new military thinktanks of the big nations are plotting comprehensive reform of military strategy, organization, command system, weapons renewal and rear supply. The spread of missiles and possible

proliferation of nuclear weapons will also bring about an eventual tangle of problems. The threat of a new world war still exists, crying out for continued attention to the issue of disarmament.

Four-Way Race

Owing to the uneven development of the world economy, the economic stances of the United States and the Soviet Union are losing weight, while those of Western European countries and Japan, in particular, are gaining. Thus, as the bipolar pattern in which the two superpowers dominate the world unravels, it will be replaced by a multipolar one in which the aforementioned economic contenders will vie for supremacy.

From the end of 1982 until 1987 the United States maintained a steady economic growth, the longest period of such growth since its post-World War II boom. However, at the same time, its economy got bogged down in high financial and trade deficits, heavy foreign debts and the devaluation of the US dollar. The US empire has declined to a great extent, but its comprehensive economic strength still ranks first in the world.

Over a long period of time, Japan's economic growth rate has taken off like a kite and is now the highest among all the major powers. In 1950 its gross national product (GNP) was only 3.8 percent of that of the United States, but by 1987 it reached 60 percent in terms of US dollars. Because Japan's population is only half that of the United States, it surpasses the latter in its GNP per capita.

Now Japan enjoys the largest amount of trade surplus in

the world and is the biggest international investor. Its foreign currency reserves rank first in the world, and the herculean Japanese yen is the strongest in world money markets. Due to the fact that Japan is up and coming, economic frictions between it and the United States are intensifying.

In recent years the European Community's economic growth has lagged that of Japan and the United States. What's more, there is an imbalance in the development of EC countries. But the 12 EC countries have a population of 300 million, and their total GNP in 1987 reached US\$4,200 billion—almost on par with that of the United States. The EC's trade volume, 40 percent of the world's total, ranks first.

In the past decade, the Soviet economy has plodded along behind the Western developed countries, and the gap is widening. Gorbachev's proposed overhaul of the country's economic and political structures and his strategy of boosting domestic growth have been aimed at invigorating the country's economy in order to launch a race of comprehensive national strength against the United States in the next century.

Scientific and technological might will be decisive elements in future economic bouts between nations. However, a country's rank in the world's export market will also be of ringside significance. At present, the United States and Asia-Pacific region champion the world's largest market.

In light of these trends, all countries are plotting a new economic game plan: to spur the development of new technologies, to keep score on world market trends, to field

more exports, and to parry keener competition and various protectionist foils.

Grouping Trend

At a time when the world economy is becoming increasingly internationalized and integrated, more countries and regions are segregating themselves into regional economic groups in order to vie for a favourable slot in the global competition. Grouping has become an irreversible trend in the development of the world economy.

EC countries have decided to set up a single European market by 1992 in order to practise a free movement of personnel, commodities, capital and labour services. They have also given the go-ahead for the opening of a European central bank that would unify their currencies. So Western Europe is targeted to be-

come the world's vastest market.

In January 1988, the United States and Canada signed a free trade agreement. Starting this January both sides will cancel tariffs and commodity restrictions on most goods imported from each other. This has paved the way for a common market in North America that will allow a toll-free trafficking of commodities. The United States is just now negotiating with Mexico for a similar arrangement.

In order to flex its own economic muscles, Japan is now gung-ho about extending its force in the Asia-Pacific region through investments and trade. This is an attempt to form a so-called East Asian economic ring led by Japan. The circle is supposed to encompass Hong Kong, Taiwan, Singapore, South Korea and the members of the Association of Southeast Asian Na-

tions (ASEAN).

The Soviet Union and the East European socialist countries are also brewing reforms for COMECON (Council for Mutual Economic Assistance) so that it may adapt to the current grouping trend.

In the years hereafter, these four groups will compete tooth and nail with each other. On the one hand, the development of the world economy objectively demands networking between all countries; while on the other hand, out of consideration for their own interests, each group is trying to set up various obstacles. Such inconsistencies will surely increase economic frictions among the countries and give rise to instability in global economic development.

Asia-Pacific Plays

Although Europe will continue to be the main battle-

Top Ten World News Events of 1988

1. On April 14, an agreement on political resolution of Afghanistan conflict was signed in Geneva. According to the agreement, the Soviet Union will begin to withdraw its troops from Afghanistan on May 15 and finish within nine months.
 2. On June 1, leaders of the Soviet Union and the United States exchanged instruments in Moscow ratifying the INF treaty.
 3. On August 20, the 8-year Iran-Iraq war formally ceased fire.
 4. On October 5, the public vote of Chile vetoed President Augusto Pinochet Ugarte's plan for another eight years in office.
 5. On November 8, George Bush of the Republican Party defeated Michael Dukakis and was elected the next American president.
 6. On November 15, the 19th Special Session of the Palestine National Council passed the Independence Declaration, announcing the founding of the State of Palestine.
 7. On December 1, Benazir Bhutto was appointed prime minister of Pakistan, the first woman to assume this role in the Islamic World.
 8. From December 1-3, for the first time since 1957, a Chinese foreign minister visited the Soviet Union, making preparations for a Sino-Soviet summit.
 9. On December 7, Soviet leader Mikhail Gorbachev, during his speech at the United Nations General Assembly session, announced the unilateral reduction of Soviet armed forces by half of a million within two years.
 10. On December 13, Angola, Cuba and South Africa, through the mediation of the United States, signed the protocol of the agreement on Angolan peace and Namibian independence in Brazzaville, the capital of the Congo.
-

ground of the struggle for disarmament and any possible turbulence in Eastern Europe could muddle East-West relations and the entire international scene, global diplomatic and economic power-plays are cropping up in the Asia-Pacific region. Contending nations want to get a foothold in this area where economic growth has outpaced that of other regions in the world.

Not long ago the Reagan administration summoned its Secretary of State, George Shultz, to woo seven Asia-Pacific nations. This was an attempt to co-ordinate actions and policies with these countries and strengthen the US hand at the negotiating table with the Soviets.

Gorbachev courted the region with speeches. First, in 1986 at Haishenwai (Vladivostok) he stated the Soviet intentions in an oration on his Asia-Pacific policy. This past October in Siberia he made another important speech, offering a seven-point proposal on the security of the Asia-Pacific region.

West European countries are also getting themselves more involved in Asia-Pacific political and economic affairs in order to keep their diplomatic profile high.

However, Japan's activities in this area are the most outstanding. Confronted with the Asia-Pacific region's bullish competition, Japan has had to readjust its policy. Due to complex relations with the United States, however, Japanese authorities have had to be cautious in pursuing their aims. For some time to come, it seems that Japan will do its utmost to maintain the status quo of US-Japanese relations while trying hard to tighten its grip on South Korea and Taiwan and make use of Hong

Kong and Singapore's strategic positions to establish closer economic ties with ASEAN countries. Its policy towards China is one of stabilization and restriction.

By vitalizing its economic force in the Asia-Pacific region and its economic relations with Asian countries, especially Southeast Asian countries, Japan aims gradually to set up and lead an East Asian economic circle in preparation for further conquests in Australia, New Zealand and Latin America.

Polarization

The imbalanced development of the global economy applies also to the third world. In 1987, the average total growth rate of third world countries was 3.1 percent, with 6.8 percent in Asia, 2.5 percent in Latin America and only 1 percent in Africa. This indicated that the third world is polarizing. Asia is developing more quickly, especially in regard to the "four little dragons." In 1987, South Korea's economic growth rate was 12.2 percent, Taiwan, 11.04 percent, Hong Kong, 13.6 percent and Singapore, 8.8 percent. Their speed even far exceeded that of Japan, the fastest among the developed countries. For some time to come, their economic growth rate, though likely to drop a little, will continue to maintain the strong momentum of expansion.

These newly industrialized Asian countries and regions, especially South Korea and Taiwan, capitalizing on the appreciation of the Japanese yen and Japanese structural transformation, have greatly boosted their exports and intruded into Japanese and American

markets. In 1987, South Korea's exports peaked at US\$46 billion. Of this, exports to Japan and the United States grew by a walloping 31.9 percent and 55.4 percent respectively. Taiwan registers a huge trade surplus each year, and in 1987 its foreign exchange reserve climbed to US\$76 billion, ranking second in the world. The per-capita gross national product in Hong Kong has already reached US\$6780, and in Singapore, US\$6621, approaching the level of the developed countries. South Korean President Roh Tae Woo, in his inauguration address, declared that he would raise his country's per-capita GNP to US\$5,000 during his presidency. South Korea has also made it clear that it intends to be counted as a developed country by 1995.

The economies of Thailand and Malaysia have also moved notably forward, as have those of Brazil, Mexico and other Latin American countries. It can be predicted that by the end of the century, a few countries and regions will be tailgating the progress of developed countries, and some may even become developed countries as well.

