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Provisions for Encouraging Foreign Investment



Disarmament and Development



Students at a factory technical school attending a chemistry class.



After graduation from a workers university Ye Shentu (standing) is now a deputy director of a workshop.



Shanghai General Petrochemical Factory Educates Its Workers

Workers of the polythene workshop take turns to attend classes in raising their educational and technical levels.

SPOTLIGHT



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HIGHLIGHTS OF THE WEEK

Disarmament and Development

■ China has begun shedding one million men from its armed forces as it has cut its annual military spending by 33 percent compared with six years ago. This is part of its effort to focus human and material resources on economic development in a peaceful international environment (p. 16).

Green Light to Foreign Investment

■ Full text of the Provisions for the Encouragement of Foreign Investment promulgated by the State Council on October 11 (p. 26) background to new measure (p. 4) and answers to relevant questions (p. 28).

Report from the Sino-Soviet Border

■ An on-the-spot report from a border town in the northeast sheds some light on present-day relations between China and the Soviet Union (p. 18).

British Queen in Beijing

■ Britain's Queen Elizabeth II visited China from October 12 to 18, the first time an English monarch has been to China. Her visit opened a new chapter in Sino-British relations. (p.14).

Rural Changes Spur Urban Reforms

■ This follow-up to the report on Wenzhou printed in our last issue describes how the booming cottage industry and private enterprises are affecting state-owned factories and their workers, and the challenge they pose to urban reforms (p. 20).

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Green Light to Foreign Capital

by Yue Haitao

The "Provisions for the Encouragement of Foreign Investment," published by the State Council on October 11, is an important step in improving the investment climate and better absorbing foreign capital.

Shortages of foreign exchange and backward production technology are long-standing problems in China. Therefore, the provisions grant special privileges to export-oriented and technically advanced foreign-funded enterprises. These cover taxation, production conditions, credit, service charges and fees for land use.

Autonomy is important for the success of foreign enterprises. According to the provisions, foreign-owned enterprises should enjoy, within the framework of the contracts approved, full autonomy in decision making, raising money, circulation of commodities and employment. The Chinese authorities will protect these rights.

The provisions call on governments at all levels to raise work efficiency. They should examine reports submitted by foreign-owned enterprises promptly, give a written reply and sort out their difficulties.

The absorption of foreign investment is an important component of China's open policy. As far as China is concerned, foreign investment alleviates the shortage of funds for economic construction. Importing advanced technology and equipment and management expertise boosts the development of China's socialist economy. For foreign businesses, China, with its political stability, rapid economic development and good international reputation, offers relatively good profit-making possibilities. So improving the invest-

ment climate is advantageous to both sides.

Since the implementation of the open policy in 1979, the Chinese government has done a great deal of work. As a result, the number of places from which foreign investors come, and the scale and scope of their investment, have expanded continuously.

Most foreign-invested enterprises are reportedly doing well. A recent survey of 39 joint ventures in Guangzhou showed 89 percent making profits. From January to July this year, over 50 joint ventures in Tianjin netted a combined profit of 32 million yuan, which left them with surplus foreign currency.

However, since the latter half of 1984, numerous problems have arisen as a result of an over-expansion in the scale of investment and the import of foreign funds. Some foreign-owned enterprises have not done well, made no profit and complained.

The reasons for these problems are twofold. Cultural differences and the different social and economic systems often cause a lack of understanding of Chinese conditions. This needs to be overcome through joint efforts by Chinese and foreign partners to promote mutual understanding.

Secondly it has not been long since China began absorbing foreign capital. It thus lacks experience, and has built-in problems, such as red tape, excessive interference, inappropriate prices and charges, disputes over labour costs and the scope of the domestic market. These problems prevent China from realizing its potential as the world's largest market, with low taxes, and comparatively low

charges for services, land use and raw materials.

The provisions were formulated by the Chinese government on the basis of its experience in absorbing foreign investment in the last few years and the good advice of foreign businessmen and the world's media.

Around the time the provisions were published, the local governments of Beijing and Liaoning and Fujian provinces, as well as the port cities of Guangzhou, Shenzhen, Xiamen, Dalian, Tianjin and Shanghai, enacted a series of local laws and regulations, within the limits of their authority, designed to improve the investment climate.

The Beijing municipal government's regulations aim to simplify the procedures for examining and approving joint ventures, to reduce or exempt them from taxes and charges and to guarantee them a supply of raw materials at preferential prices. Beijing has already approved this preferential treatment for the first batch of 24 export-oriented and technically advanced enterprises.

Tianjin has granted similar preferential treatment to 43 enterprises. The Tianjin government is working hard to prepare a foreign investment administration centre to take charge of the city's foreign investment business in order to simplify procedures and raise work efficiency. Similar local laws and regulations are being made in many provinces and cities.

The State Council's provisions will go into effect this winter. Related measures are still being discussed and formulated in an effort to create better conditions for foreign investors. China is thus becoming a better place to invest in.

Visit Marks a New Stage in Sino-GDR Relations

The goodwill official visit to China by Erich Honecker, the leader of the German Democratic Republic (GDR), signals the opening of a new period in relations between the two countries.

As general secretary of the German Socialist Unity Party and chairman of the GDR State Council, Honecker is the first top GDR leader to visit China in the 37 years since the two countries established diplomatic relations.

Honecker arrived in Beijing on the morning of October 21. Chinese President Li Xiannian presided over a red-carpet welcome for him in Tiananmen Square at three o'clock in the afternoon. At seven o'clock in the evening, President Li held a banquet in honour of Honecker.

Toasting him, President Li said, "Both the People's Republic of China and the German Democratic Republic were founded in October 1949. The Chinese people have watched closely with friendly feelings the great achievements made by the GDR people in their socialist construction over the past 37 years, especially since the eighth congress of the German Socialist Unity Party in 1971."

He added, "Safeguarding peace and developing the economy are the common wishes of people in both our countries. We are both carrying out socialist construction, and our friendly and co-operative relations have made great progress on the basis of mutual respect, equality and mutual benefit."

On the same day, Honecker held talks with President Li Xiannian and CPC General Secretary Hu Yaobang, with whom he became acquainted 33 years ago when they were both leaders of the Communist Youth Leagues of their respective countries.

In an interview with Werner Mücke, deputy chief editor of *Neues Deutschland*, and Rolf Schablinski, deputy director general of the ADN News Agency on October 14, Chinese Communist Party General Secretary Hu Yaobang expressed his belief that Honecker's visit will advance the two countries' friendly relations of co-operation to a new stage and also contribute to the maintenance of world peace. He said the Chinese people are as happy about the visit as the people of the German Democratic Republic.

"To advance their socialist construction," Hu said, "both Democratic Germany and China need a durable international environment of peace. Building up our respective countries means reinforcing the forces of peace and hence contributing to the maintenance of world peace."

The general secretary said, "At present, if the relations between East and West European countries can be eased, there will be greater hope for world peace and stability. That is why we sincerely hope that the East and West European countries will increase their contacts, understand one another better and co-operate more."

He added that China greatly appreciates the GDR's stand of "one hundred rounds of talks rather than a single shot" as the way to ease the situation in Europe, as well as its unremitting efforts to maintain world peace.

He said he was pleased to see the development of friendly relations and co-operation between the two countries in the past few years thanks to the joint efforts of the two sides.

"Economically," he said, "both countries have strong points, and they can supplement each other. There is great potential for co-operation between the two

countries in science and technology, culture and education."

Before his departure for China, Erich Honecker gave an interview to Xinhua News Agency and *Renmin Ribao* (People's Daily) on October 15. Honecker said he regarded his visit as a continuation of the traditional friendly relations based on "class solidarity" forged between the Chinese and Democratic German peoples in their common struggle against imperialism, oppression, fascism and war.

When asked to comment on the present status and future prospects of relations between the two countries, he said that his Party considers the improvement of bilateral relations in the political, economic and cultural fields as pleasing, and that the steady development of these friendly relations will be beneficial to both countries and peoples, as well as to the safeguarding of peace.

Honecker said, "The socialist system and its economic potential provide good conditions for speeding up our economic, scientific and technological co-operation and making it last on a long-term basis."

Contacts between China and the GDR resumed in the early 1980s and have gained momentum in many areas.

In 1985, Chinese Vice-Premier Li Peng visited Berlin and two vice-premiers of the German Democratic Republic travelled to Beijing. The exchange of visits between Wang Renzhong, vice-chairman of the Chinese National People's Congress Standing Committee, and President of the People's Chamber of the GDR Horst Sindermann last year resulted in new contacts between the two countries' legislative bodies.

This year saw the renewal of a consular treaty between the two

Last Respects Paid To Marshal Liu

An atmosphere of solemnity and reverence prevailed in the Great Hall of the People on October 16 when a memorial meeting was held for Marshal Liu Bocheng. Liu, who was an outstanding general and a founder of the People's Liberation Army as well as a true proletarian revolutionary, died in Beijing nine days previously at the age of 94 after a long illness.

The memorial meeting was presided over by Deng Xiaoping, Chairman of the Central Advisory Commission of the Chinese Communist Party and of the CPC Central Military Commission. He had fought shoulder to shoulder with Liu for more than a dozen years in wartime.

Liu's life is closely connected with the liberation of the Chinese people. Many of his exploits have become folklore. In the 1930s, he was a commander of the Red Army during the Long March. While crossing the Liangshan

Mountains, he won the hearts of the local Yi people by patiently explaining to them the policies of the Communist Party and the Red Army. The Yi s had hated the Han Chinese indiscriminately because of the oppression they suffered from the Kuomintang government and all previous reactionary regimes. He showed his sincerity towards them by following the Yi custom of blood sacrifice with the chief of a Yi tribe. This assured the safe passage of the Red Army through extremely difficult terrain.



countries when Chinese Foreign Minister Wu Xueqian went to the GDR.

With the establishment of a mixed commission for co-operation in economy, trade, science and technology, and the signing of a long-term trade

agreement for the 1986-90 period, the traditional trade and economic ties between the two countries have entered a new stage of development.

Two-way trade grew by 17 percent in 1984, followed by a marked rise of 54.5 percent last

year. Further growth of 20 percent is expected this year.

Bilateral economic co-operation has included the exchange and transfer of technology, mutual visits by experts and the training of professional personnel. The GDR is also



Deng Xiaoping presiding over the memorial meeting.

Another example is that during the War of Liberation (1946-49), he and Deng led a 100,000 strong PLA detachment to the Huanghe (Yellow) River in a thrust towards Central China, which was then controlled by the KMT forces. This episode ushered in the nationwide PLA counter-offensive against the Kuomintang troops. He was also one of the five (the other four were Deng Xiaoping, Chen Yi, Su Yu and Tan Zhenlin) who personally directed the massive Huaihai Campaign that put out of action

more than 500,000 KMT troops. The campaign speeded up the collapse of the Kuomintang regime.

After liberation, Liu was appointed the Commandant of the Military Academy of the Chinese People's Liberation Army, which trained a large number of talented senior commanders and helped build the army into a modern defence force.

As Hu said in the memorial speech, Liu's successful tactics, as well as his writings on military theory constituted an important

aiding China to modernize its factories by providing technical services and other help.

A 10-year agreement covering scientific and technological co-operation was signed in Berlin in May this year.

Meanwhile, direct contacts between the two peoples have increased and co-operation in the fields of culture and the arts, journalism and sports has also grown markedly since the signing of a new cultural agreement in 1984. ■

News in Brief

The China Centre for Advanced Science and Technology was established in Beijing on October 17. The directors of the centre are T. D. Lee, a Nobel Prize winner and professor of Physics at Columbia University in the United States, and Zhou Guangzhao, vice-president of the Chinese Academy of Sciences.

The China centre is a branch of an international centre founded in Geneva last July.

■ ■ ■

The dam for the Longyang Gorge Hydroelectric Power Station now under construction on the Yellow River began to fill up with water on October 15. This station, the second largest in China, will produce 6 billion kwh of electricity annually. The 178-metre-high dam is the highest of its kind in the country so far. It will hold 24.7 billion cubic metres of water when the two sluice gates close.

■ ■ ■

China is shortly to mark the 120th birthday of Sun Yat-sen, who led the 1911 Revolution that overthrew China's last feudal monarchy of the Qing Dynasty (1644-1911).

Memorial activities include a mass meeting of 10,000 people in Beijing on November 12, an international symposium on Sun in Guangzhou and other events in Shanghai, Nanjing and Wuhan.

The Complete Works of Sun Yat-sen is to be published, together with a collection of Sun's letters, and a documentary on his revolutionary activities.



