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Does China Face Stagflation?





Palm-woven hats, traditional export products from Xindu County, Sichuan Province, being dried.
Photo by Sun Zhongjing

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COVER: Collection of choice dramas:
Upper left: Some facial make-up of Beijing opera; Below: From the drama "God of Fire and Young Girl"; Right: The *Wu* opera of "The White Snake." **Photos by Wu Gang**

The Seventh NPC's Second Session Ends

□ Deputies either voted against or abstained on all nine resolutions, decisions and bills that were adopted by the Second Session of the Seventh National People's Congress (NPC) often only after fierce debate. This situation of a "loyal opposition" is unique in the NPC's history and indicates further progress towards China's formation of political democracy (p. 5).

Premier Li Meets the Press

□ The 16-day session of the National People's Congress peaked with a nationally broadcast press conference given by Premier Li Peng and three vice-premiers on a wide range of topics, both internal and external (p. 10).

Does China Face Stagflation?

□ Does China's economic rectification campaign run the risk of leading to stagflation? Han Baocheng argues it will not, provided the country can eliminate excessive investment in capital construction, rationalize the country's economic structure and strengthen laws covering finance and taxation (p. 4).

The 1988 National Drama Festival

□ Last December, China's first non-governmental drama festival delighted theatre-goers in Beijing with its presentation of 19 traditional and modern productions. Sponsored by the China Dramatists' Association, the three-week festival demonstrated how Chinese drama has advanced on many fronts in recent years (p. 16).

Hope and Prospects for Afghanistan

□ It is uncertain whether Afghanistan can achieve peace or will continue fighting. If the Soviet Union does not give up its support for the Kabul regime, difficulties in restoring negotiations with Afghan resistance forces will increase, and the civil war will further expand. Kabul's fate will be decided by the extent of unity within the resistance rather than by its overall strength (p. 8).

Unless written by Beijing Review staff, the opinions expressed in signed articles do not necessarily reflect the view of the Beijing Review editorial board.

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Does China Face Stagflation?

by Han Baocheng

Speaking at the recently ended Second Session of the National People's Congress, Chinese Premier Li Peng said investment in capital construction had been cut by 60 billion yuan in 1988, and further cuts of 92 billion yuan would follow this year.

While it is widely acknowledged that China's current difficulties called for last October's rectification policy, does the severity of these cut-backs threaten to unleash stagflation?

The answer to this question is no. In fact, it is the excessive scale of investment, combined with irrationalities in the economic structure, which lies at the root of China's economic problems. Now, investment is being curtailed—and in such a way as to rationalize the economic structure.

This is made abundantly clear in the State Council's March 15 statement on current industrial policy. This programme explicitly stipulates how capital construction projects should be prioritized. Several categories should be scaled down: those that cannot take advantage of economies of scale, such as small iron and steel works, oil refineries and paper mills, and those producing goods already oversupplied, such as colour televisions, refrigerators and ring-pull cans.

There are other projects which, without exception, must be halted: those producing banned or restricted goods,

those reliant on raw materials in short supply, and various processing projects involving ordinary plastics, electric fans, copper, aluminium, wool spinning and synthetic fibre carpets. Non-productive projects, such as hotels, restaurants and office buildings, also face the axe.

Investment in basic sectors—vital for national economic strength—is encouraged, notably in transport, communications, energy, primary raw materials, agriculture and related industries such as chemical fertilizers and insecticides.

As most of the projects being halted or postponed either produce poor economic results or belong to overexpanded industrial sectors, the retrenchment outlined by Li Peng should not lead to stagflation. Instead it should aid the rationalization of the economy and add to national economic strength.

However, a good policy does not mean it will necessarily be well implemented. The State Planning Commission's office overseeing capital investment has said that with local authorities increasingly responsible for their own finances, it is difficult to control their construction programmes.

Because provincial-level governments now hand over a fixed percentage of their income to the state and retain the rest for their own use, their ability to boost production has risen dramatically. But this has created a boom in extra-

budgetary projects with short investment recovery periods, in particular processing firms and township enterprises. Many of these produce poor economic results and cause serious pollution.

These kind of schemes must be halted or postponed. But when they are, local finances suffer. Consequently, many provincial-level governments now use every means available to protect their investments. As projects 60 percent completed or funded with foreign capital are excluded from the government's list of cuts, many local governments have upped their use of overseas funds and accelerated construction to get them past the 60 percent barrier.

If China cannot succeed in axing large numbers of unnecessary schemes and rationalizing its economic structure, then it is possible that stagflation may result.

Because of this, one of the government's most pressing tasks is subordinating local interests to national ones. The State Council has demanded that the government's finance, banking and taxation departments draw up measures which make taxation, prices, interest rates add concrete force to its industrial policy statement.

It has been suggested that differential tax and interest rates could be used to support industries earmarked for growth while curbing unwanted projects. Funds could then be shifted to priority areas,

aiding the rationalization of the industry. At the same time, legislation needs to be strengthened and supported by administrative controls.

At the recent session of the National People's Congress, there was broad agreement on the nature of China's current economic situation and the need for concerted effort to realize the goals of the rectification policy.

Work is already under way to scale down capital construction as outlined in the State Council's statement on industrial policy. New measures have been drawn up to promote industrial and agricultural production. Farming, and grain in particular, looks set to strengthen its position in the national economy over the next few years.

After last year's excessive rise, the industrial growth rate stabilized in the first three months of 1989, with industrial output value up a reasonable 8 percent on the first three months of 1988. The industrial output value of township enterprises rose around 34-35 percent last year; in January and February its annual growth rate dropped back to 24 percent.

The major problems faced by medium- and large-scale state-owned enterprises are shortages of electricity and circulating funds. As a result, their total industrial output value was up just 2.9 percent on the same period last year. It is reported their performance improved in March.

On the basis of current economic indicators, China appears to have weathered the difficulties encountered last year, and has now embarked on a course of sound and reasonable development: it should avoid the perils of stagflation. □



Deputies to the Second Session of the Seventh NPC adopted resolutions, decisions and bills through voting by a show of hands. XUE CHAO

Second Session of The Seventh NPC Ends

The era of unanimous voting in China's parliament passed away, possibly forever on April 4, when the assembly managed to pass a bill only after it faced fierce debate and witnessed large numbers of delegates either voting against it or abstaining.

The unprecedented number of opposition votes indicates that deputies of China's National People's Congress (NPC) are no longer the "voting machines of China's parliament," dubbed by some Western reporters.

A State Council bill, which authorizes special legislative rights for Shenzhen's legislature, met with the largest opposition debate and votes in the history of the congress.

Of 2,688 deputies present, 1,609 were in favour of the bill, 274 against and 805 abstentions. An absolute majority is required in the NPC in order to bring any legislation into effect.

At the past NPC sessions, only a few deputies from Taiwan, Hong Kong and Macao had ever voiced their objec-

tions. But this time, many deputies from the mainland joined them in speaking out and voting with the opposition.

"The time of 'unanimous approval' has passed with the increase of democratic practices in China," commented a deputy.

With the reality of actual opposition debate and voting, new methods and facilities are required, some delegates said.

Many delegates oppose the way the NPC uses of a traditional show of hands as a voting procedure.

This way of voting was feasible in the past since there were only two or three against or abstention, said Wang Pinxian, director of the Marine Geology Department at Tongji University in Shanghai.

But now there are votes for and against a bill reflecting many differences of opinion and they should be recorded, said Wang.

Wang suggested that push-button voting counters be installed in the Great Hall of the People so that voting records

on votes like the Shenzhen authorization bill can be put under public scrutiny.

Professor Jiang Shihe, a deputy from Shandong Province, criticized the old voting procedure as being unscientific.

"I've seen some sitting members neither vote pro and con nor officially abstain," he said.

Before the vote on the Shenzhen bill, Huang Shunxing, a deputy for Taiwan, along with Xian University professor Lu Yizhong strongly criticized the State Council's motion from the floor.

Speaking over his microphone, Huang warned that such authorization granted by the NPC was under the authority of provincial legislatures, and that this action would bring China's tiers of legislative systems into a state of conflict and confusion.

He also argued that the Shenzhen bill would prove harmful to the authority of the supreme legislative organs.

Although Huang's opposition call eventually met with defeat, his speech drew strong applause from deputies.

A deputy from Zhejiang Province, also against the bill, insisted that the law was premature since there wasn't even a formal legislative structure (people's congress) established in Shenzhen.

Arguing in support of the bill, Li Hao, a deputy from Shenzhen, said that the legislative experiment in Shenzhen, a pilot region of the country's economic reform, would help the country as a whole.

This session of the NPC also made history by being the first congress never to have any resolution passed unanimously.

Even the government work report delivered by Premier Li Peng that opened the session, had two delegates raise their

hands to oppose it while four abstained.

Also passed was the first legislation to allow common people to sue government departments and officials.

That was adopted by a landslide 2,662 in favour, but still with 3 holdouts voting against it and 23 abstentions.

Five other resolutions and decisions approved during the day's sitting, including the State Council's 1989 plan for national economic and social development, the implementation of the state budget for 1988 and the state budget for 1989, a work report of the NPC Standing Committee, and work reports of the Supreme People's Court and the Supreme People's Procuratorate, met with varying degrees of opposition "nay" votes. □

Northern China Sees More Rain

A Chinese weatherman predicted China a mixed bag of goods for the coming summer.

Northern China will have a heavier summer rainfall than last one. But with the summer rains, meteorologists at Beijing's Central Meteorological Observatory (CMO) also gave odds that provinces lying in the Huaihe River's watershed — Henan, Anhui, and Jiangsu — will probably be slated for a summer deluge.

Meanwhile the southwest will be the deviationist, heading for a possible period of drought. All these are related with the current *Anti-El-Nino* event, which started last summer, said Yang Yiwen, an engineer of COM.

Roughly speaking, *Anti-El-Nino* event refers to the decline of the surface temper-

ature in the equatorial area of the east Pacific Ocean compared with the average one.

El-Nino event, which starts with an abnormal rise of the temperature in that area, has been blamed for everything from bringing murderous drought to Ethiopia to making springtime daffodils flower in mid-winter Britain.

China, said Yang, has been acting as a reacting base to El-Nino or Anti-El-Nino event. "North China was bruised in the summer of 1975 during an Anti-El-Nino period. Terrible floods hit Henan. At least 10 million people suffered losses which are still being tallied up," he said.

The latest *El-Nino* event lasted from October 1986 to March 1988, and the previous *Anti-El-Nino* period was October 1984-September 1985.

"According to historical records, during an *Anti-El-Nino* period, northern China has more precipitation with some flooding. With luck the Anti-El-Nino's trend will bring more rain to northern China's drought-struck areas, especially during the critical summer growing months, and that would be okay," said Yang.

"More than anything," he said, "drought and flood are the two major disasters faced by our country, with the former jeopardizing us more."

While floods and torrents briefly sweep down with a terrifying force, they fortunately are restricted to certain areas. Drought, however, is the "soft knife," slowly harming much larger parts of the country.

"A year of drought is always a famine one," he said, adding that during China's "Three-Year Disaster" (1959-61) — New China's greatest crisis — the major killer was the drought that laid over the nation like a black cloud.

Most Chinese would think *El-Nino* nothing more than some fancy jargon. Tell them and most would probably laugh at how some South American wind can mean a full bowl of rice on their tables.

What they do believe is an old farmers' proverb that goes, "The more snow in the winter, the more rain the next summer."

Last winter, for instance, people in Shaanxi, Gansu and Ningxia regions found seven to eight times more precipitation than they had in ordinary years. If that proverb holds, this summer then it will spell good fortune for the rain-hungry crops in these dry areas.

In China's northeastern provinces of Heilongjiang, Jilin, and Liaoning, folk belief holds that the greater the accumulated temperature the greater the harvest. Yang said that locals translate this temperature "code" as saying that although the harvests, like temperatures, will be lower than last year's, they will be greater than the average ones up there.

China, a great land with a billion-plus population, seldom misses a year where there isn't some natural disaster.

Last year, considered a moderate year in terms of calamity, had 7,300 people killed and about 50.66 million hectares of farmland washed, blown, or shaken away.

What counts first to the Chinese is that there won't be the day when the entire nation is struck at once.

But it seems, to the weatherman at least, that China might sit easy for the coming summer. Overall, there'll be fair harvests, with the big one still far off.

By Li Haibo

Weekly Chronicle

(April 2-8)

POLITICAL

April 3

□ It is necessary to study the history of the "cultural revolution" (1966-76) and draw lessons from it. But articles that are not well grounded and may mislead readers are unacceptable, says a spokesman for the Press and Publications Administration of China. Important data from that period should be collected and works which help people to draw historical lessons can be published, he added.

April 5

□ Lin Xianshun, an air force pilot from Taiwan who bailed out over Guangdong Province February 11 after a malfunction in his aircraft, recently joined the People's Liberation Army Air Force, says Xinhua. Lin now ranks a lieutenant colonel — the same as his former position — and has been appointed deputy chief of staff of an institute attached to the Air Force.

ECONOMIC

April 2

□ Foreigners re-enter Lhasa, Tibet. The first group since the March 8 declaration of martial law there comprises five West Germans, who are going to assist a leather factory there in its technological transformations.

April 6

□ According to the State Statistics Bureau, the total retail sales for the first two months of this year reached 136.8 billion yuan, an increase of 20.9 percent over the corresponding period last year. After deducting price rises, the real rate of growth showed a slight decrease. But buying sprees again broke out in Shanghai,

Jiangsu, Zhejiang, Liaoning and Sichuan in late February, triggered chiefly by price increases for knitwear, especially knitting wool, and increased tax on colour TV sets.

FOREIGN RELATIONS

April 4

□ China expresses its utmost indignation and issues a strong protest over the killing of two Chinese fishermen by armed Vietnamese ships on March 26.

April 6

□ A Chinese Foreign Ministry spokesman issues a statement expressing the hope that the Vietnamese government will keep its promise to withdraw its troops from Kampuchea before the end of September. It also urges that the withdrawal be conducted under effective international supervision.

April 7

□ Chinese Premier Li Peng says that China, together with the concerned countries, will stop supplying military aid to Kampuchean resistance force if Viet Nam completely pulls out.

SOCIAL

April 5

□ A 100-square-kilometre prairie fire in northeast China's Inner Mongolia Autonomous Region has been put out. The fire has blazed since March 30. There were no casualties.

CULTURAL

April 7

□ Taiwan will send its first sports team — a gymnastics team — to the mainland to compete in the Asian Junior Gymnastics Championships, to be held in Beijing April 21-23, Xinhua reports. □

Afghanistan: Situation and Prospects

The situation in Afghanistan has become very complicated since the Soviet troop withdrawal, because the Soviet Union and the Afghan resistance forces have not reached a political settlement. It is still not sure if the country will see peace or more fighting. If the Soviet Union continues to support Najibullah, it will be difficult for it to reach agreement with the Afghan resistance, and the civil war will expand.

by Hong Xicheng

The situation in Afghanistan following the Soviet withdrawal is now at the stage where guerrilla forces have taken the offensive, taking provincial capitals and nabbing county and military strongholds.

Everywhere there's evidence of the progress by the resistance forces. There are the widened controlled areas, newly captured weapon and logistic corridors and the seizure of large amounts of Kabul's weapons and ammunition.

The few remaining large cities, such as Kandahar, Jalalabad and Kabul, have been surrounded by the resistance forces, which have increased in strength over the past year, putting themselves in a more favourable position.

Kabul's fortunes have slipped even further with the Soviet withdrawal. Without Soviet troops to prop it up it has become increasingly isolated.

Despite Kabul's attempts to legitimize itself, all its proposals have been rejected. The regime suffers from a low fighting morale and self-inherent contradictions.

There can be no comparison between Kabul and the resistance forces. Kabul's People's

Democratic Party (PDP) is unable to recover the momentum and is marking time until defeat.

Moscow originally wagered on the PDP to continue its influence. At the very least, it counted on that party to form the leading core of a coalition government. If this is not realized, it will support its Kabul-rooted party in a civil war. That's why it has firmly refused to recognize the resistance forces. Facts though have proved that the Kabul regime cannot be sustained without Soviet army's support.

The Geneva accords, which were signed between the Kabul regime and Pakistan under the UN mediation, is only the first step towards peace in Afghanistan, said UN Secretary-General Javier Perez de Cuellar.

Because the resistance forces did not participate in the negotiations and the accords failed to provide for a ceasefire and an agreement on a future government, a comprehensive political settlement has not been reached.

But without a political settlement plan, the internal conflicts caused by Soviet aggression will not only continue, but expand.

In view of this, the parties concerned have carried on a series of diplomatic activities promoting conciliation so as to work out the formation of a future government and avoid a power vacuum after the Soviet withdrawal.

The Afghan war brought a heavy political, military and economic burden to the Soviet Union and also isolated it from the world.

The Soviet decision to withdraw its troops from Afghanistan, as one of the first in a series of achievements reflecting Moscow's "new thinking" in foreign policy, also conforms with the interests of the Soviet people.

The Soviet Union though has had difficulty ridding itself of its Afghanistan problem. It made concessions only when there was no other choice. This is a key factor in blocking an immediate and smooth settlement of the Afghan issue.

After the signing of the Geneva accords, the Soviet Union often criticized Pakistan and the United States for violating them by providing and transporting weapons to the Afghan resistance.

While threatening to make reprisals for this, the Soviets



On February 15, Soviet military vehicles rolled back to their homeland.

repeatedly promised compliance with their treaty commitment to promptly leave the country.

The Soviets have been left in a truly no-win situation. In a last ditch attempt to keep the PDP in control, they have maintained support while they pulled out.

Until withdrawal deadline, the Soviets accepted the second best alternative. It gave up the illusion of the PDP occupying the main role in a future government, and suggested that the posts of prime minister, defence and interior ministers can be given up to other factions in a popular coalition.

After this proposal was rejected, it carried out a new diplomatic offensive.

