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UNITED NATIONS DEVELOPMENT PROGRAMME
PROGRAMME DES NATIONS UNIES POUR LE DEVELOPPEMENT



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BRIEF FOR THE SECRETARY GENERAL
ON UN SYSTEM'S OPERATIONAL ACTIVITIES FOR DEVELOPMENT
IN THE PEOPLE'S REPUBLIC OF CHINA AND MONGOLIA

A. A Brief
Overview

A BRIEF OVERVIEW OF THE MULTILATERAL DEVELOPMENT

COOPERATION PROGRAMME IN CHINA

Executive Summary

I. Historical Evolution

1. In 1971 China resumed its seat in the United Nations and started participating actively in its technical cooperation activities by providing assistance to the third world countries through UN regional and inter-regional programmes. Later in 1978, in conformity with its modernization programme, it sought direct assistance in economic and social development from the United Nations. In response, in January 1979, the UNDP Governing Council approved an interim allocation of \$15.0 million to support 27 specific project activities. Thus the 'two-way process' of technical cooperation began with the opening of a UNDP office in Beijing in September 1979. This initial cooperation effort was followed by an additional \$15.0 million allocation made available by the UNDP Governing Council in January 1980. Thereafter, other UN Agencies also began operations in China: UNFPA, UNHCR, and WFP began their operations in 1979; UNICEF and WHO established offices in 1981 and a Senior Industrial Development Field Adviser (SIDFA) was added to the staff of the UNDP Resident Representative in April of the same year; FAO opened a representative office in January 1983; UNESCO and ILO opened their offices in May 1984 and January 1985 respectively. Virtually all other UN Specialized Agencies have activities in China, mostly funded by UNDP, and in some cases directly by the agencies concerned or through trust fund and multi-bi funding arrangements.

2. Among the international financing institutions, IFAD was the first to provide assistance to China beginning in 1980. After the resumption of China's seat in the World Bank and IDA in May 1980, Bank's lending programme to China began in 1981 and a Resident Mission was opened in Beijing in October 1985. Recently, China has become a member and recipient of the Asian Development Bank (AsDB).

II. Magnitude of the Multilateral Cooperation Programme

3. The total official Development Assistance to China has increased significantly during the past few years but still represents only about 0.4 per cent of China's Gross National Product. In general, the larger share of development cooperation is provided through multilateral channels (including the World Bank, IFAD and AsDB lendings). The total multilateral assistance to China in 1985 amounted to approximately \$696.6 million representing about 54 per cent of the total official Development Assistance.

III. Emphasis and Thrust of the Multilateral Technical Cooperation Programme

4. Besides the World Bank, UNDP is the largest source of technical assistance to China. Since its inception in September 1979 to the end of 1986 UNDP has provided a total of \$93.5 million covering over 200 projects. For the period (1987-91) UNDP has allocated \$138.34 million to China making it the second largest recipient, after India, of UNDP resources. The current Country Programme of UNDP for the period 1986-90 supports the development strategies of the Seventh Five-Year National Development Plan (1986-90) with a total allocation of \$128.7 million (including IPF and all other UNDP-administered funds). It focuses on five main areas of concentration namely: (i) human resources development; (ii) technical transformation of existing industries; (iii) development of advanced technology; (iv) improvement of living standards; and (v) application of information technology.

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5. A brief account of the other major sources of multilateral technical cooperation programme is given below:

i) UNFPA was among the first UN Agencies to start operations in China by assisting in carrying out the massive Chinese population programme including the 1982 population census - the largest ever undertaken in the history of mankind. From 1980 to 1984 the total assistance provided by UNFPA to China amounted to \$50 million. During its current programme cycle (1985-89), UNFPA has allocated another \$50 million for contraceptive production and supply; family planning and maternal and child health care; communication and education; data collection/analysis; and policy research.

ii) UNHCR began activities in China to resettle some 285,000 Indochinese refugees. Over the period 1979-86 UNHCR has provided a total of \$55.9 million primarily for the local settlement and creation of job opportunities for refugees. A further \$12.85 million is programmed for various activities for the period 1986-88.

iii) UNICEF activities in China began in 1980 and have rapidly expanded to include projects in the following primary areas: nutrition; immunization and child health; pre-school and primary school education. The total financial allocation for UNICEF's current five-year programme (1985-89) in China amounts to \$57 million.

iv) WHO's regular programme of assistance to China has expanded rapidly since its inception in 1979. From a \$3.85 million programme in the biennium 1982/83 it has grown to a level of \$6.34 million programme in the biennium 1986-87. WHO's programme in China has largely focused on health manpower development, disease control, environmental health, strengthening of health services, formulation of drug policies and biomedical research. Close and more extensive collaboration between China and WHO is expected to follow in the years to achieve the goal of Health for All by the Year 2000.

v) Other UN Agencies and Funds such as UNDTCD, UNIDO, FAO, ILO, UNESCO and UNFSSD also play very important role in the development programme of China. Besides collaborating in UNDP-funded activities, these Agencies have also limited regular programme budget, trust fund and multi-bi funded activities in China.

IV. Multilateral Financial Assistance for Investment Programme

6. Given its large investment requirements, China relies on substantial borrowing from international financing institutions. Between 1981 and June 1986 the World Bank and IDA lending to China amounted to \$4.1 billion for 41 operations of which about 50 per cent are in the energy and transport sectors. World Bank lending to China is planned to increase steadily from about \$1.1 billion in 1986 to \$2 billion annually by the end of the decade. China is also a member of the International Finance Corporation (IFC) which is currently supporting a joint venture automobile project between a Chinese manufacturing enterprise in Guangzhou and Peugeot of France.

7. The International Fund for Agricultural Development (IFAD) from 1980 to 1986 has provided \$85 million in loans to China, making it the fifth largest recipient of IFAD loans. The Asian Development Bank is the most recent source of financial assistance for China's large investment programmes.

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V. Multilateral Food Aid

8. In a span of only eight years, WFP's food assistance to China has grown to become one of the largest UN food aid operations, accounting for more than 11 per cent of its total world wide commitments. Apart from the World Bank, WFP is now the largest source of development assistance to China from within the United Nations system. WFP's current programme of assistance involves support to 23 development projects at a cost of \$336 million.

VI. Significant Features of the Multilateral Technical Cooperation Programme

9. Multilateral technical cooperation in China has a number of distinctive characteristics which contribute to particular success in achieving local mastery of technologies being transferred, their adaptation to local conditions and requirements, and their widespread dissemination within the country. Distinctive features include: (i) management of projects by National Project Directors; (ii) use of short-term consultants instead of long-term resident experts; (iii) increased emphasis on Government execution of projects; (iv) high technology and industry-based projects; (v) use of expatriate Chinese nationals in development activities; (vi) strengthening of private voluntary organization cooperation for rural development and income-generating activities in remote and minority nationality areas; (vii) promotion of economic and technical cooperation among developing countries; (viii) mobilization of third country (multi-bi) and national resources in support of multilaterally funded activities; and support to national economic reforms and management.

VII. UN Representation in China

<u>UNDP Resident Representative</u>	: Manfred Kulesa (FRG)
<u>UNFPA Deputy Resident Representative</u>	: Aprodicio A. Laquian (Canada)
<u>FAO Representative</u>	: L. I. J. de Silva (Sri Lanka)
<u>ILO Director</u>	: Ian Chambers (Canada)
<u>UNESCO Representative:</u>	: Dr. H. Leo Teller (Australia)
<u>UNHCR Charge de Mission</u>	: Raymond A. Hall (U.K.)
<u>UNICEF Representative</u>	: Manzoor Ahmed (Bangladesh)
<u>WFP Director Operations</u>	: Trevor Page (U.K.)
<u>WHO Representative and Programme Coordinator:</u>	Dr. Eric H. T. Goon (Malaysia)
<u>UNIDO Senior Industrial Development Adviser</u>	: Albertus Sissingh (Netherlands)
<u>World Bank Resident Representative</u>	: Edwin R. Lim (Philippines)

(Except for UNICEF, FAO, UNESCO and the World Bank all other Agencies listed above are located in the same premises.)

10. The UNDP Resident Representative serves as Resident Co-ordinator of the UN System's Operational Activities for Development. The Ministry of Foreign Economic Relations and Trade (MOFERT) is the Government coordinating authority for all multilateral and bilateral technical assistance, except that from the World Bank and AsDB for which the Ministry of Finance and the People's Bank of China are the respective coordinating authorities.

B. UNDP Activities



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IN CHINA

UNDP technical cooperation with China started in 1979. The initial activities were oriented towards meeting some immediate needs of the Government. The first multi-year Country Programme for China (1982-1985) was formulated to support the objectives of the Sixth National Five Year Plan. The priority areas included food production and agricultural productivity, production of consumer goods and services to the population, energy development and conservation, human resources development and infrastructure. More than 150 projects were implemented during that period at a total cost of US \$64.3 million including \$10.8 million of cost-sharing by the Government.

The Second Country Programme was approved by the UNDP Governing Council in June 1986. It provides an estimated allocation of \$120.7 million for the period 1986-1990 and is designed to support the priorities of the Seventh National Five Year Plan.

The main themes of the Second Country Programme are human resources development; technical transformation of existing industries; development of advanced technology; improvement of living standards and application of information technology.

In sectoral terms, the allocation of UNDP resources in the 1986-1990 period is planned as: general development issues, policies and planning (29.4%); industry (27.6%); natural resources/energy (14.3%); science and technology (11.1%); and agriculture, forestry and fisheries (9.6%).

Many projects are concerned with bridging critical technological gaps which resulted from several years of isolation as well as with upgrading and assimilating laboratory research into the production process. Some examples are: computer-aided designing, manufacturing and maintenance procedures in large enterprises; development of improved control instruments and precision meters; marine engineering geological investigations, evaluation and exploitation of oil reserves; preparation of coal-water mixtures; turbo machine technology; application of isotopes in agriculture; and natural sources of new antibiotics.

UNDP cooperation has also been utilized at the policy planning level of the Government. One project provides very high-level advisory and training services to the Commission for

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Economic Restructuring. Others are assisting in the training of senior level personnel in the modern techniques of general administration, monetary and financial regulations and banking.

Since 1985, tripartite cooperative efforts between the Government selected private and international non-governmental organizations and UNDP have been launched. One aspect of these efforts has related to the identification and promotion of small-scale, resource-based and locally managed enterprises in relatively disadvantaged areas and for the benefit of minority populations. Joint missions with the representatives of several European and American organizations have identified potential projects. At another level, senior business executives, bankers and lawyers have been brought to China to lecture and advise on management techniques, information management, banking and financial administration.

The implementation of the China Country Programme is characterized by innovative features.

All projects are managed by the national project directors. Foreign advisory services are utilized for short periods of time in well defined areas. The experience so far has been considered quite satisfactory.

The Government itself is the major executing agency of UNDP assistance in China, being responsible for well over one-third of the Country Programme. (UNIDO comes second and FAO third with 25% and 10% shares respectively of the Country Programme).

China is by far the largest user of the facility of Transfer of Knowledge Through Expatriate Nationals (TOKTEN) under which outstanding expatriates of Chinese origin are invited to provide technical expertise and training on a voluntary basis. Over 400 expatriates came to China between 1982 and 1986, for periods ranging from 2 to 8 weeks, and proved to be an invaluable source of expertise in a wide variety of fields. Since 1984, a corollary scheme "Senior Technical Adviser Recruitment" (STAR) has been launched to obtain the services of experts of non-Chinese origin on a similar basis. Many prominent specialists have responded to the invitation and made very significant contributions in their fields.

The programme of Technical Cooperation among Development Countries (TCDC) is another important feature of the China-UNDP programme. The Government earmarked 5 per cent of the First Country Programme resource to support activities related to this objective and another US \$5 million has been provided for it in the Second Country Programme. In order to facilitate the

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training of technicians from other developing countries, China has established, with assistance from UNDP, seven regional Centres in biogas, sericulture, integrated fish-farming, mini-hydro power, acupuncture, integrated rural development and primary health care. These Centres have by now trained close to 2,000 technicians from Asia, Africa, Middle East and Latin America. An Inter-Governmental Consultation held in Beijing in November 1983 with 12 countries of the Asia and Pacific region agreed on 32 cooperation projects with China which have already been implemented. A similar consultation held in November 1986 with 24 countries of Asia Pacific, Latin America and Arab regions identified 142 projects of mutual cooperation. Further negotiations and arrangements are under way for their implementation.

There is a close working relationship between the various levels of Government and UNDP. All mutual cooperation activities are identified and implemented in full consultation with one another. The Government has been a very reliable partner in fulfilling the obligations it has assumed.

China's contributions to the UNDP has increased by a little over 8% per annum over the last few years, reaching \$2.21 million for 1987. It provides 60% of the local office costs.

China is currently a member of the UNDP Governing Council.

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C. Other UN
Agencies

UNICEF in China

Briefing Note for the Visit of the Secretary-General

History

UNICEF co-operation in China began in 1947 in both liberated and nationalist areas. It ceased in 1949 and resumed again in 1979. A UNICEF office headed by a Representative was then opened in 1981.