ZHENG SHUFU

Returned Taiwan Pilots Join CKRC

On October 7, the Beijing branch of the China Kuomintang Revolutionary Committee (CKRC) accepted Wang Xijue (standing), Huang Zhicheng and Li Dawei (fifth from right)— all former Taiwan pilots crossing over to the mainland in recent years— and other 20 people as new members. Wang Xijue is now deputy director and deputy general pilot of the Beijing branch of the Civil Aviation Administration of China; Huang Zhicheng, deputy director of the Military School Department of the Air Force Command; and Li Dawei, deputy director of the Commanding Department of the Air Force College.

part of Mao Zedong Thought.

In his memorial speech, Hu pointed to Marshal Liu's boundless loyalty to the Party and utter devotion to the leadership of the Party Central Committee and the Central Military Commission. Liu had fulfilled his pledge when he joined the Party in 1926. "As a high military official of the Party, I fully accept the collective Party leadership and therefore become a servant of the Party," Liu said. He had set an example for the whole Party, the whole army and all Chinese cadres, particularly high officials. Hu said.

Liu performed meritorious deeds for the country, yet he never rested on his laurels; he held high party and government positions, yet he stepped down when he felt his energy was failing him; and though he wielded great power he never abused it. He made strict demands on his children, relatives and friends.

Hu called on the Party, the army

and the people of the country to learn from Liu's noble revolutionary spirit. "In mourning Liu Bocheng," Hu said, "the whole Party, the army and the Chinese people should strive wholeheartedly to make China a strong and modern socialist country with an advanced culture and ideology, a high degree of democracy, and make the PLA a modernized and regular army."

In deference to the wishes of his wife Wang Ronghua, Liu's ashes will be scattered at the places where he fought and worked. ■

China's Economy Grows Steadily

China's national economy has been developing well over the first three quarters of this year, but there are still some worrying factors, said Zhang Zhongji,

spokesman of the State Statistical Bureau, at a news conference in Beijing on October 18.

Commenting on the general economic situation of the country, Zhang said that the output of the summer grain and early rice crops was 143 million tons, 5.33 million tons more than during the same period of last year. The total output of grain this year is expected to reach 390 million tons, a 10 million ton increase over last year. Estimated total agricultural output will grow by about 4 percent.

The value of industrial output for the first nine months of 1986 totalled 652.1 billion yuan, or 72.7 percent of the annual plan, an increase of 6.4 percent over the same period last year. Gross industrial output this year, including that of village and individual industries, is expected to grow by at least 8 percent.

Zhang said the number of loss-making enterprises had grown because of increased prices for raw materials, higher wages and higher rates of tax, interest and depreciation.

Investment in fixed assets in the nine months rose 18.7 percent, as compared with the 33.7 percent increase in the same period last year. Investment in capital construction was 61.8 billion yuan, an increase of 9.5 percent, much lower than the 38.6 percent increase of last year. Most of the 190 key projects due for completion this year are expected to be completed on schedule.

The volume of retail sales reached 354.9 billion yuan, 13.8 percent more than in the corresponding period last year. The average rise in retail prices from January to August was 5 percent. A rise of 2 to 3 percent in prices in September was due to adjustments to the prices of some agricultural products made by the state.

According to Zhang Zhongji, the country's exports are increasing faster than its imports. The value of exports amounted to

China & the World

■ **China and the USSR to resume border talks.** China and the Soviet Union have agreed that border negotiations at vice-foreign minister level will be resumed in Moscow in February 1987. The agreement was achieved in consultations held in Beijing from October 6-14 between Qian Qichen and F. A. Rogachov, vice-foreign ministers of the two countries.

The two sides exchanged views on their relations in the political, economic, trade, cultural and other fields and on some major international and regional issues of common concern.

■ **IFAD president visits China.** President Idress Jazairy of the International Fund for Agricultural Development (IFAD) paid an official visit to China from October 13-17 at the invitation of He Kang, Minister of Agriculture, Animal Husbandry and Fishery.

Chinese Premier Zhao Ziyang met the IFAD president to express his appreciation of the aid given by the fund.

■ **Chinese leaders condole on death of Indian doctor.** Hu Yaobang, general secretary of the Central Committee of CPC, sent condolences on October 13 to the All-India Dr Kotnis Memorial Committee on the death of its president and founder Dr B.K. Basu, who helped the Chinese people during World War II and enjoyed great popularity in China.

Other Chinese leaders who sent messages of condolence were Peng Zhen, Nie Rongzhen and Ye Jianying.

US\$21.4 billion, a 14.8 percent increase over the January-September period last year, while imports totalled US\$30.4 billion, an increase of 5.1 percent.

Imports from and exports to the Soviet Union grew by 57.9 percent and 50.8 percent respectively; the EEC, by 33.3 percent and 80.1 percent; Hong Kong and Macao, 12 and 36.3 percent; and the United States, 4.4 and 14.4 percent.

Due to the appreciation of the Japanese yen and a decrease in oil exports to Japan, imports from Japan dropped 15.7 percent and exports 21.4 percent.

The country's trade deficit in the first nine months went down by US\$1.6 billion, as against the corresponding period of 1985. Its foreign exchange reserves remained to be roughly the same as maintained roughly the same as that at the end of last year, that is, more than US\$ 10 billion, Zhang said.

The earnings of people in both urban and rural areas are growing constantly. The total wages of all the workers in the country was 105.7 billion yuan in the first nine months of this year, 17.9 billion yuan or about 20 percent more than in the same period last year.

Some 25 million square metres of residential floor space were built, an increase of about 2 million square metres.

Meanwhile there are still some problems to be solved, Zhang said. Social needs continue to outstrip what society supplies; investments in fixed assets still remain too high; structural changes in consumer goods production still cannot keep up with market demand; the overstocking of some products continues; the quality of products has not conspicuously improved; and it is still a problem maintaining a balance between the earnings and expenditures of foreign exchange.

To solve all these problems, Zhang said, the departments concerned must give priority to reform and put their economic house in order. ■

World Conference On Lu Xun

Naturally, it will be best if all the human beings are not separated and show concern for each other, and the most even road leading this can only be made through literature and art. It's a pity that so few people have taken this road."

Quoting these remarks said fifty years ago by Lu Xun, China's great writer, a Chinese scholar said today at an international conference for commemorating the 50th anniversary of the writer's death that Lu Xun would probably be relieved to see that his career has been well succeeded and that more and more people are taking "this road."

Over 400 people from different parts of China, six foreign countries and Hong Kong gathered at Beijing's International Club to attend the opening ceremony of the conference on Lu Xun and Chinese and foreign culture on October 19.

Hu Qiaomu, member of the Political Bureau of the Central Committee of the Chinese Communist Party and honorary president of the Chinese Academy of Social Sciences (CASS), called Lu Xun "the major founder of China's modern literature" in his speech.

He said that Lu Xun made a profound study of both Chinese and foreign culture, and made special contributions to the introduction of modern Western culture, the criticism of China's old culture and the development of its new culture.

According to Li Helin, advisor to the Lu Xun Museum, revealed in his speech, the great writer produced as many as 1,000 literary works in his lifetime and translated over 200 varieties of works by 105 authors from 14 countries, with a total of three million words.

UNITED NATIONS

Global Problems Debated

The general debate of the 41st UN General Assembly concentrated on the most important issues facing the world—the arms race, regional conflicts and the problems of the world economy.

The 41st session of the United Nations General Assembly ended its three-week general debate on October 11, 1986. The heads of state, prime ministers and foreign ministers of 157 countries addressed the meeting.

The debate began by calling on both the United States and the Soviet Union to stop the arms race. Japanese Foreign Minister Tadashi Kuranari, for instance, stressed that the two superpowers carried a grave responsibility to abolish nuclear weapons and save mankind from the threat of nuclear war.

While admitting their responsibility for arms reduction, Washington and Moscow each accused the other of not taking action. "Weapons are the most dangerous threat to peace," said US President Ronald Reagan, but "the threat does not come from defensive systems but from offensive weapons." However, Soviet Foreign Minister Eduard Shevardnadze refuted Reagan's idea, maintaining that the only way to security is to eradicate existing weapons rather than replacing them with so-called strategic defensive weapons.

The regional conflicts in Afghanistan, Kampuchea, the Middle East, Southern Africa and Central America were also debated. Viet Nam was condemned for its stubborn rejection of all efforts to solve the Kampuchean question by peaceful means. Delegates said that Viet Nam's occupation of Kampuchea had not only brought misery to the war-torn country but caused grave

difficulties to ASEAN countries and endangered the security of the whole of Asia. Hanoi was urged to reconsider the eight-point proposal put forward by the Coalition Government of Democratic Kampuchea and to respond actively to it.

The Soviet Union also came under fire for its nearly seven-year armed intervention in Afghanistan. Many speakers considered it urgent for Moscow to come up with an acceptable timetable for the withdrawal of Soviet troops. The Foreign Minister of Pakistan Sahabzada Yaqub-Khan said that what was expected of the Soviets now was not the symbolic withdrawal of six regiments, but the early pulling out of all Soviet soldiers from Afghanistan.

Representatives of developing

countries called for the immediate renewal of the North-South dialogue to deal with the main problems of the world economy, including the establishment of an international economic order that was fair and impartial to all nations. They called on the developed countries to increase their aid to developing ones by helping them to reduce their foreign debts and doing away with discriminating trade practices. The developed nations were also asked to export sophisticated technology and to lend a hand in stabilizing the prices of the staple products of developing nations.

On the financial crisis facing the United Nations itself, Holland's foreign minister said that if not properly resolved, it might become an ingrained political one, causing harm to the efficiency and very existence of the United Nations. Delegates of smaller countries in particular felt it was especially urgent to ensure that the world body was able to continue as a bulwark of peace, security and international co-operation.

On October 10, Javier Perez de Cuellar was re-elected Secretary-General of the United Nations. ■

by Lian Sheng

CMEA

Stress on Technological Co-operation

CMEA has adopted a long-term programme to strengthen scientific and technological co-operation among its members so that it may better compete with the West.

Among member countries of the Council of Mutual Economic Assistance (CMEA), also known in the West as COMECON, the emphasis has shifted from trade to scientific and technological co-operation, as shown in the comprehensive programme of scientific and technological progress up to the year 2000 adopted

by a special CMEA session in Moscow late last year.

The programme concentrates mainly on scientific and technological advance and the speediest integration of scientific research with production to meet the severe challenges both from within and without CMEA.

A new technological revolution is under way which may play a big role in accelerating global economic and social advance. Yet one of the reasons why the economies of the CMEA countries have been so sluggish since the late 1970s is the backwardness of their scientific and technological development.

Western Europe has its Eureka plan, aimed at strengthening scientific and technological co-operation among West European countries. The Reagan administration has put forward the Strategic Defence Initiative (SDI), or Star Wars programme. It is becoming more and more obvious that whoever takes the lead in advanced science and technology will have a lead in the balance of power in the international arena.

The comprehensive programme is distinguished by its stress on co-operation.

■ Attention is focussed on key scientific and technological projects in electronics, automation, utilization of new materials, nuclear energy and biotechnology.

■ Adjustments are to be made to existing policies. Mikhail Gorbachev pointed out at the 27th

Congress of CPSU that more use must be made of economic levers rather than administrative ones. It is reported that the whole structure and traditional work-style of CMEA is to be reformed.

■ The overall aims of the programme have been included in the plans of member states. The five-year and annual plans of CMEA countries will in future accord with the general objectives of the programme.

■ Multilateral rather than bilateral co-operation is encouraged. Three such multilateral co-operation agreements were signed by CMEA last December. In March this year, another agreement in the field of new materials and biotechnology was signed. Joint ventures are also under consideration.

■ Integration between scientific research and production is to be improved. Some joint companies mixing scientific research with production have been established, and more comprehensive accords concerning the whole process from research to production and sale are likely to be signed among CMEA countries. ■

by Ju Mengjun

PAKISTAN-INDIA

Setback to Neighbourly Relations

The deep-rooted mistrust between Pakistan and India has erupted once again to sour relations between the two countries.

The tendency for improvement in the relations between Pakistan and India has abated. Pakistan Foreign Minister Sahibzada Yaqub-Khan said last month that the process of normalization between his country and India had suffered a serious setback.

When Pakistan President Zia

ul-Haq visited New Delhi last December, he reached two agreements with Indian Prime Minister Rajiv Gandhi: that the two sides would not attack each other's nuclear installations, and that Gandhi would have visited Pakistan in the first half of this year. Everything seemed to be going well.

However, things have not gone as smoothly as people expected. Rajiv Gandhi has still not visited Pakistan and the formal agreement not to attack each other's nuclear installations has not yet been signed. And the two countries have signally failed to make any progress in removing the major obstacles that stand between them.