Last October, the Soviet First Deputy Foreign Minister Yuli Vorontsov was appointed Soviet ambassador to Afghanistan and given full powers to promote peaceful negotiations. Shortly after taking office, he launched a peace offensive offering direct talks with the resistance forces, something which the Soviets had always refused in the past.

He then met leaders of countries with immediate concerns, such as Saudi Arabia, Iran and Pakistan. He later met leaders of the Afghan seven-party resistance alliance and the eight-party resistance alliance and former King Zahir Shah.

Soviet leader Mikhail Gorbachev addressed the Afghan issue in his speech to the United Nations and in his talks with both former US President Ronald Reagan and President George Bush last December, putting forward new proposals for an overall ceasefire and stopping providing weapons to rival sides in Afghanistan. On January 6 this year, Vorontsov followed up by holding a second-round talks with the seven-party and eight-party resistance alliances.

With the flexible Soviet stand in flux and continually adjusted to match the battlefield situation in Afghanistan, the Soviets have made some substantial concessions. But, with the Soviet insistence that the PDP should have a role in any future coalition government, further progress has been deadlocked.

The Soviet Foreign Minis-

ter, Eduard Shevardnadze, in attempts to break the deadlock, travelled to Kabul and Islamabad, and Vorontsov visited Tehran again, all without successes.

It is clear that the current Soviet policy on Afghanistan is open to change. But the change is slow. The Soviet Union began its infiltration into Afghanistan in the mid-1950s, and it is not likely that Moscow will abandon its vested regional interests. These interests promise to be a recurrent factor for negotiations.

Even if pro-Soviet forces — the PDP — are excluded from a coalition, the Soviet Union will try to maintain and expand its influence by exploiting the historical and geopolitical conditions there. This would be the last card the Soviets would play in a hand of diminishing choices.

The Soviet Union has prepared for both eventualities. On the one hand, it is trying to achieve a political settlement with the PDP sharing power, so, it will continue peaceful negotiations after its troop withdrawal. On the other hand, if this cannot be accomplished, it plans to help foment a civil war. Shevardnadze has clearly said that the Soviet Union is committed to the Kabul regime, and if the fighting continues after its withdrawal, it will keep on providing support to Kabul. So the Soviet Union will continue to airlift weapons and other supplies to Kabul and send military advisers and experts. The Soviet Union has already provided the Kabul regime with new advanced weapons, such as Mig-27 fighter planes and SS-1 Scud missiles.

(To be continued)

Premier Li On Internal, External Policies

by Our Staff Reporters Yang Xiaobin and Li Rongxia

Premier Li Peng and Vice-Premiers Yao Yilin, Tian Jiyun and Wu Xueqian fielded questions at a press conference held by Yao Guang, spokesman for the Second Session of the Seventh National People's Congress, at the Great Hall of the People on April 3.

Errors in Decision Making

China Daily: Who should take responsibility for errors made by the government last year and how will the government guarantee future democratic decision making and avoid the same errors in the future?

Li Peng: I already touched upon the errors and shortcomings made by the government last year in the Report on Government Work.

All these errors were made in the process of progress and developments.

We have made great progress in the past decade in scientific and democratic decision making, otherwise one can't explain all the achievements we have made in the past ten years. Of course, there is still much room for improv-



Self-composed, confident: Premier Li Peng faces the press. XUE CHAO

ing the decision-making process in a scientific and democratic way, and the current government will continue to improve and strengthen its work in this regard.

The Chinese Communist Party is a ruling party. When the conference of the Central Committee of the Communist Party adjourns, its highest decision-making organ is its Political Bureau or Standing Committee. The State Council, as the executive body, has not only to carry out the decisions and laws made by the National People's Congress, but also to

implement the Political Bureau's policies and decisions.

I think it is a collective responsibility of the Political Bureau of the Chinese Communist Party and its Standing Committee. As premier of the State Council and a member of the Politburo Standing Committee, I myself am involved not only in decision making, but also in carrying out the decisions. I cannot escape responsibility.

Our purpose of pointing out these errors and shortcomings is to sum up our experience and avoid making errors and shortcomings in future work

and work with the people of the whole country to better develop the economy, conduct reform and open up to the outside world.

Reform Continues

Izvestia (USSR): What does deep reform mean and what experiments over the past decade in it have been found unsuitable to Chinese conditions?

Li: The main points of China's work are to improve the economic environment, rectify the economic order and deepen the reform for the next two years.

The improvement of the economic environment and rectification of the economic order aim at creating better conditions for continuing reform.

All major reform policies that have proved successful will continue. These policies include the household-based contract farming system in rural areas, the contractual system for enterprises in cities and reform measures that have been taken in the fields of foreign trade, finance and planning.

The development strategy for coastal areas and the policy of developing special economic zones will also continue.

The improvement and rectification will offer us opportunities and the future reform measures will be first tested so as to be smoothly introduced.

Sino-Soviet Summit

A Czechoslovak reporter: What aspects of Sino-Soviet relations will make the quickest and greatest progress as a result of the forthcoming Sino-Soviet summit?

Li: I think the forthcoming

A Spanish reporter flings a question at Li.

Sino-Soviet summit will benefit the normalization of the Sino-Soviet relations most.

Relations between the two nations were abnormal, and this abnormality is quite unfavourable to the two peoples who share a border of 7,000 kilometres.

China follows an independent peaceful foreign policy. The normalization of Sino-Soviet relations will help provide China with a peaceful international environment.

The normalization will also promote co-operation between the two countries in the fields of economy, culture, education, etc.

During the summit, leaders of the two countries will exchange views on the international situation and bilateral relations. The Kampuchean issue will be an important topic in the summit.

Views will also be exchanged on economic co-operation, but that will not be an important topic during the summit.

The Premier's Japan Visit

Central People's Broadcasting Station: I want to ask if Pre-

mier Li Peng has any special consideration in making his visit to Japan at a time when Japanese Prime Minister Noboru Takeshita is under Diet pressure stemming from the Recruit Cosmos affair. Another question is that people are worried about the prospect of agriculture. Vice-Premier Tian Jiyun, since you are in charge of agriculture, what measures do you plan to take to change this situation?

Li: China has no intention of interfering in or influencing the current political situation in Japan on my upcoming visit to that country.

My visit is a return one to Prime Minister Takeshita's China tour last August. The time was agreed upon last year.

During my stay in Japan, leaders of the two governments will exchange views on international issues of mutual concern and on bilateral relations.

I expect to meet people in various fields, statesmen both in and outside the government as well as state leaders.

The purpose of my visit is to continue developing long-term, friendly Sino-Japanese relations fostered by the statesmen and people of our two countries over the years.

Unless something extraordinary crops up, my Japan tour will begin in nine days.

Food

Tian: For a country like China with a population of one billion, grain production is an essential task in our economic work.

Last November the



XUE CHAO

Party Central Committee and State Council convened a conference on agriculture. Measures adopted at the meeting included deepening the rural reforms, perfecting the policies for pricing, purchasing and marketing farm products, increasing input and spreading agricultural technology.

Attention was also paid to how to find ways to make the best use of agricultural resources. Government bodies at all levels now give full attention to the agricultural issue. I think this year we can put an end to the lingering agricultural stagnation, which has been with us for the past several years, and bring in a new peak in agricultural production.

I'd like to stress that the Chinese government and people are completely able to solve their food problem by relying on themselves.

No Meddling in China's Internal Affairs

Newsweek: Recently some Chinese intellectuals, such as Xie Binxin, Su Shaozhi and Bei Dao, signed a petition for the release of Wei jingsheng. How will you solve this problem and is it true that the Chinese government is losing the support of some intellectuals?

Li: The Chinese government attaches great importance to the question of human rights. Since the end of the "Cultural Revolution," the basic rights of citizens have been guaranteed.

We'll continue to make improvements in this regard, if there is anything unsatisfactory.

The concept of human rights is an abstract one and various countries have stipulated it in their own laws. In China, citizens' rights and obligations are

stipulated in the second chapter of the constitution.

We won't allow some foreigners to use human rights as a pretext to interfere in China's internal affairs.

We guarantee the freedom of the citizens to exercise their rights within the constitution and other laws, but activities beyond these provisions will be limited.

China badly needs a stable situation, and that will be in the interests of the Chinese people.

Martial Law in Lhasa

A Hong Kong reporter: When will martial law in Lhasa be lifted?

Li: Martial law went into effect on March 8 in the wake of an unrest there. Peace has now basically returned to the city, but there are still some destabilizing factors.

Some people advocating the independence of Tibet are still looking for opportunities to stir up new riots. Therefore, at present, conditions are not ripe for lifting martial law. Once conditions there are ripe, martial law will be lifted.

Political Reform

ANSA: Premier Li, you mentioned just now that the guiding errors made in the government's work should be a collective responsibility. Now that other socialist countries are carrying out political reforms in order to tackle the collective responsibility question, are Chinese leaders willing to conduct similar political reforms?

Li: China, of course, is willing to carry out political reforms, which should go hand in hand with economic reforms. The Soviets have their own conditions and China also has its

own. China cannot copy the Soviet Union's policies and measures, just as it hopes that other socialist countries do not copy the conducts and practices of China. Every country should decide on its policies according to its own conditions.

Special Economic Zones

Central People's Broadcasting Station: What influence will the current campaign to rectify the economic order and improve the economic environment have on the Special Economic Zones, such as Shenzhen, Zhuhai and Hainan?

Tian: China will not change its policies for the Special Economic Zones and coastal open areas.

The change, if any, is that they will have to make some readjustments to their coastal development strategy so as to contribute to the development of the inland areas.

The Three Gorges Project

A Dutch reporter: Is it true that the Three Gorges Project is going to be initiated despite controversies?

Yao: There are some controversies over the project. Both the pro and con sides have their reasons. Therefore, the feasibility needs further examination.

I think the project is not to be started in the next five years. In the future, the project will have to be approved by the National People's Congress before any actual work starts.

NPC Supervision

A Hong Kong reporter: How can you convince the people that the National People's Congress and the Chinese People's Political Consultative



Fielding press questions: Premier Li (centre) and vice-premiers: Tian Jiyun (second from left), Yao Yilin (third from right) and Wu Xueqian (far right).

XUE CHAO

Conference really have power?

Li: The State Council is obliged to execute the laws and decisions made by the NPC and should be subject to the supervision of the NPC.

During sessions of the NPC, members of the State Council will heed criticism and suggestion from the deputies. In this regard, some improvement has been made this year and is welcomed by the people. We'll continue this practice.

After the closing of NPC, the State Council will report to the Standing Committee of the NPC on some specific issues.

The NPC has decided that in the third quarter of each year, the State Council should submit a report to the NPC on the implementation of the state budget and of the national economic plan. The supervision of NPC will help us do our job better.

Workers' Initiative

Workers' Daily (China): How will the workers' status as mas-

ter of the state be embodied and guaranteed in light of the current call for strengthening the authority of enterprise managers?

Li: It is impossible for our country to develop without the enthusiasm of the workers, farmers and intellectuals. The Enterprise Law has stipulated the workers' role and the importance of this enthusiasm.

I think the development of economic construction and the deepening of economic reforms will make it necessary to have some additional regulations and measures.

The State Council will hold a meeting to commend model and advanced workers, peasants and intellectuals to mark the 40th anniversary of the founding of the People's Republic of China. This shows that the Chinese Communist Party and the Chinese government attach great importance to the role of the working class, including peasants and intellectuals in a broad sense.

Democracy

A Hong Kong reporter: Will you comment on the relationship between stability and democracy, Premier Li?

Li: Democracy is a good thing, but it must suit the concrete conditions of a certain country. As far as China is concerned, it is our aim to promote the democratic process.

If this question is handled properly, economic development will be enhanced and social stability be promoted. If it is dealt with improperly, for example, too impatiently and over-stressed, then national unity and stability will be affected and in that case, construction and reform cannot proceed smoothly.

National Defence Education

A Chinese reporter: Should defence spending keep pace with the growth of the national economy? What concrete measures will the State Council take in dealing with national

defence education for people, especially for officials at levels?

Li: This year the state has increased some military expenditure. But this is far lower than the price hike. So in reality there has been no addition to the military expenditure. It is necessary for our country to have an increase in its military expenditure to enable it to perform its sacred duty.

Governments at all levels should pay attention to national defence education. As a large comprehensive department, the State Educational Commission should take a certain responsibility in this regard. The local government without similar organs must arrange a department to take charge of this.

On Learning from Foreign Experience

A Yugoslav reporter: Recently Chairman Deng Xiaoping said that China has prepared to establish several zones similar to Hong Kong in its eastern and western areas. Will China un-

dertake the work at once or after several years of readjustment?

Li: I have never directly heard of Comrade Deng Xiaoping explaining this issue. I only read it in the newspapers. To my understanding, what Comrade Deng Xiaoping said does not mean China will adopt Hong Kong's social system in other areas. China's mainland institutes a socialist system and Hong Kong maintains a capitalist system.

It is understandable if what he meant was that some coastal cities will learn from Hong Kong some of its experience in financing and other fields to realize prosperity as Hong Kong has done. We will draw from the good experiences of the West in practising the open-door policy, but it must be done in accordance with China's conditions.

A Chinese report: Some people hold that China's undertaking of Asian Games is a mistake. What do you think of this?

Li: The Asian Games will be held next year, but the government is facing a shortage of

funds to complete the projects for the Games. The financial problems would not have occurred if excessive funds had not gone into such unnecessary projects as posh hotels and office buildings.

But we have no other way out. We must overcome whatever difficulties we come across, honour our promise and fulfill our international obligations.

We must see the positive side of the Asian Games held in China. The occasion will help to exchange sport experiences, to promote sports in China and give a lift to people's morale.

The Asian Games project has provided us with a lesson, so we will be more careful next time.

New Situation Totally Different From the 1960s

Time (USA): Do you think the current economic difficulties in China resemble that of the 1960s?

Li: No, they are utterly different from those of the 1960s. Since we were able to over-

come the difficulties of the 1960s, why can't we overcome the present ones? So we have full confidence in overcoming them. The present difficulties have appeared while we have progressed and moved forward. It is imperative for the entire nation to unite as one and work wholeheartedly to overcome these difficulties.

The present NPC session has done a good job in mobilizing the Chinese people to wholeheartedly rectify the economy and deepen reforms and it has given us strength and con-

XUE CHAO



Tackling a toughie: Li conferring with Yao.

Resolutely Carry Out the Principles of Improvement, Rectification and Deepened Reform

— Report on the Work of the Government

(Delivered at the Second Session of the Seventh National People's Congress on March 20, 1989)

Li Peng

Premier of the State Council

Fellow Deputies,

Improving the economic environment and rectifying the economic order are the focal points of construction and reform in our country as well as the focal points of the work of the government for this year and the next. Therefore, on behalf of the State Council, I now submit a report on the work of the government, mainly elaborating these questions, for examination and approval by this session.

I. Concentrate on Improvement and Rectification

The year 1988 was the tenth year since China introduced the policies of reform and opening to the outside world. During the past ten years tremendous changes of historic significance have taken place in all aspects of life in China: The productive forces expanded substantially, the national economic strength grew noticeably and the living standards of both urban and rural people improved markedly. All this proved the correctness of the line pursued since the Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party, which was held in December 1978. The year 1988, just passed, was a year of continued advance in China's socialist modernization drive.

The national economy continued to grow. In



1988 the gross national product reached 1,385.3 billion yuan, representing, calculated in terms of comparable prices, an increase of 11.2 percent over 1987, and national income came to 1,153.3 billion yuan, representing, likewise calculated in terms of comparable prices, an in-

crease of 11.4 percent. Under frequent natural disasters across the country, the output of grain and cotton dropped by 2.2 percent and 1.1 percent respectively. However, many other farm products and diversified undertakings have grown, and the total output value of agriculture still increased by 3.2 percent. Because vast numbers of peasants sold their grain to support national construction, the quotas of grain purchase have basically been fulfilled nationwide. Industrial production, transport and post and telecommunications continued to develop. Considerable increase was registered in the output of steel, coal, electricity and petroleum and an even faster increase in the output of industrial products for daily use and agriculture-oriented industrial items in short supply. Compared with 1987, overall labour productivity in industrial enterprises was up 9.3 percent and the consumption of energy and electricity for every ten thousand yuan of industrial output value went down by 5.63 percent and 5.75 percent respectively. The living standards of the majority of the urban and rural population were raised on the basis of increased production.

New achievements were scored in key construction projects. A total of 78 large and medium-sized capital construction projects and 138 important single projects in other large and medium-sized projects were completed and put into operation across the country. A number of major construction projects such as power stations, coal mines, railways and ports were completed and put into operation, thus adding to the strength for future progress in our modernization drive. Among the major newly added production capacities were: 9.99 million kw of electricity, 30.9 million tons of coal, 15.77 million tons of crude oil, 600,000 tons of ethylene, 2.46 million tons of cement, 7.92 million weight cases of plate glass, 419 kilometres of railways, 820 kilometres of double-track railways, 1,487 kilometres of electrified railways, and 8.78 million tons of handling capacity of coastal ports.

Reform of the economic structure continued to deepen. The contracted managerial responsibility system was systematically improved and enterprises were further vitalized. Labour productivity in many enterprises was increased through the optimum organization of labour. Markets for commodities, funds, technology, labour services and foreign exchange regulation were expanded. With regard to the regulation and control of the economy as a whole, we

gradually carried out reform in the systems of planning, investment, materials supply, banking and foreign trade and achieved initial results in tightening control over finance, taxation, banking, pricing, auditing, customs and the administration of industry and commerce.

The scope of opening to the outside world was further enlarged. The total volume of import and export exceeded US\$100 billion, representing an increase of 24.4 percent over the previous year. The export of manufactured products assumed a larger proportion. Foreign funds totalling US\$9.84 billion, 16.4 percent more than in the previous year, were actually utilized. The establishment of 5,940 new enterprises with foreign investment was approved, more than in any of the previous nine years. Contracting of projects and labour service cooperation abroad earned approximately US\$1.3 billion. International tourism brought in \$2.22 billion, showing a considerable increase over 1987.