Staff and Funding

Currently UNICEF office for China has a staff of 37 including 15 international staff members. Present programme cycle approved by UNICEF Executive Board in 1984 covers the five-year period of 1985-1989. Total financial allocation for this cycle amounts to US\$57 million (including carry-over of US\$7 million from the previous cycle) from UNICEF general resources. In addition "noting" or projects eligible for special donor contribution approved by the Executive Board amount to an additional US\$15 million, of which approximately US\$8 million has been so far raised.

Programme

UNICEF programme in China is aimed at supporting national policies and programmes to protect health and well-being of children and create conditions for fulfilling the development potential of each child. Towards this end, major activities relate to assistance for progressive expansion of universal child immunization reaching 85 per cent coverage in all parts of the country by 1990, improvement of maternal and child health care, operational research in priority health and nutrition problems, improvement of teacher training and instructional materials for pre-school and primary school education, support for All-China Women's Federation's work in improving children's and mothers' welfare, establishment of a research and training centre on child development, project of China Association for Science and Technology to strengthen scientific and technical interest and aptitude of children, support for experience exchanges and TCDC in various child-related areas, and assistance in the survey of handicapped children and pilot educational programmes for them. There are approximately 50 national and local projects assisted by UNICEF, which span all 29 provinces and autonomous regions of China. Generally, UNICEF stresses assistance that benefits disadvantaged segments of the population, particularly in remote areas and minority communities.

UNFPA PROGRAMME IN CHINA

The second programme cycle of UNFPA in China (1985-1989) allocated \$50 million for contraceptive production and supply; family planning and maternal and child health care; communication and education; data collection/analysis; and policy research.

Contraceptive Production/Supply

China does not import contraceptives, with the exception of a small amount for clinical trial purposes. Therefore, it is critical for China to increase her domestic production capacity and to improve the quality of contraceptive production. In this cycle, UNFPA is assisting 14 factories: an oral contraceptive factory to produce pills for 3.5 million women a year, two to manufacture bulk steroids, one to produce a copper and plastic intra-uterine device (IUD) for 1.5 million women annually, two factories to manufacture a total of 110 million vaginal contraceptives a year, two condom factories, and six IUD factories to improve device sterility. A pharmaceutical university is being supported to provide training to contraceptive factory workers. Also, a computerized system to improve contraceptive distribution is being introduced.

Family Planning/Maternal and Child Health

Family planning administration is assisted through two training colleges for family planning personnel, as well as development of a management information system to monitor and evaluate family planning activities. Four research centres are conducting research on contraceptives and developing new ones. Maternal and perinatal health care systems in hospitals are being improved at the provincial, municipal, county, and district levels. In addition, three medical colleges are receiving assistance in maternal, perinatal and family planning training.

Communication and Education

The Chinese family planning programme is voluntary, making access to accurate population information very important. UNFPA has established one national, two regional, and eight provincial level family planning information centres. Population education classes are offered in secondary schools to 45 million students. Similar programmes are offered in peasant schools and through agricultural extension centres.

Data Collection/Analysis

The 1982 national census provided voluminous data on China's population. UNFPA is assisting the State Statistical Bureau to disseminate and store the data, as well as to prepare for future sample surveys and censuses. To help analyze the data, UNFPA is assisting population research institutes in 22 universities, and the

China Academy of Social Sciences. Demographic research and training networks are being developed.

Policy Research

Integration of population into the development planning process is being assisted. Also, because of the considerable impact of the one-child family policy on the age structure of the population, the role of the elderly in China is being researched.

U N H C R

ASSISTANCE TO INDO-CHINESE REFUGEES IN CHINA

At the end of 1986 there were some 285,000 Indo-Chinese refugees in China, the great majority of whom arrived in the mass influx of 1978-1979 when hostilities erupted between Vietnam and the People's Republic of China. The refugees are overwhelmingly ethnic Chinese (90.6%), though many had lived outside China for several generations, in the course of which most had forfeited their Chinese citizenship. Since the early 1980's refugees have continued to arrive in China at a rate of some 2,000 per year.

Unlike other countries in the region, China has offered permanent rather than temporary asylum to Indo-Chinese refugees. This offer has not been conditional on Chinese ethnic origin. China has also provided a local integration solution for the refugees, who have been settled at some 196 locations in five southern provinces. Nevertheless, refugees arriving in China since 1983 have not been transferred from the border to local settlement sites, ostensibly because of acute land shortages, and their situation therefore is more precarious than that of previous arrivals.

The People's Republic of China acceded to the 1951 Convention relating to the status of refugees and its 1967 Protocol in 1982, and, generally speaking, has abided by the spirit and specific obligations of those instruments. Although no domestic refugee legislation has been enacted to support the Convention, refugees locally settled in China have, in the main, enjoyed the same rights as the local population, plus certain supplementary privileges. Where recent border crossers are concerned, however, the protection situation is less well assured, though no incidents of "refoulement" have been recorded.

Since 1979, the Chinese Government has reportedly spent over US\$ 600 million on refugee settlement. At the present time recurrent Government expenditure runs at some US\$ 10 million per year. Over the period 1979-1986 UNHCR has provided a total of US\$ 55.9 million, while a further US\$ 12.85 million are programmed for 1986-1988. WFP, for its part, made available US\$ 42.9 million in the years 1979-1984 in the form of food supplies or food for work agricultural projects.

Since its inception in 1979, UNHCR assistance in China has been oriented directly to the promotion of local settlement by strengthening the socio-economic infrastructure of refugee affected communities and thus creating job opportunities for refugees. By the end of 1986, some two thirds of the refugee population had reached virtual self-sufficiency though significant numbers continued to be handicapped by the numerous dependents in their families, by lack of appropriate skills and by inadequate employment opportunities in the agricultural sector. In its current phase of assistance, UNHCR is placing primary emphasis on education and vocational training, while the creation of jobs outside the primary agricultural sector is also receiving attention.

The UNHCR office in Beijing is staffed by two international and three local staff members.

WFP in CHINA

Background

WFP assistance to China commenced in 1979 with the provision of almost \$10 million of emergency aid to refugees from Viet Nam and to those affected by floods and drought. Since then, the China programme has grown rapidly. The total value of WFP assistance committed to date stands at \$460 million and China is currently the largest recipient of WFP development assistance. WFP is the largest donor of grant assistance to China. As of 1 January 1987, WFP had delivered just over 1 million tons of food to China. China's contribution to the World Food Programme for the 1987/88 biennium is \$1.2 million.

Current Programme

WFP's current programme of assistance involves support to 23 development projects at a cost of \$336 million. The projects are labour intensive and are implemented on a food-for-work basis. WFP projects are located in 19 Provinces and Autonomous Regions. The sectoral content of the programme is as follows:

Irrigation and Land Development	35%
Forestry	25%
Dairy Development	19%
Fisheries	15%
Rural Roads and Water	7%

In 1986, WFP food deliveries to China totalled 355,000 tons at an estimated cost of \$88 million.

Three WFP operational development projects are co-financed by the World Bank and IFAD. Future projects will focus on the poorer parts of the country which are located in Central and Western China.

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Brief Synopsis of the ILO Programme in China

Although, following the corresponding decision in the United Nations, the ILO Governing Body determined in 1971 that the People's Republic of China should occupy China's seat at the Governing Body and at the International Labour Conference, it was not until 1983 that the People's Republic assumed its seat on these bodies - the delay being caused (in part) by the need to deal with significant arrears of contributions and the question of international labour conventions ratified previously in the name of China. It was with the opening of the ILO Office in Beijing in January, 1985, that the ILO technical co-operation programme here began.

China is now participating fully at all levels of ILO activities, is represented on the Governing Body (as one of the States of Chief Industrial Importance it has a permanent seat - at least until the constitutional amendments abolishing such seats and adopted by the Conference in 1986 come into effect) on both Government and workers' benches and sends a tripartite delegation to the International Labour Conference each year. China is also active in regional activities and regional technical co-operation projects.

Much of the ILO's work in China up to now has been devoted to technical and policy advice directed to issues of central importance in the economic reforms taking place in the country. These include wage structure, social security programmes, rural development (with particular emphasis on rural employment), manpower planning and vocational training. Some of these issues are of great interest to the World Bank also and co-ordination with that institution has been ensured. The ILO has been at pains to stress and define the linkages between manpower planning and vocational training, productivity and management training, occupational safety and health and skills improvement, conditions of work and life and social security. Regular discussions with the Ministry of Labour and Personnel, the All-China Federation of Trade Unions, the China Enterprise Management Association and line-Ministries such as that of the Coal Industry, Communications and Light Industry, have made it possible to determine priorities in the context of an overall plan for development in the above-mentioned fields. Discussions on technical assistance programmes are held against the background of this plan and proceeded with accordingly. Projects are already operational in the field of vocational training and agreements have been reached in other fields so that operational activities will begin in manpower planning, wage reform, skills certification and testing, and further training of vocational instructors before the end of the current year.

One of the major constraints on the ILO programme in China until recently was difficulty in securing funds since the ILO had not participated in the formulation of the UNDP Country Programme II. This has now been overcome thanks to the generosity of multi-bilateral donors, particularly Italy, Denmark, the Federal Republic of Germany and Spain, so that from a programme level of US\$1.5 million in 1986, financial resources of nearly US\$20 million will be available in 1987 and 1988. In order to cope with this rapid and massive expansion of activities, the ILO Office in Beijing will have to move from the present quarters in the UN Building to accommodate more national and international staff.

Relations between the People's Republic of China and the ILO have developed extremely well, as was highlighted during the visit of the Director-General of the ILO last autumn, and the Chinese authorities have shown considerable flexibility both as regards modalities of technical co-operation and in other matters and have been avid to learn of and from the experience of other countries in areas of ILO competence. China has been generous, also, in providing opportunities for other ILO member States to study successful development efforts in China itself, especially in the fields of promotion of rural employment and in dealing with unemployed school-leavers. In both of these fields, China has achieved remarkable success, given the magnitude of the problem: nine million new jobs have to be created each year to absorb those born during the high birthrate years and now entering the labour market.

SHORT BRIEF ON FAO IN CHINA FOR THE VISIT
OF THE SECRETARY-GENERAL OF THE UN

1. The FAO Representation was established in 1982. The current Representative Mr. L.I.J. Silva (Sri Lanka) is the second Representative. He is assisted by a small staff of one Programme Officer, one Assistant P.O., an Administrative Assistant and some Chinese deputed staff. Total staff strength including the Representative is 13.
2. Even though the Programme is small FAO's activities are quite wide-ranging and substantial covering T/A in agriculture, food, forestry, fisheries and rural development as well as the preparation of investment feasibility studies in these sectors for World Bank and IFAD funding and commercial bank funding under FAO's Bankers' Programme.
3. On average FAO has been spending approximately US\$ 5 million annually. A major source of funding is the UNDP for whom FAO is executing Agency for about 30 projects. In 1986, disbursement of UNDP funds through FAO executed projects was approximately US\$ 2.8 million. The allocation of funds to the agricultural, forestry and fisheries sectors in the IPF is very small amounting to about 6% of the total. The balance US\$ 2.2 million comes from FAO's own resources notably the Technical Cooperation Programme - approximately US\$ 1 million and Regular Programme funds for workshops, seminars and authors' contracts and Trust Fund projects.
4. With one exception all projects are implemented by National Project Directors. Basically the system is working well, but problems do persist particularly due to ignorance of UN/FAO rules and procedures.
5. Since any request for UN assistance has to be in consonance with the priorities of the National Plan, all UN assistance including that of FAO are meant to address felt needs. The programme is therefore relevant.. Despite the programme's size, the small infusions of expertise, equipment and training have helped to trigger off wider and more enduring activities. some have led to large investments such as our projects in the Loess Plateau, others such as in the Dairy sector are helping

to lay down national standards for milk and milk products, some are introducing new technological applications such as remote sensing using satellite imagery and still others are of a pioneering nature such as Research and Development of Growth Stimulants for Domestic Animals.

6. Missions from FAO's Investment Centre have prepared several investment project proposals and the value of projects undertaken for funding since the Centre started its activities in China a few years ago is close to US\$ 350 million.

Briefing for Secretary General, United Nations, April, 1987

Unesco's Current Activities in China

Unesco's Beijing Office has been operational since May, 1984. However, Unesco has been an active participant in China's development programme for the past twenty years or so, after the closing of its original office in 1949. Current links between Unesco and China are also maintained through a National Commission for Unesco, a Chinese member of the organization's Executive Board, and a Chinese Permanent Delegation to Unesco in Paris.

Programmes are currently executed through four main channels:

- The Regular Programme and Participation Programme -- Between 40 and 50 Unesco sponsored activities per year include workshops, symposia, seminars, training courses and consultant missions. In addition, some 80-100 fellowships and travel grants are awarded every year to Chinese students for study abroad and to professionals for participation in regional or international activities. Most activities are in education and science, but social science, culture and communications are included. Unesco spends some U.S. \$500,000 per year on these programmes, about \$100,000 of this coming through the Beijing Office, the remainder directly from Headquarters or from Regional Offices in Bangkok and Jakarta.

- Operational Projects -

Unesco's participation in UNDP operational projects in China has declined from 23 projects in 1984 to 10 projects in 1986, for an annual expenditure of \$1.4 million in the latter year. Only one new project was initiated in 1986, the others have commenced in previous cycles. This unsatisfactory situation for Unesco has arisen partly because of the high-level policy decision not to use UNDP funds for education projects in the current cycle, and partly because of the Government's current emphasis on industrial-development projects.