Each blames the other for the situation in Kashmir and for the Sikh disturbances. India complains about the military direction of Pakistan's nuclear programme. Apart from this, two unpleasant incidents took place between the two countries last month. At the Harare non-aligned summit, the Indian prime minister cast doubt on what the Pakistan government had told him about the hijacking of a Pan Am Jumbo jet at Karachi Airport on September 5, and he criticized the Pakistan authorities for their clumsy handling of the situation, which resulted in unnecessary casualties. His charge caused a furor in the Pakistan media. Many newspapers pointed out that his accusations disregarded the facts and were entirely out of keeping with maintaining good relations with Pakistan.

Not long after this, Rawalpindi lodged a protest with New Delhi about Indian construction of a dam on the Jhelum River. The 1960 Indus Basin Water Treaty permits India to dam only 10,000 acre feet of water, but the design of the planned dam is for a capacity 30 times greater. Such a massive interference with the natural flow of the Jhelum River, in Pakistan's view, would seriously affect its economy. However, the Indian government has flatly rejected Pakistan's protest.

The deep-rooted suspicion and mistrust that exist between the two countries cannot be easily removed. Any improvement in their relations is also impeded by developments on their home fronts. Sikhs have intensified their activities against the Indian government, which include as-

sassinating the former Indian army chief of staffs and attempts on the life of Rajiv Gandhi and President Giani Zail Singh. The Indian government believes Pakistan is training and arming the Sikh extremists, a charge Pakistan rejects. And in Pakistan, the return of Benazir Bhutto and the anti-government activities she has launched have destabilized the political situation

there. In these circumstances, the Indian government, as a Pakistan newspaper pointed out, has adopted a wait-and-see attitude and is unwilling to take any big step towards improving relations with Pakistan. President Haq in turn recently told the *New York Times* that he believed Miss Bhutto's anti-government activities received financial support from India and the Soviet Union,

though he did not yet have the evidence of this.

Relations between Pakistan and India are now at a low ebb and may remain so for some time. Meanwhile, the leaders of the two countries will meet again at the forthcoming South Asian Association for Regional Co-operation Summit to be held in Bangalore, India, from November 15-17. ■

by Shi Zongxing

BRAZIL

New Ways to Cope With Debt

A solution to Brazil's debt problem is likely to be found by the end of the year.

In the hope of rescheduling its foreign debts and securing a reduction in the higher rate of risk interest imposed on nations asking for the postponement of repayments, Brazil has proposed direct talks with Western banks. Brazil's finance minister, speaking at the annual meeting of the International Monetary Fund and the World Bank, said any increase in the risk interest rate must be restricted to 0.5 percent. Brazil also proposes limiting repayments on its debts of US\$105 billion to 2.5 percent of its gross domestic product—at present it is having to spend over US\$10 billion, or nearly 5 percent of its gross domestic product on servicing its debts. These new proposals are generally seen as reasonable and positive, contributing to Brazil's economic recovery, helping stabilize the world financial market and hence benefiting creditor nations too.

Ever since his inauguration in March 1986, President Jose Sarney has stressed that the way to

pay off Brazil's foreign debts is through economic growth. The country's "economic stabilization programme" has achieved remarkable results this year. In the first eight months industrial growth was 12 percent higher than last year. Total domestic growth is expected to rise to 8 percent, producing a trade surplus of about

US\$12-13 billion. Inflation is now under control.

Brazil hopes to sign an early debt agreement in order to gain access to more Western capital to finance growth. The fact that there has been no agreement has inhibited foreign companies and financial institutions from investing in the country, and in fact, an estimated US\$44.5 billions has drained away from Brazil since 1983. At the moment only US\$70 million a year is moving into Brazil, according to the Central Bank. If no agreement is signed by the end of the year, the country may take unilateral action to relieve its debt burden. ■

by Xin Sheng

LEBANON

Bumpy Road to Reconciliation

With continuing clashes between rival factions and along its border, peace in Lebanon seems a dim prospect.

The silence was broken once again on the Green Line between East and West Beirut by the sound of gunfire. Lebanese government troops loyal to President Amin Gemayel were intervening in the current fighting in the Christian-dominated Ash-

rafieh district of East Beirut where the headquarters of the Christian militia, the Lebanese Force (LF), headed by Samir Geagea and the Christian Phalangist Party, are situated. The clash, which lasted for 12 hours, caused hundreds of casualties, and finally quenched

the small hope of reconciliation sparked by the debate begun in September in the cabinet between Christian and Muslim ministers.

Given the political and economic crisis following the failure of the tripartite agreement last January, President Amin Gemayel and his government, already under pressure from the people of Lebanon to curb inflation and halt the decline in living standards, decided to resume a political dialogue in the cabinet in a fresh bid to end the 12-year-old civil war in the country.

The cabinet meeting, held in early September and attended by five Christian and five Muslim ministers, attempted to take a first step in breaking the political deadlock by setting some basic principles for dialogue. Among the main issues to be discussed were Lebanon's Arab identity, relations between Lebanon and

Syria, the abolition of the sectarian political system, the strengthening of the army to replace the factional militias, and social and economic reforms.

However, the Christian ministers rejected "integration" and "unity" with Syria and refused to recognize any "special relationship" between the two countries. They insisted that, unlike most Arab countries, Lebanon is characterized by great religious and cultural diversity, mainly Christian and Muslim, and opposed turning Lebanon into an "Islamic state." Christian and Muslim ministers were also in disagreement on all other matters discussed, and artillery and rocket fire broke out again along the demarcation line between Moslem West Beirut and Christian East Beirut as soon as the meeting adjourned.

The process of reconciliation and the changing balance between

rival factions in Lebanon directly influences its relations with neighbouring countries. In order to annex Southern Lebanon, Israel has established a "security belt" there and made the Southern Lebanese Army its agent. At the same time it has objected to the stationing of the UN Interim Force in Lebanon (UNIFIL) on the grounds that UNIFIL is too weak to prevent Palestinian forces from harassing its northern border with Lebanon.

Hundreds of Israeli troops, backed up by tanks, armoured cars and heavy artillery have recently massed in the "security belt" inside Southern Lebanon. Tension was further increased as Syrian troops marched along the road from Damascus to Beirut. Syrian President Hafiz al-Assad has declared that if Israeli troops invade Syria, it will reply with an immediate counterattack. ■

by Lu Zhixing

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QUEEN ELIZABETH II IN CHINA

New Chapter in Sino-British Relations

by Our Correspondent Li Li

Autumn is always very beautiful in Beijing, but it was especially so this year as the people gave a warm reception to Britain's Queen Elizabeth II and her husband Prince Philip, who visited China from October 12 to 18.

Since the signing of the Hong Kong agreement in 1984, relations between China and Britain have made great progress. Chinese Premier Zhao Ziyang went to Britain in 1985, and the General Secretary of the Chinese Communist Party Hu Yaobang also visited Britain earlier this year. The Queen's visit to China opens a new chapter in Sino-British relations.

China's four top leaders, President Li Xiannian, Premier Zhao Ziyang, Party General Secretary Hu Yaobang, and Deng Xiaoping, Chairman of the Communist Party Central Advisory Commission, all met the Queen and the Prince. Extending a warm and heartfelt welcome to the Queen, President Li Xiannian said her visit was the first that an English monarch had made to China, and therefore an important milestone in the annals of Sino-British relations. Hu Yaobang spoke highly of the Queen's concern for the development of Sino-British relations and thanked her for announcing the establishment of the Royal Society's fellowships for China. These fellowships will enable 400 Chinese postgraduate students and visiting scholars to go to Britain to study and receive training next year.

Sino-British cultural exchanges have increased steadily over the last two years. Between 1972 and 1979, there were only ten such exchange programmes, but now this number has increased to 72. Film weeks, film review exhi-

bitions and painting exhibitions have been held in both China and Britain, as well as exchange visits of dramatists, painters and writers. The number of Chinese students in Britain is now 1,400. Their subjects range from space navigation, communications and medicine to economics and law. The newly established Royal fellowships will further promote Sino-British cultural exchanges.

Meeting Queen Elizabeth at the Diaoyutai state guest house, Deng Xiaoping said, "Please accept welcome and regards from an elderly Chinese." With the successful settlement of the Hong Kong issue, the task facing China and Britain now is to develop their relations and their co-operation

and friendship, he said. Deng remarked that he came to hear about London's fog as a young man. "I was told about the famous London fog when I was in Paris and I went up the Eiffel Tower twice to try to get a glimpse of London," he joked, adding that since the climate in Beijing is a bit too dry, it might be a good idea for the city to share the fog with London.

To which Prince Philip replied, "That was the product of Britain's industrial revolution. There is no fog now in London. But London might share some of its rain with Beijing, in exchange for some of China's sunshine."

The Queen was in good spirits

Deng Xiaoping with Queen Elizabeth II and her husband Prince Philip in Beijing .



throughout her visit, even though the programme was a heavy one. The royal couple, accompanied by Beijing Major Chen Xitong, visited the Great Wall of China and climbed to the third beacon tower along a section at Badaling, walking some 400 metres. All the Chinese and foreign tourists and journalists present were astonished that the Queen could climb so easily.

The Queen and the Prince were also warmly welcomed by the people of Xian, Shanghai and Kunming. Because the Queen wanted the opportunity to meet as many ordinary Chinese people as possible, the places she visited were not cordoned off. People clapped and took photos of the

Queen wherever she went.

While the Queen was visiting Beijing, a seminar on Sino-British trade and economic co-operation was held aboard Her Majesty's yacht *Britannia* moored in Shanghai. More than 100 English industrialists and businessmen from 30 well-known enterprises and companies exchanged views on the development of energy, transport, telecommunications, food processing and mining, and discussed 25 specific projects with their Chinese colleagues. They signed 16 agreements or letters of intent. While in Shanghai, Prince Philip officiated at a ceremony marking the completion of the building of a glass factory by the

biggest Sino-British joint venture to date—the Shanghai Yaohua Pilkington Glass Co. Ltd.

The volume of trade between the two countries has increased steadily in recent years. In 1985, it reached US\$1.43 billion, 20 percent more than 1984. But there is still a great potential for growth.

Two-way trade between China and Britain accounted for only 2.3 percent of the total volume of Chinese imports and exports and 0.4 percent of British foreign trade.

Queen Elizabeth left China with happy memories. Undoubtedly her visit will have a lasting effect on the growing friendship and co-operation between the peoples of China and Britain. ■

Chinese, English Students Working Together

A group of young English and Chinese have successfully completed a novel project in southern China. For a month they camped together in remote villages, or stayed in small hostels in a National Forest Park, exploring the countryside and doing various kinds of geographical and agricultural studies.

The idea was born when Professor Yuan Daoxian, director of the Guilin Institute of Geology, visited England and spent a day at Brathay Hall in the Lake District. He was so impressed by the leadership and development courses which are run there for young people and managers that he suggested that the Brathay Exploration Group organize a visit to China to demonstrate some of their techniques.

With the help of Dr. Henry Osmaston of Bristol University, a dozen English students and recent graduates of both sexes were selected. They came from several universities and represented a variety of disciplines including medicine, politics, geography, biochemistry and Chinese studies.

A similar Chinese group was

selected by the Guilin Geological Institute and Youth Federation, which included geologists, biologists, chemists and engineers.

By a special dispensation of the Guaxi Provincial Government this combined group was allowed to stay in areas not normally open to foreigners. One village had never seen foreigners before; another only remembered two Japanese soldiers in 1944. Sometimes they used tents, or slept in a classroom of the village school, or on the stage of the village hall.

One aim of the group was to study life and agriculture in three contrasting villages. Everywhere the farmers and other villagers were welcoming and hospitable, and freely discussed the effects of new government policies on their social and economic affairs. The English were surprised to find that all the village farmland was already being farmed independently by individual families, so that the functions of the commune and production unit were greatly diminished.

For the second half of the month the group travelled 500 km north to Zhangjiajie National Forest Park in Hunan Province,

where there are spectacular sandstone pinnacles 300 metres high, rising from thickly forested valleys and often partly shrouded in mist. The evolution of this amazing landscape provided a fascinating problem for study, as did a 10-day sample of the half-million Chinese tourists who visit the park every year.

Life in the field was enlivened by visits to caves several kilometres long, basket ball matches, Chinese and English language lessons, discos and English country dancing, sing-songs and a lot of swimming. Back in Guilin there was a civic banquet with innumerable "bottoms-up" toasts, an evening at the opera, and visits to the homes and families of some of the Chinese members.

The English felt they really had an insight into rural China and the life of young people, and picked up a few Chinese phrases. The Chinese greatly improved their spoken English and understood something of Anglo-Saxon attitudes. All had found that both Chinese and English students have a strong and similar sense of humour and fun. **by H. O** ■

PLA Priorities: Disarmament and Development

by Jiang Zhenxi

Opposing hegemonism in defence of world peace is the objective of China's independent foreign policy. Because it longs for global disarmament, China has taken a number of steps on its own in order to attain this goal.