New successes were gained in science, technology, education, culture, public health and sports on the basis of economic development. The successful underwater launching of a carrier rocket from a nuclear-powered submarine and the successful collision of the electron-positron collider in Beijing indicated China's marked advance in certain high-tech spheres. Fresh progress was made in the building of socialist democracy and the socialist legal system. Structural reform of the State Council was completed in the main in line with the programme approved by the First Session of the Seventh National People's Congress. The departments of public security, state security and justice did a great deal of work to ensure public order. The people's army played a tremendous role in and made outstanding contributions to defending the motherland and supporting socialist modernization as well as in coping with emergencies and helping people tide over natural disasters.

While we attained successes in all fields of endeavour, we were challenged by a great many problems and difficulties, the most outstanding ones being the conspicuous inflation and the excessive price hikes. The general index of national retail prices was up 18.5 percent over 1987. The increase rate of commodity prices was so high that it was beyond endurance by the masses, the enterprises and the state, and the actual living standards of a considerable number of urban residents dropped. This aroused

concern and great anxiety among the public and affected social stability and people's confidence in reform. Unless we take resolute measures to curb inflation, economic stability and development will be out of the question and reform in various quarters cannot be deepened.

The swelling of inflation was the outcome of the overheated economic growth, the mounting demands for investment and consumption and the outstripping of total supply by total demand. Too many projects of fixed assets were being built across the country, their overlarge scale surpassing the capacity of the national strength. Consumer demand was too high and the growth of the social purchasing power surpassed the growth of commodity supply. State expenditures were higher than revenues, bank credit was unduly large and the issuance of currency was excessive. Total demand outstripped total supply, the economic structure was out of balance, the development of agriculture was held up, an excessive amount of limited resources was put into the processing industry and nonproductive construction projects and industrial production expanded at a high speed — all this entailed a heavier strain on the supply of energy and raw and semifinished materials and transport capabilities. Some departments and individuals engaged in profiteering, practised extortion from one level to another, and manufactured and sold fake and inferior products in pursuit of personal gain, stimulating a further hike in commodity prices and producing chaos in the economic order.

All this has happened because a new mechanism of self-regulation and self-restraint cannot take shape quickly in a period when the old structure is being replaced by the new. In the meantime, however, we also had shortcomings and mistakes in our guidance of the work. Generally, there was a tendency to be too impatient for quick results in economic development. True, as China is a developing country, we do need to develop our economy at a certain speed. But more often than not we tended to ignore the fact that China has a huge population, is relatively short of resources and has an unevenly developed economy. As a result, in our guidance of the work we failed to make adequate effort to prevent and set to rights tendencies such as blindly enlarging the scope of construction, putting undue emphasis on output and output value, and vying with one another in accelerating the speed of development. The orientation of reform is correct and

successes have been achieved in general, but in our guidance of the work we often lacked a full understanding of the arduousness and complexity of reform, did not pay sufficient attention to taking comprehensive and coordinated measures, and failed to tighten control and supervision at the right moment and establish in time a system of macroeconomic regulation and control when we persisted in decentralizing power and invigorating the economy. At the beginning of last year we formulated the principles of stabilizing the economy and deepening the reform, but we failed to persist in giving first priority to stabilization of the economy and to take firm action and effective measures in carrying out the principles, because we were too optimistic in our assessment of the economic situation in 1987. Although we recognized the importance of price reform in the economic restructuring as a whole, in our practical work we did not take into full account the endurance of the state, the enterprises and the masses. Instead of taking vigorous measures in good time to stabilize finance and control prices when inflation was already rather conspicuously felt, we relaxed control over and readjusted the prices of more commodities, only to intensify the panic of the masses over the price hikes and evoke a buying spree and a drop in savings deposits in many localities.

At the Third Plenary Session of the Thirteenth Central Committee, convened last September, the Chinese Communist Party correctly analysed the economic situation in the country, proposed the principles of improving the economic environment, rectifying the economic order and deepening the reform in an all-round way, and decided to focus on improvement and rectification in construction and reform this year and next. To put the principles and decision into effect, it is necessary to integrate stability with reform and development, so as to propel reform and development in the midst of stability. Beginning this year, we shall work hard for two or more years to attain the goals designed for improvement and rectification.

1) We shall cool down the overheated economic development and reduce the speed to a reasonable level.

2) We shall curb inflation to make the price increase rate in 1989 conspicuously lower than it was in 1988 and still lower in 1990 and thereafter.

3) We shall curb investment in fixed assets, making it accord with the capacity of the na-

tional strength, and we shall prevent consumption funds from growing too rapidly, making them grow in accord with the increase in national income.

4) We shall gradually keep total demand from outstripping total supply and bring about a basic balance in finance, credit, materials supply and foreign exchange.

5) We shall make serious efforts to readjust the economic structure in order to increase considerably the output of grain, cotton, edible oil and other major farm products and ease the strain on the supply of energy, transport services and raw and semifinished materials.

6) We shall establish and improve necessary economic statutes and macroeconomic control and supervision systems and bring about a new order of socialist commodity economy.

Only when we have attained these goals shall we be able conspicuously to improve the quality and performance of our economy and ensure sustained growth of the national economy.

Over the past six months following the Third Plenary Session of the Thirteenth Central Committee of the Party, the State Council and governments at all levels have worked hard and achieved initial results in improving the economic environment and rectifying the economic order.

— We have drastically reduced investment in fixed assets. By the end of February this year the construction of 18,000 projects of fixed assets throughout the country had been stopped or suspended, reducing investments by 64.7 billion yuan for a few years to come, which accounts for 12 percent of the remaining amount of work for all the projects. However, screening and reducing investment in fixed assets have not been completed yet and the task remains very difficult.

— We have kept bank credit under control, seen an increase in savings deposits and stabilized the financial situation. Bank credit has been brought under control because we tightened financial management. Banks have twice raised interest rates on savings deposits and introduced inflationproof and prize-giving savings deposits, activating the economic lever and bringing about a gradual recovery and an upturn in both urban and rural savings deposits. At present, however, the currency issue nationwide remains enormous, and many localities and enterprises are experiencing a shortage of funds, which we should try to make up by taking such measures as readjusting the struc-

ture of credit, while first persisting in financial retrenchment.

— We have cut institutional purchases. The number of commodities under special government control has been increased from 19 to 32, and last year's volume of retail sales dropped by 9.1 percent compared with 1987. Institutional spending by departments at the county level and above, however, rose by 1.8 percent over 1987. Cases of wining and dining, entertaining guests, presenting gifts and touring the country at public expense have decreased in Party and government departments. However, extravagance and waste are still very serious in various quarters, so we must redouble our efforts to banish such practices.

— We have conducted a nationwide inspection of business accounting, taxation and pricing. Violations of financial discipline amounted to a total worth of 7.41 billion yuan that should have been handed over to the state treasury, of which 5.65 billion yuan has been handed over. In the course of inspection a number of violations of the law, such as tax evasion, profit retention, arbitrary price hikes and service charges, graft, acceptance of bribes and embezzlement, were uncovered and dealt with, leading to a preliminary strengthening of the control over taxation, business accounting and prices.

— We have improved the sequence of circulation. Companies of various types are being closely screened, with emphasis on the ones established since 1986 and all those engaged in circulation of commodities. By the end of January this year 17,092 companies that were unqualified or should not have been operating had been closed down or incorporated into other companies. Of the 24,187 companies operated by Party and government departments, nearly 20,000 had been closed down, incorporated into other companies or separated from those departments, accounting for about 80 percent of the total. Over 70 percent of the more than 40,000 working or retired Party and government cadres who professionally or concurrently held posts in companies had resigned from their posts in the companies or in Party and government departments or had gone through formalities in accordance with relevant regulations. The practice of Party and government departments' doing business and operating enterprises had been curbed by and large. In the course of screening, a number of violations of the law and discipline, including some serious and impor-

tant cases, had been investigated and dealt with. The thorough screening of companies will continue. Control over some important products and commodities in short supply has been tightened and some commodities have been placed under special control—these measures have helped restrain price hikes, panic buying and profiteering, establish market order and stabilize prices.

— We have made efforts to increase the supply of essential products. While trying to curb total demand, we gave vigorous assistance, in terms of funds, materials, foreign exchange and transportation, to the production of grain, cotton, edible oil, meat, poultry, eggs, vegetables and other farm and sideline products, manufactured items of everyday use, and commodities that are in short supply or are exported to earn foreign exchange. In this way we have basically guaranteed supplies for the domestic market and met the demands of expanded foreign trade. For New Year's and Spring Festival this year there were ample supplies of goods on the market.

Our work over the past six months has helped slow down the economic growth rate, weakened price hikes, alleviated people's panic over prices, and more or less stabilized urban and rural markets.

We feel there should be two basic judgments of our efforts to improve the economic environment and rectify the economic order over the past six months:

First, experience has shown that the principles, policies and measures for improvement and rectification decided upon by the Central Committee of the Party and the State Council are correct. Provided we adhere to them strictly, analyse new developments and solve new problems as soon as they arise, we shall assuredly be able to overcome the difficulties on the way ahead.

Second, the results achieved so far are merely preliminary, falling far short of the goal of improvement and rectification. Moreover, quite a few comrades still lack an adequate understanding of the necessity and difficulty of the goal. Ours is a colossal task that will bring with it new difficulties in certain aspects of the work, and things will become harder if we do not persist. So, the only alternative left to us is to face the difficulties squarely and press forward without giving up halfway.

In order to do a solid job of improvement and rectification, we need to accept the following

three points:

1. The governments at all levels, government personnel and leading members in particular must firmly uphold the authority of leadership by the Central Committee of the Party and by the State Council over the work of the government, firmly uphold the authority of the law and discipline, obey orders and observe prohibitions strictly. Experience has proved time and again that without the necessary centralization and unity, without strict organization and discipline, it would be absolutely impossible to readjust the economy and overcome difficulties.

2. Improvement and rectification will inevitably necessitate readjustment of interests. All localities, departments and units should take the interests of the whole into account and firmly subordinate the interests of the part to the interests of the whole. If we fail to do so, if everybody refuses to give up his vested interests in favour of the interests of the whole, improvement and rectification will exist only on paper.

3. During the period of improvement and rectification, both government and people should be mentally prepared for a few years of austerity. Governments at all levels, starting from the State Council, all departments, and the large numbers of cadres, especially leading cadres, should take the lead in practising thrift and economy, work hard and eliminate extravagance and waste without fail. If we set a good example and explain clearly to the people the objective need for austerity, I am convinced that they will understand and support it.

In short, the State Council hopes that leading members of governments at all levels and all departments will heighten their awareness of and think and act in compliance with the principles and policies of the Central Committee and the State Council, work with one mind, unite with the masses, concentrate all their efforts on improvement and rectification, and unrelentingly try to stabilize the economy and deepen the reform.

II. Curb Demand—the Focal Point of Our Effort to Improve the Economic Environment and Rectify the Economic Order

China's recent inflation was caused mainly by overheated economic development and exces-

sive demand. As a matter of course, we should try to curb demand and increase supply in our attempt to improve the economic environment and rectify the economic order, but, first and foremost, we should cut total demand without the slightest hesitation.

Reduction of total investment in fixed assets, an important measure that will have a decisive bearing on the success of the curbing of total demand, constitutes the primary task in checking inflation and stabilizing the overall economic situation. The State Council has decided to reduce total investment in fixed assets this year by 92 billion yuan, a reduction of 21 percent from last year; 51 billion yuan should be investment by state enterprises and institutions, representing a reduction of 19 percent. We still have a long way to go to meet that requirement in spite of the work already done by various localities, and, besides, the development is quite uneven. Hence we must persist in our endeavour.

The key to curbing and controlling the amount of investment in fixed assets lies in screening projects under construction. The investment can be cut back only when a great number of such projects are stopped. The construction of many office buildings, auditoriums, hotels and nonproductive projects should be cancelled, and even that of some productive projects should be stopped or suspended. Not only should projects that should not be built be cancelled but the ones that should be built must comply with financial and material capabilities as well as other conditions and follow an order of importance and urgency. The various departments and localities should proceed strictly in accord with the industrial policy and the list of projects to be screened issued by the State Council, resolutely stopping or suspending the construction of projects required to be stopped or suspended, and no cheating whatsoever shall be allowed. It is imperative to tighten, through economic, legal and necessary administrative means, general control over all investments in fixed assets, keeping those covered by the state plan under proper control and paying particular attention to bringing those outside the state plan and budget under strict control. Loans offered by banks as investments should be controlled under a mandatory plan, and other financial institutions should be prohibited from engaging in investment and credit activities, in order to resolutely restrict the expansion of investment

in fixed assets with funds pooled in society at large. In the course of improvement and rectification effective control must be exercised over new projects. No projects may start construction without obtaining approval by relevant authorities according to regulations, and the construction unit and the department in charge shall be held responsible for starting an unauthorized project. We must take effective measures to ensure compliance with the state plan and policies, meting out due economic and administrative measures against localities and units that run counter to them.

In the course of improving the economic environment and rectifying the economic order, we should also firmly curb the excessive growth of consumer demand. For this purpose, we should lay stress on the following points:

First, cut back and control institutional consumption. Institutional purchases of the whole country this year will be 20 percent lower than in 1988.

Second, keep increases in total payroll under strict control and put an end to indiscriminate distribution of bonuses and subsidies in cash or in kind and unauthorized increases in subsidies and allowances. Tighten control over wages, improve the method for issuing wages and bonuses in enterprises, especially in various types of companies, tighten control over and supervision of funds of the enterprises, and levy a bonus tax and regulatory tax on wages in strict compliance with state regulations.

Third, encourage people to save more money in the bank and guide consumption in various ways so as to attract savings and spread out purchases over a longer period of time. An increase in urban and rural savings deposits is not only necessary and possible, but beneficial to both state and people. Therefore, an all-out publicity campaign should be launched and various measures taken to facilitate people's saving and increase savings deposits.

All departments in charge of macroeconomic management and supervision should assume full responsibility to exercise strict control over consumer demand. The state, enterprises and individuals should all foster the concept of improving living standards on the basis of developed production, conscientiously check the desire for excessive consumption, oppose extravagance and waste of all descriptions and carry forward the fine tradition of being thrifty and hardworking.

While trying to curb total demand, we should

also work hard to improve and increase the supply of essential products in order to ameliorate the imbalance between market supply and demand and meet the needs of people's daily lives and of national construction. By supply of essential products we mean chiefly grain, cotton, edible oil, meat, poultry, eggs, vegetables and other major farm and sideline products, manufactured goods of everyday use, textile and other light industrial products as well as industrial products used in farming that are readily marketable and in short supply, goods that can recover a considerable amount of currency, export products that can earn foreign exchange, transportation services and energy that are indispensable for production and in people's daily lives, and raw and semifinished materials that are in short supply. We do not mean indiscriminate increases of all kinds of products. To improve and increase the supply of essential products we must apply and spread the use of advanced scientific and technological results and managerial skills, tap the potential of existing enterprises, cut material consumption, improve product quality, raise labour productivity and increase returns on funds utilized. Enterprises of every trade should endeavour to increase production, practise economy, raise revenues and reduce expenditures over a long period of time, and be truly devoted to developing production by enhancing economic performance.

The State Council has decided to convene a national conference to commend model workers on the occasion of the fortieth anniversary of the founding of the People's Republic of China, in order to encourage the advanced, sum up experience, promote the campaign to increase production, practise economy, raise revenues and reduce expenditures, and further impel the progress of reform and construction in our country.

To reduce total demand, banking and financial departments should pursue a policy of retrenchment by tightening the money market and rigorously controlling currency issue. All departments under the State Council and governments at all levels should implement the national economic plan and the state budget once they are adopted by the National People's Congress. Banking must be stabilized by every possible means and the planning and management of all kinds of bank loans must be more effective, so as to control the total amount of credit in the nation as a whole. In particular, we

must strengthen control and supervision of other financial institutions and various kinds of fund-raising activities. While curtailing the total supply of funds, we should rationalize the use of credit, authorizing it only where appropriate and allowing flexibility in the meantime. We must adhere to the principle of striking a basic balance between state revenues and expenditures and gradually reduce the financial deficit. All localities and departments should practise strict economy and retrench expenditures, at the same time seeking new sources of revenue.

III. Rectify the Economic Order, Especially the Sequence of Circulation

Our recent efforts in reform and opening to the outside world have served to invigorate enterprises and expand the market, thus promoting the growth of the productive forces. However, some irregularities in production, construction and circulation have resulted from the many contradictions and loopholes that have emerged during transition from the old to the new economic structure and from the inadequacy of the legal system and overall regulation and control. In particular, confusion in the field of circulation has been quite serious. To ensure the smooth progress of reform and construction, it is essential to rectify the economic order, especially the sequence of circulation, and to advance the establishment of a new order for a socialist commodity economy.

To rectify the economic order, the sequence of circulation in particular, it is necessary first and foremost to continue screening and reorganizing companies of various types. The departments concerned under the State Council must take the lead in this regard. Screening and reorganization should be focused on such problems as government departments' running or managing enterprises and engaging in commercial activities, and the illegal resale of goods at exorbitant profit. All companies must separate themselves from Party and government departments in matters of finance, materials supply and wages, and establish or improve various business accounting systems, so as to put an end to the present state of chaos. Departments and localities should all publish the results of screening and reorganization, so the public may make comments and exercise supervision. The work of screening and reorganizing companies

must be combined with day-to-day supervision and control. Departments in charge of industrial and commercial administration should strengthen annual checkups and strictly examine the qualifications, scope of business and methods of operation of all the companies. Procedures for examination and approval of the establishment of new companies must be followed to the letter to prevent the simultaneous expansion of companies.