Most of the third world countries, however, will fall still farther behind the developed countries. Confronted with a rapidly-paced world technological revolution, these countries will find themselves handicapped by their low educational level, technological backwardness, lack of funds, heavy debt burden, and shortage and exodus of talented personnel. Furthermore, many developing countries will suffer from the continual drop of primary products' prices and the rising price of imports. The plummeting of oil prices, which started in 1986, has

emptied the pockets of third world oil producers. As long as a leeching poverty stalks most of the third world countries and a hoary international economic order toddles on, international relations will remain unstable.

As a developing socialist country, how will China fare in the flux of a divided third world? This is a question that draws deep concern. I think China is now in limbo somewhere between the two poles of third world development. If successful, China's economy may take off and narrow the distance with developed countries at the end of the 1990s; if unsuccessful, China will drag farther behind developed countries and even trail the newly industrialized countries

and regions.

It must be realized that New China has already built a solid economic base and social girders of a high scientific and technological level since its founding in 1949. China has accumulated precious experiences, both positive and negative, and in recent years the economy has been steadily clipping ahead. So, compared with other third world countries, we have a better footing. It is entirely possible that China will realize its goal of an economic take-off and quadrupled GNP by the close of this century. On the other hand, the other possibility does exist.

We must have a clear understanding of the international environment facing China,

foster a strong sense of urgency and crisis, accelerate economic, political, educational and social reforms and bring the economy to a path of steady development after a brief period of rectification and improvement. At the same time, education, science and technology must be thrust to the forefront so that China can occupy an advantageous position in the fierce international economic competition and a foundation can be laid for a foreseeable drastic expansion of China's economy in the next century.

(This is a translation of the article published in *World Outlook* No.21, 1988)

NEWS ANALYSIS

A Mideast Peace Breakthrough

Straight talks between the United States and the PLO breaks the ice in the long-stalled Middle East peace process.

The first round of US-PLO talks, a 90-minute exchange of views on the Mideast issue hosted by the Tunisian government, ended in Carthage on December 16 last year. The heads of the two delegations—Robert Pelletreau, US ambassador to Tunisia, and Yasser Abd Rabbou, the Palestine Liberation Organization (PLO)'s executive member—told the press that their dialogue was "practical, frank and serious." They agreed to meet again in a few weeks.

The opening of direct dia-

logue between the United States and the PLO marks a breakthrough in a long-stalled Middle East peace process.

The first crack of progress came on December 14 last year, when PLO Chairman Yasser Arafat declared again at a press conference in Geneva that the PLO accepted UN Security Council Resolutions 242 and 338 on the Palestine issue, recognized Israel's right to exist and renounced terrorism in any form. An hour after Arafat's speech, US Secretary of State George Shultz was sig-

naled by President Ronald Reagan to announce a Washington go-ahead for holding substantial talks with the PLO.

The decision indicated that the United States, which had always turned a cold shoulder to the idea of negotiating with the PLO, now has warmed up to a new Middle East policy that acknowledges the PLO. However, Shultz stressed that the decision to talk did not mean the recognition of the Palestinian state by the United States.

Not long before this change

of heart, the US government, following its consistent policy of no contact, no negotiation and no recognition of the PLO, had refused to grant Arafat a visa, his ticket to attend the UN General Assembly's debates on the Palestinian issue in New York.

So what impelled the United States' abrupt about-face in policy?

Political observers see three influential factors. First of all, the US attitude warmed up in response to the exceptional heat put on it by world opinion.

Peace-lovers worldwide have voiced their support for the decisions made by the Palestine National Council (PNC) on November 15 last year to proclaim the Palestinian state and accept UN Resolutions 242 and 338, and they were inflamed by the US refusal to allow Arafat to speak at the UN Assembly.

The legal committee of the UN General Assembly voted 121-2 in favour of the resolution asking the United States to grant Arafat a visa, with

Israel and the United States voting against and Britain abstaining.

Faced with the United States' mulish attitude, the Assembly decided unprecedentedly to move the venue of the special commission on the Palestine issue from New York to Geneva, with 154 votes for and two votes against (again, the US and Israel), to let the world hear Arafat's "voice of peace."

The two votes, a scrawny opposition, made the United States look isolated and discredited. If the United States had insisted on its stand, it would certainly have been attacked by Arab countries, blamed by its West European allies, and may have killed the initiative for a Mideast peace process. Weighing the situation, it had no alternative but to alter its policy towards the PLO.

Second, the PLO's candid peace-seeking efforts left the United States no room to persist in its original policy. In recent years, the PLO has made major strategical adjustments in accordance with the evolving demands of situation and

struggle so as to promote dialogue in a more flexible attitude. Last November, the PNC announced the acceptance of UN Security Council Resolutions 242 and 338, thus indirectly recognizing Israel, and also condemned terrorism. Arafat footnoted the PLO's stand many times thereafter. After meeting with a US Jewish delegation, he endorsed a statement on December 7 last year in Sweden. This act clearly accentuated his acceptance of Israel's right to exist and his denunciation of terrorism.

Arafat, unfazed by the frostbite of US diplomacy, adopted a comparatively milder, reasonable and agreeable stand in Geneva. On December 13, he presented a three-point peace initiative on the Palestinian issue to the UN General Assembly. The peace proposal calls for the convening of a preparatory committee for an international Mideast peace conference, supervised by the UN Secretary-General. It beckons for actions to place the occupied Palestinian territories under temporary UN supervision

PLO Chairman Yasser Arafat greeting representatives at the 43th UN General Assembly session.



and for international forces to be deployed there to protect the Palestinian people and to supervise the withdrawal of Israeli forces. The initiative also provides for the PLO to seek a comprehensive settlement among the parties concerned in the Arab-Israeli conflict, including the state of Palestine, Israel and other neighbours, within the framework of the international peace conference on the basis of the UN Resolutions 242 and 338.

The US State Department's lukewarm rebuttal on December 13 said the speech contained some "interesting and positive developments," but "continued to be ambiguous on key issues." These airy areas included the recognition of Israel, acceptance of UN Resolutions 242 and 338 and the renunciation of terrorism. According to the US at that time, the proposal also failed to meet their three conditions for opening a dialogue.

To counteract the US accusation that his UN speech was "ambiguous," Arafat held a press conference in Geneva to elaborate on the PLO's peace proposal. At that point, the PLO had met Washington's three preconditions for negotiations, and the United States was standing on a thin ice of resistance.

But the most compelling reason for the US to change its frigid stance is the warm support the PLO has received from all peace-loving countries of the world, and the Arab countries in particular.

Diplomatic overtures by King Hussein of Jordan were obviously a key in coordinating the Arab countries' position on the Palestinian issue. It was he who took the initiative in proposing that the special session of the UN General Assembly be shifted to



US ambassador to Tunisia Robert Pelletreau (right) shaking hands with Abdullah Hourani, PNC member.

Geneva after the US refused to grant a visa to Arafat. He shuttled between Arab capitals and was constantly on the phone with Arab leaders discussing the latest developments arising from diplomatic slap of the US. Hussein also visited Britain and France to attest to the PLO's sincerity in seeking a Middle East peace. His efforts helped summon worldwide support for the Palestinian cause.

A just cause enjoys abundant support while an unjust cause finds little support. On December 15, the UN General Assembly adopted a resolution recognizing the newly proclaimed state of Palestine as a UN observer. It also decided that the designation "Palestine" will be used in place of the designation "Palestine Liberation Organization" in the UN system.

Rounding out its annual debate on the Palestine issue, the Assembly also adopted a resolution calling for the conven-

ing of an international peace conference on the Middle East. The resolution said that the conference should be based on UN Security Council Resolutions 242 and 338 and the legitimate national rights of the Palestinian people, primarily the right of self-determination.

Events since the founding of the Palestinian state have brought new hopes to the Mideast peace process. The state of Palestine has now been recognized by more than 70 countries, and the calls for an international peace conference to resolve Mideast problem are reaching a crescendo. It appears that there is more bounce and less crackle in relations between the United States and the PLO nowadays. This atmosphere, in turn, is likely to clear a path for a less frosty Mideast diplomacy during the next US administration of George Bush.

by Chen Ruwei, Fu Weijian

ECONOMIC REFORM

A Sweet and Sour Decade

More than ten years have now elapsed since China embarked on its programme of reform in 1978. Although the gains have been prodigious, last year a series of problems came to a head, culminating most visibly in spiralling inflation. Liu Guoguang, vice-president of the Chinese Academy of Social Sciences, critically examines the last decade and then offers his assessment on three possible ways forward.

by Liu Guoguan

A decade has passed since China began reforming its economic structure towards the end of 1978. Generally speaking, this period can be divided into three stages:

First, from the Third Plenary Session of the 11th Party Central Committee in December 1978 to the Third Plenary Session of the 12th Party Central Committee in October 1984. During this period, the countryside was the focus of reform. The combination of government administration and commune management in the people's communes was restructured and the family-based contract responsibility system linking output with remuneration replaced the production team-based collective management, organized labour and unified distribution. At the same time, some experimental reforms expanding enterprises' decision-making powers were conducted in the cities.