Today, China's 1 billion people are working for the nation's economic construction in an effort to quadruple the 1980 national industrial and agricultural output by the end of the century. In order to reach this target, China needs a peaceful international environment so that its human, material and financial resources can be concentrated in one direction—that of progress. Just as people in various trades are required to serve the national endeavour, so too should the army contribute to the ongoing economic restructuring and growth.

Because the threat of a new world war still exists, China, confident and capable of defending itself, has to maintain an appropriate level of defence and keep up to date with the world's defence achievements. China is also, however, determined to shave as much as possible from its military budget and has already taken a series of disarmament measures.

Reducing personnel. In 1985 the Chinese government decided to reduce the number of PLA soldiers by 1 million, an unprecedented disarmament move. This strategic policy decision is a result of the desire of

the Chinese people for arms reductions. The work to demobilize 1 million PLA men and women, mainly by streamlining the administration, started in 1985 and is scheduled to end this year. The first stage of the work has been completed, with the former 11 greater military areas condensed into seven, some combat units disbanded, the municipal and county military departments put under local authorities and the frontier troops put under public security departments. In addition to reducing the size of the army and saving huge amounts of military funding, the move has also reinforced the modernization drive with the injection of skilled ex-soldiers.

Retrenching the military budget.

In the last five years the world's military budget has spiralled ever upwards, from US\$500 billion in 1980 to US\$800 billion in 1985. About half the sum belongs to the United States and the Soviet Union, which command the world's largest military arsenals. The North Atlantic Treaty Organization, which includes the United States, and the Warsaw Treaty Organization, which includes the Soviet Union, account for about 70 percent of the sum. Standing in sharp contrast with them, China's military budget in 1985, totalling 19.1 billion yuan, or about US\$6 billion, made up less than 1 percent of the world's total, or no more than 2 percent of the United States' and a fraction of the Soviet Union's. Nonetheless, China continues to wield its axe on its military expenditures. For example, China's military expenditures dropped 25 percent from 22.3 billion yuan in 1979 to

16.8 billion yuan in 1981. The proportion of military spending in government financial expenditures in the last six years has dropped by one-third, from 17.5 percent in 1979 to 10.5 percent in 1985. In socialist China where state-owned enterprises rely mainly on government investment, the military cutbacks have lightened the state's financial burden, thereby aiding the development of the national economy.

Military facilities for civilian use.

In November 1984, the Chinese government decided that some of its military airfields, ports, depots and other facilities should be turned over to civil use or use by both army and civilian departments. The purpose of the shift was to make these military facilities serve China's national economic construction. For its part, the Chinese army has taken the following measures:

— Opening airfields. The air force and the navy have opened a number of their airfields to domestic flights. In addition, the air force has dispatched airfreighters for civilian transportation. This has improved air traffic conditions and eased tensions in the air transportation industry. For example, since the military airport in Ningbo was opened for civilian transportation, 25-minute flights from Ningbo to Shanghai have become available. In the past, however, it took 12 hours by boat.

— Opening naval ports and docks. The navy has also committed some of its ports and docks to civilian use. Among these are the Shanghai Guanghai Port, now offering passenger transportation, the Shanghai Changjiang

The writer is an associate research fellow of Beijing Society for International Strategy.

River Port, which serves foreign tourists, and the Haimen Oil Depot Port in Shuijiang City, Zhejiang Province, which now supplies oil locally.

—Opening military railroads. Half the nation's military railroads are now opened to local departments. Those belonging to the air force have been connected with local branch lines and in the first half of 1985 they carried more than 2 million tons of civilian goods. The Shenyang military area opened 36 of its railway lines in 1984 for use by 120 local departments, and they handled 6.6 million tons of civilian goods. In 1985, it opened more of its railroads to civilian departments.

—Opening depots. The Nanjing military area has opened some of its depots in Shanghai, Nanjing and Hangzhou to local civilian departments. Its depots, some of which are large and well-furnished, were formerly used for storage of military material and as reshipment bases. Now they store about 1,000 varieties of civilian products including rolled steel and timber. When a 70-hectare warehouse under the Nanjing military area was turned over to civilian use, the army units stationed there opened a factory. In addition, the 40 oil depots plus related facilities under the airforce now serve local civilian departments.

The army has also turned some of its landscaped military areas into tourist spots and opened some facilities to accommodate Chinese and foreign tourists in an effort to build up non-polluting industries.

The commitment of military facilities to civilian use has not only benefitted civilians, but it has also promoted economic construction.

Supporting local construction with skilled people. In peace time the army shoulders the dual task of defending the motherland and working for the countries' development. Each year a number of

army units get involved in various construction projects, and many officers and enlisted men and women are demobilized. Therefore, besides training skilled military commanders in military academies and local colleges and universities, the army also has to prepare its personnel in skills appropriate to local economic construction. In order to do so, the army has created a diverse training programme, in which over the last few years 1.7 million soldiers have taken part. Among them, some 600,000 have specialized in such skills as breeding, cultivation, processing, construction, machine maintenance and driving. A number of officers have also been issued certificates of education equivalent to those conferred at colleges and universities. These people have become the army's technical backbone, and once demobilized, they should have no problem finding work. According to statistics, 500,000 demobilized officers, men and women in 1985 served as rural cadres, state functionaries or rural enterprise workers. More have either organized economic integration units to contract for development and production projects or have become specialized in certain trades. All of them are playing an important role in China's economic development.

Army units taking part in state construction. Taking part in construction projects. From 1981 to 1985 the army contributed various localities with 110 million workdays, and 2 million machines and motor vehicles for 44,500 large, medium-sized and small engineering projects. In undertaking the project to divert Luanhe River water into Tianjin, the expansion project of the Shengli Oilfield, the Beilun Harbour railroad branch line, the Huolinhe Coal Mine and other state key projects, the army was very helpful. In the Luanhe River project near Tianjin, units under the Beijing military area and civilians worked together and

pioneered the heroic "Luanhe water diversion spirit," which became known throughout China. The project was considered an example for all other state key project to follow. In undertaking the Shengli Oilfield project, the Jinan military area dispatched three divisions, along with naval and air force units, to help with eight engineering construction projects for reservoirs, highways, Yellow River diversion canal, airfields and oil ports. Their contribution enabled these projects to progress smoothly and rapidly. When the branch lines of the Beilun Harbour Railroad were being built, local naval units provided men and materials. Upon completion of the project, the 100,000-DWT sea port with an annual handling capacity of 20 million tons is expected to be one of China's busiest.

—Undertaking public welfare engineering projects. Beijing army units contributed 50,000 workdays for the renovation of Shishahai Park in Beijing and Nanjing army units 40,000 workdays for the project to harness the Qinhuai River. Lanzhou army units have been working for the construction of the Yantan Park in Lanzhou for a year.

—Fighting natural calamities. Each year in China a number of areas are hit by natural calamities. In the last five years, the army has fought 58,500 calamities, involving more than 3.3 million soldiers, 9,000 aircraft and warships, and 430,000 machines and motor vehicles. They rescued 870,000 people and provided 7.76 million tons of relief materials. In 1985 when China's Liaoning Province was hit by a major flood, for example, the Shenyang army units fought the flood side by side with local residents. Their efforts kept the flood from the city of Panjing and some important projects including the Liaohe Oilfield.

Military enterprises making civilian products. Beginning in 1979 military enterprises have been taking advantage of their

Manzhouli Wants Border Peace

by Our Correspondent Zhang Zeyu

Manzhouli, a city on the border with the Soviet Union, has since the completion of the Changchun Railway in 1901 been the first stop in China for trains from Siberia.

Since 1983, when Sino-Soviet trade regained momentum, railway traffic has increased rapidly. The twice-a-week trains to and from Moscow are always crowded, and activity at Manzhouli railway station is particularly busy as trains are modified to accommodate the different railway gauges of the two countries.

The city handles half the volume of Sino-Soviet railway freight. It has its own customs houses, transport and postal companies and frontier inspection stations.

Negotiations are under way to develop the cross-border trade. According to Manzhouli's trade representative Zhang Yushan, the Inner Mongolian Border Trade Company and the Soviet Far East Trade Corporation held three



LIU CHEN

A Soviet freight train waiting to be modified to fit the Chinese gauge at Manzhouli station.

advanced equipment and technology to develop civilian products. As a result, motor scooters and motorcycles manufactured by the military enterprises have taken over a significant share of the domestic market. The military have also transferred a large amount of military industrial technology to civil enterprises to help boost their production capacities. Some military academies and scientific research units have also undertaken research projects and acted as consultants to civilian enterprises.

Developing agriculture and

sideline occupations. The army, which now has its own farms, small factories and mines, has greatly boosted its self-sufficiency, thereby lightening the government's financial burden. From 1981 to 1985, army farms produced 2.9 billion kg of grain, 250 million kg of meat and close to 4 billion kg of vegetables. The army's small factories and mines provide society with products and pay taxes on their profits.

—Planting trees for future generations. In the last five years, the army has planted 150 million

trees where it stations, forming close to 50,000 hectares of forests. Moreover, it has cultivated 5,500 hectares of young trees and has grown 1.24 million square metres of grass. The army has also planted 270 million trees for cities and towns free of charge.

China has learnt first-hand that disarmament works for world peace as well as self-development. We sincerely hope all peace-loving countries and people the world over will make similar contributions to the defence of peace and development by working for disarmament. ■



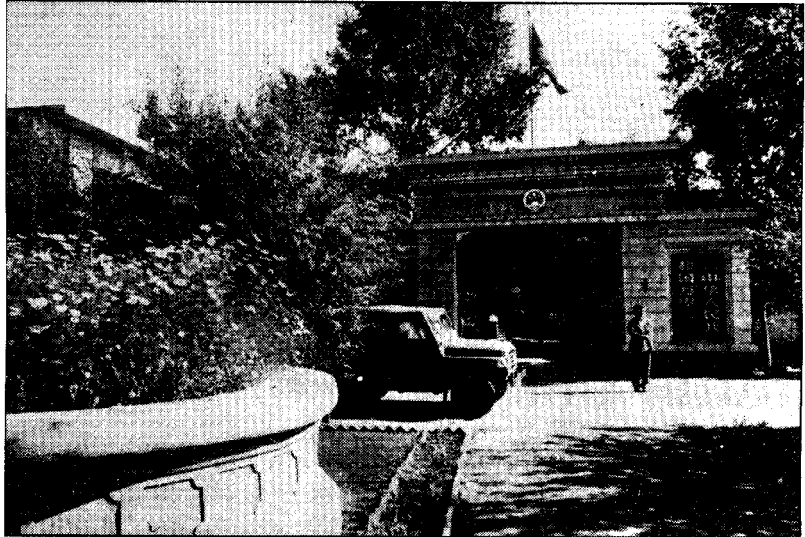
rounds of negotiations this year in July.

Nine kilometres outside the city is a frontier post. Gates emblazoned with the two national emblems stand alongside the Siberian railway. If one side wishes to speak to the other it raises a red flag — a ritual that has been used ever more frequently over the last few years. In 1984 six talks were held, and 18 in 1985. In the first half of 1986, eight meetings took place to discuss border problems or jointly celebrate some events. When an issue arises they try negotiations first. Last June, when 12 Chinese horses roamed across the frontier, the Soviet soldiers rounded them up and sent them back the next morning. The Chinese reciprocated the next month when 100 Russian horses came the other way.

Across the border are barbed-wire fences behind which are Soviet tanks and artillery. These are alien to the spirit of the people of the border. Che Qingbo is deputy head of the city's foreign relations office and vice-president of the Manzhouli branch of the Sino-Soviet Friendship Association. "Trade and personal links have developed together," he says, as 185 people in 24 delegations made cross-border visits in just the first seven months of this year. "I have lived here on the border for more than three decades," says Che. "I want to live in peace." His views are shared by many. Those

who express their dislikes of tanks and guns would like to see normal ties replace confrontation.

The Soviets who come over the border feel the same way. An interpreter working at a frontier station believes that the Chinese and Soviet people have a tradition of good will. "I sincerely hope relations between the two countries are normalized soon," he says. ■



LIU CHEN

A frontier inspection station at Manzhouli where Chinese and Soviet officials meet.

Manzhouli

The city of Manzhouli is in the west of Hulun Buir League (a region on a par with a prefecture) in the Inner Mongolian Autonomous Region (an autonomous region has several prefectures each administering several leagues and counties). The northwest of the city borders on the Soviet Union for 54 kilometres. The population is 116,600, of 16 different nationalities including Mongolian, Han, Hui, and Manchu; 31,900 people live in the city's urban areas.