To substantially lower the price index this year, we must tighten control over prices and the market and enforce financial discipline. No departments, localities or enterprises shall be allowed to raise, without authorization, the prices of capital and consumer goods or fees of different kinds under the control of the State Council. Local governments should exercise strict control over the prices or fees under their management in accordance with regulations formulated by the State Council. Ceiling prices fixed by the State Council for major farm and sideline products, industrial consumer goods and certain means of production outside the national plan must be adhered to. Big and medium-sized cities are expected to catalogue the major nonstaple foodstuffs and people's daily necessities and take such measures as fostering production and giving financial subsidies to ensure their supply on the market at basically stable prices. Governments at all levels must provide more effective guidance and supervision over prices for commodities under relaxed price control. As for price rises for major commodities, enterprises must apply to higher authorities for approval, and it is necessary to work out price parities for different regions, for purchasing and marketing, and for wholesale and retail, and reduce intermediate links in circulation to stop exploitation by middlemen and resale in another place at a higher price. We should establish more markets for various kinds of commodities and materials and enforce market-transaction regulations, so that transactions will take place in the open and with negotiable instruments. State-run materials-supply and commercial enterprises should be given full scope in handling and regulating goods, stabilizing the market and controlling prices. More attention should be paid to tax collection and control for various kinds of enterprises and individual industrial and commercial undertakings. The departments in charge of industrial and commercial administration, pricing, taxation, statistics, measurement, technical moni-

toring and hygienic quarantine should do a better job in checking and supervising the various types of markets, performing their respective functions while cooperating with one another closely. Fair transactions will be promoted, prices should be marked, and illegitimate competition and covert transactions will be banned. Consumers' associations and price examiners should be active, and the people should be encouraged to participate in market supervision through report centres and other forms. Attempts to dominate the market, speculate or jack up prices in violation of the law must be foiled and firmly dealt with. All enterprises should abide by the state's financial, taxation and pricing policies, and operate and pay taxes according to law. Units or individuals engaged in tax dodging and other illegal operations should be penalized in accordance with the law, and those who break the criminal law should be called to account in accordance with that law.

The circulation of essential goods should be improved. All essential means of production, except those under special control, should go on the market in open trading according to relevant regulations. Unauthorized units or individuals are forbidden to trade in essential means of production, durable consumer goods in short supply and other commodities that are under special control by the state. Departments that exercise special control should adhere strictly to measures and the pricing policies formulated by the state in this regard, always taking into consideration the interests of customers and the public, instead of seeking personal gain through exploitation of the monopoly. No institution or individual shall be allowed to use the double-track price system to engage in the illegal resale, at exorbitant profit, of goods and materials covered by the state plan. Both mutual blockade and rush purchasing at high prices by different regions of farm and sideline products that are in short supply, such as grain, cotton, silk and pigs, should be prevented. Instead, stable relationships should be established between these regions by economic means, and various forms of regional economic cooperation should be established and developed for the fair distribution of benefits among different regions.

IV. Readjust the Economic Structure.

Only by successfully readjusting the economic structure in the course of improving the

economic environment and rectifying the economic order can we forestall economic stagnation and prevent inflation, enhance the quality and increase the results of our national economy on the basis of an optimum structure, and ensure its steady growth over a long period of time. At present, our basic orientation and tasks in structural readjustment are to develop agriculture and such departments of basic industry as energy, transport, and raw and semifinished materials, increase the capacity for products that can add to the supply of essential products, and bolster future development. At the same time, we shall keep the scale and speed of growth of the processing industry under control, making it go hand in hand with basic industry.

First, we shall enhance the position of agriculture, the foundation of the national economy, and work for good harvests this year, particularly in grain, cotton and oil-yielding crops.

Agriculture stands out as the weakest link in the national economy at present. To check price hikes and stabilize the overall economic situation, it is particularly important for us to firmly establish agriculture as the base of our economy, work for good harvests of major farm products, such as grain, cotton and oil-yielding crops, and maintain a steady rise in other crops and in forestry, animal husbandry and fishery. To develop agriculture we must first stabilize our rural policies and deepen the reform, then disseminate and develop advanced agricultural science and technology, and finally increase investment in agriculture for its future development.

To encourage peasants to produce more grain and cotton, the State Council has decided to raise the price of grain purchased by the state under contract by an average of 18 percent, beginning April 1 this year; improve the policy of linking the sale of such grain to the supply of chemical fertilizers and diesel oil at fixed prices and of paying for the purchase in advance; increase the supply of chemical fertilizers connected to such purchases; and allow the rest to be sold on the market at prices fixed according to demand and price changes. At the same time, the purchase price for the new cotton crop will be raised.

Though we are to reduce expenditures and currency issue this year, the State Council has decided that the central financial authorities put more money in agriculture, including fores-

try and water conservancy. Local governments and other departments should follow suit. To promote a steady increase in agricultural investment, an agricultural development fund will be set up this year with money drawn from many sources, including part of the extrabudgetary fund, part or all of the taxes collected from rural enterprises, from the use of cultivated land for nonagricultural purposes, from the sale of special agroforestry products, and from rural self-employed industrial and commercial operations and private enterprises, and a fixed proportion of foreign loans. These sources will provide steadily increasing funds for the development of agriculture. Meanwhile, the Agricultural Bank and credit cooperatives plan an increase of 17.2 billion yuan in agricultural loans, and they will rearrange the use of existing agricultural loans of 80 billion yuan in favour of construction of state and local production bases for commodity grain, cotton and sugar, development of agricultural resources, construction of infrastructure, and accomplishment of the "vegetable basket" project focusing on production of meat, poultry, aquatic products, vegetables and other nonstaple foods. We shall continue to aid poor areas, helping them shake off poverty and become prosperous. We should encourage and guide the peasants to invest more money in agricultural production and development. They should be the main source for expanding input in agriculture. Arbitrary demands for money and charges of fees in some localities must be stopped, so that the peasants can use their limited funds on production. We shall take strong measures against illegal operations entrapping and harming peasants. All trades should support agriculture. Relevant departments under the State Council and local governments should give priority to the supply of energy and raw and semifinished materials needed for the production of chemical fertilizers, pesticides and plastic sheeting for farm use. They should make full use of the existing capacity for the production of chemical fertilizers and work hard to fulfil the 1989 quotas for their production and supply. At the same time, they should urge peasants to use more farmyard manure to improve soil composition. To resist natural disasters and ensure good harvests, it is imperative to emphasize agricultural capital construction, water conservation, and harnessing of the rivers, especially the major ones, to prevent floods.

The contract responsibility system with re-

muneration linked to output and the household as its managerial mainstay conforms to the productive forces at the present stage of agricultural development in most areas in China and still has considerable vitality. We should stabilize and continue to improve it. We should encourage people to establish multilevel, multiform systems in the service of socialized production in rural areas, gradually making them support and complement each other so as to spur development of the commodity economy there. In a few places where conditions permit and provided the people agree, fairly large-scale operations can gradually be introduced to further increase labour productivity in agriculture. Developmental farming should be operated on as large a scale as possible.

Rural enterprises are of far-reaching significance to agricultural production, increased income of the peasants, more jobs for surplus labour and accelerated growth of the national economy. However, during the period of improvement and rectification they should reduce the rate of their expansion to comply with the general requirements of the state and market demand, conscientiously improving their operation and product quality, readjusting their product mix, cutting back material consumption, increasing labour productivity and preventing and controlling pollution. Rural industrial enterprises should engage mainly in the processing of farm and sideline products, the production of certain raw and semifinished materials, production in support of urban industries, and production of exports to earn foreign exchange. The funds they need should be raised primarily by themselves.

Second, we shall make every effort to build up basic industries and infrastructure, such as energy, transport, communications and major raw and semifinished materials, to gradually ease the strain in these fields.

While we are reducing investment in fixed assets by a wide margin, we must take effective measures to support the construction of the energy, transport, communications and major raw and semifinished materials industries. In developing and building up these industries we must adhere to the principle of ensuring key projects, helping advanced units, paying close attention to results and adopting different approaches to different cases, instead of undertaking all the projects simultaneously. In this way, we shall be able to make the best of our limited financial and material resources.

In order to solve the problem of energy, we shall attach equal importance to development and conservation. In the coal industry we shall undertake the construction of new mines whose products are solely distributed by the state and also support and guide the sound development of local coal mines. It is especially necessary for us to take immediate, strong measures to help the state coal mines out of their difficulties and end stagnation and decline in the production of township- and village-run mines. In the petroleum industry, while exploring for new deposits and opening up new oilfields, we shall tackle old oilfields the way we storm highly fortified positions to ensure a steady increase in the output of crude oil. In the power industry we shall urge all quarters to plunge in. We must develop thermal, hydraulic or nuclear power, where conditions permit, do our best to expand power-generating capacity, and make a point of generating and supplying electricity according to plan. At the same time, we shall try to economize on the use of energy. For this purpose, we shall spread the use of energy-efficient technology, introduce contracts for energy conservation everywhere, and encourage all government offices and mass organizations, enterprises, institutions and residents to economize on the use of electricity, water, oil and coal. Major energy-consuming units and equipment will be subjected to rigid monitoring and inspection. We must strictly restrict the production and construction of small calcium carbide plants, ferroalloy plants, blast furnaces, electric furnaces, aluminium electrolytic plants and indigenous oil refineries that have high energy consumption, low economic efficiency and serious pollution. In the raw and semifinished materials industry iron and steel producers should readjust their product mix while expanding production, improve quality, add varieties now lacking and raise the rate of up-to-standard products, at the same time lowering consumption, so as to get greater economic results. The nonferrous metals, chemical raw materials and forestry industries should do the same while seeking adequate development. We must strengthen geological prospecting to provide mineral resources for the development of energy and raw and semifinished materials industries. All localities, departments and enterprises should regard the economical and comprehensive utilization of raw and semifinished materials as an important means of achieving better economic results.

The strain on transport is a severe problem in the country's economic and public activities. We must attach greater importance to its development, for without a comprehensive transport system with railways as the key link we cannot raise overall efficiency. In railway construction we must increase the capacity to move coal out of Shanxi Province and the ability to transport more goods by removing the bottlenecks in certain sections. While building new lines and transforming old ones, we should further tap the potentialities of existing facilities. We shall continue to build trunk highways and raise their traffic capacity. We shall improve port facilities and give full scope to water transport. We shall further improve our civil aviation. We should organize transportation properly, improve management and enforce regulations for and supervise traffic safety to prevent fatal accidents. We shall continue to expand the post and telecommunications industry at a quicker pace.

Third, we must strictly control growth of processing industries in scale and speed to keep it in line with the growth of agriculture, energy, raw and semifinished materials, and transport capacity.

In recent years processing industries, ordinary processing industries in particular, have been growing too fast. Blind production and overlap in construction are so serious that many products are of inferior quality and material consumption is high. This has not only caused an overall strain on the supply of farm produce, energy, raw and semifinished materials, and transport services, but also impaired the effective utilization and rational allocation of the essential factors of production. Putting an end to this situation constitutes the key to readjusting the present economic structure and achieving greater economic results. To readjust the structure of the processing industries, we must reduce and control products in excess supply and increase and develop those in short supply, with stress on improving product quality and overall management; on this basis the processing industries will advance substantially.

In the textile and other light industries we must restrict or eliminate overstocked and inferior goods, control products that consume large quantities of grain, energy, and raw and semifinished materials in short supply, and try to expand brand-name quality products and goods in short supply. It is necessary to develop new products and new varieties that suit the

different needs and purchasing power of urban and rural residents and are readily marketable, particularly products of everyday use for rural areas.

In the machine-building and electronics industries we must place rigid restrictions on the manufacture of products that are in excess supply, of inferior quality and electricity-wasteful and ban the manufacture of products already proscribed in explicit terms. At the same time, we should manufacture on a trial basis and develop complete sets of mechanical and electronic equipment and their essential components and parts needed by the basic industries, such as energy, raw and semifinished materials, transport and communications, and produce more farm machinery and implements suitable for use in the rural areas. We should assimilate and master technology introduced from abroad, increase the production of import substitutes and make more mechanical and electronic products ourselves.

Along with the readjustment of the industrial structure we shall rationalize enterprise organization, the geographical distribution of the economy, and patterns of consumption. For this purpose, in matters of investment, credit, finance, taxation and price, we shall pursue a policy favouring the superior over the inferior, giving genuine assistance to those that need to be strengthened and encouraged, restricting those that need to be curbed or banned. By so doing, we shall be able to rationalize the entire economic structure and make optimum allocation of resources. To this end the State Council has published its "Decision on the Main Points of the Current Industrial Policies." All localities and departments should carry it out to the letter and try to enrich, improve and perfect it in the course of practice.

V. Develop Science, Technology and Education

In the development and progress of science and technology lies our very hope of rejuvenating China's economy. In the course of improving the economic environment, rectifying the economic order and readjusting the national economy, we shall make it our important objective to accelerate industrial and agricultural production, particularly the technological progress of key industries, and we should realize the optimization of the industrial structure and enhance economic performance by relying

upon science, technology and scientific management. In order to ensure their development, governments at various levels should continue to increase funds for science and technology this year and, while adjusting the pattern of investment and credit, adopt policies in favour of progress in science and technology. Enterprises and rural areas should also do their best to increase input for technological advance. At present, scientific and technological work should be geared to the needs of the main front of economic development. We shall keep tabs on implementation of the state plan for tackling key scientific and technological projects, the plan for technological transformation of enterprises, the "spark programme" and the "harvest programme" during the period of the Seventh Five-Year Plan and try to spread the use of generally applicable scientific and technological achievements. Relevant norms for technological progress should be incorporated into the targets set for projects launched by enterprises under contract. Large and medium-sized enterprises should increase their ability to develop technology, and small enterprises, including those run by townships and villages, should have their own technical backstopping. In rural areas an agrotechnical service network should be established. In order to augment our national strength and promote future economic and social development, we shall conduct planned and selective research and development of high technology. Through implementing such measures as the "torch programme" we shall promote commercialization and industrialization of high-technological achievements. At the same time we shall attach importance to and support basic research and applied basic research. The past few years have seen marked progress in reform of management for science and technology. We shall coordinate and improve our work in reform to facilitate the formation of mechanisms closely integrating science and technology with the economy. We shall enrich and improve the funding system for scientific research, fully utilize the patent system, cultivate and develop the technology market, promote diverse forms of association and coordination between scientific and technological units and enterprises, and mobilize scientists and technicians to continually contribute to economic development.

Fundamentally, scientific and technological progress, improved economic performance and socialist modernization as a whole all depend upon the professional competence of workers

and the training of skilled people. In recent years, education in our country has developed rapidly, and a number of localities and departments have distinguished themselves by attaching importance to it and achieved noticeable results in this regard. However, in general, education still lags behind other fields of endeavour, and its development and reform still fall short of the requirements of socialist construction. After the First Session of the Seventh National People's Congress the State Council had the State Education Commission and other relevant departments probe a wide range of major questions concerning education, and it will continue to solicit views from various sectors and lose no time in drawing up an outline for the development and reform of China's educational system to the end of the century. People working in governments at all levels, all departments and various trades should enhance their understanding of the significance of education, highly value its long-term strategic importance, and work to ensure its development in the course of improving the economic environment and rectifying the economic order. The State Council has decided that in 1989, at a time of financial retrenchment for every other sector, education funds will not be cut but increased instead by a big margin. Consequently, funds for education in the government budget will reach 37.4 billion yuan, 5 billion yuan more than last year, or an increase of 15.4 percent. In addition, extrabudgetary funds for education, including extra taxes for urban and rural education, will increase considerably. Of course, this figure still falls far short of the actual needs in this area. In the course of implementing the budget, the State Council and the governments at all levels should increase educational funds as far as possible by increasing revenues and reducing expenditures. From a long-term point of view, funds for education cannot rely solely on increased allocations by the government. The problem can be solved only through reform, by making education the responsibility of everyone, thus increasing the input to education. While continuing to increase funds allocated by the government and defining the proportion of funds for education to be borne by financial departments of governments at various levels, we shall reform the systems for operating schools, encourage all sectors of society to contribute to the running of schools, open up new funding channels, improve the administration, auditing and supervi-

sion of educational funds and eliminate misappropriation and waste of these funds. In recent years some localities have adopted various measures to arouse the initiative of people from all walks of life in developing education, which has benefited the cause. Education is proving its connection to the immediate interests of the people, who have a vast reservoir of enthusiasm for its development. So long as leading cadres at all levels pay attention to education, analysing experience gained in this endeavour and making improvement constantly, it is entirely possible gradually to increase the proportion of funds for education out of the gross national product.

In developing education we should proceed from the actual conditions of our country, rationalize the speed, scale and priorities of development, and work out appropriate proportions of different levels of schools run by central and local authorities with the aim of steadily increasing the returns of investment and social benefits. As localities start from vastly different economic and cultural foundations, we shall delegate more power to local governments to make overall plans and policy decisions, letting them shoulder heavier responsibilities, so that they can decide on major issues in education in line with local conditions. To gear education to the needs of socialist construction, we shall further readjust the structure of education and make reform of education a success, combining the continual spread of education with development of vocational and technical training, and making education better serve the need to improve the quality of workers. To spread compulsory education, governments at all levels should enforce the Law on Compulsory Education and take a firm stand in guaranteeing quality. In making plans for each region in light of local conditions, the leading members should revise their plans in this connection and be responsible for attaining given objectives during their terms of office. The "prairie fire programme," designed to turn out elementary and secondary scientific and technical personnel and improve the quality of the working people in rural areas, is a social project of far-reaching significance, aimed at all-round reform of education in the countryside and development there. All localities should immediately arrange for its implementation and work hard to achieve good results. City authorities should explore ways for enterprises and schools to work together to promote vocational and techn-

ical education and should reform secondary vocational and technical education in accordance with the principle of "training before employment." They should stabilize the general scale of higher education, emphasizing improved quality. To guarantee success in the experimentation with all-round reform of higher education we shall readjust the structure of disciplines offered by universities and colleges, adapting specialities to the needs of society and improving the system of work assignment, so that graduates and units meet face to face and choose as they see fit. In offering services to society, institutions of higher learning aim to maintain close ties with society and better benefit it through education and scientific research. However, they should proceed in accordance with a unified organizational plan and improve the systems applied in this field of work. In adult education priority should be given to the training of office staff and workers, and effective measures should be taken and concrete plans and objectives mapped out to eliminate illiteracy. It is necessary to guide education enthusiasts into supporting the development of elementary education and vocational and technical education. It is necessary to further enliven the atmosphere in educational and academic circles, strengthen research in the science and theory of education, and explore ways for reforms of ideology, content of courses and methods of teaching in the realm of education, with a view to steadily improving quality.