Second, from October 1984 to the CPC's 13th National Congress in October 1987. During this stage, the focus of reform was switched to the cities. While continuing the reform measures initiated in the first stage, a series of initial reforms and experiments were introduced in production, cir-



Liu Guoguang.

CHEN ZONGLIE

Economically, the last decade has witnessed the most dynamic and rapid growth since New China was founded in 1949, while living standards have risen faster than ever before. But many problems have also occurred in China's economic life, such as inflation, unfair income distribution and a drop in social morals.

ulation, income distribution, economic planning, financing, taxation, pricing, labour and wages, commerce, material supply and foreign trade. As reform of the economic structure forged ahead, reforms in scientific research and education began.

Third stage runs from October 1987 to the present day. Surveying the previous nine years, the CPC's 13th National Congress put forward the theory that China stands at the primary stage of socialism and added reform of the political structure to the agenda. Thus China has entered a period of comprehensive reform involving all areas of the politics, economics and culture.

Structural Changes

Ten years of economic reform have changed China's economic structure in the following ways:

Enterprises have acquired new strength and vitality through the expansion of forms of ownership, the possession of greater decision-making powers and the right to retain a greater share of their profits.

The state-owned sector's share of total industrial output value has dropped considerably over the 1978-87 period—from 80.8 percent to 69.7

percent. It has been pushed aside by the growth of the collective sector—from 19.2 percent to 27.1 percent—and the arrival of the private sector (including Sino-foreign joint ventures and exclusively foreign-owned enterprises) which has grown from almost zero to 2.4 percent.

Within the state sector, the separation of ownership and managerial power and experiments with contracting, leasing and joint-stock systems have invigorated enterprises and made them increasingly accountable to the market instead of administrative departments.

The expansion of enterprises' decision-making powers and the decrease in the number of commodities subject to the state's mandatory planning and unified prices have steadily increased the role of market mechanisms.

During the last decade, the markets for farm and sideline products and consumer goods have initially taken shape, the markets for capital goods and short-term funds have developed steadily, and the markets for technology, information, labour services, long-term funds and real estate have begun to emerge.

Now, around 65 percent of all farm and sideline products, 55 percent of all consumer goods and 40 percent of all industrial materials have their prices determined by the market to varying degrees. This embraces around half of all commodities on sale in China.

Accompanying the expansion of enterprises' decision-making powers and the formation of various markets, the government has been steadily replacing direct control of enterprises with indirect regulation through the market.

In the past decade, the number of industrial products planned and managed directly by the state dropped from 120 to 60, and the number of materials subject to unified distribution from 256 to 26. Because the proportion of the total national income at the state's disposal had decreased, the percentage of investment in economic construction handled through the state budget has dropped dramatically: from 76.6 percent to 31.6. Correspondingly, the amount derived from bank credit has jumped from 23.4 percent to 68.4 percent. The role of economic levers such as pricing and taxation has been greatly strengthened in the regulation of social supply and demand, creating the conditions for a gradual shift from direct macro-economic control to indirect regulation.

In economic exchanges with other countries, the implementation of the open policy has freed China's economy.

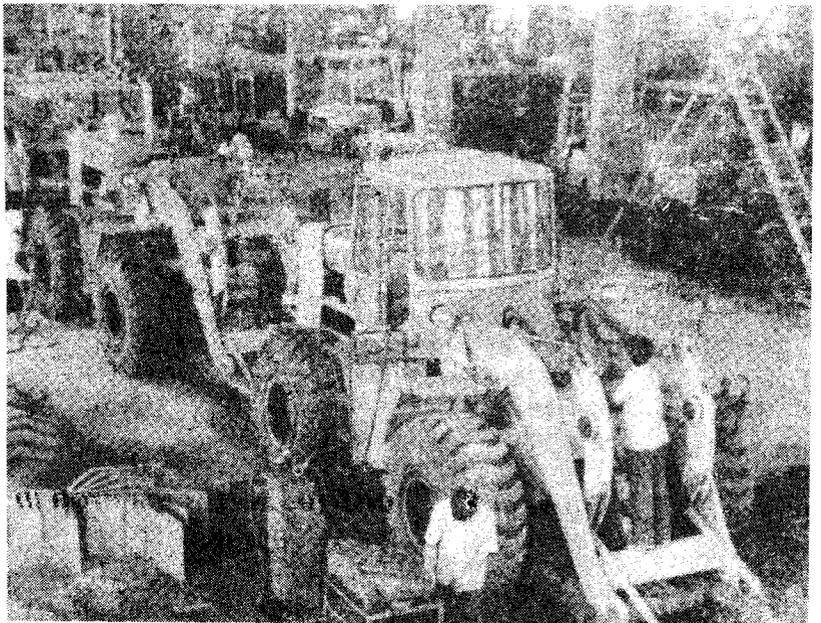
By opening, I mean both China's relations with the rest of the world and relations between different parts of China. With government administration and enterprise management fully integrated until 1978, all central and local government departments strove to create all-embracing systems within their sphere of jurisdiction.

With the programme, ways have been explored to separate government administration from enterprise management and to break regional compartmentalization to develop effective horizontal economic co-operation. China now has 49 trans-provincial economic agglomerations. At the same time, several enterprise groups have been established uniting different localities, trades, and even forms of ownership for the production and marketing of famous products.

China has taken several large strides in opening to the

The Xiamen Engineering Machine-Building Plant has raised its annual output of heavy-duty tractors from 250 to 1,000, exporting all of them to the United States.

LI KAIYUAN



outside world. The first was in 1980 when the central government granted Guangdong and Fujian provinces the power to introduce special policies and flexible measures to attract foreign involvement in China's economy. The second was the establishment of four special economic zones at Shenzhen, Zhuhai, Shantou and Xiamen in 1980 and 1981. The third was the decision to open 14 coastal cities and the entire island of Hainan in 1984.

The fourth was the central government's decision in 1985 to open the Changjiang (Yangtze) River Delta, the Zhujiang (Pearl) River Delta and the Xiamen-Zhangzhou-Quanzhou triangle in southern Fujian. The fifth was the phased opening of Shandong and Liaodong peninsulas from 1986. And the sixth was the decisions taken in spring this year to make Hainan Island a province and the largest open special economic zone, to introduce further experimental open zones in Guangdong, Fujian and Jiangsu provinces, and to define an economic development programme for the coastal areas.

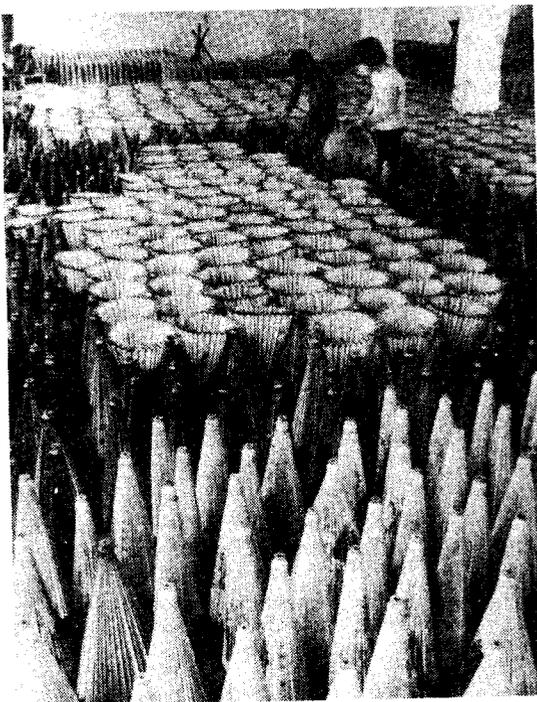
In consequence, China has a vast open belt along its coast embracing more than 100 million people, which will gradually expand inland. By the end of 1987, China had approved 9,973 foreign-funded enterprises, of which 4,300 have begun operation and 80 percent are in the coastal areas.

The policy of opening to the outside world has played an increasingly important role in

China's economic development, as can be seen in the quadrupling of total foreign trade—from US\$20.6 billion in 1978 to US\$82.7 billion in 1987.

Problems Surface

The changes in China's economic structure have had a



LI XINSHENG
Jianou County in northern Fujian earns 25 million yuan in foreign exchange a year by exporting bamboo goods.

powerful impact on the country's economic development. GNP, state revenue and average per-capita income have all more than doubled. Economically, the last decade has witnessed the most dynamic and rapid growth since New China was founded in 1949, while living standards have risen faster than ever before.

Of course, many problems have also occurred in China's economic life, of which three in particular have caused much discussion. The first is

the emergence of inflation. Following the over-rapid economic growth of 1984, price rose at an average annual rate of 7.3 percent for the previous three years. Then in the first half of 1988 they jumped 13 percent.