Railway Station: handled 3.84 million tons of goods in 1955, and 60,000 tons in 1970. In 1985 it was

2.58 million tons; it was 1.79 million tons in August of 1986.

Trade: So far this year China has signed import-export contracts worth 30 million Swiss francs with the Soviet Union. By the end of 1986 contracts will be worth approximately 45 million Swiss francs, 18.5 percent more than 1985. By comparison, the 1983 figure was 2.7 million Swiss francs.

Commodities: The Inner Mongolian Autonomous Region exports beef, canned food, textiles, light industrial products, fruits, peanuts and soybeans to the Soviet Union. It imports timber, chemical fertilizer, cement, rolled steel, motorcycles, refrigerators and washing machines from the USSR.



SPECIAL REPORT

Rural Changes Promote Urban Reform

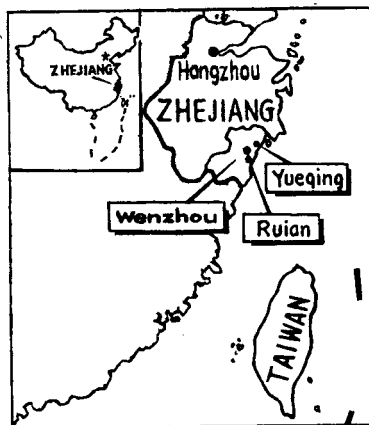
Deng Xiaoping calls the current reforms in China the "second revolution." The "first revolution" was won in 1949 by using the countryside to encircle the cities. This report, the second part of a series on Wenzhou, examines how the city itself and its state enterprises and workers have been affected by the rural reforms, and concludes that the "second revolution" is taking a course similar to the first.

By Our Correspondents Wang Youfen and Li Ning

On the ship bound for Wenzhou from Shanghai, a young officer on leave, going home to the town of Liushi in Leqing County, expressed amazement at how almost all the families there and in nearby villages are well off. What surprised him most was how this happened in such a short time. Many residents in the town are building new blocks of flats, and a fad has developed for them to have five-storeys. A few of them are even planning to install lifts. "In the past, people living in the countryside were likely to envy those living in the cities, now it is just the opposite," he said.

We noticed some discontent

among the town dwelling passengers. A middle-aged skilled



worker in a state-owned slaughter and refrigeration house complained that his wage was too low to give him a decent life. The slaughter house agreed to give him unpaid leave and he went to nearby rural areas or further to ply his trade freelance. By so doing, he could earn 200 or 300 yuan a month, two or three times what he earned before.

A woman worker of the Wenzhou Shipyard, sitting beside him, interrupted him: "You are lucky. We are worse off than that." Her yard is losing money, she fears the day when it might run out of money to pay its workers.

This was no exaggeration. When we arrived at Wenzhou, we made a special visit to the city's "No. 1 poorly run enterprise." Despite its fine equipment and excellent technical backup, Wenzhou Shipyard was 800,000 yuan in the red last year. The workers received no bonuses, let alone a pay rise. Most workers were restless and the shipyard was on the brink of bankruptcy. We interviewed Xiao Guohua, a ship fitter who had worked there for ten years and earned only 51 yuan a month or about 70 yuan when certain subsidies were included. He said: "Owners of private enterprises in Wenzhou are getting rich while we workers can only lead a life on the margins with just enough to eat and wear. Our fate is closely linked to the fate of the enterprise. I have no capital nor any social connections to help me start a new career. Anyway, I don't dare give up my job." This sense of grudging resignation was common among the older workers.

Faced with this, Zhang Lie who became director of the shipyard last year, brought in the technological advisory group of the Shanghai Shipping General Corporation to inspect the shipyard and work out a programme to improve its production. He also invited the teachers and students of the economic management department of Zhejiang University, his old school, to make a diagnostic study of the shipyard. But these were last-ditch measures, he had no particular confidence in them.

Of Wenzhou city's 173 state-owned enterprises, 21 percent are running at a loss, according to Zheng Jintiao, an official in charge of the economic affairs in the Wenzhou municipal government. Particularly successful ones accounted for 23 percent. The key to the success of an enterprise, reckoned Zheng, lies in the competence of its leaders and in their power to make decisions.

The Wenzhou Glass Fibre Reinforced Plastic Building Material Factory, well known for its high grade bathroom equipment, was a poorly run enterprise but was saved by new competent directors. Before April 1984, when the factory's cash flow drained to nothing, it was in debt to the tune of 70,000 yuan. At that point, Teng Zengshou was installed as the factory's leader. In September that year, the factory made a profit. Its total output value of 1985 was four times that of 1984, and it turned over to the state a total of 420,000 yuan in tax.



Teng Zengshou.

GANG WANG

Teng's approach included instituting an economic contract responsibility system concentrated on quality, and a wage system based on a worker's performance and linked to the quality, quantity and material-efficiency of the production. A worker will receive full wage only when his products are first-rate. The producer pays 30 percent of the production cost of any substandard product he makes. The workers divide themselves into small groups and contract work from the factory.

Teng has been able to issue bonuses to the workers every month. Last year, the average annual bonus per worker in the factory was about one thousand yuan, far more than other

factories. Because Teng's factory had made enormous contributions to the country, the local government granted it more decision-making power to carry out various management experiments. The workers, confident of their future, all praised their director as capable and selfless.

In rural Wenzhou, there is a co-operative factory whose director was proud to call its leading group "our small 'central committee.'" In a private factory, the chief director jokingly called himself the "dictator," displaying an air of complete freedom in decision-making. Lacking such power, the vitality of many state-owned enterprises is smothered.

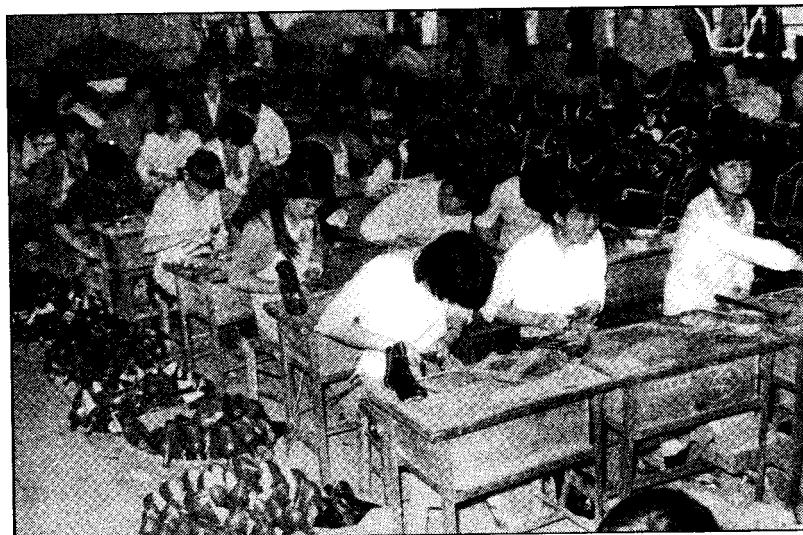
New regulations are expected to invigorate many state enterprises suffering from lack of decision-making power.

In July, the "Regulations on Enlivening State-Owned Enterprises" were promulgated by the Wenzhou municipal government. Aimed at extending the decision-making power of enterprises, it stipulates: The total wage bill of a profitable enterprise can fluctuate in line with its profits after tax. An enterprise may allocate those wages in whatever form it chooses. A losing enterprise will be allowed limited losses, beyond which no more subsidies will be given by the government. If the enterprise loses less than the full amount permitted, it may keep the full subsidy. Poorly run or less-profitable enterprises can be leased or contracted to individuals or collectives or can be operated as shareholding co-operatives on a trial basis with the approval of the

city government. Prices of industrial products can fluctuate where it is conducive to sales, and provided they are not everyday domestic items.

Many of the regulations have already been put into practice on a trial basis in some of the state-owned enterprises, and this is expected to spread. The 200-worker Wenzhou Huannan Instrument Factory, originally a state-owned enterprise, is now operated by a collective. According to the regulations it must turn over 55 percent of its profits to the authorities, leaving the rest at the director's disposal. Zhang Junjie, the factory director, told us that things had improved since he was given greater decision-making power. Now the income of the factory's workers ranges from 100 yuan to 300 yuan a month, and the workers feel satisfied. Since the change of status only five workers have left the factory for a new job.

Commerce felt the wind of change earlier. Since 1984, 120 small state-owned shops whose yearly profits never exceeded 150,000 yuan have turned into collectives. Operating independently, they are solely responsible for profits and loss, and their business has, for the most part,



A leather shoes factory.

SHEN YANTAI

improved. The Xiaonanmen sweet shop has expanded since it became a collective and now does a roaring trade with the Qiangli Beer Brewery in Guangzhou. It sold a trial product for the brewery and when the beer was a hit, the shop became its sole wholesale dealer in Wenzhou.

According to the officials of the city government, the new regulations were well received by the state-owned enterprises.

In Ruian County it was estimated that if the county would earmark 20,000 yuan a year for extra bonuses for the workers in its 12 state enterprises, the resulting increase in production would amount to 600,000 yuan in profits more than at present, after tax!

A popular private hairdresser's shop.

SHEN YANTAI



The local government must address the question of uneven taxation if it wants to end the unequal competition between state and private enterprises.

Zou Dacheng was a director of the Wenzhou Clothing Factory and is a state-employed manager, who holds a different view. These measures did not work in his factory. It had 58 working employees and 27 retired workers. Every two workers were having to support one retired employee. Private tailors were at an advantage because they could easily evade taxes and so could sell

THE WENZHOU EXPERIMENT

at fairly low prices. Zou had to close down his factory and turn it into a department store which seemed more profitable. In Zou's view, small clothing workshops should be left to individuals to operate, because they produce on a small-scale and can easily adapt to changing local fashions.

An official in Wenzhou city did not mince his words in describing the tax department's role in the competition between private and state-owned factories. He said:

A farmer-run electrical appliances factory in Liushi, Yueqing County.



SHEN YANTAI

percent of that comes in. This is because small private businesses do not keep accounts that can be checked and they often dodge taxes. The 756 private businessmen are enjoying on average the use of 4,000 yuan of unpaid taxes a year.

It has been suggested that perhaps some of the 1 million demobilized soldiers could be trained as tax-collectors. This or something like it is necessary if the various sections are to compete

fairly in Wenzhou.

As it is, this unequal competition has shattered the morale of some state enterprise workers. The disparity in personal incomes between state employees and those working in private enterprises has induced many of the former to take up spare time work on which they spend much of their energies.

The overall industrial output value of Wenzhou's state enterprises has increased by an average of 8.9 percent each year for the last five, while the proportion of this in Wenzhou's total output decreased from 31 percent in 1980 to 18 percent in 1985. In the same period, the output of household industry and other private industries rose from 12 percent of the whole to 30 percent. The output value of the collective industry also increased slightly, accounting always for more than half the total.

Meanwhile, of the total social retail sales, the state's share decreased while that of the private traders' increased so that by 1985 they were equal. (see diagram).

Inevitably, attitudes vary towards these changes and the issue has become a national debate. An

"They are past masters in controlling state-owned enterprises but utter idiots in dealing with private businesses." Since private undertakings appeared only recently and the tax-collectors did not have their numbers increased to handle the widely dispersed private businesses, the truth of these words did not erase their harshness.

Enterprises of different ownership are not evenly taxed, neither are shops. The Ruian County Town is a varied market with an annual volume of business worth nearly 100 million yuan. Given the set tax rates for industry, commerce and personal income, it is estimated that nearly 4 million yuan of taxes could be collected annually. Actually less than 10

Year	1980	1981	1982	1983	1984	1985
Social retail sales of commodities (100 million yuan)	8.81	9.57	10.43	11.99	14.60	19.25
State-owned commerce (%)	38.6	36.9	35.2	33	31.6	27.5
Supply and marketing co-ops (%)	35.4	34.2	31.1	27.5	23.2	18
Collectively owned commerce in other forms (%)	23.9	25.7	26.4	25.4	24.8	27
Individual businessmen (%)	2.1	3.2	7.3	14.1	20.4	27.5

official in Wenzhou said that in the past, under the guidance of "left" ideology, it was wrong to

Changes in Wenzhou's structure of ownership has stirred a debate on the overall role of the state sector.

attempt to eradicate private business, but the decline in importance of the state-owned sector is a genuine worry.

Many economists, on the other hand, believe that since the turnover of state and collective industries and commerce still makes up 70 percent of the total, the public share of the economy still dominates and therefore the

situation does not constitute a problem.