In addition to the above, Unesco cooperates with UNFPA and with UNICEF in aspects of their operational projects that are related to education.

- Funds-in-Trust

A "Cooperative Ecology Research Project" funded by the Federal Republic of Germany and executed by Unesco and the Chinese National Committee for the Man and Biosphere Programme (MAB), will become operational in mid-1987. An initial budget of \$2.5 million is foreseen for the first three years. Research will be conducted by four institutes of the Chinese Academy of Sciences in Shenyang, Beijing, Guangzhou and

Kunming, in the fields of forest ecology, water pollution, and urban ecology.

China has recently become a signatory to the World Heritage Convention, for which Unesco provides the international Secretariat. The Convention concerns the preservation of man's cultural and natural heritage; signatories to the Convention are entitled to participate in international fora in these fields, and can benefit from technical assistance and modest financial support for planning and training activities.

Chinese editions of the Unesco quarterlies, International Social Science Journal, Prospects, Nature and Resources and Impact are published in Beijing. In addition, the monthly Courier is printed in Chinese, as well as in 31 other languages. Special issues of Unesco technical publications such as Cultures, Museum and International Marine Science Newsletter are also printed in Chinese from time to time, and Chinese translations of Unesco books are produced on a selective basis.

8 April 1987

Briefing Note for Secr. General Visit

UNIDO's cooperation programme with China started with the establishment of an agricultural machinery workshop in Mali (1974-1976) followed, in 1977 with the organization of studytours and training programmes for the benefit of other developing countries. Studytours have since then be replaced by workshop and seminars as well as two three months training programmes, one in the field of repair and maintenance of Diesel Engines (since 1978) the other in the field of manufacturing of small and medium sized agricultural equipment (since 1984).

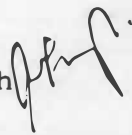
With the initiation of the UNDP programme in 1979, UNIDO became executing agency for technical assistance projects to assist in the modernization of China's own industry. Almost from the outset this assistance has been and still is concentrating on strengthening research and development of existing institutions and upgrading of industrial institutions. These activities in the present cycle of the Country Programme cover a wide range of areas such as plastics, silicones, synthetic fibres, carbon fibres, components for electronic and mechanical industry, textiles (silk and ramie), dyestuffs for the textile industry, leather, building materials including the utilization of fly ash. UNIDO projects also cover computer applications (CAD/CAM and Management Information system), energy conservation and treatment of industrial waste water. UNIDO, has after the Government itself the largest share in the IPF and is in addition associated agency for a number of Government executed projects.

In addition UNIDO provides assistance funded by its own Industrial Development Fund (IDF) towards the establishment of pesticide research and a leather development centre. Other IDF projects cover areas such as industrial application of biogas, composting of municipal waste, industrial waste recovery as well as management consultancy.

A first Investment Promotion meeting in China was organized in Guangzhou in 1982. This meeting gave an impetus to foreign investment and was followed by similar meetings on provincial or sectoral level organized by the Chinese authorities themselves. A second UNIDO sponsored meeting was held in 1985 in Fuzhou, while in 1987 an Investment Promotion Meeting was organized in Hannover in conjunction with the Hannover Trade Fair. Chinese nationals engaged in investment promotion activities are attached to the UNIDO Investment Promotion Services in Cologne, Paris, Tokyo Vienna, Warsaw and Zürich.

Two way cooperation as referred to in the opening paragraph also include the construction of a brick making plant in the Gambia and the establishment of a rice bran oil mill in Bangladesh with Chinese knowhow and machinery and the latter financed by China's contribution to the UN Capital Development Fund and IDF. Similar assistance of China to other developing countries has been carried out mostly on bilateral basis - as follow-up of China's participation in UNIDO's Solidarity and other similar meetings.

China is a member of the Industrial Development Board.

A.W. Sissingh 

S I D F A

UPDATE ON WHO IN CHINA, AUGUST 1986

Since 1979 the WHO regular Budget allocation to China expanded rapidly. In the 1982/83 biennium, it was US\$3.85 million, in 1984-85 US\$5.84 million and for 1986-87 biennium, it has been estimated at US\$6.34 million. Unfortunately, in the present biennium WHO, as with the whole United Nations system, has had to make some cuts in its budget which in turn will be reflected in the Chinese programme.

Health manpower development remains the most important programme of collaboration. Fellowships for Chinese professionals to undertake further studies take up about 50% of the regular budget. The programme has been closely monitored and evaluated by the Chinese authorities and WHO, and there is no question that it has been a worthwhile investment. Not only have Chinese fellows performed well during their course of study, but often they have been engaged in original work leading to significant advances in that specialty. Upon their return, their newly acquired skills have been disseminated through detailed reports and workshops and seminars. Some of the early fellows have now become directors of institutions, carrying out work which compares well with the best in the world. MOPH has also reported that while the WHO fellowship takes a longer time to place, the programme and its outcome were consistently of an excellent quality. Consistent with MOPH policy, WHO fellowships are awarded for a maximum of 12 months. However, a significant number of fellowships have been extended through funding provided by the host institutions in order to allow fellows to study their special fields in greater depth or to complete their research projects. Between 1978 and 1985, 720 WHO fellowships have been awarded. For the 1986-87 biennium, over 170 fellowships have been planned.

Apart from overseas fellowships, many consultants are invited to conduct training courses or seminars in China covering a wide range of disciplines. They not only provide information about the current state of the arts in their specialties but also collaborate with the Chinese participants in solving problems posed by them. Furthermore, the links established with the consultants have been useful for placement of fellows and have also resulted in the setting up of inter-institutional activities. A number of consultants have been invited back, supported by Chinese sources.

Realizing that technical exchange is dependent on a common language WHO, at the request of MOPH, has set up an English Language Centre at Xian Medical College. Students are selected from among intended WHO fellows as well as staff whose professional work is expected to bring them into contact with overseas. Two United Nations volunteers, teachers of English as a second language, are expected to start in late 1986 for 2 years, during which time faculty of the Centre will be trained. Staff of the Ministry of Public Health have also benefitted from an intercountry project which provides English language training overseas combined with a six-week attachment at the WHO Regional Office to familiarize them with WHO managerial processes.

Supplies and equipment also form an important component of the China-WHO collaborative programme. Many of these are used in demonstration projects and the experience gained from their use will influence Chinese decisions on the direction of their modernization programme. Such is the case in the food hygiene project in Beijing municipality. And so too the provision of equipment to PHC centres in Inner Mongolia and Xinjiang. Others complement the support made by other

United Nations agencies such as the provision of cold chain equipment to Xinjiang Autonomous Region, which needs to be seen in the light of the UNICEF role in the Expanded Programme of Immunization and the targets that by 1988 85% of children will be immunized at provincial level, and by 1990 85% of children at county level. The Expanded Programme of Immunization is the one area in which WHO and UNICEF are working most closely.

Even as the traditional infectious diseases of childhood are being controlled by the EPI, China decided that it should focus next on infectious hepatitis B, especially its relationship with liver cancer. WHO was instrumental in arranging the transfer of technology at no cost from the Kitasato Institute in Japan and in a period of 2 years 4 Chinese institutes of biological products have succeeded in producing their own plasma derived hepatitis B vaccine that is safe and efficacious.

Although the inputs have been modest, WHO has been able to bring about changes on maternal and child health practices such as the high risk approach in perinatal care and rooming in of the newborn. Once the beneficial effects of these innovations have been firmly established, MOPH will expand their application nationwide.

Acute Respiratory Infections continue to exert a heavy toll on children in terms of illness and death. Baseline studies suggest that the Chinese situation is unique among developing countries - viruses are a more important cause of ARI than bacteria and among the viruses there is an adenovirus that causes extensive damage to organs other than the lungs. Studies are being planned to see how best to intervene in this complex situation.

As infectious diseases are replaced by chronic degenerative and neoplastic diseases as the major causes of death and illness in China, their control and prevention have moved from dependence on antibiotics to factors which deal with individual behaviour and lifestyles such as smoking and dietary practices. Health education is the means to achieve this and WHO has helped to strengthen the Shanghai Health Education Institute to enable it to play a model role in the social marketing of health practices.

As China modernizes and upgrades its health services, it has been made aware of the cost implications of such changes. WHO has been involved in introducing such disciplines as health economics and training has been provided to improve planning and management of the health services. Management decisions can only be as good as the health information on which decisions are made. Until quite recently, because of the limited ability of the Ministry of Public Health to manage large volumes of data, the development of a sensitive health information system has lagged behind. However, with World Bank support, an Institute of Health Planning and Statistics has been set up in the Ministry and the setting up of a good health information system has begun in earnest.

To facilitate the exchange of technical information and experience between countries WHO uses a global network of collaborating centres. These are institutions which have achieved credibility in their own country and are working in fields which are of interest to WHO in terms of the Organization's global programme. In China, 46 collaborating centres have been designated in fields ranging from primary health care, parasitic diseases to traditional medicine, in other words the whole spectrum of WHO programmes. Sixteen of these are in Shanghai, the largest concentration in any one city in the world.

To achieve the goal of Health for All by the Year 2000, it was realized that all resources need to be brought into play. Traditional medicine has a long history in China and modern research is successfully revealing its scientific basis. In addition to providing training in acupuncture and herbal medicine, Chinese experts have served as consultants to bring their skills and knowledge to other countries.

WHO executes a number of projects funded by UNDP and UNFPA involving safe drinking water and sanitation, diagnostic reagent development, training in management, maternal and child health and family planning and human reproduction. The implementation of these projects have not only brought to China the latest technology but also the understanding that the acquisition of modern sophisticated technology and equipment is not an end in itself but must be tempered by considerations of the country's ability to manage and support their cost. WHO executed projects go beyond MOPH to the Ministry of Water Conservancy and Electric Power and the Ministry of Urban and Rural Construction and Environmental Protection. As some of these projects terminate WHO has been able to provide continuing modest inputs through training activities in the important field of environmental protection.

WHO has been able to provide technical backstopping during the formulation stages of projects supported by UNDP as well as in the preparation of World Bank loans for the health sector. A number of these projects have drawn from the experience of WHO supported activities.

A joint coordination committee involving MOPH and WHO meets each year to review the implementation of the WHO regular budget activities as well as to discuss new directions for future support. This has been found to be a useful monitoring and evaluation tool.

THE WORLD BANK & CHINA

A BRIEFING

The fundamental objective of the Bank's activities in China is to help to overcome the major constraints on development in the areas of energy, industry, agriculture, transport, human resources and modern technology. Equally important is the Bank's role - through economic, sector and project work - in promoting more efficient use of domestic and external financial resources through improved macroeconomic management and planning, investment resource allocation and individual project analysis and selection. During the next few years, Bank lending will be aimed at helping China to facilitate its access to foreign technology and practices and to support the implementation of reforms designed to improve the efficiency of resource use and the reduction of poverty.

Through June 30, 1986, Bank/IDA lending to China totalled about \$4.1 billion for 41 operations, of which about half was for energy (coal, electric power, and petroleum & gas) and transport (highways, ports and railways), about 20% for agriculture, about 10% for education and health, and the balance for industry, technical assistance, and water supply. The Bank has also undertaken and published two major reports on China's economy - one, in 1980/81, which included a retrospective analysis of China's socio-economic development to date, and the second, in 1984/85, which assessed China's economic prospects and development options during the next two decades. In collaboration with UNDP, the Bank's Economic Development Institute (EDI) has also carried out a large program of education and training of Chinese government officials at all levels.

Looking ahead, Bank/IDA lending to China is planned to increase steadily from about \$1.1 billion in FY1986 to about \$2 billion annually by the end of this decade. Specifically, Bank/IDA commitments in the current fiscal year ending June 30, 1987 (FY1987) are estimated to reach about \$1.4 billion. While the broad sectoral distribution of assistance noted above will continue, most of the planned increase in commitments is expected to be concentrated in three main areas, namely energy, industry and transport infrastructure - in line with the priorities outlined in China's 7th Five Year Plan (1986/90). The Bank will also continue its program of economic and sector work - for example, studies in the areas of finance and investment, external trade and capital, enterprise reform and structural economic change are either underway or planned - and technical assistance to government agencies responsible for medium- and long-term planning in specific sectors such as iron & steel, petrochemicals and electric power is also envisaged.

As a Specialized Agency of the United Nations system, the Bank has actively collaborated inter alia with the UNDP, FAO, UNICEF, WFP and WHO as well as with a growing number of bilateral aid agencies in China. It will continue to seek opportunities for coordination of its activities with these and other agencies through its Resident Mission in Beijing.

[April 09, 1987]

D. Organization
of Gov't.

Where the Power Lies in China

The Chinese Communist Party holds all political power, centered in the Politburo and the Secretariat of the Central Committee. All the important decisions — in foreign policy, the economy and social af-

airs — are made there and carried out by the Government, known as the State Council, and by the nominal legislature, the National People's Congress, which lacks independent power.

THE PARTY

Communist Party Congress

Theoretically the highest body. Consists of about 1,500 delegates elected by party organizations around the country and meets once in five years (it last met in 1982). The congress elects:

The Central Committee

Consists of 210 full, voting members and 130 alternate, nonvoting members picked from among congress delegates. Acts for the congress between sessions to discuss and approve policies. It elects what are, in effect, the two highest party bodies:

The Politburo

Sets the overall policy of the country. Consisted until the latest shuffle of 24 full, voting members and three alternate, nonvoting members, all of whom were among the leading political figures of China. Membership is not a position in itself; all members have regular fulltime duties in either the party or the Government.