The second is unfair income distribution. Income gaps between different trades or occupations have widened unreasonably, in particular with factory workers far outstripping government employees. It is often said that "a surgeon makes less than a barber" and "a university professor earns less than a hotel waiter." But it should be remembered that for most Chinese, income gaps have not been reasonably widened, with everyone earning an equal share regardless of their individual performance. The third problem has been the increase in profiteering, corruption, bribery and abuse of power for personal gain, which have contributed to a drop in social morals across China.

All these problems are inevitable at this early stage of reform when the market, legal system and institutional rules leave much to be desired and the new socialist commodity economic order remains to be fully established. Only with continued reform can these problems be overcome.

1. Establishing a sound economic environment. In the first few years of reform, Chinese economists shared the view that reforms entailed a comparatively free economic environment. In other words, a limited buyers' market where total social supply slightly sur-

passed total social demand. The aim was to increase enterprises' sense of the need for reform and enable competitive mechanisms to play their due role and to ensure the provision of solid financial and material reserves. In the light of this view, the relation between economic readjustment and reform was properly handled in the early 1980s, promoting economic development.

However, the rapid growth in 1984 caused an alternative view to emerge. It was argued that a free economic environment could not be the prerequisite for, but could only be the result of reform. Because, they argued, shortages were the inherent characteristics of the old system, reform could be conducted only when supply fell far short of demand and any structural factor generating the shortages should be eliminated through reform.

Because of this, some economists held that since China's growth and structural transformation were already proceeding rapidly, the rapid growth of both investment and consumption was unavoidable.

The readjustment of the interest relations between different social sectors would require the economy to advance with a large overall momentum.

So these people were opposed to a deliberate cutback in investment and consumption, on the ground that a policy of containment would not tally with China's goal of reform and economic development.

This argument, however, leaves the problem of the economic environment unsettled both in theory and in practice. Instead, it has become confused with the worsening inflation and has continued to be a controversial issue.

2. The friction between the old and the new systems. For several reasons, China has proceeded with economic reform in a piecemeal fashion, so at present the old and new systems co-exist alongside each other. The aim of introducing reforms gradually was to avoid massive social and economic upheaval. However, this blending of two systems has undoubtedly generated a series

of thorny problems. For example, with neither the old mandatory system nor the new market system effectively dominating the distribution of resources, the defects of both systems have been magnified. Confusion has arisen in production, circulation and management, creating much leeway for speculation and racketeering. This has led many Chinese and foreign economists to suggest putting an early end to the coexistence of the two systems and establishing the dominant position of the new system as soon as possible.

However, such a transformation is no easy job. It is restricted by many factors, subjective and objective, but the major problem is maintaining balance in the macroeconomy. So long as social demand far exceeds social supply and inflationary price hikes remain unchecked, it is difficult to remove the fetters caused by the co-existence of the two systems.

It appears that this situation will have to continue for some time until the new system becomes strong enough to stand on its own feet. The actual duration of this period will be determined by how rapidly inflation can be curbed and the present sellers' market be converted to a limited buyers' market.

3. Should the reforms be deepened by stimulating interests or changing economic mechanisms? Without doubt, economic reform is aimed at stimulating people's enthusiasm for production through adjustment of relations of interest. But of more importance is uprooting the old production and distribution system which cannot meet the requirements for development of the primary stage of socialism.

In the countryside, these two

More than 1,000 Sichuanese pedlars conduct daily transactions worth 100,000 yuan at a rabbit hair market they opened themselves.

LIU QIANGANG



methods were combined. The establishment of the household responsibility system in place of the people's communes represented a change in mechanism. But simultaneously it replaced the egalitarian and collective basis of the natural economy with a competitive commodity system where farmers become responsible for their own profits and losses. Readjusting relations of interests by way of changing the economic structure has proved successful in the first-round of rural reform.

Unlike the countryside, however, reform of the urban economy has hitherto been conducted mainly by the stimulation of interests rather than through major restructuring. For example, the reform of state-owned enterprises has reduced their tax burdens and allowed them to retain a greater share of their profits. However, almost no fundamental changes have been made in their management structures and property relations. In consequence, enterprises are not run as independent entities responsible for their own interests, while a lot of money has been paid out in bonuses and wage increases as wage mechanisms remain almost unchanged.

In short, the undue stress on stimulation of interests has not only made no difference in the state-enterprise relations of interests, but has put enterprises in the position of demanding more from the state while contributing less. Such reform has made enterprises shortsighted in production and management, caused a surge in demand and destabilized the economy.

China is now probing new ways to restructure enterprises by separating ownership from management and clarifying

property relations.

4. The tactic for future reforms. The next two targets of China's reform programme are reform of property rights in enterprises and price reform. Which is more important?

This is a controversial issue, in which two antithetical views are held in economic circles. The first stresses the reform of enterprise ownership, arguing that enlivening production is the overall goal of reform: if enterprises are not re-organized, then it would prove hard for market mechanisms and indirect macro-economic control to operate. The second places the emphasis on prices, claiming that if they remain distorted, then the market must also remain incomplete and clogged. It would therefore be impossible to make enterprises run independently and be responsible for their own profits and losses.

Both of these views appear logical, but their respective weaknesses centre on the excessive stress on one aspect at the expense of the other. As a matter of fact, the relation between these two aspects of reform and their roles in the entire economic reform was clearly described in the decision taken by the 12th Party Central Committee at its third plenary session in 1984 that enterprise reform was the core of economic reform and price reform was the key to the reforms as a whole. Reforms in these two fields, an integral part of the economic reforms as a whole, are interrelated. The former is aimed at creating doers of market activities, while the later is aimed at establishing a competitive market environment. Reforms in these two fields should be carried out in close co-ordination.

After ten years of economic

reform, the problem of price distortion and rigidity has become further complicated by being entangled with the "double-track" system of state-set and market prices and the continued all-round rise in prices. The difficulty in advancing lies in the fact that price reform itself causes prices to rise, and if other inflationary pressures are left unchecked, then the two will promote each other in a vicious circle. Therefore, to accelerate price reform, it is particularly necessary to curb inflation and devise measures for price reform, particularly wage reform. In this way, China will tide over the difficulties of price reform, and will have established a new economic system.

Future Possibilities

Not long ago, Chinese economists had a heated discussion on China's short-term (1988-90) and intermediate-term (1988-95) reform programme. As different groups perceive the present economic situation in strongly contrasting ways, several different ideas for future reform were proposed.

Some held that although great achievements have been made in economic reform, the present economic situation, beset with inflation, a confused economic order, unfair income distribution and severe corruption, is bleak. Under such circumstances, they argued, it would prove difficult, if not impossible, to adopt measures of great consequence for economic reform, especially price reform. Therefore, it is preferable to exercise strict macro-economic control by administrative means.

With the economic environ-

ment harnessed, they claimed, the prices of capital goods should first be readjusted and then opened to market forces, followed by decontrolling the prices of most products. If price reform was supported with financial, taxation and monetary reform, a series of sound parameters and equal opportunities for market competition could be created. Simultaneously, reforms could be steadily carried out in the state-owned enterprises and other fields.

This proposal calls for the co-ordination of reforms across several fields. If it were feasible, all the problems arising from the collision of the old and new systems would be eliminated and the new system would exert its effective role within a reasonably short period of time. However, its scale and speed of upheaval would carry with it a large number of severe risks. It is widely feared that too much economic retrenchment, as these people advocated, would lead to economic deflation. It is also not certain whether a free economic environment would necessarily emerge as the final outcome.

Others disagree with the assessment that the present economic situation is bleak. After almost ten years of economic reform, they argued, China's economy has been greatly strengthened and grown far more dynamic. The present economic situation, though not as good as it should be, is taking a turn for the better. Last year's industrial growth rate of 14.6 percent was normal and healthy, if a bit on the high side. The 17.2 percent growth rate in the first half of this year likewise is a sign of vigour. The principal factor destabilizing the economy is price increases, which can be



The Qingdao No. 4 Knitwear Mill produces export goods on imported equipment. SHI PANQI

solved by properly subsidizing urban dwellers.

These people oppose economic retrenchment. They prefer continued growth at high speed, or as they say, "making the cake bigger to ensure everyone has a slice." Stabilizing the economy, they argue, can only be realized by deepening reform. In the coming two or three years, the focus should be restructuring enterprise management by developing the contract responsibility system. At the same time, reforms should be carried out in the fields of investment, the supply of materials, foreign exchange management, finance, taxation, and property. With improved enterprise efficiency, increased social supply and stronger macro-economic management, price reform could be conducted in the ensuing years to further improve the economic environment for enterprises. The proponents of this view estimate that the new system occupy the dominant position in around eight years, and then would be further consolidated and improved.

This argument is rooted in the belief that the principal

problem confronting China's economic development lies not in the mounting demand but in insufficiency of supply. Therefore, a policy of slight inflation should be adopted to accelerate economic reform and development. This view, the most influential in economic circles, has been repeatedly affirmed in the various economic fluctuations which have occurred since the end of 1984.