Wu Xiang, an authority on the rural economy, wrote in the *People's Daily* of August 4, 1986: "In a socialist country, the state-owned sector must be in a dominating position, when taken as a whole. Private business may loom large in some parts of the country, but this need not negate the overall prominence of the state-owned sector. Take Wenzhou for example, the household industry's production of small commodities is negligible in the national economy but significant to people's daily lives. Households can make up for what the urban industry does not produce." Wu argued that although the relative importance of state-owned industry declined, its total output increased and the important utilities such as electricity, highways, banking and communica-

tions remained under the control of the state and continued their role in the economy. As the reforms strike deeper roots and the new system improves, the state will play a bigger role in guiding the national economy through tax and credit systems and the control of industry and commerce. Facts have shown that the private sector's challenge to the state- and collectively-owned sectors is conducive to their improvement, thereby furthering the reforms.

In Wenzhou itself, in addition to professional researchers, there are about 3,000 leaders at various levels undertaking to study this and other theoretical issues. They have established 30 theoretical research societies, dedicated to finding a course of development suitable to the local conditions. In so doing, they hope to make their contribution to building socialism with Chinese characteristics.

Overhauling the Election Machine

To maximize the potential of the economic reforms, the best possible leadership is needed. To identify the best people, new selection procedures have arisen. Political structural reform has come to Wenzhou, as its Communist Youth League experiments with a new election system.

by Zhu Xiaoyang

The air was charged with excitement as 31 candidates took the rostrum to announce their "platform." The 400 deputies to the 10th Communist Youth League Congress of Wenzhou listened attentively and made rapid mental comparisons. After the speeches, the congress elected the city's new Youth League committee.

This was part of Wenzhou's first experiment in choosing leaders by a democratic vote—a far cry from the past when candidates for leadership were, as a rule,

nominated by higher authorities, although often in consultation with organizations at lower levels. League deputies recalled that during Wenzhou's 8th League Congress they were given a list of candidates from which to choose the names they preferred. Mostly, it was guess work. Things were a little better at the 9th congress, when notes on the candidates were circulated, but still it was difficult for deputies to really get to know the persons concerned.

When it was proposed in March that the city authorities would encourage the public to decide on the list of candidates and ensure that no hand-picked people

slipped through, Wenzhou's 250,000 Youth League members were very excited. Within a few weeks 562 people below the age of 35 had come forward, or been recommended by colleagues. "As a green horn with little education, I know I have little chance of winning," chuckled a 22-year-old League branch secretary at a bank office. "But I put my name forward in the election just to show my support for this new way of choosing leaders."

What awaited those who really wanted to win was a long and trying process. Most, of course, were not selected to stand for the League committee. A small

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number of young hopefuls were thought unsuitable by their workplaces right away and their names were crossed off. The rest were given a three-hour written test in social science, ranging from Marxism and politics to history, geography, law and economic management. Only 164 people passed and were allowed to continue campaigning.

Between May 19 and 31, each aspirant came under the scrutiny of an assessment group composed of at least 30 of his or her superiors and colleagues. The candidate's working ability and personality were carefully analysed, and data on them fed into a computer. Their attitudes to current Party policies, their popularity and their suitability for the job and their potential were investigated and a further 49 candidates were taken out of the running.

The screening process was organized and supervised by a group of people from the Organization Department of the Municipal Party Committee. Working in co-operation with county, district and other Party officials, they would decide on the runners in the earlier stages of the contest after taking into account all opinions canvassed.

The next step was to ascertain candidates' facility for speaking and for "trouble-shooting." First they were divided into groups to engage in discussion on 11 topics set by the screening committee. Each was required to write a report on the discussions. Their style on the podium, and their ability to analyse and convince were marked on a 10-point scale.

The topic set for July 18 was how to dovetail the Youth League's day-to-day work with China's open policy and the current economic reforms. The discussions and debates among the candidates even attracted officials of central and provincial authorities to come and listen in.

The debates were followed towards the end of June by a six-day fact-finding visit to a poor

mountainous area, a prosperous rural district, a factory or a community-run enterprise. The purpose of the visits was to test candidates' ability to investigate and solve practical problems. Each candidate wrote a report on what he or she had seen and how they would go about solving the problems they had discovered.

By the time these stages were complete, only 43 candidates had not been eliminated. After a ballot of Youth League members, they were all elected deputies to the 10th congress. Then after opinion polls and referenda were held in several electoral districts, 31 of these new deputies were officially nominated to compete for positions on the League's committee at the 10th Youth League Congress held from August 18 to 22.

The climax to the whole process came on August 20. For the 31 nominees who announced their "platform," the minutes spent at the rostrum were crucial. At stake were higher posts on the standing committee of the League committee and, particularly, the posts of secretary and deputy secretaries.

A handsome, bespectacled young man grabbed the limelight. Ye Zhengmeng, 28, had since graduation from a local normal school in 1980 gradually progressed from a county government office worker into a leader of the city's two biggest youth organizations. He was acting secretary of the municipal League committee and chairman of the municipal youth federation.

Ye began his speech by slamming the problems in the Youth League itself. The Achilles' heel of the League, he said, lay in its habitual obsession with formalities. He said that League leaders like himself tended to do things in a grand way, without their feet firmly on the ground. They liked the hustle and bustle of their work but paid little attention to its actual results. "If I become the secretary, I'll spare no effort to solve these problems. I'll be more

down-to-earth in my style and do something of real use to our young friends." He said he would not hesitate to offend the leadership if it was the right thing to do. His courage in proposing to challenge the status quo created a sensation, and he was eventually elected secretary of the League committee.

The winners assumed office in high spirits. And those who had failed? "I'm not bothered," said Zhu Jiansong, a factory manager. "I don't feel jealous of the winners because their victory was hard-won. What is important to me is that we have worked together to overhaul our election machine, and in this sense I am a winner too."

For the 11 new members on the standing committee of the Wenzhou Youth League Committee, winning the election was one thing, translating their promises into reality was another. What if they fail to give a good account of themselves? As part of the new experiment, a vote of confidence will be taken each year on the city League committee. Those who fail to meet with majority approval will be warned on the first occasion. If they show no sign of improvement the next year, they will be dismissed from office.

Wenzhou's Youth League members are happy that they have elected their own leaders in a really democratic way. For leaders accustomed to the official appointment system, the new practice served as an eye-opener. "Most of the 11 Youth League standing committee members were unknown to us. They appeared as if out of nowhere. It is really a big surprise," said one of the city officials. The success was enough to encourage the city authorities to continue with the experiment. According to a city official, Wenzhou is considering popularizing the new election system among some of the city's Party and government organizations. ■

Provisions of the State Council Encouraging Foreign Investment

Attracting foreign investment is an important part of China's opening to the outside world. As China wishes to attract more investment, import more advanced technology and equipment and expand Chinese exports, the State Council on October 11 promulgated the Provisions for the Encouragement of Foreign investment which came into force the same day.

Article 1. These provisions are hereby formulated in order to improve the investment environment, facilitate the absorption of foreign investment, introduce advanced technology, improve product quality, expand exports in order to generate foreign exchange and develop the national economy.

Article 2. The state encourages foreign companies, enterprises and other economic entities or individuals (hereinafter referred to as "foreign investors") to establish Chinese-foreign equity joint ventures, Chinese-foreign co-operative ventures and wholly foreign-owned enterprises (hereinafter referred to as "enterprises with foreign investment") within the territory of China.

The state grants special preferences to the enterprises with foreign investment listed below:

(1) Production enterprises whose products are mainly for export, which have a foreign exchange surplus after deducting from their total annual foreign exchange revenues the annual foreign exchange expenditures incurred in production and operation and the foreign exchange needed for the remittance abroad of the profits earned by foreign investors (hereinafter referred to as "export enterprises").

(2) Production enterprises possessing advanced technology supplied by foreign investors which are engaged in developing new products, and upgrading and replacing products in order to increase foreign exchange generated by exports or for import substitution (hereinafter referred to as "technologically advanced enterprises").

Article 3. Export enterprises and technologically advanced enterprises shall be exempt from payment to the state of all subsidies to staff and workers, except for the payment of or allocation of funds for labour insurance, welfare costs and housing subsidies for Chinese staff and workers in accordance with the provisions of the state.

Article 4. The site use fees for export enterprises

and technologically advanced enterprises, except for those located in busy urban sectors of large cities, shall be computed and charged according to the following standards:

(1) Five to 20 RMB yuan per square metre per year in areas where the development fee and the site use fee are computed and charged together:

(2) Not more than three RMB yuan per square meter per year in site areas where the development fee is computed and charged on a one-time basis or areas which are developed by the above-mentioned enterprises themselves

Exemptions for specified periods of time from the fees provided in the foregoing provision may be granted at the discretion of local people's governments.

Article 5. Export enterprises and technologically advanced enterprises shall be given priority in obtaining water, electricity and transportation services, and communication facilities needed for their production and operation. Fees shall be computed and charged in accordance with the standards for local state enterprises.

Article 6. Export enterprises and technologically advanced enterprises, after examination by the Bank of China, shall be given priority in receiving loans for short-term revolving funds needed for production and distribution, as well as for other needed credit.

Article 7. When foreign investors in export enterprises and technologically advanced enterprises remit abroad profits distributed to them by such enterprises, the amount remitted shall be exempt from income tax.

Article 8. After the expiration of the period for the reduction or exemption of enterprise income tax in accordance with the provisions of the state, export enterprises whose value of export products in that year amounts to 70 percent or more of the value of their products for that year, may pay enterprise income tax at one-half the rate of the present tax.

Export enterprises in the special economic zones and in the economic and technological development zones and other export enterprises that already pay enterprise income tax at a tax rate of 15 percent and that comply with the foregoing conditions, shall pay enterprise income tax at a rate of 10 percent.

Article 9. After the expiration of the period of reduction or exemption of enterprise income tax in accordance with the provisions of the state, technologically advanced enterprises may extend

for three years the payment of enterprise income tax at a rate reduced by one half.

Article 10. Foreign investors who reinvest the profits distributed to them by their enterprises in order to establish or expand export enterprises or technologically advanced enterprises for a period of operation of not less than five years, after application to and approval by the tax authorities, shall be refunded the total amount of enterprise income tax already paid on the reinvested portion. If the investment is withdrawn before the period of operation reaches five years, the amount of enterprise income tax refunded shall be repaid.

Article 11. Export products of enterprises with foreign investment, except crude oil, finished oil and other products subject to special state provisions, shall be exempt from the consolidated industrial and commercial tax.

Article 12. Enterprises with foreign investment may arrange the export of their products directly or may also export by consignment to agents in accordance with state provisions. For products that require an export license, in accordance with the annual export plan of the enterprise, an application for an export license may be made every six months.

Article 13. Machinery and equipment, vehicles used in production, raw materials, fuel, bulk parts, spare parts, machine component parts and fittings, (including imports restricted by the state) which enterprises with foreign investment need to import in order to carry out their export contracts do not require further applications for examination and approval and are exempt from the requirement for import licenses. The customs department shall exercise supervision and control, and shall inspect and release such imports on the basis of the enterprise contract or the export contract.

The imported materials and items mentioned above are restricted to use by the enterprise and may not be sold on the domestic market. If they are used in products to be sold domestically, import procedures shall be handled in accordance with provisions and the taxes shall be made up according to the governing sections.

Article 14. Under the supervision of the foreign exchange control departments, enterprises with foreign investment may mutually adjust their foreign exchange surpluses and deficiencies among each other.

The Bank of China and other banks designated by the People's Bank of China may provide cash security services and may grant loans in Renminbi to enterprises with foreign investment.

Article 15. The people's governments at all levels and relevant departments in charge shall guarantee the right of autonomy of enterprises with foreign investment and shall support enterprises with foreign investment in managing themselves in

accordance with international scientific advanced methods.

Within the scope of their approved contracts, enterprises with foreign investment have the right by themselves to determine production and operation plans, to raise funds, to use funds, to purchase production materials and to sell products; and to determine by themselves the wage levels, the forms of wages and bonuses and the allowance system.

Enterprises with foreign investment may, in accordance with their production and operation requirements, determine by themselves their organizational structure and personnel system, employ or dismiss senior management personnel, increase or dismiss staff and workers. They may recruit and employ technical personnel, managerial personnel and workers in their locality. The unit to which such employed personnel belong shall provide its support and shall permit their transfer. Staff and workers who violate the rules and regulations, and thereby cause certain bad consequences may, in accordance with the seriousness of the case, be given differing sanctions, up to that of discharge. Enterprises with foreign investment that recruit, employ, dismiss or discharge staff and workers, shall file a report with the local labour and personnel department.

Article 16. All districts and departments must implement the Circular of the State Council Concerning Firmly Curbing the Indiscriminate Levy of Charges on Enterprises. The people's governments at the provincial level shall formulate specific methods and strengthen supervision and administration.

Enterprises with foreign investment that encounter unreasonable charges may refuse to pay and may also appeal to the local economic committees up to the State Economic Commission.