In developing and reforming education we must firmly rely on the teachers, bringing their initiative and creativity into full play, and try our best to train a large number of highly qualified teachers. It is essential to improve their training gradually and systematically, so that more teachers are available, and to develop more training approaches. We shall continue to take measures to improve teachers' working and living conditions. At the same time, we shall intensify reform of school management by putting teachers to most effective use and helping them raise their ideological and professional levels.

The basic function of schools is to educate. Therefore, schools at all levels and of all types should attach importance to education in ideology, ethics and politics and pay attention to student conduct and discipline. Governments at all levels and departments in charge of education should be alert to undesirable practices in a small number of schools, such as arbitrary

fees, indiscriminate issuance of diplomas, involvement in business by teachers and students and lax discipline. In some places many primary and middle school pupils drop out of school. Measures to correct these tendencies are necessary if a favourable environment for education is to be created.

VI. Combine Improvement and Rectification with Deepening of the Reform

The drive to improve the economic environment and rectify the economic order follows the general direction of reform. We shall never return to the old economic mode characterized by overcentralized, excessive and rigid control, still less shall we adopt private ownership, negating the socialist system. The many measures we have taken for improvement and rectification are themselves the major components of reform. The success of improvement and rectification cannot be separated from deepened reform. When we stress the need of improvement and rectification, we do not at all mean that reform can stop. On the contrary, if we succeed in the effort, we shall create a generally favourable environment for deepened reform and promote the growth of a socialist planned commodity economy.

In economic structural reform in 1989 we shall focus on improving and developing the reform measures under execution and also explore new avenues in coordination with improvement and rectification. In doing so, we shall concentrate on improving and developing the contracted managerial responsibility systems for industrial and commercial enterprises, exploring ways and means of intensifying and improving macroeconomic regulation and control, creating an orderly market and ameliorating the problems caused by unfair distribution of income. We must see to it that all reforms centre on the tasks of improvement and rectification, for the benefit of curbing demand, readjusting the economic structure, and increasing the supply of essential products and the economic results.

In order to improve and develop the contracted managerial responsibility systems for enterprises, we shall keep tabs on large and medium-sized enterprises in their bidding and contracting, standardizing and institutionalizing them and subjecting them to less administrative interference. We shall institute the system of all-

partner mortgage contracts for risks, under which the interests of managers, staff members and workers and the risks involved are linked to enterprise performance, thus helping to rouse their enthusiasm and increase the enterprise's ability to regulate itself and to adapt to a changing market. We shall continue to apply and refine the system whereby an enterprise's total wages are linked to various quotas, including the amount of realized profits and taxes delivered to the state, increased labour productivity and reduced consumption of raw and semifinished materials, so that the enterprise will not try to increase its profits by simply raising the prices of its products. Therefore, it is necessary to enforce the Enterprise Law and the Enterprise Bankruptcy Law, continue the system whereby the factory director assumes full responsibility, and straighten out chains of command in the enterprise. Enterprises will have the power to shape their organizational structures to their own conditions, and departments at higher levels should not force them to set up subordinate counterparts. Optimizing the structure of management and organization of labour through competition is an important way of enhancing labour productivity. Surplus staff members and workers should be provided with jobs within the enterprise, or the enterprise should create new job opportunities for them, instead of shifting the burden onto society.

We shall continue to develop and improve lateral economic association and cooperation and, at the same time, set right certain unhealthy practices that have cropped up in the process. Under the guidance of our industrial policy we shall rationalize the organizational structure of enterprises on a voluntary basis, permitting the compensated transfer of property rights. We shall gradually introduce on a trial basis the shareholding system, which rests on public ownership. Small industrial and commercial enterprises can be leased or sold by auction. Unified measures should be adopted and leadership provided for organizing enterprise groups, merging enterprises, and trying out the shareholding system in a systematic way, to prevent a headlong rush into mass action. We should earnestly guard against and resolutely correct such erroneous acts as selling state property at a low price or even appropriating it and increasing consumption funds under some disguised form.

Improving macroeconomic regulation and control is essential to reform, opening to the

outside world and developing a planned commodity economy. Since we lack experience in these areas, we have to explore in the course of practice. To intensify macroeconomic regulation and control while we are trying to improve the economic environment and rectify the economic order, we should simultaneously employ economic, administrative, legal, disciplinary, ideological and political means, particularly economic means. Whether we adopt economic or administrative means, we should formulate the necessary statutes and rules and regulations so as to avoid subjectivity and arbitrariness. Care should be taken to keep the stability and continuity of policies. Major policy decisions should be appraised by various quarters before they are adopted and efforts should be made to improve the democratic and scientific approach of policy making.

We shall carry out in-depth reform of the planning and investment systems on a sound basis. Planning departments should improve the overall balance of the national economy in order to regulate and guide the entire society's economic development, with stress on the use of extrabudgetary funds and consumption funds and on the orientation and behaviour of economic entities not under state ownership, bring about balance between total supply and total demand and a coordinated economic structure, and serve the development of the socialist commodity economy. We shall enforce a rational investment-inclined policy and reform the investment system in accordance with the industrial policy promulgated by the state, so as to direct and increase investments in energy, transport, raw and semifinished materials and other basic industries and promote the readjustment of the investment and industrial structures.

An improved macroeconomic management calls for special emphasis on the regulatory control exercised by banks. In accordance with the state's industrial policy and import and export policy, we shall use such economic means as interest rates, relending of funds, reserve requirement ratio and prepared payment reserve to control currency issue and regulate the scale and structure of credit, so that the economy will grow in a healthy manner. The People's Bank of China, which functions as a central bank, must administer more effective unified management and provide more vigorous vertical leadership. The various specialized banks also shoulder the responsibility of

macroeconomic regulation and control, and they should absolutely not neglect this duty after starting to operate in the manner of enterprises. Governments at all levels should support the banks in their work and refrain from interfering with their business operations, still less force them to issue loans. We shall screen and reorganize the various financial institutions other than banks and define their business scope and use of funds. It is necessary to provide leadership for the expansion of short-term fund markets in an orderly fashion and accommodate different forms of funding, such as interbank borrowings and lendings, to serve production and circulation. Banks should tighten their system of cash control, modernize their means of clearance, such as settlement of instruments, and further stabilize and boost urban and rural savings deposits, so as to withdraw more currency from circulation through raising interest rates, providing better service and other means.

Perfecting the system of audit supervision is an important part of macroeconomic regulation and control. Provisions prescribed by the Constitution and the Regulations Concerning Mandatory Auditing, promulgated by the State Council, must be adhered to if we want gradually to institutionalize and standardize the work. At present, we should give special audit to capital construction, expenditures of administrative organs and public institutions, consumption funds and commercial activities. We shall strengthen statistical work and bring the role of statistical supervision into play.

We shall study reform of the financial system and straighten out the financial relationships between central and local authorities. We shall gradually introduce a double-entry budget by separating day-to-day expenditures from government investments. Taxation authorities and tax collectors will function mainly under vertical leadership. Where conditions permit, we shall continue experimenting with the change from before-tax repayment of loans to after-tax repayment and gradually separate taxes and profits. Today, the proportion of state revenues to national income is unduly meagre, and the percentage of the Central Government's revenues to total state revenues is on the low side, hence the need to take effective measures to readjust the distribution pattern and appropriately amass funds. To reduce a serious loss of tax revenues, it is essential to strengthen tax-collecting institutions, improve relevant

laws, statutes and regulations, and examine, readjust and define the limits of administrative authority of governments at various levels in matters of tax reduction and exemption.

In order to curb swelling consumer demand and alleviate the unfair distribution of income, it is necessary to improve the distribution system gradually. Reform of the wage system being applied in government and other public institutions should be continued, in order to perfect it systematically. A system whereby total wages are tied to economic performance will be practised in enterprises, thus basing wage raises given to office staff and workers on increased labour productivity and economic results. Unlawful incomes must be banned and lawful ones protected. This year we shall establish a system whereby each individual declares his or her taxable income and reinforce the collection of individual earnings regulatory tax, thus preventing excessive widening of the gap between individual incomes. We shall start with the big cities, first among members of leading organs at all levels and staff of all corporations and among individual industrial and commercial business people. Paying taxes according to law is the obligation and duty of every taxable unit and individual, and we must conduct extensive propaganda explaining the need among enterprises and citizens, so that they will become accustomed to paying taxes in accordance with the law, and firmly combat all violations of the law in the form of evasion.

We shall promote other reforms conducive to checking inflation, controlling consumer demand and guiding the patterns of consumption. We shall continue to reform urban housing, working out unified principles, classification criteria and pricing methods for the sale of publicly owned housing. We should, through systematic commercialization of housing, promote the development of the building industry and other related industries and rationalize consumption patterns. We shall go on experimenting in selected places with reform of the social insurance and social security systems. We shall further the role of insurance undertakings in providing economic compensation, accumulating construction funds, stabilizing people's living standards and guiding the use of consumption funds. Reform of the labour and employment systems will be extended and the labour service market boosted. However, we should examine and cut back employment not under the plan, and strictly stem the blind

influx of rural labourers into cities.

VII. Open Wider to the Outside World

Different from previous economic readjustments, the current drive to improve the economic environment and rectify the economic order is being carried out at a time when China is opening to the outside world and the international economic environment is quite favourable to us. We should take advantage of this favourable condition to expand trade and economic and technological cooperation with other countries, letting our opening-up efforts and the improvement and rectification drive promote one another.

It is imperative to execute the development strategy for the coastal regions and continue expanding the export-oriented economy. This will help ease the strain on the domestic supply of raw and semifinished materials, fully utilize the rich labour resources at home, and achieve the objectives of the improvement and rectification drive. The coastal regions should seize this favourable opportunity to exploit to the full their favourable conditions and avoid their unfavourable ones, readjust in time their economic structure, constantly raise their economic performance, and work hard to increase the proportion of their exports produced by processing imported raw and semifinished materials to total exports. They should devise diversified forms of cooperation with foreign businessmen, including having imports serve exports, processing with materials and samples or assembling parts and components provided by foreign clients, and compensation trade, and should explore new markets abroad. Like other areas, the coastal regions should improve their economic environment and rectify their economic order; while working to expand their export-oriented economy, they should refrain from trying to do everything at once, from competing with each other to increase contacts with other countries by offering ever more preferential treatment, and from vying with each other in seeking a high level of consumption. They should maintain a correct economic relationship with the interior regions so that they will support each other and advance together through a division of labour and cooperation on the basis of equality and mutual benefit.

Continued growth in foreign trade this year is essential to stabilization of the economy as a

whole. We shall expand export production and continue to implement policies and measures encouraging export. In export we shall proceed from the requirements of the improvement and rectification drive and readjust the mix of exports, making unified plans for and giving overall consideration to the sale of goods both at home and abroad; we shall gradually reduce the proportion of such exports as resource products and primary-processed products, increase the export of manufactured goods, including machinery and electronic products, and expand the export of farm produce that can earn foreign exchange and of intensively processed and hi-tech products, updating design and specifications and improving quality so that goods can compete on the international market. Enterprises involved in foreign trade should reinforce and improve their operation and management, tap their potential and raise the utilization rate of funds. They should carry forward our country's tradition of honouring contracts and keeping promises and overcome existing shortcomings in foreign trade, to earn more trust abroad. We shall also readjust our imports in compliance with the requirements of the improvement and rectification drive and industrial policies, strictly limiting the import of high-grade consumer goods in a bid to use our limited foreign exchange to import raw and semifinished materials and agricultural means of production badly needed in industrial and agricultural production and in the construction of key projects, and import advanced technology, key equipment and parts and components, so as to ameliorate the imbalance between supply and demand on the domestic market and promote economic development. We shall expand frontier trade in a planned and organized way, properly develop tourism, explore the international market for contracting labour services and increase the economic returns from contracted projects and cooperative labour services abroad, for the purpose of earning more foreign exchange.

Using foreign funds and importing advanced technology are established long-term policies. From now on, the absorption of foreign funds and the import of technology must be carried out in line with our country's industrial policies. We shall encourage foreign businessmen to establish more wholly owned enterprises in China and more joint ventures and cooperative enterprises through retooling China's existing enterprises. It is necessary to maintain strict

unified control over foreign exchange and foreign loans, keep foreign loans to a proper scale and make better use of foreign funds. We shall continue to improve the investment climate and economic legislation, help foreign businessmen solve practical problems and protect their lawful business activities. Agreements and contracts signed with foreign businessmen must be executed to the letter.

Reform of the foreign trade system in the past few years has been going in the right direction, with major achievements. During the improvement and rectification drive it is necessary to continue to extend reform of foreign trade, strengthen management and supervision in general, implement the country's unified foreign trade policies, establish good order and eliminate confusion in dealing with trading partners. We shall check the results of the earlier delegation to lower levels of management power over import and export and make readjustment where necessary, revoking the management power of those failing to meet requirements and enjoying no trust. In the future, such power will be granted mainly to large and medium-sized enterprises and enterprise groups that are qualified, competent and creditable, and they will be given a free hand to do business in accordance with state policies and to explore the international market.

VIII. Create a Favourable and Stable Social and Political Environment

Adhering to the Four Cardinal Principles, taking full advantage of our political system and creating a favourable and stable political and social environment provide important guarantees to fulfilment of the task of improving the economic environment and rectifying the economic order.

In accordance with the plan drawn up at the Thirteenth National Congress of the Chinese Communist Party, we have been making steady progress in our political structural reform. We have taken a major step forward in separating Party and government and in restructuring government organizations. A system of consultation and dialogue with the people has been under execution, and an adequate legal system has been installed. During the period of improving the economic environment and rectifying the economic order we shall reinforce socialist democracy and the socialist legal system,

ensure the people's democratic rights, and perfect the system of multiparty cooperation and political consultation under the leadership of the Communist Party. Democratic parties, patriots without party affiliation and mass organizations will participate fully in the administration of state affairs and in democratic supervision, urban and rural primary organs of state power will be strengthened, and a political situation characterized by stability, unity, democracy and harmony will be consolidated and expanded. All social unrest and turmoil, without exception, hamper construction and reform, to the extreme detriment of the fundamental interests of the people of all our nationalities and against the will of the masses. We should disseminate basic legal knowledge in a thoroughgoing way and enhance people's awareness of the law. While enforcing the provisions of the Constitution and various laws, we should improve administrative statutes and regulations and strictly abide by them. Governments at all levels and all departments should take the lead in observing discipline and law and support and supervise the departments of justice and administration in the exercise of their legal functions and powers. Through strict democratic supervision and execution of the law we must protect administrative regulations and state laws, severely deal with and punish criminals who inflict serious damage to the economy, and crack down on and promptly penalize offenders of various kinds who gravely disrupt public order. We should take resolute measures against gangs of hooligans and criminal activities such as prostitution and the selling of human beings. Governments at different levels should attach importance to and give play to the role of urban neighbourhood committees and rural villagers' committees and mobilize all the people to join efforts and keep a tight grip on public order, to maintain good order in production, other work, study and everyday life.

The structural reform of the State Council has basically been completed as scheduled. The main tasks this year are to consolidate the reform, straighten out relationships both within and among departments, change administrative functions and improve efficiency step by step. In order to concentrate on improving the economic environment and rectifying the economic order, we have decided to postpone temporarily the structural reform of provincial, municipal and autonomous regional governments, planned to begin this year.

Economic development calls for clean government. The regulations for maintaining the cleanness of government formulated by the Party Central Committee and the State Council must be observed first by the State Council and governments at various levels to serve as examples. We must thoroughly investigate and severely deal with leading members and others who breach state regulations and are directly responsible for such wrong practices as the indiscriminate issuing of bonuses in cash or in kind and the spending of public funds on dinners and gifts, extravagant wining and dining, touring scenic spots and building private houses; we must deal sternly with serious bureaucratism and dereliction of duty on the part of state personnel and leading cadres in particular; and we must safeguard the inviolability of government laws and decrees and firmly eliminate any disobeying of orders and defying of prohibitions in disregard of organization and discipline. Where the immediate interests of the masses are involved, the final results of matters under investigation should be made known to the public. It is necessary further to make government activities known to the people and reinforce the mechanism of restriction, thus keeping the function of all powers within the bounds of law and regulation and under the supervision of the large numbers of cadres and masses. Law-enforcing and supervisory departments of industrial and commercial administration, taxation, pricing, auditing, customs and public security must strengthen themselves by raising the political awareness and professional competence of their staff, enforce the law impartially and resolutely combat any violations of the law or discipline. Procuratorial departments at all levels are expected to shift the focus of their work to investigating and punishing graft, bribery, extortion, extravagance, waste and abuse of power for personal gain. They should relentlessly do away with all corruption and concentrate their efforts on investigating and dealing with cases of major importance in accordance with the law. The results of cases should be made public as a deterrent and a goad towards government incorruptibility.