FULL MEMBERS (after the shuffle):

Chen Yun, Deng Xiaoping, Fang Yi, Hu Ciaomu, Hu Yaobang, Li Xiannian, Ni Zhifu, Peng Zhen, Wan Li, Xi Zhongxun, Yang Dezhi, Yang Shangkun, Yu Qiuli, Zhao Tingta, Zhao Ziyang.

Alternate members: Chen Muhua, Qin Jiwei, Yao Yilin.

The Politburo picks a Standing Committee, or inner circle, which, after the retirement of Ye Jianying, consists of five members: Deng Xiaoping, Hu Yaobang, Chen Yun, Li Xiannian, Zhao Ziyang.

The Secretariat

Actually runs the day-to-day affairs of China. Headed by the Act. Gen. Secretary, Zhao Ziyang, who is a member of the Politburo's Standing Committee.

MEMBERS: Zhao Ziyang, Chen Pixian, Deng Liqun, Gu Mu, Hu Qili, Mr. Wan, Mr. Xi, Mr. Yao, Mr. Yu. There are also two alternate secretaries: Hao Jianxiu and Qiao Shi.

The Central Committee appoints three watchdog groups: the Central Advisory Commission, with 162 members, whose chairman is Deng Xiaoping, the Central Discipline Inspection Commission, with 129 members, headed by Chen Yun, the Military Commission, with nine members, again headed by Deng Xiaoping.

THE GOVERNMENT

National People's Congress

Counterpart of the party congress and the nominal parliament; consists of about 3,500 members elected every five years from a single state of candidates handpicked by the leadership. Meets perfunctorily once a year to approve legislation drafted by the leadership and selects two key government bodies:

State Council

The actual government, which is headed by the Prime Minister (now Zhao Ziyang), assisted by four Deputy Prime Ministers, ten councilors as well as the heads of ministries, commissions and other agencies of the State Council. The Prime Minister and his deputies and councilors make up a Standing Committee, or inner Cabinet, of the State Council.

Standing Committee of the National People's Congress

Performs legislative and decree-issuing functions between sessions of the National People's Congress, and consists of a chairman, Peng Zhen, who sits on the Politburo, and 22 deputy chairmen.

China also has a largely honorary position originally known as chairman of the People's Republic of China and now called President. The position was established in 1954 and was held by Mao Zedong until 1959, and then by Liu Shaoqi, until his purge at the start of the Cultural Revolution in 1966. The post then remained vacant and was abolished in 1975. It was restored in 1982 and renamed President with Li Xiannian the incumbent. The Vice President, Ulanhu, is among those retired in the latest shuffle.

THE MAIN LEADERSHIP OF THE PR CHINA AS OF FEBRUARY 1, 1987
(Changes are marked by underlinings)
(Wolfgang Bartke)

GOVERNMENT

STATE COUNCIL		Since
Premier	Zhao Ziyang	PBm CCm 80/ 9
Vice-Premiers	Li Peng	PBm CCm 83/ 6
	Qiao Shi	PBm CCm 86/ 4
	Tian Jiyun	PBm CCm 83/ 6
	Wan Li	PBm CCm 80/ 4
	Yao Yilin	PBm CCm 79/ 7
State Councillors		
	Chen Muhua(f)	PBa CCm 82/ 5
	Fang Yi	PBm CCm 82/ 5
	Gu Mu	CCm 82/ 5
	Ji Pengfei	82/ 5
	Kang Shien	CCm 82/ 5
	Song Jian	C m 86/ 4
	Song Ping	CCm 83/ 6
	Wang Bingqian	CCm 83/ 6
	Wu Xueqian	PBm CCm 83/ 6
	Zhang Aiping	83/ 1
	Zhang Jingfu	CCm 82/ 5
	Chen Junsheng	85/11
Secretary-general		
COMMISSIONS		
Economics	Lü Dong	84/ 9
Education	Li Peng	PBm CCm 85/ 6
Family Planning	Wang Wei	83/12
Machine Building Industry	Zou Jiahua	CCm 86/12
Nationalities Affairs	Ismail Amat	CCm 86/ 1
Planning	Song Ping	CCm 83/ 6
Physical Culture and Sports	Li Menghua	CCm 81/ 9
Restructuring Economic System	Zhao Ziyang	PBm CCm 82/ 5
Scientific & Technological	Song Jian	CCm 84/ 9
Science, Technology & Industry for National Defense	Ding Henggao	CCa 85/ 6
MINISTRIES		
Aeronautics Industry	Mo Wenxiang	CCm 82/ 5
Agriculture, Animal Husbandry & Fishery	He Kang	CCm 83/ 6
Astronautics Industry	Li Xu'e	CCm 85/ 6
Chemical Industry	Qin Zhongda	CCm 82/ 3
Civil Affairs	Cui Maifu	CCm 82/ 5
Coal Industry	Yu Hongen	CCm 85/ 6
Commerce	Liu Yi	CCa 82/ 3
Communications	Qian Yongchang	CCm 84/ 7
Culture	Wang Meng	CCm 86/ 6
Electronics Industry	Li Tieying	CCm 85/ 6
Finance	Wang Bingqian	CCm 80/ 8
Foreign Affairs	Wu Xueqian	PBm CCm 82/11
Foreign Economic Relations and Trade	Zheng Tuobin	C m 85/ 3
Forestry	Yang Zhong	CCa 82/ 5
Geology and Minerals	Zhu Xun	CCm 85/ 9
Justice	Zou Yu	83/ 6
Labor and Personnel	Zhao Dongwan	CCa 85/ 9
Light Industry	Yang Bo	CCm 82/ 5
Metallurgical Industry	Qi Yuanjing	CCa 85/ 9
National Defense	Zhang Aiping	82/11
Nuclear Industry	Jiang Xinxiong	CCm 83/ 6
Petroleum Industry	Wang Tao	CCm 85/ 6
Posts and Telecommunications	Yang Taifang	CCm 84/ 7
Public Health	Cui Yueli	CCm 82/ 5
Public Security	Ruan Chongwu	CCm 85/ 9
Radio, Cinema and Television	Ai Zhisheng	CCa 85/ 6
Railways	Ding Guan'gen	CCm 85/ 6
State Security	Jia Chunwang	CCm 85/ 9
Supervision	?	
Textile Industry	Wu Wenyong(f)	CCm 83/ 3
Urban and Rural Construction & Environmental Protection	Ye Rutang	85/11
Water Conservancy & Power	Qian Zhengying(f)	CCm 82/ 3

OTHER GOVERNMENT ORGANS ON MINISTERIAL LEVEL		
Chinese People's Bank, Pres.	Chen Muhua(f)	PBa CCm 85/ 3
Xinhua News Agency, Director	Mu Ding	CCm 82/ 8
Auditor-general	Lü Peijian	CCm 85/ 3

CHINESE COMMUNIST PARTY

Politburo (See: Activities of the
CCPCC Politburo Cadres)

CCPCC Secretariat		Since
act.Gen.Secretary	Zhao Ziyang	PBm CCm 87/ 1
Members	Chen Pixian	CCm 82/ 9
	Deng Liqun	CCm 82/ 9
	Hao Jianxiu	CCm 85/ 9
	Hu Qili	PBm CCm 82/ 9
	Li Peng	PBm CCm 85/ 9
	Qiao Shi	PBm CCm 85/ 9
	Tian Jiyun	PBm CCm 85/ 9
	Wan Li	PBm CCm 80/ 2
	Wang Zhaoguo	CCm 85/ 9
	Yu Qiuli	PBm CCm 80/ 2
General Office		
Director	Wen Jiabao	86/ 6
Department of International Liaison		
Director	Zhu Liang	CCm 85/12
Dpty.Directors	Jiang Guanghua	82/11
	Li Shuzheng(f)	CCa 81/ 7
	Yang Baibing	85/ 6
	Zhu Shanqing	85/12
Department of Organization		
Director	Wei Jianxing	CCm 85/ 9
Dpty.Directors	Cao Zhi	83/ 9
	Lü Feng	83/10
	Wang Zhaohua	80/ 9
Department of Propaganda		
Director	Wang Renzhi	CCm 87/ 2
Dpty.Directors	He Jingzhi	CCm 80/ 7
	Li Yan	87/ 1
	Wang Daming	86/ 6
	Wang Huide	81/ 6
	Zeng Delin	82/ 7
Red Flag		
Editor-in-chief	Xiong Fu	78/10
Dpty.ed-in-chief	Ma Zhongyang	82/ 5
	Su Xing	84/11
	Wang Renzhi	CCm 82/ 5
People's Daily		
Director	Qian Liren	CCm 85/12
Editor-in-chief	Tan Wenrui	86/ 4
Department of United Front Work		
Director	Yan Mingfu	85/12
Dpty.Directors	Li Ding	82/ 5
	Li Gui	77/11
Commission for Politics and Law		
Secretary	Qiao Shi	PBm CCm 85/ 7
Party School		
President	Wang Zhen	82/ 5
Military Commission		
Chairman	Deng Xiaoping	PBm CCm 81/ 6
Executive chm.	Yang Shangkun	PBm CCm 84/12
Secretary-gen.	Yang Shangkun	PBm CCm 81/ 7
Dpty.sec-gen.	Hong Xuezhi	82/10
	Yang Dezhi	PBm CCm 83/ 3
	Yu Qiuli	PBm CCm 82/12
	Zhang Aiping	82/10
Central Commission for Inspecting Discipline		
1st Secretary	Chen Yun	PBm CCm 78/12
2nd Secretary	Wang Meshou	85/ 9
Perm.Secretary	Han Guang	85/ 9
Secretaries	Chen Zuolin	CCa 85/ 9
	Han Tianshi	82/ 9
	Qiang Xiaochu	CCm 85/ 9
Central Advisory Commission		
Chairman	Deng Xiaoping	PBm CCm 82/ 9
Perm.Vice-chm.	Bo Yibo	82/ 9
Vice-chairmen	Song Renxiong	85/ 9
Wang Zhen		85/ 9

THE MAIN LEADERSHIP OF THE PR CHINA (continued)

MILITARY			STATE PRESIDENT			* * * * *			Since		
CENTRAL LEADERSHIP			President			Li Xiannian			PBm CCM 83/ 6		
General Staff * * * * *			Vice-president			Ulanhu			83/ 6		
Chief: Yang Dezhi			PBm CCM 80/ 2			NATIONAL PEOPLE'S CONGRESS, 6th			* * * * *		
Deputy Chiefs: Han Huaizhi			85/ 5			Chairman			Peng Zhen PBm CCM 83/ 6		
He Qizong			85/ 5			Vice-chairmen			* * * * *		
Xu Huizi			CCM 85/ 4			Bainqen Erdeni			80/ 9 83/ 6		
Xu Xin			CCa 82/12			Chen Pixian			CCM 83/ 6 54/10		
Logistics Department * * * * *						Chu Tunan			86/ 4 83/ 6		
Director Hong Xuezhai			80/ 4			Geng Biao			83/ 6 75/ 1		
Political Department * * * * *						Hu Juewen			75/ 1 75/ 1		
Director Yu Qiuli			PBm CCM 82/ 9			Huang Hua			83/ 6 83/ 6		
Services * * * * *			Commander * * * * *			Liao Hansheng			83/ 6 CCM 83/ 6		
Air Force Wang Hai			CCM 85/ 7			Ngapoi Ngawang Jigme			65/ 1 83/ 6		
Navy Liu Huaqing			82/10			Peng Chong			CCM 80/ 9 83/ 6		
2nd Artillery He Jinheng			CCM 83/ 2						Zhou Gucheng 83/ 6		
									Zhu Xuefan 81/12		

MILITARY REGIONS

Commanders * * * * *			Polit. Commissars * * * * *		
Since			Since		
Beijing	Qin Jiwei	PBa CCm 80/ 1	Yang Baibing	85/ 6	
Chengdu	Fu Quanyou	CCm 85/ 6	Wan Haifeng	CCm 82/11	
Guangzhou	You Tai zhong	CCm 82/11	Zhang Zhongxian	CCa 85/ 6	
Jinan	Li Jiulong	CCm 85/ 6	Chi Maotian	CCm 85/ 6	
Lanzhou	Zhao Xianshun	CCm 85/ 6	Li Xuanhua	85/ 6	
Nanjing	Xiang Shouzhai	CCm 82/11	Fu Kuiqing	CCm 85/ 6	
Shenyang	Liu Jingsong	CCm 85/ 6	Liu Zhenhua	CCm 82/10	

SUPREME PEOPLE'S COURT

President: Zheng Tianxiang

since 83/ 6

SUPREME PEOPLE'S PROCURATORATE

Chief Procurator: Yang Yichen

since 83/ 6

ACADEMY OF SCIENCES

President: Zhou Guangzhao

since 87/ 1

ACADEMY OF SOCIAL SCIENCES

President: Hu Sheng

CCm; since 85/ 9

Abbreviations:

PBm = Politburo, member

PBa = Politburo, alternate member

CCm = Central Committee, member

CCa = Central Comite, altern.member

PROVINCES

Party Secretaries			Governors +			Chairmen, People's Congresses			Commanders Mil.Distr./Garrison		
Since			Since			Since			Since		
Anhui	Li Guixian	CCm 86/ 6	Wang Yuzhao	CCa 83/ 4	Wang Guangyu	CCm 85/ 3	Li Yuanxi	85/11			
Beijing	Li Ximing	CCm 84/ 6	Chen Xitong	CCm 83/ 3	Zhao Pengfei	83/ 4	Li Zhongxuan	84/ 4			
Fujian	Chen Guangyi	CCm 86/ 3	Mu Ping	CCm 83/ 4	Cheng Xu	85/10	Lu Fuxiang	83/ 5			
Gansu	Li Ziqi	CCm 83/ 4	Jia Zhijie	86/ 5	Liu Bing	86/ 5	?				
Guangdong	Lin Ruo	CCm 85/ 7	Ye Xuanping	CCm 85/ 8	Luo Tian	83/ 4	Zhang Juhui	83/ 5			
Guangxi	Chen Huiguang	CCm 85/ 6	Wei Chunshu	83/ 4	Gan Gu	85/ 7	Li Xinliang	83/ 6			
Guizhou	Hu Jintao	CCm 85/ 7	Wang Zhaowen	CCm 83/ 4	Zhang Yuhuan	85/ 5	Wang Zheng	83/ 7			
Hebei	Xing Chongzhi	CCm 85/ 5	Xie Feng	CCm 86/ 5	Sun Guozhi	85/ 6	Dong Xuelin	86/ 9			
Heilongj.	Sun Weiben	CCm 85/11	Hou Jie	CCm 85/ 5	Li Jianbai	85/ 5	Shao Zhao	86/ 8			
Henan	Yang Xizong	CCm 85/ 5	He Zhukang	CCm 83/ 4	Zhang Shude	85/ 6	Zhan Jingwu	83/ 6			
Hubei	Guan Guangfu	CCm 83/ 4	Guo Zhenqian	86/ 5	Huang Zhizhen	CCm 86/ 5	Wang Shen	85/ 9			
Hunan	Mao Zhiyong	CCm 77/ 6	Xiong Qingquan	CCm 85/ 7	Jiao Linyi	CCm 85/ 7	Jiang Jinliu	83/ 6			
Jiangsu	Han Peixin	CCm 83/ 4	Gu Xiulian(f)	CCm 83/ 4	Chu Jiang	83/ 4	Zhen Shen	84/ 3			
Jiangxi	Wan Shaofen(f)	CCm 85/ 6	Wu Guanzheng	CCa 86/ 9	Wang Shufeng	85/ 7	Wang Baotian	84/ 3			
Jilin	Gao Di	CCm 85/ 5	Gao Dezhan	CCa 85/ 6	Zhao Xiu	85/ 6	Chen Xingyin	85/11			
Liaoning	Quan Shuren	CCa 86/ 7	Li Changchun	CCa 86/ 7	Zhang Zhengde	83/ 4	?				
NeiMongol	Zhang Shuguang	CCm 86/ 3	Bu He	CCm 83/ 4	Batu Bagan	CCa 83/ 4	Cai Ying	81/11			
Ningxia	Li Xuezhai	CCm 79/ 5	Hei Boli	CCa 83/ 4	Ma Qingnian	80/ 1	Liu Xueji	83/ 9			
Qinghai	Yin Kesheng	CCm 85/ 7	Song Rulixiang	85/ 8	Song Lin	83/ 4	Xie Quanwei	83/ 6			
Shaanxi	Bai Jinian	CCm 84/10	Zhang Boxing	86/12	Yan Kelun	83/ 4	Ji Tingbi	84/10			
Shandong	Liang Buting	CCm 85/ 6	Li Chang'an	CCm 85/ 6	Li Zhen	85/ 6	Liu Yude	83/ 7			
Shanghai	Rui Xingwen	CCm 85/ 6	Jiang Zemin	CCm 85/ 7	Hu Lijiao	81/ 4	Ba Zhongtan	85/ 9			
Shanxi	Li Ligong	CCm 83/ 3	Wang Senhao	CCm 83/ 4	Ruan Bosheng	79/12	Yu Hongli	CCa 86/ 1			
Sichuan	Yang Rudai	CCm 80/ 6	Jiang Minkuan	CCm 85/ 5	He Haoju	85/ 5	Zhang Wenqing	83/ 7			
Tianjin	Mi Zhifu	PBm CCm 84/10	Li Ruihuan	CCm 82/10	Zhang Zaiwang	CCm 83/ 4	Zheng Guozhong	85/ 7			
Tibet	Wu Jinghua	CCm 85/ 6	Doje Cering	85/12	Ngapoi Ngawang Jigme	83/ 4	Jiang Hongquan	85/ 2*			
Xinjiang	Song Hanliang	CCa 85/10	Tomur Dawamat	CCm 85/12	Amudun Miyaz	85/12	Liu Haiqing	CCa 85/ 8			
Yunnan	Pu Chaozhu	CCm 85/ 7	He Zhiqiang	85/ 8	Li Guiying(f)	85/ 8	Wang Luxun	86/ 6			
Zhejiang	Wang Fang	CCm 83/ 4	Xue Ju	CCm 83/ 4	Li Fengping	83/ 4	Li Qing	85/12			

* Governors of Prov., Chairmen of Auton. Regions, Mayors of Beijing, Shanghai and Tianjin.

* CCa

Key Persons in the Government

DENG XIAOPING (82), Chairman of the Military Commission of the Communist Party of China, (CPC) Central Committee

Deng Xiaoping was born in Guangan County, Sichuan Province in 1904. He went to France under a work-study programme in 1920. He joined the Chinese Communist Youth League in 1922, and became a member of the Communist Party of China in 1924. He started working for the Party during his stay in France and was sent to the Soviet Union to study in 1926.

His political career began in 1927 and took part in the well-known 25,000-li Long March.

During the period of the War of Resistance against Japanese Aggression (1937-1945) and the Liberation War (1945-1949), he held many important posts.

After 1949, his political stature gradually rose until he became Vice Premier of the State Council. During the Cultural Revolution he was removed from power. In 1975 he was reinstated as Vice Chairman of the CPC. He was again removed from power in 1976 and once again rehabilitated as Vice-Chairman, Vice Premier and Chief of Staff of the Army after the death of Mao Zedong. He is now the paramount leader of China.

/...

Key Persons in the Government

LI XIAN NIAN (77), President of the People's Republic of China.

He is from Hubei Province. He became a member of the Communist Party of China in 1927. He was Vice Chairman of the CPC. He is also a member of the Political Bureau of CPC.

PENG ZHEN (84), Chairman of the Standing Committee of the National People's Congress (NPC).

Born in 1902 he is from Shanxi Province. He joined the Chinese Communist Youth League in 1923. He became member of the Communist Party of China (CPC) the same year. He is also a member of the Political Bureau of the CPC Central Committee.

ZHAO ZIYANG (67), Prime Minister of the State Council

Born in 1919 in Huaxian County, Henan Province. He joined the Communist Youth League in 1932 and the Communist Party of China in 1938. During the War of Resistance Against Japan he served in several important posts.

After Liberation, he went to Guangdong Province to lead the land reform in 1951. Later, he served and represented many provinces in the Party Central Committee. Before becoming Prime Minister he served in various important positions in the Party Central Committee.

HUANG HUA (73), Vice Chairman of the Standing Committee of the National People's Congress.

Huang Hua was born in Cixian County, Hebei Province, in 1913, and joined the Chinese Communist Party in 1936.

With Comrade Zhou Enlai, he attended the Geneva Conference in 1954 and the Bandung Conference in 1955, serving as advisor to and spokesman of the Chinese delegations. He was later a department director in the Ministry of Foreign Affairs, the Chinese Ambassador to Ghana, Egypt and Canada, and China's Permanent Representative to the United Nations. He was Minister of Foreign Affairs since 1976 and became Vice Chairman of the Standing Committee of the National People's Congress in 1983.

/...

Key Persons in the Government

WU XUEQIAN (64), State Councilor and Foreign Minister.

He is from Shanghai and held many important posts in the Government especially in the Ministry of Foreign Affairs prior to becoming Minister.

ZHENG TUOBIN (61), Minister for Foreign Economic Relations and Trade.

He is from Shanxi Province. He joined the Revolution in 1939. He graduated from the People's University of China in the early 1950s. He knows the Russian language. He became Minister in 1985.

Brief for the Secretary-General's visit to Mongolia (14-17 May)

UNDP's Programme in Mongolia

1. The UN Development System and Mongolia:

The Mongolian People's Republic joined the United Nations in 1961. Since then it has become a member of all the major specialized agencies, and it participates actively in the activities of the UN organizations concerned with development, which are its only source of development cooperation apart from the Council for Mutual Economic Assistance, which meets most of its development cooperation requirements. Agreements covering UN technical assistance, assistance from the UN Special Fund, OPAS, and the agreement covering the UNDP office were signed in May 1963, January 1966, January 1970 and April 1972 respectively. These agreements were superseded by the UNDP Standard Basic Assistance Agreement, which was signed in September 1976. The office of the WHO Programme Coordinator was opened in 1971 and the office of the UNDP Resident Representative was opened in 1973. These remain the only two UN organizations represented in Mongolia. The UNDP Resident Representative serves as Resident Coordinator of the UN development system, working with the State Committee for External Economic Relations as his counterpart body in the Government.

2. Brief history of UNDP's Cooperation:

The UN Development System has assisted Mongolia since 1968. The first UNDP Country Programme for Mongolia covered the years 1972-76, overlapping with the fifth National five-year plan, and was based on resources amounting to \$10 million made available from the Indicative Planning Figure (IPF) for that period. The second and third Country Programmes (1977-81 and 1983-86) were also based on an IPF of \$10 million. After the third country programme was prepared, however, and because of the global reduction in UNDP resources available for programming at that time, expenditure levels for Mongolia were established at 55 per cent of the IPF for the five year IPF cycle (1982-86).

3. Present status

The IPF for Mongolia for the current cycle (1987-91) is \$5.94 million. Taking into account of carryover from the previous IPF cycle, total UNDP resources available for the period amount to \$6.074 million. The current country programme covers the years 1987-1991, and coincides with UNDP's current IPF cycle. It was approved by the Governing Council at its 33rd session in June 1986. It overlaps with the country's current five-year national development plan (1986-90). By the end of the current Country Programme in 1991, UNDP will have implemented approximately 130 projects in Mongolia with a total value of around \$56.1 million.

/...

4. Main themes

The objectives of the government's development plan are to:

- Increase agricultural production by increasing the size of the livestock herd and the volume of fodder production;
- Further expand exploitation of the country's natural resources to provide the raw materials needed for accelerated industrial development; and
- Apply modern scientific and technical knowledge to increase productivity in industry and agriculture.

In accordance with these objectives the main themes of UNDP assistance during the present country programme are:

- The development of appropriate forms of non-conventional energy so as to increase the productivity of animal husbandry, the main form of agriculture in the country.
- The exploitation of domestic resources of pigments to improve the quality of raw materials for the building industry, and the utilization of animal by-products and industrial waste materials to promote further industrial development.
- The development of research facilities to promote the application of biotechnology to improve productivity in agriculture.

There are at present nine UNDP projects under way, for which budgets during the current IPF cycle amount to \$325,000. Planned revisions will add \$301,000 to this amount, and new projects are being prepared which will add \$4.811 million to approved budgets.

5. Trends in UNDP's programme

The sectoral distribution of UNDP resources in Mongolia has remained roughly unchanged since the first Country Programme. As in the first programme, industry is the most significant sector, presently planned to consume 38% of UNDP resources during the Country Programme period (compared with 29% in the first programme). Agriculture consumes 14% of UNDP resources during the current country programme, compared with 16% in the first programme. Science and technology also account for approximately the same share of resources in the fourth country programme as in the first. However, the 'social' sectors (health, education, and labour and employment) do not receive any assistance during the current country programme, while they received 31% of UNDP resources during the first programme. This is because the Government considers that the country does not require further technical cooperation from UNDP in these areas, since their needs are met from bilateral sources. The Government wishes UNDP cooperation to be extended only in areas in which no bilateral technical cooperation is available.

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6. Government attitude to UNDP programme

Relations between the UNDP office and the Government are good. UNDP assistance is given great importance by the Government, despite the small size of UNDP's programme, because UNDP is the only source of technical cooperation available to Mongolia apart from the CMEA countries. There is some frustration in the Government at the small size of the IPF for Mongolia. This has been raised in the past by Mongolia's permanent mission to the UN. The Government have been informed that it is difficult for UNDP's Governing Council to reconsider the IPF for Mongolia, since IPFs are calculated on the basis of standard criteria, principally the country's population and its per capita GNP (they also take into account certain special circumstances, amongst which a country's land-locked status is the one most applicable to Mongolia).

7. UN Development System Programmes other than UNDP:

WHO provides the second largest source of UN development system technical cooperation apart from UNDP. Between 1978 and 1989, WHO will have funded projects from its Regular Programme amounting to \$8.75 million. Current activities cover health planning and management, manpower development, environmental health, maternal and child health and disease prevention and control.