Article 17. The people's governments at all levels and relevant departments in charge shall strengthen the co-ordination of their work, improve efficiency in handling matters and shall promptly examine and approve matters reported by enterprises with foreign investment that require response and resolution. The agreement, contract and articles of association of an enterprise with foreign investment shall be examined and approved by the departments in charge under the State Council. The examination and approval authority must within three months from the date of receipt of all documents decide to approve or not to approve them.

Article 18. Export enterprises and technologically advanced enterprises mentioned in these provisions shall be confirmed jointly as such by the foreign economic relations and trade departments where such enterprises are located and the relevant departments in accordance with the enterprise

contract, and certification shall be issued.

If the actual results of the annual exports of an export enterprise are unable to realize the goal of the surplus in the foreign exchange balance that is stipulated in the enterprise contract, the taxes and fees which have already been reduced or exempted in the previous year shall be made up in the following year.

Article 19. Except where these provisions expressly provide that they are to be applicable to export enterprises or technologically advanced enterprises, other articles shall be applicable to all enterprises with foreign investment.

These provisions apply from the date of implementation to those enterprises with foreign

investment that have obtained approval for establishment before the date of implementation of these provisions and that qualify for the preferential terms of these provisions.

Article 20. For enterprises invested in and established by companies, enterprises and other economic organizations or individuals from Hong Kong, Macao, or Taiwan, matters shall be handled by reference to these provisions.

Article 21. The Ministry of Foreign Economic Relations and Trade shall be responsible for interpreting these provisions.

Article 22. These provisions shall go into effect on the date of issue. ■

(Issued on October 11, 1986)

State Council Official Answers Questions

An official from the Investment Working Group of the State Council recently answered *Renmin Ribao* (People's Daily) and Xinhua News Agency correspondents' questions on the Provisions for the Encouragement of Foreign Investment promulgated by the State Council on October 11 this year.

Question: What is the spirit of the provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment?

Answer: Briefly, it is a determined, down-to-earth effort to improve China's investment environment in order to make a better job of foreign investment in China. Opening to the outside world is the basic state policy of China and attracting and absorbing foreign capital is a major element in the open policy. In recent years, especially after 1984, China made great progress in attracting foreign investment, but there are still some problems which must be solved immediately. Some ventures involving foreign investment have experienced difficulties. These were due partly to our lack of experience, our failure to make certain arrangements for absorption and utilization of foreign investment, deficiencies in our management system and bureaucratic wrangling. This has been the subject of much talk outside China. We do not deny these problems and realize that we need to study them seriously and make efforts to solve them. Our State Council organized special departments to investigate, and on the basis of lengthy discussions and pooling of experience, it has formulated the Provisions. This marks an important step by the Chinese government in promoting the absorption of foreign capital.

Q: Why do the Provisions emphasize that "export enterprises and technologically advanced enterprises" be given "special preferences"?

A: This is meant to direct foreign investment so as best to serve China's economic construction. China's industrial and agricultural production has developed to some extent; many products could be made in China. The problem is that the products are not competitive. This could be because they are made with low-level technology, are of poor quality, or dull in variety and design. One of the important points of encouraging foreign investment is to import advanced technology and managerial expertise to promote technical progress and upgrade China's products. The financial success of enterprises operated with foreign investment contributes to a favourable balance of payments for China and provides the surest guarantee that foreign investors can remit their legal profit dividends abroad. This is why China encourages foreign investment in export-oriented production, and in enterprises which import the advanced technology needed by China.

Q: What new special privileges have the Provisions granted the "export-oriented and technologically advanced enterprises" then?

A: They include reduced fees for labour, and for land use, reduction or exemption from taxes, incentives to use profit to reinvest in China, and guarantees for the external conditions required by these enterprises for production and management (including import and export of material). All these are designed to allow China's advantages full range while minimizing production costs for foreign investors and making products more

(Continued on p.32)

Chinese Paddlers Take Their Revenge

China's sports fans almost forget *pingpong* when they are thinking about the big-ball games such as volleyball, basketball and football. But their national team's defeat at the hands of the South Koreans at the Asiad a couple of weeks ago shocked them into paying close attention to the Eighth Asian Table Tennis Tournament held in Shenzhen, Guangdong Province, from October 7 to 15.

China, the defending champions, swept through the first round of both the men's and women's team events on the first day. But the South Korean men, the new Asian Games champions, were still trying to find their feel at this stage. Though they did not lose a set in finishing off Iraq 5-0, the Koreans were a bunch of nerves. Yoo Nam Kyu, South Korea's Asiad sensation who not only geared South Korea to a 5-4 win over China in the team event but also won the men's singles gold medal in Seoul, looked a mere shadow of himself. Along with Ahn Jae Hyugn, he had trouble defeating the Iraqis, who kept their bodies low in serving.

In the first match of the women's semifinals, China's little-

known Li Huifen needed less than half an hour to dispose of Japan's No. 1, Oshino Mika. Asian Games singles champion Jiao Zhimin then defeated Uchlyama Kyoko 21-11, 21-5, to give China a 2-0 lead. Jiao and Dai Lili paired up to beat Mika and Kitsukawa Miki 21-17, 21-13 to secure China a place in the semifinals.

The semifinals were another confrontation with the South Korean team. Now China's men's team took their revenge by beating them 5-3. In the finals of the team titles, China's men's and women's teams captured both titles.

Chinese players also took the remaining individual titles, though not without a struggle. Rong Gaotang, general secretary of the Advisory Committee of the Chinese Communist Party, and Xu Yinsheng, vice-minister in charge of the State Physical Culture and Sports Commission, came down from the VIP's box to sit on the coaching benches and watch intently as Chinese players destroyed South Korean's defences.

Zhang Xielin, coach of the women's team, remarked that the fast forehand play of the Chinese had been strongly challenged by the quick backhand play of the South Koreans. "Unless we also

get some players with good quick backhands, we'll be in real trouble." In one bout of the team event semifinal, China's Jiang Jialiang, world Number 1, was left motionless by a backhand smash from South Korea's Yoo Nam Kyu at a moment when Yoo seemed to have lost his balance.

Commenting on their performances at the championships, Chinese men's coach Xu Shaofa said, "Well, at least our new players got their baptism of international fire." Sun Jiawei lost both his matches in the semifinal against South Korea. Only one newcomer reached one of the five finals in the individual events, and Wei Qingguang got to the men's doubles final, partnered by veteran Chen Longcan. Sun, Wang Hao and Chen Pingxi are all new recruits to the national team and were competing for the first time in a major international tournament. The funny thing is that they are no longer so young. One is already 22 and two are 20.

Sun, from Heilongjiang Province, plays in the traditional fast Chinese way, close to the table. His play resembles that of world champion Jiang Jialiang, whom he is expected to succeed. Wang, from Hebei Province, whose slow long chops take after world No. 2 Chen Longcan, is expected to replace Chen. The oldest, Chen Pingxi, 22, also plays a fast game.

The inability of the new players to match the veterans has created doubt that the men, who have reigned for so long, can continue doing so.

I. Ogimura, deputy president of the Asian Table Tennis Union, said the future will see many more countries fighting for the top positions along with China. However, for the time being at least, the Chinese will retain their edge. ■

China's paddlers team won their titles in spite of challenge.

LIU YUSHENG



Rand Corporations — Why Not in China?

"RENMIN RIBAO"

(People's Daily)

When Professor Yang Jike, a vice-governor of Anhui Province, proposed at the recent national symposium on soft science in Beijing that intellectuals form independent policy research institutions and consultative agencies, he was thinking of the "Rand Corporation" in the United States as a model. He certainly understood that the emergence of policy research and consultative organizations call for an open, participatory political decision-making process. This is, to be sure, one of the goals of the political reform.

As Professor Yang said, there are at present very many policy research institutions and consultative agencies in China attached to the Party or state leading bodies. But they frequently take their cues from leading cadres. In addition, commissions and groups under the leadership of government organs have been emerging one after another over the past few years for the purpose of conducting research. In Anhui Province, for instance, the governor and vice-governors concurrently hold the posts of chairman or director of a number of committees and groups.

As soon as such committees and groups are set up, the first thing they do is to establish an office and decide on the size of their staff, then look around for money, houses and cars while they work slowly — this is because as soon as their work is finished, the committees and groups will be dissolved. As a result, such organizations simply increase in number and size indefinitely.

Yang proposed that the work of soft science research institutions and consultative agencies should

be spread further afield. In this way their efficiency can be improved, as they will not be hedged in by rules and regulations, and leading personnel can be relieved of responsibility for them. Government departments need only register and examine their research findings. Bodies that work well will be given more assignments. Those who do bad work will not survive the competition. As a result, several "Rand Corporations" may appear in China.

Professor Yang said he had organized several non-governmental consultation groups that had produced good results. For example, he had twice invited about 400 experts, including some leading cadres in charge of economic planning, to work on a programme for energy development in east China undertaken by the China Energy Research Committee, east China branch. At the request of Gao Yangwen, minister of the coal industry, Professor Yang and Professor Hua Luogeng also organized dozens of experts to study the utilization of coal in northern and southern Anhui Province. After spending only three months and 30,000 yuan, they showed that 23 pairs of mine pits could be put into production two years ahead of time. As a result, 90 million tons of coal were mined earlier than planned.

Ten Million Lifted Above Poverty Line

"ZHONGGUO RIBAO"

(China Daily)

Sixty million people in China are still living below the poverty line, a national conference was told recently.

The professor also said that in recent years the work of research institutions and consultative agencies had gone from bad to worse and some scientists had looked a little shame-faced because their work was subjected to frequent examinations by departments concerned. Was it not clear what great benefits could be had from consultations? A survey in Anhui indicated that every one yuan given to scientists in consultation fees could produce an economic gain of 160 yuan — say a one hundred-fold profit! So scientists who are engaged in consultations on soft science should receive appropriate rewards. Scales of fees and laws to protect consultees' interests and rights should be worked out as soon as possible.

The research findings of the hard sciences should be handled by the patent bureaux because the best judges are not the leading cadres and experts but the consumers. Purchasing patents are the best rewards for scientists in the hard sciences.

Professor Yang summarized his advice as follows:

1. It is in how precisely to deal with a situation that the value of soft science research resides.
2. Pool the wisdom and efforts of everyone.
3. Policies should be decided by the Party and laws promulgated by the Standing Committee of the National People's Congress in the light of the opinions of people drawn from many circles, especially experts.
4. Final plans should be worked out by the State Council.

But this is 14 percent less than the 70 million who fell into that category before the Sixth Five-Year Plan (1981-85). They each have an annual income of less than 150 yuan (US\$40) plus 200 kilogrammes of grain, according to a report to the First National Symposium on the Economic and

Cultural Development of Impoverished Areas.

A recent survey of 14 underdeveloped areas of the country showed that 15 percent of the nation's "impoverished villages" have now been "lifted above the poverty line" with state aid, the 250 delegates at the symposium were told. It was held in Yinchuan, capital of the Ningxia Hui Autonomous Region.

"This marks a turning point in the country's aid-the-poor drive, which should now turn from mainly giving relief to poor areas, to encouraging and helping them develop their economy," the symposium report said.

During the last few years, marked improvements have been seen in the formerly impoverished areas in northwest China's Gansu Province and the Ningxia Region. An intensive effort to restructure the rural economy, focusing on ecologically-balanced development of agriculture, forestry, animal husbandry and sideline industry, has given a new look to the poverty-ridden villages and boosted their per-capita annual income from below 100 yuan (US\$27) to 246 yuan (US\$67). They also have enough grain to feed themselves.

Meanwhile, as a result of a large-scale scientific survey, conducted by hundreds of Chinese scientists over the past few years—covering extensive areas in the under-developed northwest loess plateau and southwest Yunnan-Guizhou Plateau—an atlas of natural resources and agricultural zones has been successfully drafted. "This will serve as a fundamental guide for the future development of these 'impoverished areas' in the next five years," the symposium was told.

Barren land should be used more for planting grass and raising livestock than for abortive efforts to grow grain.

The scientists said they based their conclusion on five years

research in northwestern China's Liupan Mountain region.

The 1.5 million people in the 20,000-square kilometre area are among the poorest in China.

Over the last 30 years, central government has sent food and other supplies worth more than 100 million yuan (US\$27 million) to the rural inhabitants of the area.

To end the need for relief, scientists advised the locals to cut down on grain planting and to increase their cultivation of grass for raising livestock and for sale to other provinces.

"We tried out our ideas in one village, Shanghuang, and we found that what we've suggested can work," said one scientist.

Before 1983, he said, the annual income of each of the 700 village residents was only 50 yuan (US\$13.5). But in 1985, after following the scientists' advice, village residents were able to raise their per-capita annual income to 320 yuan (US\$86.4).