In building socialist modernization, we must work for material progress and for cultural and ideological progress simultaneously, so that the two will support and complement each other. It is impossible for a nation that lacks high cultural and ideological standards to achieve modernization. Governments at all levels must attach

great importance to the building of a society that is advanced culturally and ideologically and should place this work on the agenda as an important item. While expanding our socialist commodity economy, we should stress material benefits but oppose putting money above all. In our endeavour to establish a new order of socialist commodity economy we need new management systems and corresponding laws and statutes, but even more we need to publicize and enhance social and professional ethics and civility. We should encourage dedication to the motherland and to society and promote the social morality of respecting, showing concern for and helping each other and of respecting the aged and taking good care of children. Under the new situation of reform and opening to the outside world, we must conscientiously strengthen and improve our ideological and political work. We should persistently carry out education in patriotism, collectivism, socialism, the spirit of self-reliance and hard pioneering work, the need to carry on revolutionary traditions and enhance national dignity, strength and confidence, training new generations of socialist-minded people. We should keep to the orientation of serving socialism and the people and adhere to the principle of letting a hundred flowers blossom and a hundred schools of thought contend. In creating necessary material and cultural conditions and a proper environment for public opinion, we shall formulate economic policies in the cultural field and have them put into effect and build and rectify a cultural products market and manage it well, with the aim of advancing the sound development of culture and art. We should take advantage of the promotive role the press and publications, radio, film and television play towards cultural and ideological progress. We should give publicity to outstanding deeds and the advanced persons who have distinguished themselves in the modernization drive and the rejuvenation of China. Theoreticians are required, in keeping with reform, opening to the outside world and the modernization programme, to conduct extensive theoretical research on the building of socialism with Chinese characteristics and to use their new theories to answer questions raised from everyday life. We must persevere in transforming outmoded habits and customs among the urban and rural people. No reactionary, obscene and hateful material shall be allowed to spread unchecked, and feudal and superstitious activities

and gambling, which disturb public order and poison people's minds, shall be banned in accordance with the law.

Promoting physical culture and sports and building up people's physiques constitute major facets of our cultural and ideological progress. A spirit of high sportsmanship and fighting to the bitter end to bring credit to the motherland should be developed, and the Asian Games, to be held in China in 1990, should be made a success. We should do a good job in public health and, in line with the principle of putting prevention first, extensively carry on the Patriotic Public Health Campaign and improve people's health. The aged population has increasingly become an important problem in our society. All localities and departments should show concern for work among the aged.

Family planning, control of population growth and improvement of population quality all have a bearing on the progress of China's Four Modernizations and the survival of the Chinese nation and are basic policies of our country. The total population of China's mainland will soon reach 1.1 billion, and, unfortunately, we are now in a period of baby boom. So we must in no way slacken our efforts to keep population increase under control. Governments at all levels must be acutely aware of the urgent need of controlling population growth and exercise control over both total demand and population growth. They should provide more effective leadership for family planning and support people who are working in this field. They should unswervingly carry out all current birth-control policies, encouraging late marriage and childbirth and good prenatal care and persisting in one child per couple. They should take effective and practicable measures to prevent more than one birth and early marriage and childbirth. Family planning should also be encouraged among the minority nationality people for the benefit of economic development and social progress.

It is another basic policy of our country to protect the environment. Governments at all levels must recognize its importance to overall economic and social development and exercise effective leadership and take firm measures to bridle environmental pollution. We should mobilize people from all sectors of society to plant trees, make the whole country green and improve the ecological environment.

During economic readjustment and, for that matter, throughout our modernization drive we

shall promote the socialist relationship established among all our nationalities under the principle of equality, unity and mutual assistance. Herein lie the fundamental interests of all the people and the guarantee of the Four Modernizations and common prosperity. It is necessary to mobilize all sectors of society to help develop the economy and culture in areas inhabited by minority nationalities. The law on regional national autonomy must be enforced firmly and detailed rules and regulations for its implementation should be drawn up as soon as possible, fully guaranteeing the autonomy exercised in autonomous areas. Cadres and managerial personnel in science and technology should be drawn from minority nationalities and trained. In the course of improving the economic environment and rectifying the economic order we should take into consideration specific conditions and problems in areas inhabited by minority nationalities and adopt appropriate policy measures to deal with them. Troubles affecting national relations that crop up at present in our country are generally in the nature of contradictions within the ranks of the people, whose fundamental interests are identical, thus they should be remedied through democratic consultation and reeducation on the need to implement national policies. It is necessary to respect the citizens' right to freedom of religious belief and the customs and habits of minority peoples and protect normal religious activities.

The recent riots in Lhasa, instigated by a handful of separatists, have aroused the concern of people of all our nationalities throughout the country. In order to safeguard unification of the motherland and solidarity among the nationalities, maintain public order and protect people's lives and property, the State Council decided to impose martial law in Lhasa; this has won broad support from Tibetan compatriots and other people across the land and punctured the reactionary arrogance of the separatists. Now public order in the city is becoming normal and life is becoming stable. The policies we are pursuing to support and promote economic and cultural development in Tibet, protect the Tibetan people's freedom of religious belief and respect local habits and customs will never be changed. So long as the Dalai Lama gives up his stand for an "independent" Tibet, refrains from separatist activities, and upholds unification of the motherland and solidarity among the nationalities, the Central

Government is willing to negotiate with him. As acknowledged by all, the Tibet Autonomous Region is an inalienable part of the territory of the People's Republic of China and no one can succeed in his attempt to create an "independent" Tibet. Any foreign force's support for such separatist activities, under whatever pretext, constitutes an outrageous interference in China's internal affairs and will absolutely not be tolerated.

Strengthening national defence is of vital importance to the safeguarding of our national interests and state security. We must see that our national defence capability suits the nation's status in the period of economic readjustment and during the drive for modernization. The People's Liberation Army should continue to subordinate itself to the overall interests of national economic development, do a good job in its own building and reform, and constantly enhance its combat effectiveness. Further efforts should be made to develop defence-related science and technology and build up reserve forces for national defence. Governments at all levels should show concern for and support the army, enthusiastically help it solve all sorts of practical problems, and make every effort to create good conditions for building and reform of the army. We should carry forward the glorious tradition of the army's supporting the government and cherishing the people and of civilians' supporting the army and giving preferential treatment to families of revolutionary soldiers and martyrs and further improve relations between the army and the government and between the army and the people. We must regularly teach people throughout the country about national defence and include this education in the whole national education system so as to enhance awareness of its importance. At the same time, we should gradually improve various kinds of legislation for national defence to ensure a smooth progress in its building.

Fellow Deputies,

In order to implement the Sino-British and Sino-Portuguese joint declarations on the Hong Kong and Macao questions respectively, the Chinese Government has in the past year cooperated well with the British and Portuguese governments. Chinese, British and Portuguese officials as well as the Sino-British and Sino-Portuguese joint liaison groups have, after consultation, reached agreement on a series of questions relating to the smooth transition of Hong Kong and Macao. The Basic Law of the

Hong Kong Special Administrative Region of the People's Republic of China (Draft), which took its present form after extensive solicitation of opinions and repeated revisions, has been examined and published by the Standing Committee of the National People's Congress and, upon further solicitation of opinions and revision, will be submitted to the third session of the Seventh National People's Congress for adoption. The drafting of the Basic Law of the Macao Special Administrative Region was started last year and is expected to be completed in 1993. Relevant departments under the State Council have taken an active part and cooperated in the work of drafting the two basic laws, which was presided over by the Standing Committee of the National People's Congress. We are convinced that with further implementation of the joint declarations economic contacts between the mainland and Hong Kong and Macao will develop further, greatly contributing to China's reform and opening to the outside world and to the stability and prosperity of Hong Kong and Macao.

In recent years noticeable changes have occurred in relations between the two sides of the Taiwan Strait, as manifested in an initial relaxation of the abnormal, long-drawn-out state of tension, mutual confrontation and seclusion, and in the increasing number of economic and cultural exchanges and personal contacts. This situation is the result of joint efforts by compatriots on both sides of the strait. It is true that the Taiwan authorities have taken some measures to smooth relations with the mainland, but they nevertheless still cling to their position of "no compromise, no talks, no contact," refusing to hold peace talks. Moreover, of late they have stepped up their pursuit of "elastic diplomacy," trying to create "two Chinas" or "one China, one Taiwan." All this runs counter to the fundamental interests and aspirations of compatriots on both sides of the strait. We stand for "peaceful reunification" and "one country, two systems" and firmly oppose any words or deeds that may lead to the independence of Taiwan. We sincerely hope to discuss national affairs with the Taiwan authorities and people of all circles and to establish contact and hold consultation with them in regard to the question of expanding exchanges between the two sides of the strait and reunification of the motherland. We hope the Taiwan authorities will abandon as soon as possible the unreasonable policy of "no compromise, no talks, no

contact," remove the manmade obstacles so that people on both sides of the strait will be able to visit each other on a reciprocal basis and establish open and direct links in postal service, air and shipping services and trade, and carry out exchanges in economy and trade, culture, sports, science, technology, scholarship and other fields. We welcome with open arms entrepreneurs from Taiwan to make investments, set up factories and run various industries on the mainland, thus contributing to the development of our national economy on the basis of mutual benefit. We are convinced that through the joint efforts of compatriots on both sides of the strait relations between the two sides will grow in depth and the great cause of reunifying the motherland will be accomplished.

Fellow Deputies,

Major events that have taken place in the world in the past year show that the international situation is at a turning point from confrontation to dialogue, from tension to relaxation, constituting an overwhelming trend in the world today. This is the outcome of the common efforts of all the countries and reflects the strong desire of people all over the world for peace and progress. Today the prospects for world peace are more encouraging than ever before. However, the factors that may lead to international tension and turbulence have not been eliminated yet, and the realization of long-term and stable peace calls for persistent effort by the people of all countries.

China has always pursued an independent foreign policy of peace, supporting the just cause of the world's people, opposing hegemony, preserving world peace, and working for common progress. It is in accordance with this policy that we have conducted our diplomatic work, maintained extensive contact with other countries, and increased interstate cooperation and friendship between peoples, thus safeguarding our national interests and security and working for a lasting, peaceful international environment for our modernization drive, and at the same time playing our part in easing the international situation.

In the past ten years since the establishment of diplomatic relations between China and the United States, the two countries have made marked progress in cooperation in various fields. The high-level contact and dialogue maintained between the two countries have played an important role in promoting their bilateral relations. Continued expansion of

Sino-U.S. economic relations and trade and scientific and technological cooperation and increased friendly contacts in various areas comply with the fundamental interests of the two countries. We hope that the United States Government will faithfully observe the principles embodied in the three joint communiques issued by China and the United States, maintain the one-China position, and refrain from interfering with China's internal affairs in any way and on any question, lest the existing friendly relations between the two countries be impaired — something neither side would like to see.

The normalization of Sino-Soviet relations is an issue of major concern to everyone. Substantive progress has been made after many rounds of talks and consultations between the two sides over the years on the removal of the three major obstacles and the normalization of state relations between the two countries, heralding the forthcoming Sino-Soviet summit. We believe that the Soviet Union is in a position and has the duty to continue its efforts towards a complete withdrawal of Vietnamese troops from Kampuchea and a political settlement of the Kampuchean issue. After state relations between China and the Soviet Union are normalized, the two countries will develop friendly, good-neighbour relations on the basis of the Five Principles of Peaceful Coexistence. This not only is in keeping with the fundamental interests of the Chinese and Soviet peoples, but will benefit peace and stability in Asia and the world as a whole and do no harm to the interests of any third country.

Maintaining good-neighbour, amicable relations and cooperation with neighbouring and nearby countries in Asia is the consistent policy of our government. The traditional friendship between China and the Democratic People's Republic of Korea has been growing. We are concerned over peace and stability in the Korean Peninsula, support the reasonable proposal made by the Democratic People's Republic of Korea for the independent and peaceful reunification of Korea, and hope that positive results will come out of the dialogue and contact between north and south Korea. China does not have official ties with South Korea, but people-to-people contacts do exist in economic relations and trade. The deep friendship between China and Pakistan and other South Asian countries, which goes back a long way, has been further consolidated and developed in recent years. Of late, China and India have achieved positive

results in their efforts to improve bilateral relations, which will contribute to the solution of the border question between the two countries through friendly consultation and to the restoration and development of good-neighbour relations. We share with Thailand and other ASEAN countries the view that peace must be maintained in Southeast Asia and we keep in close touch with them on the question of a fair and reasonable political settlement of the Kampuchean issue. China is willing to further develop friendship and cooperation with all the Southeast Asian countries on the basis of the Five Principles of Peaceful Coexistence. We are pleased to note that China and Indonesia have recently embarked on a normalization of relations and hope that the two countries will restore their friendly relations at an early date. Relations between China and Laos have improved, and ambassadors were exchanged again last year. Since the treaty on the border system and on procedures to solve border issues was concluded between China and the People's Republic of Mongolia, relations between the two countries have developed further.

In general, Sino-Japanese relations are good, and there has been considerable growth in economic relations and trade and in scientific, technological and cultural exchanges. However, there are still some problems that merit serious attention and require proper solution. The war of aggression launched by the Japanese militarists in the past brought untold disaster to the Chinese people and people of other Asian countries, and the nature of this war brooks no alteration. A better future hinges on a correct attitude towards what has happened in the past. We cherish greatly the Sino-Japanese friendship cultivated by statesmen and people in both countries through protracted efforts, and we hope that this friendship will be passed on from generation to generation. We also hope to see a long-term, steady development of good-neighbour relations between the two countries on the basis of the Sino-Japanese Joint Communiqué and the Sino-Japanese Treaty of Peace and Friendship.

The key to the solution of the Kampuchean issue lies in the truly total withdrawal of Vietnamese troops from that country. Since Viet Nam has stated that it will withdraw all its troops from Kampuchea no later than September this year, it should keep its word, leaving no troops behind under any pretext or in any form. Therefore, effective international supervision is

necessary for the withdrawal. The international and internal aspects of the Kampuchean issue cannot be separated absolutely from each other, and as a direct party to the dispute over Kampuchea, Viet Nam naturally has the responsibility to bring about peace and national reconciliation in the country. China favours the establishment of a provisional quadripartite coalition government headed by Prince Sihanouk, for this will be instrumental to the realization of peace in Kampuchea and help prevent the outbreak of a civil war. Sino-Vietnamese relations will be normalized only when the Kampuchean question is settled.

The Soviet troop withdrawal from Afghanistan has now been completed, and this is something we welcome. We hope that the various political forces in Afghanistan will, through consultation, establish a broad-based coalition government at an early date, thereby ensuring the safe return of the refugees to their homeland and enabling the people to live in peace again and rebuild their country. A stable domestic situation in Afghanistan, along with restoration of its status as an independent, neutral and nonaligned state, will contribute to peace and progress in South Asia.

China and the East European countries have been pursuing a way to build socialism in terms of the conditions in each country. All can learn much from each other by sharing the experience gained in the course of building socialism. We are ready to continue to develop relations in various fields with them on the basis of the Five Principles of Peaceful Coexistence.

To strengthen friendship and cooperation with the West European countries and countries such as Canada, Australia and New Zealand is our long-term policy in our relations with other countries. The European Community is an important trading partner for us. Economic and technological cooperation between China and the West European countries has further expanded and progressed steadily and there are great potentialities yet to be tapped. We hope that both sides will try to promote cooperation in still more areas.

Unity and cooperation with African countries are our firm state policies. We shall, as always, support the African peoples in their efforts to safeguard their national rights and interests and revitalize their economies. We are happy to note the trend towards improved relations and strengthened unity among the African countries. We welcome the agreements

reached by the parties concerned on the political solution of the question of southwestern Africa and hope to see a smooth attainment of independence by Namibia, an early restoration of peace in Angola and Mozambique, and protection of the sovereignty and security of the front-line countries. China has always strongly condemned racial discrimination and resolutely supported the people of various African countries in their just struggle against apartheid in South Africa.

There has been new development in our friendly relations and cooperation with the Arab countries. Last year we established diplomatic relations with Qatar and signed with Saudi Arabia a memorandum of understanding on the mutual establishment of commercial representatives' offices in each other's country. We hope for a peaceful settlement of the Middle East question. The founding of the State of Palestine and a series of flexible and practical steps taken recently by the Palestine Liberation Organization have served to accelerate the peace process in the Middle East and have thus been warmly received by the international community. We hope that the dialogue between the United States and the PLO will achieve substantive progress. The Israeli authorities, on their part, should stop suppressing people in the occupied territories and go along with the tide of the times by making a positive response to efforts by various sides in pursuit of peace in the Middle East. We are in favour of the convocation of an international conference under the auspices of the United Nations, so as to promote a fair and reasonable political settlement of the Middle East question at an early date.

We are pleased to note that Iran and Iraq have brought about a cease-fire between them and hope their talks will lead to lasting peace, so that the two peoples will be able to rehabilitate their war-ravaged economies and rebuild their countries.

We have made smooth progress in our effort to cooperate with Latin American countries. Last year we signed several agreements on cooperation in science and technology with Argentina and Brazil, thus taking our bilateral cooperation into new areas. This is of great importance to the promotion of South-South cooperation. Friendly contacts with Latin American countries that have not yet established diplomatic relations with us have also increased. Indeed, the prospect for the development of

friendly relations and cooperation between China and Latin American countries is bright.

We have consistently attached importance to and supported the nonaligned movement and hope it will exert a still greater influence as new international situations develop.

In recent years the United Nations has been playing an increasingly significant role in international affairs, particularly in mediating and settling regional conflicts and in relaxing tension in the international situation. As a permanent member of the Security Council of the United Nations, China has taken an active part in various fields of UN activities. We are ready to work with other countries all over the world to help the United Nations play a still more active role in maintaining world peace and security and promoting progress.

People should highly cherish the trend towards relaxation of tension that emerged in the wake of protracted turbulence in the world. With a view to promoting this trend, the Chinese Government hereby proposes establishment of a new international political order based on the five principles of mutual respect for sovereignty and territorial integrity, mutual nonaggression, noninterference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence. These principles have stood the test of history and are full of vitality. Under such an order all countries, big or small, strong or weak, will be equal and respect each other, and no country will impose its will on others or seek hegemony. The internal affairs of each country will be handled by the country itself, and matters of common world concern will be settled by all the countries together through consultation. Countries with different social systems or ideologies or in different stages of development will maintain friendly relations, and all international disputes will be resolved through peaceful negotiation, not through force or threat of force. Without a doubt, a world like this is what people all over the world wish to live in.