UNFPA: The UN Fund for Population Activities is carrying out three projects in Mongolia, amounting to \$2.1 million, in the areas of population data, setting up an integrated system of demographic statistics, and the strengthening of Maternal and Child Health and Family Planning Services.

IAEA: The Regular Programme of the International Atomic Energy Agency for 1986/87 amounts to approximately \$180,000, covering five projects in the areas of nuclear technology, spectrometry, plant mutation breeding, radiation protection, and radio-immunassay techniques for animal production.

FAO: FAO's Technical Cooperation Programme is financing assistance amounting to \$120,000 in the field of embryo transfer.

Tip China

Struggle to control the future intensifies

A year of decision

file

By Robert Delfs in Peking

Uncertainty about China's political future — and therefore the future of reform policies — has intensified in the weeks following the forced resignation of Hu Yaobang from his post as party general secretary in January.

The campaign against "bourgeois liberalisation," launched in response to student demonstrations in December, has alarmed intellectuals, reformist leaders within the party and rural peasants. This is despite reassurances from Premier and new acting party General Secretary Zhao Ziyang and other leaders that the campaign will be limited to party members and will not be extended to rural areas. The full-scale mobilisation against "counter-revolutionary criminals" in Shanxi province suggests that in some areas, at least, the ideological campaign has already gone far beyond Zhao's limits.

The larger questions raised by Hu's dismissal and the new campaign concern what these events mean in terms of further changes in the leadership structure and the consequences for China's policies of economic and political reform.

This is a critical year. The 13th National Congress of the communist party is scheduled for October. That congress will elect a new central committee, which will then immediately convene in its first plenary session and elect a new politburo, politburo standing committee and secretariat, and may also name a central military commission.

In fact, however, the policy and personnel decisions to be announced at the 13th congress will already have been made. The struggle and debates over China's future are already under way in a political atmosphere that has been drastically altered by the dismissal of Hu and the campaign against bourgeois liberalisation within the party.

Barring extraordinary changes, these bodies will remain in place for five years. The political composition of membership in the top party organs will thus be a crucial determinant of China's future policies in the next half decade and in the years to follow.

For the first time in a decade, divisions over political goals have erupted into a struggle within China's leadership elite. For the most part carried out behind the scenes, the clash has been outwardly expressed in Hu's dismissal and the often confusing explosions of harsh rhetoric attacking rightist tendencies and counter-revolutionaries

— rhetoric which to many Chinese is a painful reminder of the two-line struggle of the Cultural Revolution.

But a return to the leftism of the late 1960s and early 1970s is, perhaps, the single outcome that can be confidently excluded. The current struggle is rather a split within a group of leaders who were, with few exceptions, victims of the Cultural Revolution. Under Deng Xiaoping's leadership, they submerged their internal differences in an alliance against the Left, accepting or acquiescing to the need for some degree of change in the management of the economy.

On one side of this struggle are those this magazine and others have called "reformers" — advocates of continuing the economic reforms but also political reformers favouring restricting the scope of the party's control over everyday life and greater tolerance of intellectual diversity and dissent.

On the other side of the struggle are those described as conservatives, primarily defined by their commitment to an orthodox Leninist concept of the political role of the communist party, but many share also a preference for the Stalinist model of a planned command economy, such as China implemented in the early and mid-1950s, and who thus take a restrictive view of economic reforms.

Underlying the political conflict between reform and orthodoxy is a generational conflict that may, in retrospect, prove the most salient factor explaining the events of 1987.

Although many of China's ministerial-level state leaders are relatively young, ultimate decision-making power in the party still remains in the hands of an elderly generation who remember the party's earliest days and are survivors of its long march to power.

Prominent among this group are military leaders who facilitated Deng's comeback in 1974 and again in 1977, and civilian state and party leaders who came back with him. These allies of Deng were reformers in the context of 1977, but their deepest political convictions now lead them to suspect or reject the changes posed by the late 1980s.

In a political crisis,



the formal structure of party decision-making breaks down, and the prior right of those who were present at the creation to speak and be heard in the councils of power, never entirely extinguished, becomes paramount.

Of the 22 present members and alternate members of the politburo, 14 are 70 or older. Five are in their 80s, including Deng himself and the three most important conservative figures in the leadership — Peng Zhen (head of the National People's Congress [NPC] standing committee), Chen Yun (first secretary of the party central disciplinary inspection commission) and state President Li Xiannian. The two most prominent conservative ideological spokesman after Peng — politburo member Hu Qiaomu and former party secretariat member Deng Liqun — are 75 and 72 respectively.

Retired and semi-retired elderly party and military leaders such as Bo Yibo and Gen. Wang Zhen, both 79, and Gen. Song Renqiong, 83, have returned to the political stage in recent weeks as conservative spokesmen or supporters, and participated in the expanded politburo meeting which resulted in Hu's resignation.

Another group believed to have played a key role in the decision to oust Hu and crack down on political liberalisation, are the military leadership, most importantly the members of the party Central Military Commission, headed by Deng himself. Most are 80 or older; the youngest, Yu Qiuli, is 73.

Only 16 months ago this list of conservative elders would have been longer. Gen. Xu Shiyu, Deng's protector in 1976, died in October 1985, at the age of 79. Marshalls Liu Bocheng and Ye Jianying died last October, and Gen. Huang Kecheng in late December.

This is the basis for the "last hurrah" theory. While the conservatives clearly have support, both principled and opportunistic, within the broader party ranks, none of the visible leaders and spokesmen for the conservative backlash are younger than 73.

These are the men who built the revolution and survived its trials and struggles over more than half a century, and who see themselves, not without reason, as its guardians. As such, their claim to authority, in extremis, is undeniable. But their awareness of their own mortality is heightened each time they attend another funeral of a colleague-in-arms.

They, more than anyone else, realise and fear that they represent the party's and China's past, not its future, and they know that this may be the last time the generation that made the revolution will exert a decisive influence on the direction and shape of events in the years to come.



China's youth: puzzled by bizarre rhetoric.



Peng: arch conservative.

It is impossible at this time to predict how China will change in the coming months or the magnitude of such changes. Conflicting rumours are heard each week, and widely diverging interpretations of events have been presented by respected observers of the Chinese political scene.

In the short term, at least, there is little doubt that the backlash will have profound effects on the composition of the party leadership selected by the next party congress. It is possible that Zhao will not be confirmed in his new post as acting party general secretary.

The new state council premier, if one is selected at the NPC later this month, will probably be the current vice-premier and party secretariat member Li Peng, a Soviet-trained technocrat. Li is an articulate leader with demonstrated managerial competence, but he has never displayed a commitment to reform comparable to that of Zhao. More likely, the decision on a new premier may be put off until early 1988, conditional upon Zhao's confirmation as party general secretary.

The renewed emphasis on orthodox ideology, political indoctrination and control of the media will not fade quickly. Political reform, other than ideologically neutral steps in the course of bureaucratic streamlining and cosmetic changes, is a dead issue. The prospects for continuing domestic economic reforms which extend the scope of market forces and restrict central planning have seriously deteriorated.

The importance of the open-door policy, however, and China's need for continued access to foreign technology and capital, is apparently accepted by conservatives as well as reformers. But the uncertain political climate will tend to discourage risk taking by foreign investors and Chinese bureaucrats alike, and the campaign against bourgeois liberalisation may generate suspicion or fear of foreigners.

The most serious consequences of all, however, is the damage to the credibility and prestige of the party among the people and particularly young intellectuals.

It is true that, despite its excesses, the campaign against bourgeois liberalisation so far is in no way comparable to the anti-rightist campaign of the late 1950s, when thousands were killed and many thousands interned in labour camps, much less the horrors of the Cultural Revolution.

But to young people in China today, a generation which has received unprecedented exposure to the outside world, the return of the rhetoric of those eras, the liturgical condemnation of rightists and counter-revolutionaries, the purge of anti-party elements, is as bizarre as it is to outsiders.

The party is torn between two conflicting

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Focus cover illustration by
Yuen Tai Yung.

tendencies — one leading towards reform and liberalisation, the other seeking a return to classical Leninist orthodoxy. The exigencies of economic recovery and the shared experience of victimisation by the Maoist Left made it possible for these two tendencies to coexist for a decade. In a sense, Deng personified this contradiction between reform and orthodoxy.

But now that these two submerged tendencies in the party have emerged into conflict, Deng himself has become a mystery, his role in recent events inexplicable. To some, Deng was and must still be the kingpin of the reformists. Was he forced to abandon Hu, or was this a shrewd tactical move? If so, can he still be in control? Others say Deng has now shown his true colours as the arch-conservative, the primary mover behind the campaign against bourgeois liberalisation.

Deng was both. He was the bridge between the revolutionary values of the founding generation, who succeeded in making China communist, and the performance-oriented goals of the next generation of leaders, typified by Zhao, whose job it is to make communist China work. This Janus role was the key to Deng's leadership role in the past decade. ■

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POLITICS

The conservative challenge is deeply rooted

By Robert Delfs in Peking

Nearly five years ago, in August 1982, just days before the 12th party congress was scheduled to convene, the *Jiefang Junbao* (*Liberation Army Daily*) and the Shanghai *Jiefang Ribao* (*Liberation Daily*) published an article written by the People's Liberation Army's navy political department charging that some "responsible comrades" working in the fields of ideology, culture and the media had "supported bourgeois liberal points of view" and criticised the party leadership for having "failed to correct such errors soon enough."

This article was widely understood as a move by conservatives to pre-empt plans of party leader Deng Xiaoping and his allies to move the political focus of the party further in the direction of economic and political reform at the congress through the appointment of younger and more liberal candidates to the central committee, politburo and secretariat.

The attack was not tolerated. Deng and his allies got most, though not all, of what they wanted at the 12th congress, including the confirmation of Hu Yaobang as party general secretary. No campaign against bourgeois liberalisation was launched. In September 1982, Wei Guoqing, director of the general political department of the PLA, was replaced by Yu Qiuli, and in October the head of the PLA navy, Ye Fei, also stepped down.

Although mildly worded compared to the rhetoric against bourgeois liberalisation in recent weeks, the 1982 *Jiefang Ribao* article articulated precisely the charges that have dominated political life in China since mid-January, and brought about the forced resignation of Hu.

Deng must have not only approved, but probably masterminded the handling of the 1982 case and the removal of Wei and Ye. Party and state leaders today insist that Deng himself is behind the campaign against bourgeois liberalisation, and that he was a primary force behind Hu's resignation.

Deng's speeches from eight and nine years ago have been quoted to demonstrate his consistent concern with the problem of deviation towards bourgeois liberalisation, and on 16 February a Deng speech on democratic centralism was splashed across the front pages of all China's major national newspapers on 16 February — 25 years after it was delivered at an enlarged central committee work conference in January 1962 (REVIEW, 26 Feb.).



Liu Binyan: expelled.

In late February, the texts of the first three central committee documents of 1987 were leaked to foreign journalists in Peking. The first of these consisted of Deng's remarks on the handling of student unrest at a meeting of party leaders, including Hu, on 30 December.

Deng praised Polish party leaders' use of martial law to suppress the Solidarity movement and said that the battle to oppose bourgeois liberalisation must continue for at least 20 years. "We cannot adopt Western ways [of democracy], because if we do, it will mean chaos," he said.

Deng also specifically criticised statements by Fang Lizhi and Wang Ruowang, two dissenting intellectuals who have since been expelled from the party, along with the *People's Daily* reporter Liu Binyan. Fang, Wang and Liu's collected articles and speeches have been used as primary material in study and self-criticism sessions on bourgeois liberalisation for party cadres, ironically bringing their work to a far broader readership than ever before.

What is disconcerting is that the use of these speeches increasingly appears to be consciously intended to deter speculation that Deng may have been pressured into agreeing to Hu's dismissal and the launching of the campaign. It may also

be an attempt to defend Deng from the charge that he, as well as Hu, has been soft on bourgeois liberalism. "In the battle against bourgeois liberalisation, I am the one who has spoken out the most," one of the party documents quotes Deng as saying last September.

But Deng inescapably bears at least indirect responsibility for the implementation as well as the direction of policies as the party's pre-eminent leader for the past decade. Hu was Deng's personal choice as the successor to Hua Guofeng and is understood to have acted as point man on some of Deng's riskier policy initiatives, making it easier for Deng to step back from the fray and adopt his preferred role as mediator.