They achieved this by cutting their grain planting by 133 hectares to 320 hectares and increasing their grass growing areas from 29 to 286 hectares.

The experiment has been so successful that the Northwest China Research Institute of Water and Soil Conservation has begun a programme to introduce the change throughout the Liupan region.

On Rumours

"SHEHUI BAO"

(Society)

People love to believe rumours. Why is this? The roots of the situation go back to the "cultural revolution," when the Chinese press could not reflect things as they really were and people often had to get the truth of what was happening in both China and the world from hearsay.

The "cultural revolution" ended 10 years ago and its "left" ideas have been corrected. The press should now report news fully, truthfully and on time. But it is a great pity that our press has not been put to the best use. Newspapers sometimes remain silent on important matters of interest to many people, or only report them cautiously and in a roundabout way. All this provides the ground for hearsay to flourish.

There is no denying the fact that some rumours are true. If all rumours were false no one would believe them. Take the case of the Shanghai rapists Chen Xiaomeng and Hu Xiaoyang. While people

living in Shanghai knew nothing about them for certain, the Hong Kong news media quickly got hold of the story. Subsequently the story was confirmed by newspapers in Shanghai. Such a thing is nothing new in China.

As part of the reform of journalism, the Chinese press must boldly look reality in the face and grapple with the problems and contradictions in real life.



Sino-Singapore Tourist Co-operation

China has started developing tourism in co-operation with other countries. China has already reached agreement with Singapore and has held talks with Hungary and the United States, according to Li Hairui, head of the public relations department of the China State Tourist Bureau when interviewed by *Beijing Review*.

In mid-August this year a Sino-Singapore co-operation tourist study delegation composed of Chinese and Singapore specialists on tourism, film and television

visited Guangzhou, Guilin, Beijing, Xian and Shanghai in China and places in Singapore. On September 8 both sides signed a memorandum in Singapore on joint efforts to introduce China and Singapore to other countries.

According to the memorandum both sides will invest about US\$100,000 each in the following projects:

- To produce a 20-minute film on scenic spots in the two countries;

- To issue pamphlets and

posters;

- To invite newspaper and television reporters and tourist businessmen from Australia, Western Europe and North America to visit China and Singapore from next year;

- To organize a co-operative group which would begin working in August 1987 to find a market in the United States, Australia, Britain and the Federal Republic of Germany for the Sino-Singapore co-operative itinerary which it should also launch.

Filming of "China and Singapore — Ideal Places for Tourists" started on September 25 in China.

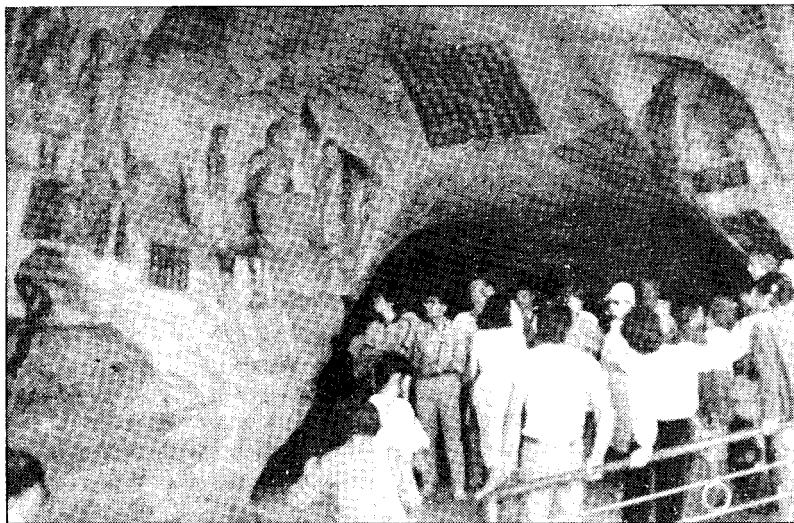
The Sino-Singapore tourism co-operation began early this year after an agreement reached by the governments of both countries. In June of this year the two countries signed an executive plan for 1986-87.

Li also said that the 10-day Sino-Singapore itinerary plans to cover Guangzhou, Guilin, Beijing, Xian and Shanghai in China.

China is vast in territory, with beautiful mountains, rivers and historical relics everywhere. Singapore is clean and famous for its quality services. The Sino-Singapore co-operation in developing tourism will increase the competitiveness of both countries, though much work on the itinerary is still to be done. ■

Tourists in Huanzhu Cave, Gullin.

YUE HAITAO



(Continued from P.28)

Foreign Investors Encouraged

competitive. Differentiating between enterprises in granting special privileges is a change from the past, when we treated all enterprises involving foreign investment alike. It will be positive for the improvement of China's foreign investment structure and for its four modernizations.

In some localities, enterprises operated with foreign capital are charged exorbitantly. The Provisions stipulate that "enterprises with foreign investment which encounter unreasonable charges may refuse to pay and may appeal to the local economic committees and up to the State Economic Commission." This Provision applies to all

enterprises involving foreign investment.

Q: What does "support enterprises with foreign investment in managing themselves in accordance with internationally advanced scientific methods" mean?

A: It means the state gives enterprises operated with foreign capital the decision-making power due to them by law. Within the framework of the Chinese law and the contracts signed, the enterprises will have a free hand in production and management, and we hope they will adopt scientific management methods to enhance productivity and boost their economic returns just as they would in other countries. Of course, these enterprises will be supervised according to law, but not in the way

Japanese Clothes Shop in Beijing

The Beijing Junko Koshino Shop, a joint venture of the Japanese Junko Koshino Designing Corp. and the Beijing Clothing Industrial Company, was opened in September in Dongda Street in Zhushikou, outside the Qianmen Gate, one of the shopping centres in Beijing. This is the first shop in China to exhibit and sell clothes designed by foreigners.

The Junko Koshino Designing Corp. is famous not only in Japan but also in China and other Asian and European countries. The president of the corporation Ms Junko is a graduate of a clothes design college in Japan. She made her name in the 1970s when she held an exhibition for autumn and winter in Paris. In May this year she held a large exhibition in Beijing and caused a stir among Chinese customers and the clothing, art and press circles.

The Beijing Clothing Industrial Company produces better quality clothes for the domestic and international markets. Its products are of exquisite workmanship and good new designs.

According to the agreement signed by the two sides in July this year, the Japanese company provides the designs and the technology while the Chinese side



Junko Koshino (left) helps her customer choose clothes.

XIAO YAN

is responsible for raw materials and production. The contract lasts for one year. Both sides have invested 300,000 yuan each and will share the benefit.

The shop covers 60 square metres and has seven well-trained assistants. The first selection of autumn clothes the shop has sold are of 25 varieties, 20 for women. The "Beijing Ladies" are collarless embroidered women's jackets in black, light tan and dark purple. They are designed for the middle-aged women. There are jackets for young people, especially cyclists which are designed with a sports look. The jacket is reversible, one side in a subdued shade the other in a bright colour.

Initially the clothes have been made on a small scale with a maximum of 100 pieces and a minimum of three to test the

market in Beijing and to be able to charge high prices for rare clothes. Generally the clothes here are 20 or 50 percent higher than similar types of clothes elsewhere.

Although the clothes are expensive they have been well received by the Chinese, especially young women. Three women's overcoats made of imported cashmere at 530 yuan each, 50 percent higher than elsewhere, were sold out by the second day. A customer said, "It's very expensive, but it is worthwhile. The design is excellent." The shop is patronized primarily by young fashion conscious women, including Japanese women living in Beijing. In the first ten days, the shop sold more than 400 items; the daily turnover averaged 4,000 yuan, 11 times more than the shop next door. ■

China's state-owned enterprises are. They will not be required to copy the management methods of Chinese state enterprises in handling international affairs.

Q: It is stipulated in the Provisions that "the people's government at all levels and relevant departments in charge shall strengthen the coordination of their work, and improve efficiency." What concrete measures have you taken?

A: China is still in the process of reforming its economic management system. In order to examine and approve any applications submitted by enterprises involving foreign investment promptly, at present we take the following measures: in provinces and cities where enterprises involving

foreign investment are concentrated, the system of bringing various supervisory departments to work together under the guidance of local government official has been instituted; in these provinces and cities, service centres may be set up on a trial basis to provide consultation services to enterprises with foreign investment. In coastal provinces and municipalities, where there are comparatively few enterprises operated with foreign capital, initial efforts may be made to reform the foreign capital management organs and to work out appropriate methods for greater working efficiency in accordance with the spirit of the provisions. Any delay due to wrangles or lack of proper coordination between departments must be eliminated.

Art Should Keep Traditional Characteristics

I was very interested in two articles which appeared in the French Edition of *Beijing Review* No. 35: "Encouraging Creativeness and New Idea," and "Inertia Impeding Cultural Development." Isn't it noticeable that China is trying to break from the old tradition and, having brought about the opening of the economy, is turning to opening culture?

This is a sign of the vitality of this great country both so old and so young. Indeed whatever does not renew itself will gradually die, because it breaks away from life which is essentially movement and adaptation.

China's art undoubtedly has its own characteristics, it is an idealized art form. People, trees, flowers and birds seem to float in a dreamlike unreal atmosphere. This art with its pure style, fine observation, puts material things into harmony. From the Chinese artists, we see love and respect for their subject and their work, but Western artists are moving to distort reality and use it to support their abstractions. This artistic viewpoint is totally alien to the Chinese tradition.

It would be regrettable if Chinese art were affected by cultural modernization, and lost its traditional characteristics.

There was an interesting cartoon that typified the best of Chinese art along with the two articles. The artist used a brush to draw it, where a Westerner would have used a pencil or a pen. I do hope Chinese art will adapt to modern life, surely we need innovation but it should be within the continuity of your own tradition.

Raymonde de Vasconcellos
Brazil

Both Good and Bad Impression in Tourism

This summer, I visited some cities both open and closed in

Qinghai, Gansu and Shanxi provinces. Here are some of my impressions.

On the positive side, wherever I went, even in the poorer mountain areas, the improvement in living standards was obvious. People were of the unanimous opinion that "after 1981, life has become better." In Shanxi where beggars had been very visible, on the whole they were gone.

On the negative side I noticed cadres are given special treatment. When I was in a post office in Xining, I wanted to send a telegram. I asked the clerk to help me, but I was just glared at. I asked her slowly over and over, but the young woman was disdainful. Another time, a rural cadre accompanied me to a melon field. He picked a watermelon in front of a farmer and asked me to eat it. I said I would pay, but he said it was not necessary. At that time I felt that because of the undeveloped commodity economy, the cadres are respected and the common people are treated with contempt.

I also felt that everyone, including the Chinese Travel Service, treated young people from Hong Kong badly. I was mistaken for a person from Hong Kong and was rudely treated. Hong Kong will return to the motherland in another 11 years.

These young people from Hong Kong were travelling to their motherland with high hopes for the Chinese people. This cold attitude should be corrected.

Jihel Abe
Kawakuchi
Japan

Religion in China Today

The articles "Rural Muslims: Prayer and Progress" and "Religion: A New Understanding" in issue 33, impressed me deeply.

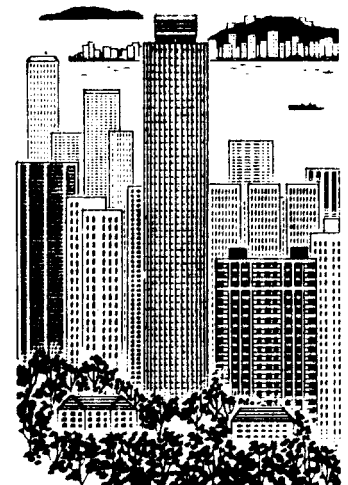
Several years ago I was given special permission to visit the Moli Temple in Inner Mongolia. On that occasion I also looked for Jiningsi temple in the desert. It was

an ancient temple, whose name sign was given to it by Emperor Yong Zheng of the Qing Dynasty. It had pillars over 20 metres high made of huge trees, and a sculptured Buddha made of rare woods and copper. The temple was a tribute to the ancient genius of the Chinese people. However, I did not find the temple. I was told it was destroyed during the "cultural revolution."

I returned to Japan disappointed. Now, years later I read in *Beijing Review* that some local governments are repairing temples and renewing their religious activities. I was happy to read this.

Reading the article in the Chinese Press Column, which said that religion is at the heart of most cultures, and that in a socialist society religion is still a part of the cultures of our various nationalities, and will contribute to the nation's stability — only added to my feelings of delight.

Hidenobu Murakami
Yamato
Japan



ART PAGE

Sketches by Liu Hang



洛典水乡景
86.6

Liu Hang, born in 1932, is a vice-president of the Zhejiang Arts Academy. The sketches were done while the painter was travelling in the countryside south of the Yangtze River.



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