With relaxation in the international situation, countries throughout the world are shifting their attention to development. Many countries are now engaged in reform and readjustment, and economic, scientific and technological exchanges among them have been increasing — all this is in keeping with the tide

of the times. Meriting the serious attention of the international community at present are the growing debt burden of the Third World countries, the ever-increasing gap between the North and the South, and the economic difficulties facing the developing countries, which are aggravated by the growing tendency towards trade protectionism on the part of the developed countries. This irrational international economic order must change. It is incumbent upon the developed countries to assist the developing countries in their economic development and to help them seek a proper solution to the debt problem through consultation, for this is in the interest not only of the developing countries, but also, in the final analysis, of the developed countries and conducive to world stability. While actively carrying out South-South cooperation, China stands in favour of promoting North-South cooperation through dialogue and of establishing a new international economic order on the basis of equality and mutual benefit, which will help all countries to achieve prosperity.

The Chinese Government will continue its independent foreign policy of peace and give greater priority to economic, scientific and technological cooperation with other countries. We shall be more active and flexible in our relations with foreign countries, expand friendly contacts with other countries and work with them to ensure development of the international situation in a direction favourable to peace and progress.

Fellow Deputies,

On the whole, the current domestic and international situations are favourable to our construction and reform. In their nature, difficulties in our economic development are all difficulties likely to occur in the course of progress and development. So long as we unite as one, from the top leadership down to the rank and file, and pool our wisdom and strength, we shall assuredly be able to tide over these difficulties and achieve our objectives as anticipated, all in the course of improving the economic environment, rectifying the economic order and deepening the reform. Let us make concerted efforts to mark the fortieth anniversary of the founding of the People's Republic of China with outstanding successes! Let us carry forward the great cause of building socialism with Chinese characteristics. □

fidence.

A Chinese reporter: There has been a great foreign trade drop since the beginning of this year. What does Vice-Premier Tian Jiyun think about it? What measures will the State Council take to settle it? Will there be any readjustment of foreign trade policy?

Tian: China will not change its foreign trade policy, nor will it reduce its export volume. Instead, positive measures are being taken to ensure a steady increase in foreign trade.

The government will ban the export of some goods that are in short supply on the domestic market, try to export a certain amount of goods that are needed both at home and abroad, and increase the export of goods that are not in short supply at home but have a market abroad.

We have noticed that China's export volume in the first two months of this year dropped slightly. To prevent further export decline, the Chinese government has among other measures been working hard to make a greater success of the coming Guangzhou Spring Export Commodities Fair.

Improving Living Standard

UPI: During the next several years of austerity policy, will the living standard of the Chinese people improve or decline, or will it be maintained at the present level?

Li: It is our consistent principle to improve the people's living standard on the basis of production development. The living standards of the Chinese people will, on the whole, continue to improve over the next couple of years under the government's austerity programme. This is because China will maintain a certain rate of

economic growth in the drive to improve the economic environment and straighten out the economy. But the extent of the improvement may be smaller than in the period previous to the practice of retrenchment.

The Government's Authority

A foreign reporter: Premier Li Peng has talked about restoring the authority of the party and the government in his report to the current National People's Congress session. Recently in Chinese newspapers and magazines there are debates about a new authoritarianism. What does the premier think about this?

Li: The restoration of the authority of the party and the government is quite different from a new authoritarianism, a theory much debated in academic circles. What I meant to say is that all government functionaries, especially the leading cadres, must carry out the decisions of the State Council and the policies of the country.

This is all the more necessary during the present drive to improve the economic environment and straighten out the economic order. In this sense, our government should be an organ of authority. The building of the party and government's authority needs the support of the people.

The Education Issue

A Chinese reporter: Comrade Deng Xiaoping has pointed out that the most serious error made in the last decade is insufficient development of education. As the former director of the State Educational Commission, what do you think of his comment?

Li: I totally agree with Com-

rade Deng Xiaoping's conclusion. He means that our educational development has not met the needs of economic development and reform. He especially stressed that our people and Communist Party members, clearly including the leading cadres, are inadequate of traditional education of hard struggle. Of course, it is a matter of spiritual civilization construction. The Central Committee of the Chinese Communist Party will soon hold a special meeting to discuss educational problems.

Contacts with Taiwan Authorities

A Taiwan reporter: If you consider Mr. Lee Tenghui as having a separatist tendency, why have you urged Mr. Lee to make contacts with China's mainland over the last two years?

Wu: I have never heard that Mr. Lee is a separatist. I know very clearly from Lee's speeches reported in Taiwan's newspapers that Mr. Lee stands for China's reunification.

But Mr. Lee has his own views on the question of how to reunify China. Mr. Lee Tenghui clings to the position of opposing communism and follows the three no's (no contact, no negotiation, no compromise) policy. There are indeed two tendencies in Taiwan. One is for reunification of China, and the other is for "Taiwan independence."

We are not willing to see the tendency of Taiwan independence prevail. We are willing to maintain contacts with the Taiwan authorities so as to hold earlier talks on China's peaceful reunification. Once the negotiation begins, many problems can be solved.

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The 1988 National Drama Festival



Four months ago, Beijing played host to China's first non-governmental national drama festival. "Beijing Review" staff reporter Ling Yang gives a blow-by-blow account of the 19 productions presented.

Last December, China's first non-governmental opera festival delighted theatre-goers in Beijing with its presentation of 19 traditional and modern productions. Sponsored by China's Dramatists' Association, which has 900 members in its 30 branches across the country, the three-week festival demonstrated how drama in China has advanced on many fronts in recent years.

Inheritance & Development

The festival opened with a performance of selected scenes from *The White Snake*, a traditional Chinese piece, jointly presented by four different local opera troupes. This story, known in every household across China, tells of a snake who is metamorphosed into a

kind and beautiful woman. One day, she meets a handsome young man beside a lake. They fall in love and marry. A monk from the Golden Hill Monastery, however, is determined to undermine their union, and wages a relentless struggle against the woman.

While this story has long been a favourite with theatre companies in China, in this performance the actors concentrated on drawing out the complex psychology of the heroine. At the same time, the four companies played to the strengths of their respective styles: *kunqu*, elegant and attentive to minute detail, *ganju*, popular in Jiangxi with its rich folk flavour, Sichuan

opera, characterized by wit and humour, and *wuju*, which now has added modern music, dance and lighting techniques to its traditional charms.

Perhaps the major feature of this performance of *The White Snake* was its revelation that although China has opened its doors to Western culture, traditional opera is still in robust shape.

Another classic work on view was the Beijing opera *Dragon and Phoenix Symbolize Auspiciousness*, performed by students from the China Opera College. This comedy,

"Ghost's Enmity" (Shaanxi opera).

"The White Snake" ("kunqu" opera).



which draws its story from the classic Chinese novel *The Romance of the Three Kingdoms*, tells the story of a woman wooing and finally capturing the heart of the man she loves. As in all Beijing operas, the characters are divided between four categories: *sheng* (male), *dan* (female), *hua lian* (painted face) and *chou* (clown). With sparkling performances, from the young actors, Beijing opera clearly has a strong and viable future.

A *puju* opera troupe offered the festival selected scenes from a revised version of *Yue Tangchun*, the tale of a woman's experience in righting the wrongs she has suffered. One of the most interesting features of this version was the way it cast a feudal court runner, normally regarded as a rather minor character, in a sympathetic light. The piece's simple but bold and unres-

"Mountain Ghosts" (Hunan opera).



"Song of a Chaste Woman" ("Liyuan" opera).

trained style gave Beijing's theatre goers a rare chance to enjoy a good taste of northern opera.

At the Crossroads was another revised work. Because of its excellent martial arts routines, this Beijing opera first became fashionable at home and abroad in the 1950s. For the festival, however, the Tianjin Youth Beijing Opera Troupe reworked the fight scenes to add even greater impact. This included incorporating a scene of skilfully choreographed

leaping somersaults and nimble footwork which took place in near darkness. Despite its age, this revival had no problem delighting the audiences who had come to see it yet one more time.

Another crowd-pleaser was the Shaanxi opera *Ghost's Enmity*. The plot is an old one: Li Huiniang, a female ghost, harbours a bitter hatred for the treacherous court official who raped and murdered her. Despite her incorporeal existence, she falls in love with a scholar. In one of

the opera's central scenes, Li performs a moving dance wearing a long white skirt with a piece of silver-white cloth draped around her shoulders. With two-metre long sleeves flowing with her movements, and with the aid of a spotlight, lasers and subtle changes of lighting, she evokes the inner world of a phantom. During the second half of the opera, the

heroine defends her lover with a fan while spitting flame from her mouth in a memorable fight scene.

Special performances of selected scenes from various Sichuan operas gained plenty of new fans for this regional art form during the festival. The Sichuan opera repertoire contains several hundred traditional works. One of their fortes is revealing the inner worlds and temperaments of the characters peopling the stage through a combination of exquisite acting, sweet singing and humorous dialogues. Like Beijing and *kunju* opera, the Sichuan variety attracts leading performers from across the country.

Opera in China, however, is not merely a repository of works from the past. Recently, a number of troupes have created a series of new pieces with historical themes. And whereas traditional operas concentrate on foregrounding their complex plots, the emphasis of modern works lies in their profound delineation of character. Take the *kunju* style *Deeds of the Later Tang Emperor*. Created by the Beijing *Kunju* Opera Troupe, this follows the life of Emperor Li Yu, the last ruler of the Later Tang Dynasty (926-936), who was content to retain sover-



"Top Restaurant" (modern drama).

eighty over just the southern half of the country. Now he is remembered for his sentimental lyric poetry, which has been passed down from generation to generation, and for his loving deeds of kindness towards children. These are recreated on the stage in this show, which through the adept handling of music, singing, set design produced a series of beautiful effects highly enjoyed by the majority of its audiences. There were, of course, a few dissenting voices who claimed these changes in operatic technique involved sacrificing a part of its original and long-standing appeal. This, they said, made it nothing more than an imitation of modern drama and musicals.

The Dream Alarmed by the Morning Bell, a relatively short work of Beijing opera, is the story of Du Shiniang, a prostitute who falls in love with a scholar only to find herself abandoned. The depiction of her changing soul—from joy, to suspicion, then grief, indignation and despair—clearly affected all who

saw it. The opera reaches a climax when Du casts her jewelry into a river. The work's strength lies in its singing and musical accompaniment, which displays the inner world of the heroine in fine detail. With a *pingtan* tune (a ballad form from Suzhou) recurring throughout the work, audiences can easily guess where the story is set.

One feature of some operas written in recent years has

been the attempt to look at history and politics from unconventional points of view. This was clearly the aim of the writer of the *pingju* opera, *Soul of the Qidan*. Its central figure is Yang, dowager of the Qidan, a 10th century tribe who occupied what is now northeast China. In the past, Yang has always been portrayed as an aggressor from another race who invaded the Central Plain. This work, however, praises her for her pioneering spirit behind the rise of the Qidan, combined with the emotional strengths of women. A force to be reckoned with both politically and personally, she emerges from the opera as a towering heroine—a major breakthrough for *pingju* which normally concentrates on the trifles of urban petty bourgeois life.

Liyuan opera is popular in coastal Fujian Province, ac-

ross the Taiwan Straits and throughout Southeast Asia. Although it is one of the oldest opera forms in the country, there is only one *liyuan* troupe out of the country's total of 2,000. For the festival, this troupe put on *The Song of a Chaste Woman*, which, despite being a new work, was performed in a classical style with traditional techniques. It is the story of a widow whose husband died ten years ago. She tries to woo her son's tutor but is spurned. Bitterly regretting her action, which she committed in a moment of weakness, she cuts off two of her fingers. Ten years later, the emperor hears of this sacrifice and rewards her with a specially inscribed board. But the widow, ashamed at the fact that her private affairs have become public knowledge, commits suicide.

The 24-year-old actress in the leading role most skilfully revealed the widow's rich and complex character with meaningful hand gestures, movements and facial expressions, all of which complemented her wonderful singing. Her life, pitiful and moving, unfolded on the stage: her pursuit of love and then the suppression of lust, her struggle, her defeat,

"A Small Mountain Village" (modern drama). HU JIU





"Fire God and Autumn Maid" (modern drama).

and her final surrender to feudal ethics.

The performance was magnificent, but somehow the actual meaning of the play remained confused. One person has suggested that its significance lies in its exposure of the stubborn strength of the feudal ethics that have dominated China's moral world for thousands of years and have still not completely died out.

Reviewing the play, Ji Fuyang, a *qinqiang* opera artist from Xian, said it was not enough just to arrive at a rational understanding of feudalism—concrete action was needed to combat it. This was why he and his colleagues had adapted the piece for *liyuan* opera.

The Hunan opera *Mountain Ghosts* went furthest in incorporating modern techniques into a play with a historical theme. Named after a work written by the great patriotic poet Qu Yuan 2,200 years ago, this six-act play makes Qu Yuan its hero. Qu went to live with a primitive tribe in a far-off desert region. He finally was forced to leave because of irreconcilable disagreements over love, friendship, power and education. The play treats this cultural gap as tragedy in its ex-

ploration of two worlds.

Some viewers denounced the play's satirical treatment as showing contempt for a respected patriot, revealing him as risible and pitiful. But others praised it for its realism and unfathomable philosophic value. Undoubtedly it was close to life,

and although unscholarly, vividly portrayed the gulf between the ethics of a feudal scholar and the folk concepts of a primitive tribe. Historically and artistically, although Qu was a tragic symbol in his pursuit of truth and ideals, his character also embodied the tragic psyche of Chinese intellectuals over many hundreds of years—something which can easily strike a sympathetic chord with intellectuals today. Maybe this sympathy can aid the reconsideration of ideas, and so become one of history's positive forces.

Aside from the philosophy of *Mountain Ghosts*, one of its most praised features was the way its authors brought out the beauty of operatic art. The critics acclaimed it for "re-creating theatrical culture" and "bringing new vitality and hope into the theatre." Its act-

"Battles of the Huai-Hai Campaign" (modern drama).



ing had absorbed the expressive methods of modern opera, but was stylized not stereotyped. Its music brought out the mood of the work, and its set not only looked real, but, more importantly, encapsulated the entire movement of the opera. As *Mountain Ghosts* also incorporated folk music and dance with primitive customs and rites, it was unsurprising that one reviewer commented: "This new work unifies thought, appreciation, concepts and images."

Modern Drama

Almost half of the festival's offerings consisted of modern drama. One of the most outstanding works was *The Top Restaurant*, performed by the People's Art Theatre of Beijing. Its magnificent outlook, profound ideological content and strong Beijing flavour charmed its audiences.

The Black Stone, performed by a troupe from the oil city of Daqing in northeast China, centred on team leader Qin. Honest and hardworking, he had contributed a lot to the success of the local oil industry since the early 1960s. Now in the '80s, he has been put in charge of a group of young workers. As the play opens he is unaware of their likes and dislikes, their interests and hopes. They want to travel into

Daqing and see what the town has to offer; but, despite the monotony of life on the oilfield, Qin refuses to let them go. He is also unhappy with their hobbies: raising goldfish and a wild goose in the dormitory. He particularly dislikes one youth sporting denims and long hair, and tears up a famous painting of a naked girl. Right until he sacrific-

ices his life to save a drilling machine, he is incapable of understanding why he's a misfit among his younger colleagues.

A Small Mountain Village, performed by a company from southwest China's Guizhou Province, centres on a pair of everyday figures. Zhao Ergou is a farmer in a mountain village, far away from the beaten track. Although kindhearted, diligent and honest, he is often the target of mockery and humiliation. He is pitted against a man who knows well how to trim his sails and curry favour with local leaders to make himself a power in the village, abusing his position to criticize or lean on others. The low-key tragedy of this couple, both of whom have been distorted by the times they live in, aroused many a feeling of sympathy in audiences, possibly because they caught a glimpse of their own lives in the drama acted out before them.

The China Youth Art Theatre's production of *Fire God and Autumn Maid* is a story of love. Its leading protagonists are a coal miner, who becomes disabled after an accident, and a woman from the countryside. The play eulogizes the beauty in the minds of ordinary people.

Like other plays written for performance in small theatres, *Fire God and Autumn Maid* drew its audience into the on-stage action. The greater intimacy offered by theatres with a capacity of 200 invites greater concern with the destiny of the characters. The actors can concen-



American play "A Streetcar Named Desire."

trate on the minute details of performance, delineating with care and attention the finer points of characterization. The emergence of plays like *Fire God and Autumn Maid* reveals that Chinese playwrights are starting to take full advantage of the small theatre to widen the range of Chinese drama.

Battles of the Huai-Hai Campaign performed by the Modern Drama Troupe of the People's Liberation Army's General Political Department is a historical reconstruction of the campaign to overthrow the reactionary regime on the lower reaches of the Changjiang (Yangtze) River in 1948. As well as staying true to the facts, it explores the state of minds of the generals and rank-and-file of both sides.

Two American plays were

"Apartment No. 13" (light opera).

Photos by Xiao Yinchang except those signed



featured in the festival. *Emperor Jones*, based on a work by Eugene O'Neill and Tennessee Williams' *A Streetcar Named Desire*. The director of *Emperor Jones*, staged by a company from Nanjing, replaced large chunks of the plays original soliloquies with rhythmic dancing. It powerfully gave voice to the desire of many contemporary Chinese dramatists to explore new directions in art and expand their imaginative and expressive abilities.

The Tianjin company's revival of *A Streetcar Named Desire* succeeded in instilling great vitality into this tragedy centred on a heroine, who, after suffering countless setbacks in her search for the good life, is finally committed to a lunatic asylum.

The final offering on show, *Apartment No. 13*, was also the festival's only piece of light opera. It tells of a young woman from the countryside who comes to the city to visit a friend. Although she finds the towerblock her friend lives in, she doesn't know her friend's apartment number. After knocking on the doors of eight flats, she gives up in despair and falls asleep beneath a staircase.

The opera's composer ties characters to musical themes—the country girl sings songs adapted from Hunan Province folk music, the more sophisticated city dwellers express themselves with more classical tunes, and the young use popular music. Light in style and modern in content, *Apartment No. 13* proved particularly popular with the festival's more youthful audiences. □

FROM THE NPC & CPPCC

The Need for Macro-Economic Regulation

by Our Staff Reporter Li Rongxia

The major topic of discussion at the Second Session of the Seventh NPC and the Second Session of the Seventh CPPCC National Committee held recently in Beijing was how inflation could be curtailed and the economic order rectified by resolving the problems of economic imbalance and the lack of controls over the macro-economy.