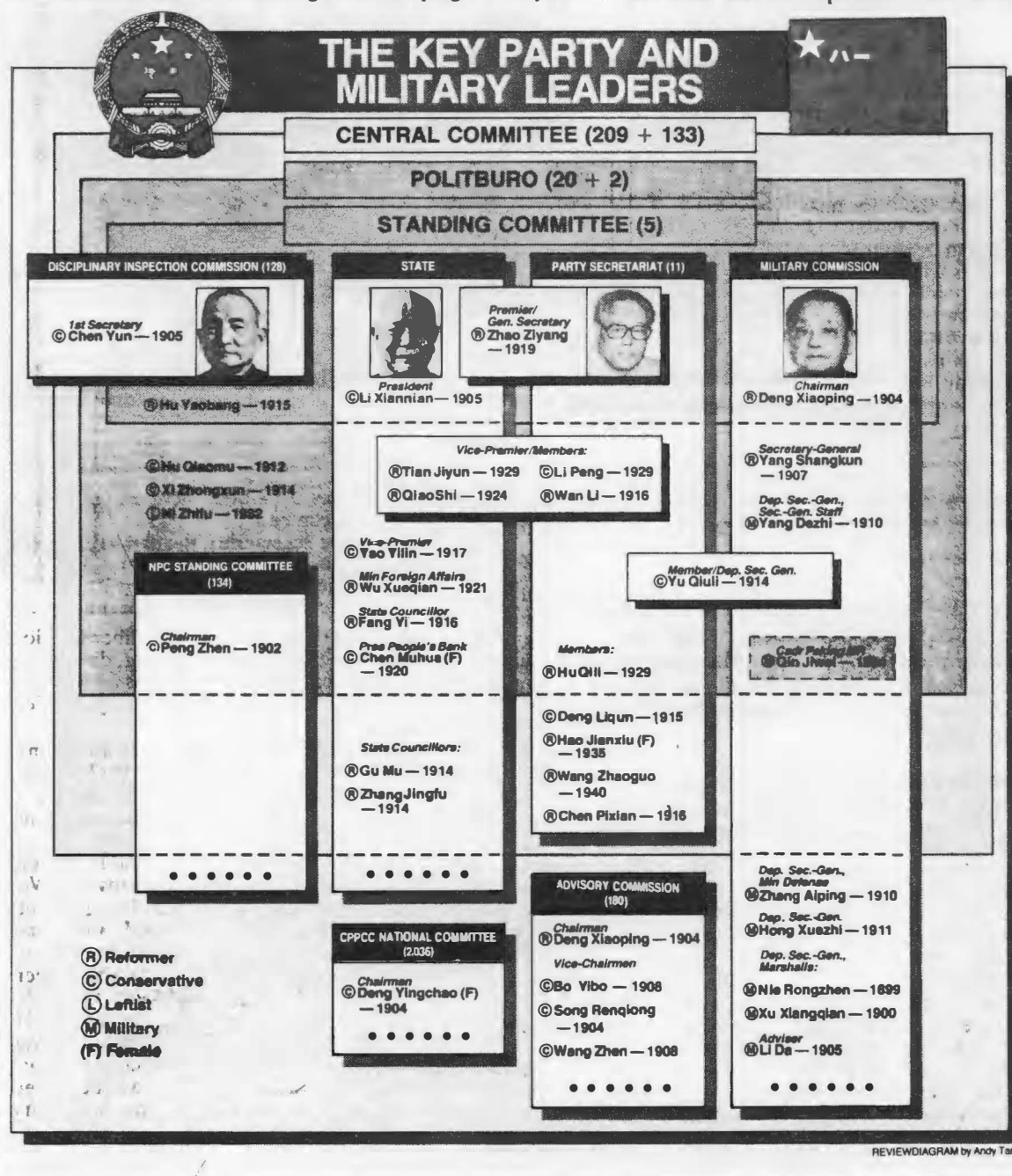
Among the most frequently cited examples of Deng's long adherence to conservative values are his speeches at the time of the fifth central-committee plenum in February 1980, which championed the four basic principles (leadership of the party, Marxism-Leninism-Mao thought, democratic centralism and the socialist road) as fundamental party policy.

But historians of the period generally agree that Deng at that time was under pressure from both the survivors of the

Cultural Revolution Left and supporters of Hua, who the Dengists had recently deposed, and from the elderly conservative but anti-leftist leaders whose support was a vital element of the Dengist coalition.

"Deng was forced to compromise," according to China scholar Jurgen Domes, writing in his book *The Government and Politics of the PRC: A Time of Transition*. "He agreed to curb the human-rights and democracy movement, setting the four basic principles as the limits for all political and economic activity... [and] thus succeeded in securing the continuing support of military leaders..."

Nor do Deng's hardline remarks as reported in the central-party documents leaked to Western journalists mean he was not pressured by conservative leaders this time as well. His comments on 30 December came only five days after the



end of the biggest, enlarged meeting of the Central Military Commission since the late 1970s, a meeting that apparently concentrated on political issues. The student demonstrations in Shanghai and other cities earlier that month could have provided sufficient grounds for military leaders to demand changes in party leadership and the handling of ideological issues.

Deng's remarks at that meeting also followed shortly after the first serious public statement on the student demonstrations by conservatives. Remarks by Bo Yibo, Wang Zhen and Song Renqiong — all vice-chairmen of the party's central advisory commission — politburo member Hu Qiaomu and party secretariat member Deng Liqun at a tea party were reported on TV on 27 December and appeared in party newspapers the following day. For the first time they directly linked the demonstrations with the "trend of bourgeois liberalisation" and "advocacy of complete Westernisation" — two phrases that would be heard many times again in the following weeks.

The current attack on party liberals is primarily intended to change the political balance of power in the run-up to the 13th National Party Congress, now scheduled for October. Better timed and organised than the abortive effort in September 1982, this assault has, so far, been extraordinarily successful.

Only a few months ago, the reformists appeared to have the upper hand, and many observers believed that younger and more liberal party leaders would join the central committee and politburo in October in unprecedented numbers, and that many of the superannuated party and military veterans, who still dominate the upper reaches of decision-making, would finally retire.

The conservatives had mounted a political challenge at an extraordinary national party conference in September 1985, which was highlighted by an attack by politburo standing-committee member Chen Yun on economic corruption, falling grain production and lack of attention to party ideological and political work.

But corruption, particularly as it focused on the misbehaviour of high officials' children, was a potentially dangerous issue to both camps. A high-level task force to handle corruption cases was formed in January, headed by politburo member and Vice-Premier Qiao Shi, and succeeded in burying the issue (REVIEW, 29 May '86).

"The people do not want to see a political movement," politburo member and party secretariat member Hu Qili told an Australian journalist last April, with no doubt unintended



Hu Yaobang: walking into history?

How the power structure works

The 13th National Congress of the communist party in October will select a new central committee, which will then immediately convene its first plenary session and elect a new politburo, politburo standing committee, secretariat and central military commission, which would normally remain in place for five years until the next party congress.

These central party bodies, particularly the politburo, are normally the core decision-making structures in the Chinese political system, the apex of a hierarchical organisation which extends to every government office, each military unit, every state-owned factory, schools and universities, all publications and media, mass organisations and to each rural commune.

Deng Xiaoping, without doubt the pre-eminent party leader since his second return from political disgrace in 1977, has never been in a position to dictate policy without restriction. To win acceptance of his policies, Deng

and his allies, like political leaders in other systems, have had to forge a consensus among the top circle of party leaders.

In theory, decisions of the politburo or its standing committee — which on major issues are normally ratified by a plenary meeting of the full central committee — are the ultimate determinants of state policy and are binding upon all party members.

Politburo members both represent and lead external interest groups. All but three of the politburo members and alternates hold key interlocking posts in the central party organs, military forces and civilian bureaucracy. Of the five vice-premiers of the State Council, all politburo members, four are also members of the 11-person party secretariat, the nerve-centre and executive arm of the central committee.

Implementing legislation and regulations passed or issued by the National People's Congress and the State Council come into being only after the

policies have been determined by the party centre.

The secretariat, headed by the general secretary, directs operational departments through the central committee general office. The departments include propaganda, organisation, international liaison, united front and the publications *People's Daily*, *Hongqi* (Red Flag) and the *Guangming Daily*.

Thus the decision to shift the focus from politics to economic construction after 10 years of predominant leftism and embark on rural reforms was made at the third plenum of the 11th central committee in December 1978, ratifying the conclusions of an earlier central work conference. The third plenum of the 12th central committee in October 1984 extended the scope of comprehensive reforms to urban industry.

But the unique nature of the political coalition that brought Deng back to power in the late 1970s has dictated a departure from the theoretical pattern. The two most important elements of this coalition were elderly conservative but anti-leftist leaders, many with close personal ties to Deng, and younger re-

irony. "A movement, like a storm which damages many houses, may create new unjust charges and verdicts which would later have to be reversed."

In addition, excessively high economic growth had been brought partly under control, export performance improved and there were indications that grain production would be better than the year before, if only marginally.

By mid-1986, the conservatives appeared in retreat as the party liberals launched an unprecedented effort to extend the bounds of cultural freedom and free speech. Under the banner of the ill-fated "hundred flowers" liberalisation of the late 1950s, newspapers and magazines published theoretical articles and commentaries that would have been unthinkable only a few months before and are unthinkable again today.

The conservatives' objective has been to correct what they see as a dangerously liberal bias in the leadership of the party, one that they believe could lead to the destruction of the party as a ruling institution if allowed to proceed unchecked. Their estimation of the breadth of support for democratic reforms within the ranks of the party membership and leaders exceeds that of most Western analysts.

In policy terms, their political victory is unlikely to result in the reversal of the reforms already in place, but rather is intended drastically to limit the scope of reform, particularly political reforms which might weaken the principles or practice of party control.

The measure of their victory, and its most important and enduring consequences for the future, will be the effect on the 13th congress, particularly the selection of candidates for the central committee and other key party organs.

"The line for the 13th congress is now clear," one Chinese official told the REVIEW. "And now the only thing is to solve the personnel issues." In fact, the personnel issue was the only real issue from the beginning, and the new "line" means that it will be resolved in a very different manner from that originally envisioned by Deng Xiaoping and other reformist leaders.

The campaign against bourgeois liberalisation will be continued at least through the 13th congress. Limiting the campaign to party members has in no way compromised its pri-

mary purpose — crippling the promotion prospects of cadres who have supported political liberalisation, press freedom, expressed sympathy for the demands of the students, or whose careers are closely tied to Hu Yaobang.

Restricting the campaign in this way, moreover, may actually help in averting excesses affecting the general population which could generate support for a counter-backlash. This, some conservatives believe, was the primary tactical flaw in the abortive 1983 campaign against spiritual pollution, which focused excessively on ephemeral instances of Western influences in everyday life, such as long hair, bell-bottom trousers and listening to Western music.

The national and provincial press have devoted considerable space to reassuring non-party intellectuals in particular that this campaign will be limited. "I can tell you with complete assurance that there is no change in the party policies on intellectuals and in the guideline of respecting knowledge and talent..." Sichuan deputy party secretary Nie Ronggui told a forum on intellectuals in Chengdu.

Reiterating the earlier statement by Premier and acting General Secretary Zhao Ziyang, Nie added that "the struggle is limited strictly to within the party and will be conducted mainly in the political and ideological field. It will focus on resolving problems of fundamental political principle and orientation." But provincial leaders admit that there are "apprehensions in the thinking of some cadres and members of the masses as regards reforms, opening up, and invigoration..."

Hebei provincial party committee secretary Xing Chongzhi, speaking at a meeting of county and township leaders, noted that "some rural households that have purchased lorries now want to turn them over to the collective, others have put machinery purchased for new rural enterprises into storage and dismissed technicians hired to run it, while those who have raised capital to set up enterprises dare not set them up now." Such instances "reflect the fact that some of the masses are afraid of confusion and policy changes," Xing said.

The most alarming indications have come from north-

formist administrators. These two were agreed that the Cultural Revolution had been a disaster and many, like Deng, had been purged in the period that the leftists were in power.

There was a recognised need to rejuvenate the leadership and promote

younger cadres on the one hand. But some elder conservatives were unwilling to retire, and could not be forced, making it all the more important that Deng's closer allies of the same generation also remained in positions of power.

This led to the creation of the Cen-

tral Advisory Commission (CAC) at the 12th party congress in September 1982, to provide alternate posts for senior leaders. CAC members are allowed to attend plenary sessions of the central committee in a non-voting capacity. Vice-chairmen and members of the CAC standing committee may similarly attend politburo sessions at the discretion of the politburo.

Nearly a third of the members of the 11th central committee (1977-82) were transferred to the CAC at the 12th congress, but the new politburo elected in 1982 remained heavily weighted in favour of elderly leaders with an average age of 77.

Senior CAC leaders, including former politburo and military-commission member Wang Zhen, former politburo alternate Bo Yibo and former party organisation department head Song Renqiong, have played a prominent political role in recent months and may have participated as full voting members in the enlarged politburo meeting on 16 January that resulted in the resignation of Hu Yaobang.

— Robert Delfs



National People's Congress, 1986: next meeting crucial.

western Shanxi province, where a full-scale campaign against counter-revolutionary crimes has been launched. "Enemy elements pose a very serious threat in some parts of the province," deputy provincial party secretary Wang Jiangong told participants in a telephone conference of local party and government leaders on 7 February. The meeting warned that "if we relax the struggle against counter-revolutionary sabotage, the enemy will become more and more rabid."

At the grassroots level orders have gone out that "all factories, mines, enterprises and internal units must establish security and protection systems, put them on a sound basis and strengthen them. Security organisations in rural areas and neighborhoods must be consolidated, perfected and systematised . . . party and government at all levels . . . must improve security, register visitors strictly, organise night patrols and so on . . . they must block every loophole."

While the national campaign against bourgeois liberalisation is in theory limited to cadres and restricted to ideological and political work, the Shanxi counter-attack against counter-revolutionaries is not. Local leaders have been told that "cadre congresses, worker congresses and village congresses in factories, mines, schools and rural areas must take action and genuinely mobilise the masses to take part in this struggle." The National People's Congress standing-committee decision on stepping up legal education and preserving unity and stability "must be conveyed to all the millions of households and everyone must know of it." This, the Shanxi leaders were told, will be helpful "in raising the masses politi-

cal awareness and their spontaneity in struggling against counter-revolutionary activities."