However, advocating a combined acceleration of reform and development seems unlikely to provide a solution to the problem of worsening inflation. If reforms were carried out along these lines, it would be impossible to create an economic environment favourable for the supporting reforms centred around prices. If the confusion wrought by the collision of the two systems continued, the outcome could only be bad for China's future economic reforms and development.

The assessment of the present economic situation made by the third group of economists is similar to that of the first group. They differ, however, in preferring measures

aimed at stabilizing the economy to push reform ahead while simultaneously using well-devised reforms to promote stable, sustained economic growth. In the coming two or three years, the stress should be laid on harnessing the economic environment, eliminating destabilizing factors and reducing inflation from its present 10 percent to 3 or 4 percent in 1990. Thus room could be created for possible price hikes caused by future price reforms.

To stabilize the economy, reform measures including improving the mechanism of macro-economic control and regulation should be adopted. Efforts should be made to strengthen the enterprise contract responsibility system in preparation for a transition to a joint-stock system. At the same time, the development of the market should be promoted, market management rules be formulated, and a limited range of necessary price readjustments and reforms conducted.

After three years of reforms featuring "steadiness," factors destabilizing economic life should by and large have been

eliminated. The country could then move on to a second stage for 1991-95, during which "rapid" reforms of great consequence could be adopted, especially for market operation mechanisms centred on price reform. As these unfold, reform should commence of the enterprise joint-stock system with the aim of clarifying property relations so as to switch macro-economic management from direct to indirect control and regulation. In this way, the foundations would be firmly laid for the situation where "the state regulates the market and the market guides enterprises."

Since the summer of 1988, spiralling inflation has become a major barrier to continued reforms, making it necessary for China to focus its short-term efforts on stabilizing the economy by curbing inflation. This has rendered the third view the most feasible and practical. The 13th Party Central Committee's principles and policies for improving the economic environment, rectifying the economic order and deepening reform in an all-round way adopted at its third plenary session last September

were aimed at putting the stress of reforms and construction in the coming two years on cleaning up the economic environment, improving the economic order and making sure that inflation in 1989 would be considerably lower than in 1988. All other economic work has to be subordinate to these tasks.

In addition, the Third Plenary Session endorsed in principle a preliminary programme for price and wage reforms for the coming five years and beyond. It asked the State Council gradually, steadily and in light of reality and the requirement of pulling down the prices to put this programme into practice.

Of course, deepening the reforms is not merely a matter of readjusting prices, but involves reforms in all fields, especially concerning enterprises. Measures effective in arresting inflation should be carried out continuously. I am convinced that China's economic reforms and construction will inevitably advance with new vigour when the economic environment is improved and the economic order is straightened. □

Soviet officials examine a consignment of Chinese potatoes.

HU WEI



SHANDONG PENINSULA (I)

A Headland of Economic Progress

by Our Correspondent Lu Yun

The Shandong Peninsula, jutting out into the Yellow Sea on China's east coast, became an open economic zone in the spring of 1988. Although its 57,666 square kilometres and 26.72 million people only comprise one-third of the area and population of Shandong Province, its gross industrial and agricultural output amounts to 55 percent of the provincial total, while its exports account for 70 percent.

Under the jurisdiction of the zone are seven major cities (all of which opened to the outside world in 1984) encompassing smaller cities, counties and districts.

Shandong Province has a strong economy and a long history of international trade. In 1987, it led the country in agricultural output value and was the second most productive province in terms of combined industrial and agricultural output value. Its gross product and foreign trade volume ranked in the national top three.

It now has economic relations with over 150 countries and regions around the world and exports more than 1,100 commodities.

Export Expansion

The establishment of the open economic zone has called for industry on the Shandong Peninsula to become yet more export-oriented. Infrastructural construction has had to ac-

celerate and a series of preferential measures have had to be drawn up to encourage overseas investment and co-operation. On a recent tour of the peninsula, it was clear that work had started in all these areas. What, however, made the deepest impression was the enhanced popular to open the economy to the outside world.

The mayor of Qingdao, Guo Songnian, said that in the past China had missed one opportunity after another, "but the adjustment of the world's economic structure has given us one more chance—we mustn't let it pass. Although we have accumulated experience over many years, every time we have missed an opportunity, we have fallen behind. If we don't catch up soon, then the country will face a desperately serious situation."

But Jiang Chunyun, the governor of Shandong Province, pointed out the region possesses sufficient advantages to enable it to seize the opportunities now on offer: "First, it's on the coast. Second, it has a large peninsula. And third, it has 20 harbours and a reasonably well-developed sea transport network. To develop economic co-operation with other countries we will have to work hard, but this means there is plenty of scope for people with talent.

"It's the world we're now looking to—we want to conduct economic and technological co-operation on the basis of mutual benefit with businesses

and companies from all parts of the globe.

"Within the province itself, we aim to open the eastern coastline as widely as possible to the outside world, and then tie the western hinterland into an overall programme of development which promotes the whole of Shandong."

Already some previously unknown places have begun to establish themselves as more than a name on the map. Song Xihuan, deputy mayor of Weifang, said his city had become famous around the world since it held its first international kite festival in 1984. "As people have come to Weifang, conservative ideas and the feeling of being separated from the rest of the world have been pushed aside. Over the past few years, we have sent more than 100 groups on inspection tours overseas, and the number of foreign visitors and business representatives coming to Weifang every year has increased from 2,000 a year to 10,000.

"Our biggest worry is the lack of competent personnel with a thorough knowledge of foreign economic and trade relations. We're not well-informed, and we lack experience of participation in international activities."

Many people in Yantai and Weihai said there had been some major shifts in ideological consciousness in the area. They spoke of the widespread desire to develop an export-oriented economy—not because of orders passed down

from higher authorities, but because people believe it will improve the region. They are quick to point out this is not simply a matter of following the latest trend, but of wanting to develop the peninsula's many advantages. The foreign exchange that flows in does not go on cars, ease and comfort, but on importing urgently needed technology, equipment and raw materials for production.

Rich Resources

Shandong is rich in natural resources.

- A total of 122 minerals have been discovered in the province, of which 74 have verified reserves of 83 billion tons. The major ones located in the open zone are gold, graphite, marble, granite and bauxite.
- The open zone abounds in peanuts, fruit, tobacco, silk-worm cocoons and vegetables, while there are favourable conditions for the development of textile and light industries.
- Some 260 species of fish and marine animals can be found in Shandong's coastal waters, and the province leads the nation in its output of prawns, sea cucumbers, scallops and abalones. Prawns, shellfish and kelp can be raised on its 200,000 hectares of tidal beaches, although only 47,000 hectares have so far been put to work. Each year, 2.82 million tons of crude salt is produced along Shandong's 3,024 kilometres of coastline.
- Tourism is a major money-earner thanks to the healthy climate and picturesque scenery of Qingdao, Yantai, Weihai and Rizhao, all of which are dotted with resorts and rest homes. Zibo has the ruins of the 2000-year-old Qi

capital, including a series of graves for horses buried alive along with the deceased ancient masters. Weifang has an important selection of palaeontological fossils and a large array of local folk arts. But perhaps most unique is the video showing in the Penglai Pavilion of a five-hour mirage recorded in 1988.

The Shandong Peninsula has a well-developed transport network. The density and quality of its highways are the highest in China, railways criss-cross the region, 15 domestic air-routes operate from Qingdao, Yantai, Weihai and Weifang and chartered flights link Qingdao to Hong Kong. Its harbours can handle 50 million tons of cargo a year, and the ports at Qingdao, Yantai, Longkou, Weihai, Shijiu and Lanshantou have all been opened to the outside world.

As one the most populous areas in China, the open economic zone has an enormous supply of skilled labour. In 1987, its total industrial and agricultural output value reached 59 billion yuan, of which 4.9 billion yuan came from exports. Its major indus-

tries include foodstuffs, textiles, silk, garments, handicrafts, electronics, machinery, rubber, chemicals, building materials and non-ferrous metals.

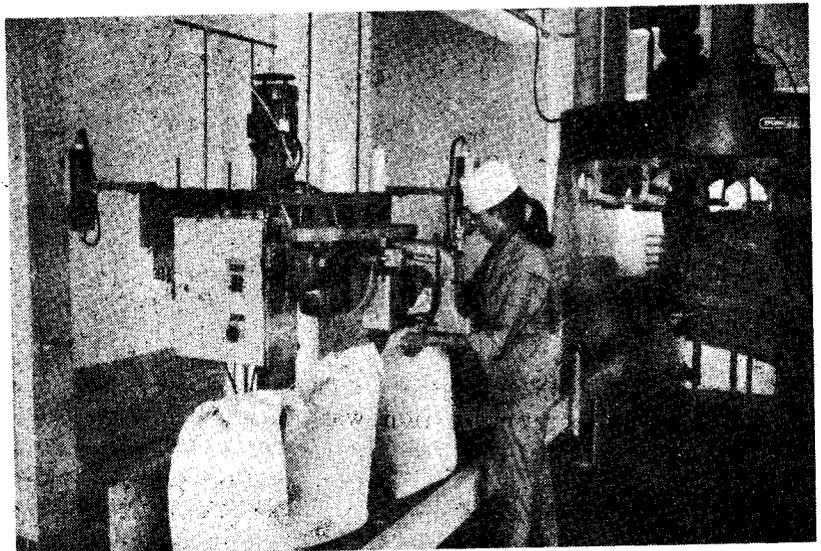
Among its most famous products are Qingdao's beer, refrigerators and washing machines, Zhangyu wine and wooden clocks from Yantai, Longkou's vermicelli, Weifang's computers, tape recorders and silver-inlaid furniture, Zibo's pottery and porcelain, and Weihai's carpets and embroidery—all of which are sold both at home and abroad. Qingdao is also the home of China's ocean scientific and research centre.