Many NPC deputies said that while China had realized tremendous achievements in all fields during the past ten years, several major problems had also emerged. Because they had not been timely resolved, they had resulted in the two-digit inflation rate and price hikes of 1988, which in turn caused public uneasiness. Although there are many reasons for these problems, the principal ones singled out were the country's serious economic imbalances and the lack of controls over the macro-economy.

Areas of Imbalance

In his government work report, Premier Li Peng admitted that the government's guiding work had contained shortcomings and errors. This realistic attitude was appreciated by all NPC deputies and CPPCC members, who then set about seriously analysing the country's economic situation and forwarding their own opinions and suggestions.

CPPCC member Jiang Xi said an imbalance existed between the relations of social production and accumulation on the one hand and consumption on the other. Both the

scale of investment in fixed assets and the accumulation rate were too high, he said. In 1988, the country's investment in fixed assets totalled 431.4 billion yuan—125.4 billion yuan more than budgeted—which raised the national accumulation rate to 37.4 percent of national income. At the same time, funds available for consumption had outstripped social production. In 1988, personal income from wages and other sources rose 26.5 percent, 5.8 percentage points higher than national industrial growth and 23.3 percentage points higher than agricultural growth.

This excessive growth in social demand has increased the strain on supplies of goods and materials. Overall, the difference between demand and supply reached 42.6 percent, more than offsetting increases in output and reduced the reserves of social commodities. Moreover, personal bank savings and cash are still rising. By the end of 1988, surplus public purchasing power had topped 560 billion yuan—all of which could be released on to the market at any time and further destabilize the economy.

Wang Lusheng, an NPC deputy from Guizhou Province, attributed the bulge in demand to the inefficient control of the macro-economy. By last February, government measures to curb economic growth had resulted in the suspension and postponement of 18,000 capital construction projects throughout the country, saving 64.7 billion yuan of investment over the next few years. Nev-

ertheless, the target for curbing economic growth had not been attained, and consumption funds have continued to expand. In February, they stood at 20 billion yuan more than 12 months previously. The problem lies in the fact that consumption funds have been scattered too widely since reform began. Now, enterprises, regions and individuals all have money in their hands which the state cannot control.

The problem also lies in the serious imbalance in the country's economic structure. In 1988, the country's industrial output value rose 20.7 percent, while agriculture grew just 3.2 percent—a difference of 6.5 times. Within industry, the output value of processing rose 23 percent, while energy and raw materials only grew 4.8 percent and 10.8 percent respectively. Many NPC deputies and CPPCC members pointed out that the so-called "overheated economy" was actually the over-expansion of processing. The development of agriculture, energy, raw materials and other basic industries has lagged behind, with grain and cotton in particular stagnating since 1985.

China is also faced with a series of financial problems. One NPC deputy noted that between 1979 and 1988, with the exception of 1985, the government ran up a deficit every year. The total deficit now stands at 65 billion yuan. In recent years, because the enterprises have been granted too many tax exemptions while being allowed to retain excessive amounts of profits, state revenue has dropped from 31.9



Cong Fukui, an NPC deputy from Heilongjiang, discusses control of the macro-economy with a "Beijing Review" correspondent.

percent of national income in 1979 to 19 percent in 1988. The extra-budgetary funds of regions and enterprises have also grown too fast. Last year they amounted to 227 billion yuan—five times more than in 1979 and equal to 90 percent of the state's budgeted income that year.

Moreover, central government income has dropped to around 50 percent of all state revenue while its expenditure has topped 60 percent of all state expenditures. One principal reason for this reduction in income lies in the widespread tax evasion which is practised by an estimated 70 percent of industrial and commercial enterprises.

In recent years, the country's debts have also increased. Repayments of capital and interest will total 40 billion yuan during the next few years. The excessive granting of loans has helped contribute to the over-issuance of currency. The money issued totalled 67.96 billion yuan last year, raising the amount of money in circulation by the end of

the year to 213.4 billion yuan, a rise of 46.7 percent over 1987.

At a panel session of NPC deputies from Hebei Province, Li Guixian, president of the People's Bank of China, said although the government has tightened its control over the money supply, it still cannot enforce repayment

of loans. The specialized banks have lent all their available funds, and enterprises now have to compete with each other to withdraw money. As no laws have yet been passed to help banks recoup loans, they clearly have been placed in a position of high risk.

Economic Ills

Many of the NPC deputies spent a considerable amount of time examining the reasons underlying China's lack of effective macro-economic controls. They argued the overanxiety to realize quick results was one of the principal factors, saying that many people had failed to take sufficient note of China's existing conditions with regard to accumulation while drawing up their plans for economic de-

velopment, that these people also underestimated the complexity of reform and that the country lacked democratic and scientific policy-making procedures.

Deputy Ding Guangxun suggested one of the reasons for lack of macro-economic control was the State Council's lack of authority. Currently, he said, many regions and work units put their interests above the greater national interest, often vying with each other over access to central government funds and resources. So they implemented the central authorities' policies which were considered advantageous to them and rejected those which were not, he said, but no clear methods had been adopted to deal with those who rejected implementing these policies.

Cong Fukui, a deputy from Heilongjiang Province, said the first to be resolved was how it always seemed to be honest people who were the first to come to grief. He went on to say that since the contracted term of office generally ranged from three to five years, everyone wanted to see results during their term of office, they were compelled only to consider short-term benefits, thus neglecting long-term planning and being prompted to act

without self-restraint.

Deputy Cheng Deming from Shanghai added that another reason for ineffective state macro-control mechanisms was the various imperfections in the legal system. He said that the control and regulation of the national economy were based on

Shanghai deputies consider the economic situation at a panel session.





At a panel discussion, Shandong deputies examine ways of improving the economic environment.

Photos by XUE CHAO

administrative means rather than legal ones. He cited the example of how all Party and government leaders were authorized to approve investment schemes or the issuing of loans, and when this was supplemented by poor-quality management, it invariably left macro-economic regulation weak and powerless.

Deputy Wang Yachen from Liaoning Province asked who was responsible for the country's soaring prices, adding that there had been no self-criticisms and he thought the blame had all been shifted to the State Council.

Remedies

The deputies, however, were not content just to criticize. Many of them put forward their own suggested cures for China's economic ills.

Deputy Li Wenquan from Shandong Province said that since the introduction of policies aimed at improving the economic environment and rectifying the economic order last October, the State Council had issued more than 40 documents centralizing administrative powers. He said that although the general orientation of reform over the last few

years had been correct and no major policy errors had been committed, he expresses the hope that auxiliary reform measures would be taken but, he added, the country should not return to its former economic system. Otherwise, there was no hope of success, he added.

Li then noted that the country's conditions were favourable for overcoming the difficulties it faced. In particular, regulation and control of the macro-economy were both founded on objective criteria. This could be seen in the State Council's recently published industrial policy documents which explicitly stated what should be controlled and regulated, but which avoided the rigid uniformity of the past.

Guo Zi, a deputy from Hebei Province, underlined the fact that China's energy industry and raw and semi-finished material production were starved of funds. He suggested vigorous efforts be made to support their growth and said only by readjusting the irrational industrial structure could favourable economic returns and balanced development be achieved.

Deputy Ma Xingao from Henan Province said that improving the economic environment and rectifying the economic order called for asserting central government authority and enforcing strict discipline. As regards those people who undermined the national economy by failing to adhere to government policies and guidelines, they should be subjected to administrative and legal dis-

cipline, he said.

Wu Dakun, a member of the NPC's Financial and Economic Committee, said the main economic goals for 1989 were cooling the overheated economy and ensuring that inflation was visibly lower than in 1988. He added it was essential that efforts were redoubled to ensure a good agricultural harvest. To attain these goals, he said, members of the Financial and Economic Committee believed the government should do the following things:

- Strengthen co-ordination between the major economic departments so that planning, banking, finance, industry, agriculture, commerce, raw materials and foreign trade were all subjected to centralized and unified management.

- In accordance with the State Council's industrial policy, fixed asset investment should be cut by 90 billion yuan this year.

- The State Council's policy concerning adjustments to the national economic structure should be implemented. Simultaneously, enterprise reform should be deepened and energy and raw material consumption reduced. The criteria for assessing enterprise performance should be based upon improvements in product quality, labour productivity and profit and tax rates.

- Banks should prioritize loans to enterprises and economic departments which increase the effective supply of goods. Ordinary loans should be strictly restricted.

- The state should strive to eliminate financial deficits by strictly controlling the growth in extra-budgetary funds, strengthening the management of taxation and introducing new legislation whenever necessary. □

Genius Wang Knows 13 Languages

Few people can pile up the fruits of their life-long labours like Wang Tongyi. At 49 he poses for reporters beside a stack of books he has either edited or written that equals his 164cm height.

Wang speaks 13 languages, and is the chief editor of about 10 dictionaries, including the editor of last year's 40 million-word, *English-Chinese Word-Ocean Dictionary*, and the *English-Chinese Dictionary of Scientific and Technical Terms*.

A native of Taoyuan County in southern China's Hunan Province, Wang has come a long way from his humble origins when he used to gather firewood and herd cattle for his family when only a 4-year-old.

A hard life did not hold Wang back from his persistence, study habits brought him to Beijing University in 1958 where he was enrolled in the nuclear physics department.

At that time, Beijing University had strict regulations. The lights went off at 10 pm and nobody was allowed to study after that even by the dim street lights. Wang had to steal into the wash room to study foreign language until midnight.

In those days, there were no Chinese textbooks for certain foreign language courses, so he used Russian and English textbooks to study. He improvised using a kind of intensive method to digest new words.

In 1963, Wang graduated from Beijing University with the eminent ability to understand 12 different languages. He then became a youthful editor at the Nuclear Energy Press under the Ministry of Nuclear Industry and was res-

ponsible for the publication of *Translated Essays of Nuclear Energy*, a magazine that brought vital information to Chinese scientists from the West.

In 1977, he compiled the three-volume English-German-French-Russian-Chinese Dictionary of Physics. His accomplishments began to draw the attention of two renowned scientists Qian Weichang and Qian Sanqiang who recommended him as a delegate to the National Science Conference.

However, some people took a sceptical attitude towards the language ability of this young editor and his qualifications for attending the meeting came into question. To convince these people, the two veteran scientists organized an authoritative tribunals to examine his linguistic abilities.

Tests showed that of the 12 foreign languages he spoke, Italian, Norwegian, Dutch were passable and English, German, Japanese, Russian, French, Spanish, Portuguese, Romanian, Swedish were either good or excellent. Wang finally was allowed to take part in the meeting held in 1978.

At the meeting, Wang said that he was going to translate the Webster's Dictionary into Chinese. This dictionary contains 450,000 entries and no Chinese scholar had ever dared such a formidable project.

"What the ancestors can not do does not make it impossible," said Wang. Then he and his 11 spare-time assistants began the task of co-ordinating the labour of more than 600 translators. Ten years later, the dictionary titled *The English-Chinese Word-Ocean*

Dictionary, which based itself on the two great English dictionaries Oxford Dictionary and the Webster's Third New International Dictionary, were published, along with an additional supplement of 70,000 new words and difficult terms.

In recent years Wang has edited 15 large dictionaries and has written six foreign language guidebooks.

Wang has also won international fame with his name appearing in the International Who's Who several years ago and constant international press reports covering his work.

Some schools and education research institutes in the United States and Japan sent invitations to him, offering favourable payment for him to go abroad.

But Wang said: "Why go to a foreign country. This is the homeland of my forefathers and I am obliged to make any possible contribution I can to it."

But Wang's most exciting work is likely yet to come. Although China has a five thousand year history there is no dictionary that gives a complete up-to-date compilation of terms and phrases covering all the social sciences and scientific fields.

Past scholars have attempted to put all of the nation's words and terms into *Ci Hai* (Ocean of Words), however, that does not contain everyday expressions.

Wang's dictionary will be distinguished by carrying 300,000 words and new phrases that have come into use in China since 1919 in the fields of sciences, industry, agriculture, medicine and liberal arts. Each word, besides having a complete Chinese definition, will carry its equivalent in English. □



East meets west on the tip of the scalpel-needle as inventor Zhu Hanzhang shows his new therapy to students.

YANG LEI

Scalpel-Needle Probes New Ground

To cure the patients of diseases without having to cleave open the body has been the dream of surgeons for ages.

China's newly introduced "scalpel-needle" has taken a great leap in this direction combining the advantages of both Western and Chinese medicine into a single instrument.

The little 10 cm. long instrument (with a diameter of one millimetre) promises to make some big changes in medicine with its oblate cutting head that allows physicians to get into and out of

their patients within a few minutes—all without pain, blood or side-effects.

Besides greatly lessening the suffering, the scalpel-needle is proving itself to be both more economical and efficient espe-

cially in orthopaedic related illnesses.

The needle's success rate has reached 92.7 percent in treating such diseases as intractable aches from strain or old damage, spur of arthroscrope, mulunion old fractures, myositis ossificans, tenosynoritis and traumatic muscle contracture.

The invention of the scalpel-needle was somewhat of an accident, says the inventor Zhu Hanzhang, director of the Jinling Traditional Chinese Orthopaedic Hospital in Nanjing, in China's eastern province of Jiangsu.

Instead of using the traditional method of an acupuncture needle in treating a patient with a sharp inner palm pain, Zhu opted for a more rigid syringe needle. As it made contact with the sore area the pain stopped.

That inspired Zhu to further develop the technique. Zhu went about combining the advantages of the acupuncture needle that allow traditional doctors to enter the body without slicing into it, with the scalpel's edge that cuts away diseased areas.

Last December, Zhu's scalpel-needle treating method won a gold medal at the 37th

The scalpel-needle, shown here, has the advantage of getting to the meat of the matter without leaving a scar.

LIU XIANG



Eureka international fair of new technology and innovations. Zhu now has 300 students learning his treatment techniques.

Possibly more important are the 1,000-plus patients who have had their health restored through Zhu's pioneering technique.

by Feng Jing

Beijing-Paris Motor Odyssey

After a Paris newspaper's suggestion became a reality, the race, like the moon walk, became the talk of a generation.

The 1907 Beijing-Paris motor relay race captured the world's imagination. For two months, five cars, from Italy, France, and the Netherlands crossed 10,000 exotic kilometres.

The 82-year-old car that won it, the Itala, has been "invited" out of retirement from its rest home—the Turin Museum, and has been completely refitted by Fiat with a new engine and custom-made tyres that match the originals, that will let it take a second Beijing-Paris run.

The expedition that left Beijing's Tiananmen Square March 25 is expected to arrive in Paris before the 200th anniversary of the French Revolution and will take approximately 110 days.

This time around the route will be twice the original distance. Piloted by a modern crew and escorted by nine of Fiat's most technically advanced cars, the old Itala will pass through China's Xinjiang Uygur Autonomous Region over the legendary ancient Silk Road.

The crew will then take it through most famous cities in nine countries that cover hundreds of scenic spots in Pakistan, Iran, Turkey, the Soviet Union, Poland, the German Democratic Republic, the Federal Republic of Germany, the Netherlands and Belgium, before putting on to Paris.

Another reason for this incredible journey, say the organizers, is to commemorate the three Italians, Prince Scipione Borghese, mechanic Et-



On March 25 the antique Itala leaves Beijing for Paris.

tore Guizzardi and correspondent Luigi Barzini, who first drove the Itala 35-40 hp car across the European and Asian continents.

The commemorative journey is likely to spin off some good publicity, especially for the Italians. The sponsors are the Fiat Automobile Co., the Italian National No. 1 TV Station, and Italy's Trekking International. Beijing is also chipping in with support from the China International Sports Travel Co.

by Han Baocheng

News in Brief

□ A look through the back copies of *China Daily* letters section bring pretty discouraging news. There you can find enough travellers' horror stories to make you think twice before coming to China.

Those days are hopefully at an end with the founding of the China International Travel Service Group (CITSG) established March 23 that effectively swallows up the old China International Travel Service (CITS).

"We're out to raise the quality of service and management in the travel field," said Wang Erkang, president of the board of directors of CITSG.

The old CITS, with its 128 branches, was taken over in a jumbo amalgamation deal that started CITSG. Since then, the new group has taken over the helm of the nation's travel business becoming China's most influential travel service.

Our new approach, says Wang, will have affiliated travel branches competing in the travel business by allowing them to promote and develop their own specialties.

But the first thing they have to do, emphasized Wang, is to increase the quality and efficiency in

tourism, while strengthening China's overseas business activity.

□ "Greater competition will be needed to make our company known, and how we'll do that is through providing our customers with better services all around," says Wei Keping, president of the board of the newly founded Guilin Tourist Group in the Guangxi Zhuang Autonomous Region.

Like the nationally organized China International Travel Service Group, there will be much emphasis placed upon engineering new tours, travel efficiency and attracting foreign tourists.

"That means better food, accommodations, transportation, and tour services that are built around travellers' needs," said Wei.

One of the new strengths of the new Guilin operation will be its contacts with every area of the travel world.

The Guilin Tourist Group in Guangxi is backed and organized by CITS, the Guilin Tourism Motor & Boat Co., the Guilin Lijiang Hotel, the Guilin Ronghu Hotel, Guangxi Aviation and the Hong Kong CAAC Holidays Co. Ltd.

Overall, the Guilin group company has over 800 luxury suites and standard rooms. It also has over 200 various luxury coaches with 250 trained guides. □



The Jialingjiang River.



Bamboo.

Chinese Paintings by Zhuge Zhirun

Zhuge Zhirun was born in Jintan County, Jiangsu Province in 1937. He now teaches fine arts at the First Affiliated College of the Chinese People's University, and specializes in landscape and flower-and-bird paintings.

ART PAGE



A Bird and Plum Blossoms.



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These elegant and stylish new rattan and wooden products are noted throughout China. There are more than 200 kinds of products you can choose from. In addition, you can have your own materials processed in our factory. Look us up at the No. 6 Exhibition Hall, at the Guangzhou Export Commodities Fair.



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