The problems facing the peninsula, however, are a lack of qualified personnel, advanced technology, funding and managerial expertise. It is hoped to overcome them through co-operation with foreign countries.

Open Wider

On several occasions, Shandong Governor Jiang Chunyun has announced that the

The flour-milling workshop of the Singapore-Yantai Foodstuff Co. Ltd.



Shandong Peninsula will open to the world in an all-round way. He has said that the domain for co-operation is broad, ranging from industry and commerce, through finance, science and technology, to education and tourism.

He has welcomed foreign companies to invest, trade and develop the province's resources, modernize enterprises, establish tertiary industries and open processing factories for agricultural and sideline products. The peninsula is also looking for exchanges of information, personnel and technology with overseas countries.

Jiang says the open zone offers a wide range of flexible measures to foreign businesses, including help with joint ventures, co-operative enterprises and wholly foreign-owned enterprises, processing imported materials and compensatory trade.

The open zone has defined a number of key projects for capital construction and technological transformation. To gain foreign investment, these will be opened to competitive tendering or contracted or leased to foreign companies. A series of export processing districts are planned for Qingdao, Yantai, and five other cities where co-operation from overseas companies will be warmly welcomed.

Shandong's opening to the outside world has proceeded at a rapid pace in the last few years. The province has signed 1,469 contracts involving US\$2.57 billion of foreign capital and has established 91 joint ventures, co-operative enterprises or wholly foreign-owned enterprises.

The range of overseas projects undertaken by its contract engineering and labour service companies has widened

to include construction, ocean fishing, agricultural projects and public health facilities.

Overall, the province has introduced 1,300 items of advanced technology and retooled 760 enterprises in the past few years. Qingdao alone invested 1.7 billion yuan in the modernization of its enterprises from 1984-87 (for 1980-83, the figure was less than 400 million yuan), creating an extra 6 billion yuan's worth of output.

Of Qingdao's imported technological items, most (around 86 percent) were developed in the late 1970s and early 1980s, laying the foundations for a successful range of consumer goods. Its televisions, refrigerators, washing machines, cameras and air-conditioners are known across the country as the city's "five golden flowers." Almost all of them have benefited from the introduction of foreign technology.

For example, there is the Qingdao-Liebherr refrigerator, manufactured in partnership with a company from the Federal Republic of Germany, which won a World Health Organization contract against fierce competition from Japan, the United States, the Federal Republic of Germany and Italy. There is also the Agfa camera production line whose top-quality cameras are famous across China and sell well throughout Southeast Asia.

After three years of investment and construction, the Qingdao and Yantai economic and technological development zones have begun to attract a large amount of overseas funding. Together, they have signed 139 contracts involving a total investment of 840 million yuan, of which US\$80 million has come in foreign exchange.

To date, 72 projects have

been completed and started operation, and some have already yielded substantial economic returns. For example, all the output of the Huamei Machine Embroidery Co., a Sino-US joint venture, has been sold to the United States and Canada. Since the company went into production less than two years ago, it has recouped its initial investment of US\$6 million. Similarly, it only took the Huajia Toys Co., a joint venture backed by Qingdao and a Hong Kong company, three months to go into operation. Ever since, orders for its products have poured in.

At the same time, several joint ventures have also been established employing various forms of advanced technology involving lasers, holograms, monocrystalline silicon, various new metallurgical materials, etc.

All the newly opened cities on the peninsula have received a large boost from foreign investment. Since October 1987, Weihai has signed 27 contracts on the utilization of US\$56.84 million of foreign capital, US\$36.62 million of which has been put to work. In Weifang during the nine years to 1987, only seven joint ventures were established. But in 1988 eight more arrived, and foreign investment equalled half the total for 1978-87. Zibo, one of China's five major pottery and porcelain production centres, has linked its key enterprises into a series of 35 conglomerates embracing construction materials, silk, porcelain and pottery, towelling, and manufactured goods to co-ordinate production and export.

One of the most successful joint ventures on the Shandong Peninsula is the Huarui Co., which has produced 2 million sets of steel covers for oil



One of the workshops in the Weihai Carpet Plant.

Photos by LU YUN

drums, exporting half of them. Its Singaporean general manager, Chou Charng Li, said the wages and bonuses of his 50 staff are determined in accordance with Singaporean practices: they can rise and fall depending on the responsibilities, technical skills and productivity of each individual worker. The gap in bonuses is as wide as is 160 yuan, and in basic wages, 110 yuan. No worker is permitted to reveal the actual size of his or her wage packet to a colleague—if they do, their bonus will be recovered and their basic wage lowered.

With such discipline, the company's production and management are in good order. The partners in the venture respect and co-operate with each other, and prospects for the future are bright.

Chou maintains that with efforts redoubled, the Qingdao development zone should prove highly attractive for foreign investors. He said that wages were much lower than in Singapore, which more than compensated for the problems of low efficiency and made it

profitable to invest in China.

Attracting Investment

Across the Shandong Peninsula, work is pressing ahead to strengthen the region's infrastructure, improve efficiency, and develop and implement preferential measures so as to create an environment fit for international business.

Yantai Harbour's extension project should be completed this year, raising its annual handling capacity from 7 million tons to 12 million tons. Qindao has expanded its oil-loading terminal, and preparations are being made to increase port facilities at Weihai, Shijiu and Lanshantou.

Construction of the Qingdao-Yantai highway will be finished this year, and plans have been drawn up for a circular highway linking Qingdao, Weihai, Yantai and Weifang. Telecommunications have been strengthened with the incorporation of a number of programme-controlled switchboards and a series of international direct-dialling

telephone lines will be opened in the near future. The regions airports will be expanded and more international flights added.

In the open cities, overseas financial organizations can open their own branches or establish joint venture banks, and soon real estate and financial markets will start up. To enhance efficiency in Qingdao and Yantai, all foreign affairs organizations are concentrated in one building and service centres for foreign enterprises have been set up. Meanwhile, plans have been prepared to simplify entry and exit procedures for foreign business representatives and to cut bureaucracy so that important transactions can be handled within 10 days.

The open zone has delegated powers to examine and approve projects to lower authorities: all projects involving the processing and assembling of supplied materials and semi-finished parts can be passed at county level; enterprises processing supplied materials have their own export powers; the relevant department can approve the use of foreign capital for the technological transformation of old enterprises; and the establishment of joint ventures, co-operative enterprises, wholly foreign-owned enterprises and contracts for overseas engineering projects and labour services can be passed by city authorities.

Foreign companies investing in the peninsula will be given tax reductions, exemptions and other preferential treatments depending on the nature of their involvement. They are also free to hire general managers and other managerial personnel and technical staff from either within China or abroad. □

Growth Slows in Development Zones

The tide of foreign capital flowing into China's 13 economic and technological development zones looks likely to slow in 1989 because of the measures adopted to stabilize the economy and curb inflation.

The development zones have been established outside 11 of China's coastal cities since 1984. They cover 117 square kilometres and have received 2.4 billion yuan in government grants and bank loans. With this money, they have levelled 14.75 square kilometres of land, constructed basic factory and communications facilities and laid on water and electricity supplies. In order to attract foreign capital, they offer preferential treatment to overseas investors, with measures similar to the ones in the Shenzhen, Xiamen, Zhuhai and Shantou special economic zones.

By last September, foreign companies had put money into 392 enterprises in the development zones. In the first nine months of 1988, these companies exported goods worth around US\$200 million.

In October, however, the Chinese government declared that action was necessary to stabilize the economy, control the money supply and curb the 17 percent inflation rate. To this end, it adopted a series of measures cancelling the allocation of new funds, raising the bank rate, cutting back on construction projects and decreasing the numbers of new loans.

China's Premier Li Peng declared on a visit to a joint venture construction site, "The speed of construction in China

should be curtailed," adding, however, that the country would continue to encourage foreign businesses to invest in new enterprises and already-existing factories and workshops.

He went on to stress that the economic readjustment did not mean China was abandoning its open policy, and all contracts signed with foreign companies would be fully honoured.

Nonetheless, the cutback on domestic investment has denied the development zones the financial resources they principally relied on to continue capital construction projects and new investment. Most of them have now had problems repaying debts—Tianjin has been the only one to repay a major loan of 40 million yuan.

Because of this, the development zones have searched for alternative financial sources. The Fuzhou government has

redirected funds originally intended for housing and hotels, and Ningbo City has received US\$140 million investment from the China National Metals and Minerals Import and Export Corp. and the China National Technical Import and Export Corp. in return for the right to manage the zone. Qingdao has also succeeded in initiating two major construction projects.

State Council official Ji Chongwei has said that the development zones should scrutinize potential foreign investors carefully, and strictly control investment in processing and consumer goods. The zones should use their limited funds on projects suited to China's long-term development strategy—principally ones involving advanced technology, replacing materials and products that have to be imported at present, and which improve the investment

An overseas businessman visits Tianjin's stand at an exhibition organized to promote China's technological and economic development zones. YUE HAITAO



environment.

With these guidelines, Fujian has incorporated an "Advanced Technology Area" in its development zone, and Qingdao has plans for an "Experimental New Technology Development Area." Dalian, Shanghai, Guangzhou and Tianjin are now looking to transnational corporations for new funding.

by Yue Haitao and Li Ping

More Steam for Shipping Trade

With the large-scale use of foreign funds, China's shipping trade has developed rapidly over the last decade, Vice-Minister of Communications Li Zuyi said at a recent symposium on ocean shipping.

To meet the needs of the expanding foreign trade, since the early 1980s China has built a series of fully mechanized and container ports and deep water berths capable of handling 30,000-100,000 ton ships.

Now the country has 190 ports along its 18,000 kilometres of coastline, 41 of which are open to overseas shipping. Shanghai remains China's major port, having handled an annual total of over 100 million tons of goods in the last five years. In addition, there are another 25 with an annual capacity of more than 1 million tons each. It also has 212 deepwater berths capable of taking ships of 10,000 tons or more.

Since the Chinese government promulgated the Temporary Provisions on Preferential Treatment for Sino-Foreign Joint construction of Ports in September 1985, loan agreements have been signed

for four port projects with the World Bank, and another three are expected to be concluded shortly.

As a result of this, a total of seven container and two coal-loading berths have already been completed in Shanghai, Tianjin and Guangzhou, adding 700,000 standard containers and 4 million tons of goods to China's annual port handling capacity.

Another 35 million tons of coal loading capacity has also been added at Qinhuangdao and Shijiu using loans from the Japanese Overseas Economic Co-operation Funds. When all the projects undertaken with the loans are completed, China will have an extra 21 berths.

China's shipping companies have established joint companies and representative offices across the five continents of the globe. At the same time, various foreign shipping companies have formed co-operative enterprises or opened representative offices in China.

China is now a member of 11 international shipping organizations and a party to more than 30 international shipping treaties. Co-operative or bilateral ocean shipping agreements have been signed with 36 countries.

The Ministry of Communications has also signed an agreement on inland shipping with France and contracts for several inland water transport projects with the Federal Republic of Germany.

The dead weight tonnage (DWT) of China's Ocean and offshore shipping fleets has reached shipped 12 million tons, making the country one of the world's major shipping nations.

Despite the rapid development, vice-minister Lin said

many problems remained to be overcome, particularly the lack of basic facilities. The major tasks that face the country's shipping industry are increasing the cargo handling capacity and modernizing loading machinery.

by Li Ning

Export Ban For 6 Items

From January 1, China banned exports of six commodities and added 12 others to a restricted list because of domestic shortages.

The ban, passed by the Ministry of Foreign Economic Relations and Trade (Mofert), covers copper and copper-based alloys, aluminium and aluminium-based alloys, platinum, yellow phosphorous, nickel and nickel-based alloys, and nickel products.

According to Mofert, export licences already issued for these commodities will remain valid, but deliveries must be made before February 28.

Regulations banning the export of four other commodities—musk, natural bezoar, raw polythene materials and monazite—will remain in effect.

The 12 commodities on the restricted list are polypropylene, chromium ore, molybdenum ore, metallic magnesium, metallic manganese, abs resin, polystyrene, methylbenzene, xylene, ferrochrome, ferromanganese and rubber.

Exporters of these commodities will have to apply for approval from the Ministry of Materials and Equipment and then obtain licences from the trade authorities.

by Li Ning

HK Show for Beijing Hi-Tech

The Hong Kong Exhibition Centre will play host to the Beijing New Technology and Products Fair '88 from March 2-6—the first large-scale technological products exhibition to be held by the city outside China's mainland.

More than 100 companies, enterprises and research institutes will participate in the fair, displaying more than 600 new technological products developed in the last few years.

Zou Zuyie, director of the Beijing Municipal Commission for Science and Technology, said orders could be accepted or co-operative production and sales agreements signed for most of the products on display.

Beijing is not only China's major centre of scientific research and development, but also the country's largest technology market. Its annual trade in technological items is estimated at around US\$200 million, and it has around 1,700 scientific institutes staffed by 140,000 personnel, half of whom are scientists or technical experts.

Zou said that Beijing ranks first in the country in terms of the numbers of its new inventions in the last seven years it has accomplished around 1,000 important scientific results each year. He added that one-third of state prize-winning scientific achievements had been won by Beijing's scientists and technicians, and that over the past few years, the city had won 54 invention prizes at international fairs held in Geneva, Brussels and Paris.

According to Wan Jifei, a

senior official of the fair's delegation and deputy director of the Beijing Municipal Commission for Foreign Economic Relations and Trade, Beijing is seeking to develop multi-lateral economic co-operation and trade with companies from around the world. He welcomed overseas enterprises to invest in Beijing.

To date, Beijing has 384 foreign-invested enterprises, bringing with them US\$1.777 billion in foreign capital 200 of which have gone into operation. In the first 11 months of 1988, they earned US\$12.56 million in foreign currency.

The products on view at the New Technology and Products Fair fall into the following categories:

Laser-related products

Multi-channel intelligent laser image system with synchro-acoustics for large screen display.

Computerized Chinese text editing and laser typesetting system.

Silica image generation.

Bioengineering

Production of 6-APA and T-ADCA through immobilized cells.

Thymus peptide for injection.

Animal estrongen-zeranol.

New Materials

Titanium gold technology.

Super magnets (Nd-Fe-B) and permanent magnetic alloys.

Artificial jewelry.

Optical crystals.

Medical Equipment and Health Materials

EKG multi-phase information diagnosing system.

Non-invasive dynamic auto-detection system for cardiovascular blood flow parameters.

Fixation system for the treatment of fractures and deformities in the lower limbs.

Anti-smoking medicine.

The "erect" series products for male-users.

Zhonghua Wu Ji Jing (Black Chicken Essence).

Chinese medicinal herbs.

Textile Dyeing and Printing Products

Luminous printing.

Chameleon printing.

Coloured-knot dyeing.

Garment pattern setting technology.

Fine Chemicals

Ultra purity reagents and dyestuffs.

Mei-Di MD-2 chemicals for processing colour photographic paper.

Long-lasting luminous materials with active agent PM147.

New Metals Technology

Fine wire products.

Ultra high efficiency alloy television antennae.

Tungsten-cerium electrodes.

Stainless steel colouring technology.

Construction Materials

High strength, mouldable vinylon asbestos replacement.

TN-LG and TN-LB fire resistant, heat barrier paint for steel structures.

by Yue Haitao

News in Brief

● Philip Morris Asia Inc. has donated US\$50,000 for a training course in the treatment of disabled people. The course will start at Wuhan's Tongji Medical University in September 1989. Students will receive one year's training and then be assigned to work with the 51.46 million disabled people across China. It is estimated that 1,000 people will have been trained by the year 2000.

China Fights Back Threat of AIDS

The AIDS (Acquired Immune Deficiency Syndrome) Study and Test Centre under the Chinese Academy of Medical Sciences has recently reported in the press that it has already diagnosed eight cases of patients from overseas affected by the AIDS virus with two self-produced serological diagnostic reagents for AIDS, timely preventing the spread of this killer virus in the mainland. These reagents bring hope to the current Chinese campaign to diagnose, treat and prevent the spread of AIDS.

Of the two diagnostic reagents, one is called an "immunofluorescence reagent," which is used in preliminary examinations for the AIDS virus. Its high sensitivity and specificity has been proven through ten thousand serum tests and dozens of AIDS patients' serum tests across the country. Because this reagent can only be used in preliminary tests, the centre's researchers also had to employ the advanced technique of genetic rearrangement to make a

From a genetic recombinant

HIV antigen, a second reagent, a Western blot assay, was extracted and purified to make a definite diagnosis. Many serum sample tests show that this reagent produces reliable results, matching international standards.

who were infected by transfusions of imported blood products, have been experimenting with this medicine for one year, and the results have been satisfactory. It has obviously improved their physique and delayed or prevented the AIDS virus carriers from becoming AIDS victims.

Another Chinese herbal medicine known as an "oral fluid to quiet AIDS," was made by a young pharmacist in Jiangsu Province named Bao Shiming. From more than 200 traditional Chinese medicine

prescriptions, Bao screened 21 kinds of herbal medicine and developed this oral fluid. With the assistance of some related units, Bao tested its potency and toxicity and proved that it does help improve the body's immunity. With this achievement, Bao composed and published a thesis entitled *Exploiting Chinese Herbal Medicine for AIDS Prevention and Treatment*, drawing the attention of medical circles.

According to official statistics, no AIDS cases have been found among Chinese mainland residents so far. But sta-



People line up at the AIDS and Venereal Disease (VD) Prevention Exhibition in Beijing's Zhongshan Park on December 1, 1988.

YANG LIMING

Now, the centre is applying for a production licence for increased production of the reagents in order to meet the demand of national AIDS examinations.

Earlier, the press had reported the efforts of the Chinese medical circles in studying and employing traditional Chinese medicine for the prevention and treatment of AIDS.

Some experts and professors in Zhejiang Province successfully trial-produced an "AIDS prescription No.1." Three Chinese carriers of the virus,

tistics given by some related departments show that by the end of April 1988, there were 18 AIDS patients or AIDS virus carriers on China's mainland. Of these, 14 were foreigners or overseas Chinese who now had left the country or were deceased. The remaining four AIDS cases were hemophilia patients in Zhejiang Province (including the three mentioned before) who were infected after transfusions of imported VIII-factor blood; one of these was deceased.

Since 1984, China has banned imported blood products, tightened AIDS quarantines at points of entry and set up a national programme on AIDS prevention and some related laws and regulations. But these are far from enough, according to experts. It is high time not only to promote research on AIDS diagnosis, prevention and treatment but also to educate the public on the facts about AIDS. This will arm them with the common sense necessary to prevent and reduce the transmission and spread of AIDS. □

Shanghai Cartoons: Not For Kids Only

The first of its kind that has ever been hosted in China, International Animation Film Festival, held in mid-November last year, was organized entirely in accordance with international competition norms and practice. Many considered it a match to such major international animation film festivals as those in Hiroshima, Japan, and Zagreb, Yugoslavia.

During the week, Shanghai became "the world capital of animated movies," as the current president of ASIFA put it. The president also said, "The fact that this big country with a quarter of the world's population decided to present its screen to animated movies from across the world is a main event for the cinematographic art."

Shanghai residents were lucky to have a chance to see an animated world through a variety of international works. The festival attracted 386 films from 28 countries for selection. Out of these, 52 films from 20 countries were chosen for competition, while another 26 films, each from a different country, were shown in the panorama section. Special exhibitions featured 34 films, including international jurors' self-selected favourites and award-winners from the festivals in Hiroshima and Zagreb.

Great enthusiasm was shown for the festival, with more than half of the 22 members of ASIFA and a number of international animated film producers coming to Shanghai for the event. The fully authentic international jury of five included John Halas, "Annie Award" winner and the founder and honorary president of ASIFA; Osamu Tezuka, famous Japanese caricaturist and animation artist and the creator of the cartoon character "Astro Boy" that was popular in China years ago; Cohoedeman, well-known Canadian animator; Zlatko Pavlinic from Yugoslavia and Jin Xi, the only Chinese juror and a celebrated director of puppet films.

The cinemas where the selected films were shown were always packed, mostly by adults, even though the tickets

were sold at a price six times higher than the cost for a regular feature film. After a busy viewing, judging and choosing and a series of academic exchanges, the festival came to an end on the evening of November 14.

The festival awarded 12 films in groups from A to F, with each group having two winners. The six first-prize winners were: *The Fish Dish* (China), *George and Rosemary* (Canada), *Breakfast on the Grass* (USSR), *Tables of Content* (Canada), *What To Do With Little Jill* (Norway) and *The Dying Maple Tree* (Canada). Two special prizes went to an American computerized animation, *Red's Dream*, and to *Shooting the Unshot*, a puppet film produced by the Shanghai Animation Film Studio and directed by Japanese director Kihachiro Kawamoto. Four special certificates were also given to films from China, Hungaria, Australia and the USSR.

As chairman of the jury, John Halas finally announced the Grand Prize winner: *Feeling From Mountain and Water* (China), for "its artistic start, exquisite animation, elegant music and, above all, the excellent collaboration of all these elements." The film enjoyed the highest voting points because it was believed to reflect the best of Chinese artistic tradition, blending the skills of traditional Chinese painting with modern animation techniques. "I'm happy to say, it was a great pleasure to view the film," John Halas acclaimed, "and like other major festivals, the present one in Shanghai has its own character—a discovery of China's animation, which is so beautiful."

by Dai Gang

To Our Readers

With the onset of 1989, *Beijing Review* enters its 31st year. As we look back as well as forward, we can see many of the efforts we have made to serve our readers better: the special North American edition printed and distributed in the United States; *Chinafrique*, our sister magazine published in French; and the introduction of computerized editing and typesetting for the English, French, German and Spanish issues of *Beijing Review*.

We have also strived to improve our reporting and writing skills, and expand our coverage. However, we are still not completely satisfied—and so in the coming year we will continue to try and produce a better magazine.

We realize that the development and improvement of *Beijing Review* are inseparable from contributions, criticisms and suggestions of our readers. Therefore we wish to take this opportunity to show our gratitude. We hope you will write frequently to us in the future.

On behalf of the entire staff of *Beijing Review*, we extend our sincere greetings and wish you every success and happiness for 1989.

Editor of the "Letters Column"

Reliable and Believable

I have been a reader of your publication under its current and former names for some 20 years. I have listened to Radio Beijing for a good number of years as a shortwave listener. I have visited China several times and will be coming for a visit soon again.

The changes that have helped China realize its potential more fully these past several years have been a source of great delight to me and I look forward to more development in the coming years.

Beijing Review has made many positive strides and now is a creditable and reliable source of information. It is edited well and is a technically good product. The new climate in New China bodes well for the future of not only the Chinese but for humanity. I think *Beijing Review* reflects this well.

As a Catholic priest, I would love to see a bit more in the publication about religion in China, since this is of great interest to me and I am sure to many others as well.

One hesitates to cite the many examples of positive improvement you have made in

your efforts. Once started, where could it end? I do think that you need to know how much your efforts are approved and appreciated by your readers. I look forward to reading each issue of your publication.

Frank Westhoff
Missouri, USA

Women's Burden

I read with interest your article on women and work in the August 15, 1988 issue. I find it puzzling that in the discussion of women's double burden of wage employment and housework that there was no suggestion that housework is something that must be shared among the adult members of a household. One can certainly define housework as a part of society's division of labour, but in a highly complex society like China today, why should there be a sexual division of labour that assigns housework to women only? As long as the old idea continues that some people are fated by accident of birth to perform certain tasks for others, women's rights, interests and requirements will continue to be

restricted. Waiting around for the 'development of China's productive forces' is not going to solve the question of who does the shopping, cooking, tidying up, laundry and child-care. One could have a situation of very highly developed productive forces and still have women hampered from meeting their full potential in their various jobs because of the continuance of the idea that the tasks of housework are solely women's responsibility.

Most of the scholars from China who have come to my university over the past few years have been men. It is amazing how many of them have never done "housework" before, and equally amazing how very quickly they discover that they do indeed know how to shop, cook, tidy up, and get their laundry done when they don't have a wife around to do it for them. Necessity is a good teacher, and I think it necessary that the housework issue be addressed now rather than postponed to some future date.

Norma Diamond
Michigan, USA

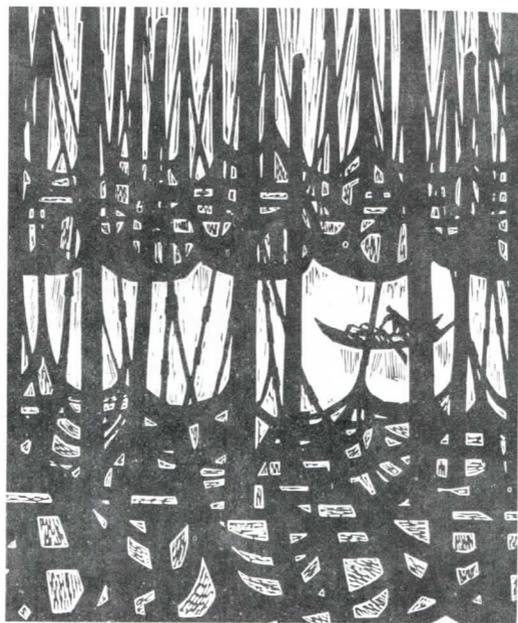


Egrets.

Woodcuts by Xu Qinsong

Xu Qinsong was born in 1952 in Chenghai County, Guangdong Province. He now is a painter with the Guangdong Studio of Fine Arts.

Xu's speciality is to enliven woodcuts with his clever use of black, white and half tones. He pays great attention to the well-wrought carvings when he paints and produces fine finished figures.



Boat.



Song of Seeding.

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