Shanxi is a poor province, with a complex political history. The site of the communists most important wartime base area at Yenan, Shanxi was a "major disaster area" during the Cultural Revolution. "Leftist influences are rather profound, there is serious factionalism which has not been completely eliminated, and a few people still doubt the party's line, principles and policies since the third plenum of the 11th central committee regarding reform and opening up to the outside world," according to a report of an enlarged plenary session of the provincial party committee broadcast on 20 January.

The Shanxi party meeting was held from 13-19 January, spanning the dismissal of Hu as party general secretary. It referred to a "small number of hostile elements" which have "frenziedly carried out counter-revolutionary sabotage activities" in the province, attempted to link together "preachers of bourgeois liberalisation," "remnants of the Gang of Four" and other hostile elements, and also mentions special instructions from the centre on work in Shanxi.

While it is unclear precisely what is meant by instances of counter-revolutionary sabotage, an earlier provincial broadcast attacked "subversive activities of hostile elements who sneak in from abroad" and linked them to "reactionary elements who have incited students." The rhetoric of these broadcasts suggests that the campaign against bourgeois liberalisation in Shanxi has been escalated into an all-out offensive against counter-revolutionaries and has already gone well beyond the limits Zhao attempted to impose. □

ECONOMY

Major hurdles on the road to revitalisation

By Ellen Salem in Hongkong

China's 1986 economic indicators provide ample ammunition for the conservatives to attack the reformers, or the reverse, depending on one's perspective. Either excessive reliance on market forces or state planning could be made a scapegoat. Seen in the context of the Seventh Five-Year Plan, which set the goals for the Chinese economy for 1986-91 and the priorities set for 1986, China's economic indicators, as well as reforms initiated in the first year of the plan, point to a number of severe fundamental problems that must be addressed if China is to realise the goals it has set for itself.

Early in 1986, Premier Zhao Ziyang outlined the key tasks for that year's economy as "consolidating, digesting, supplementing and improving" on reforms in place while preparing for further reforms in 1987 and 1988. Judging from performance indicators, the Chinese economy needs far more than fine tuning for the socialist market economy to work. Three areas are particularly crucial: the revitalisation of the ailing state sector, match-

ing supply to the changing demands of the market and the upgrading of the transport and communications networks.

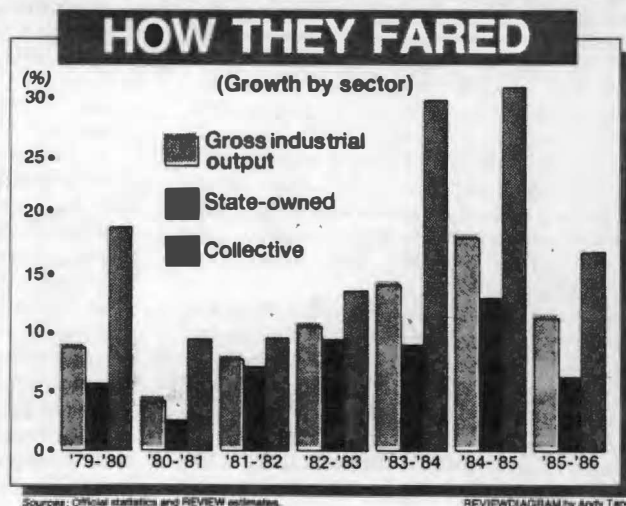
In contrast to the "overheated" economy in 1985, when economic growth registered an overall increase of 12.3%, with industrial output rising by 18%, China's overall growth in 1986 moderated to 9.2%. Total industrial output overshot the planned 8.8% and registered an increase of 11.1% over 1985. (If the output of rural industry — which may be as high as Rmb 330 billion [US\$86.66 billion] — is deducted, the industrial-growth rate is 9.2%.)

But growth in the state sector declined from the previous year's 12.9% to 6.2%. Results from the collective sector are almost as bad — increases in output dropped from a 30.9% in 1985 to 16.7% last year. Only the individual and private sectors registered positive changes, with output up 60% over 1985.

Heavy-industrial production rose 9.6%. According to the Ministry of Metallurgical Industry, China is expected to produce 51.5 million tons of steel in 1986, up 4.7% over 1985. As of 18 December, the iron and steel companies had met the steel-production quota of 50 million tons, thus making China the fourth-largest steel producer after the Soviet Union, Japan and the US.

While output of coal, iron, steel and non-ferrous metals showed marked gains as of November 1986, only 39 of the country's 100 major industrial products had met their annual quotas. In part, this is due to a decrease in energy consumption. In the steel industry, for example, output of key enterprises increased by 6.7% in the first eight months of 1986, but energy use increased by only 2.8%.

As in 1985, the light-industrial sector registered the highest growth, with an increase of 12.7%. According to the Ministry of Light Industry, ex-



ports from that sector (excluding textiles) will be the highest in the past three decades and are expected to total US\$5 billion.

While labour productivity and efficient use of inputs are said to be improving in the industrial sector, profits, taxes paid, production costs, use of working capital (despite excessive working-capital loans) and inventory investment have fallen behind target. Much of this is due to the fact that supply does not match demand. Products have not adapted to changing consumption patterns and sales of many items are sluggish. Stockpiling is increasing, even as output is expanding. This is most marked in the state firms, where total profit and taxes fell by 0.2%.

In addition, profitability is down in the light-industrial sector and in the textiles industry because of the higher prices that must be paid for agricultural and raw materials and changes in foreign-exchange rates, particularly the appreciation of the yen.

Agricultural production grew at 3.5%, but grain production only increased by 11.99 million tonnes. With a total yield of 391.09 million tonnes, grain production fell short of its targeted growth by 50%. Output of cotton dropped by 14.6%, while the oil-bearing crop fell by 6.7%.

On the bright side, exports registered significant gains, rising to US\$30.9 billion, up 13.1% over the previous year, while imports (US\$42.9 billion) only increased by 1.6%. As a result, China's trade deficit fell to US\$11.97 billion, down from a record US\$14 billion in 1985.

Despite China's intention to sell more light-industrial goods and electronic products abroad, their export value in 1986 was about US\$2.2 billion out of a total estimated US\$5 billion. Nonetheless, this export value is the highest in the past three decades. Textiles — no longer under the administration of the Ministry of Light Industry — were the major export earner in the light-industrial sector, with a value of US\$6.5 billion.

The pace of investment in capital construction has slowed considerably, but it is still far too high. According to the State Statistics Bureau, investment in fixed assets totalled Rmb 296.7 billion, 16.7% more than in 1985, but below 1985's 38.7% increase over 1984.

In 1986, state-owned enterprises invested more than Rmb 60 billion in projects, allegedly for technical renovation, exceeding the state plan by more than Rmb 18 billion. Of that amount, some Rmb 10 billion was used to finance the building of hotels, restaurants and other non-productive projects.

At present, more than 100,000 projects are under construction, far beyond the number that can be accommodated by the state's economic and managerial capabilities. The result, according to Chinese economists, has been prolonged construction projects, less than anticipated investment returns and loss of some key energy and transport projects. It has also had negative effects on the government's overall control of the economy, structural reform and steady economic development.

Also outpacing targeted growth in 1986 were wages of Chinese workers which averaged Rmb 1,332, 8.4% higher than in 1985 after price adjustments. Total pay, which includes subsidies for meat and other non-staple foods reached Rmb 166 billion, bringing the total rate of increase to 12.2%, exceeding the rate of increase for economic growth.

Despite overall gains in productivity, the state budget will see a deficit of several billion renminbi in 1986, following a

surplus of Rmb 2.8 billion in the previous year. As a result of lower profits, the interest and taxes paid by state enterprises decreased 1.4% in the first 10 months of the year. Tax arrears rose to a record high of Rmb 4 billion at the end of October. This has been accompanied by a rise in spending which has not been compensated for by the rise in non-tax revenues. In addition, foreign-trade losses (oil and subsidies for grain and other agricultural products) have put pressure on the budget.

The major reforms in the second half of 1986 give a clear indication that compromise was already the name of the game last year, particularly in terms of the key areas of reform stipulated in the Seventh Five-Year Plan. The plan calls for:

- ▶ The transformation of large- and medium-sized enterprises into socialist commodity producers that assume sole responsibility for their balance-sheets.
- ▶ The further development of a commodity economy, the initiation and development of capital markets and labour markets and the gradual establishment of an open-market system.
- ▶ The introduction and implementation of the management-responsibility system, thus replacing direct state control of enterprises with a system of indirect control.

As a first step in making enterprises responsible for their



Ceramics factory, Guangdong: exports grow.

ELLEN SALEM

profits and losses, a provisional bankruptcy law which provides for the liquidation of unprofitable state enterprises was approved for trial implementation in December. However, actual implementation of the law — which is a watered-down version of the draft prepared under the guidance of the reformers — is to be postponed until the enactment of the enterprise law, which will establish the ownership and liability of enterprises.

Progress was made in terms of the development of capital markets and was highlighted by the opening of a stockmarket in Shanghai. Provinces and major cities issued bonds to raise funds for capital construction and a joint-stockholding system was implemented on a trial basis.

Continued efforts were made to wipe out the iron rice-bowl and the number of contract labourers reached 5.18 million, or about 4% of the total workforce, by end-1986. In an attempt to reduce the drain on the state budget by money-losing enterprises, some 2,900 small state-owned firms had been either leased or contracted out as of the end of the year. About half of these firms reported an increase of approximately 20% in production and profits over 1985. Peking set up a labour market which could become a model for similar innovations on a nationwide basis.

Although the use of price levers to govern the consumption of consumer goods was on the increase, poor distribution networks continued to be one of the major impediments to the development of a market economy. Whether the deci-

sion made late in December, reportedly at the insistence of the conservatives, to stabilise the prices of major consumer items through 1987 is a harbinger of things to come, remains to be seen. Plans are now on the books to initiate major reforms in the pricing of capital goods this year.

The management-responsibility system was put in place in some 23,000 of the 54,000 state-owned industrial enterprises in 1986. The final version of this system (all major reforms are first implemented on a trial basis) as announced in January is yet another compromise. The regulations stipulate that the factory director — and not, as was previously the case, the secretary of the factory's unit of the Chinese Communist Party — is the sole director and legal representative of the enterprise and has the responsibility for the production, management and administration of the enterprise.

But his authority could be constrained and possibly nullified by the powers now vested in the factory units of the All-China Federation of Unions, which may review the enterprise's plans and make decisions on punishments, including dismissal, as well as incentives for individual workers and directors.

Fundamental to the successful implementation of the five-year plan is a genuine diminution of state control. Last year saw an increase in those sectors of the economy operating largely outside of the constraints of that control. However, both the bankruptcy law and the management-responsibility system strengthen the ultimate authority of the state, while increasing the fiscal and managerial responsibility of enterprise management.

At this juncture, the extent to which state control will be increased is not clear. Conflicting signals abound. In agricultural reforms, for example, both market forces and more stringent state management will be used simultaneously. Individual state enterprises have just been given the right to set their own pay scales, provided the total wage bill does not exceed the overall quota set by the state. Budgetary constraints will probably result in an increase of unprofitable firms being leased or contracted to individuals or cooperatives, thus lessening the control of the state over an increasingly important sector of the economy.

Rhetoric aside, however, nothing has happened to date that indicates that China is about to embark upon an abrupt change in its economic policies. Controversial reforms, though, may well be postponed until the party congress in September.

Judging from statements by Chinese authorities, 1987 will be a year of austerity while attempts are made to address some of the fundamental problems now facing the Chinese economy. According to Chinese Vice-Premier Tian Jiyun, "the task for economic work this year boils down to a drive to increase enterprises' economic performance, reduce non-key projects and non-production related expenditures and concentrate on key projects." Speaking at the same conference, Minister of Finance Wang Bingqian called for an increase in cost efficiency, a reduction in material consumption and a speeding up in the circulation of funds.

Emphasis will be placed on increasing grain production and energy output, the promotion of product quality, the upgrading of raw-materials production based on the growth of steel output, the construction of transportation and communication facilities, the expansion of export trade and tourism, scientific research and the improvement of living standards, particularly in the poor areas.

For the longer term, it matters little if China's leadership puts reforms, such as the further development of the stock-market, on hold. Indeed, given the level of development of China's economy at present, one wonders if stockmarkets are truly appropriate now. However, the economy could ultimately stagnate if the policymakers decide that it is possible to invigorate the economy while closing the door to intellectual activity in the name of adhering to the "four principles" — leadership of the party, socialism, dictatorship of the proletariat and the primacy of Marxism-Leninism and Mao Zedong thought.

FOREIGN RELATIONS

Sino-US links are solid despite occasional storms

By Robert Delfs in Peking

A decade and a half after the signing of the Shanghai-Communique marking the first step in normalisation of Sino-US relations, they have reached what US diplomats describe as an impressive breadth, solidity and sturdiness.

"During the past 15 years we have weathered political earthquakes and tremors in China and America," US Ambassador Winston Lord said at a reception commemorating the communique, "yet the successive leaders of both our nations, who have profoundly disagreed among themselves on other issues, have all seen it in the national interest to strengthen Sino-American relations."

Two-way trade reached US\$7.3 billion last year (more than two-and-a-half times total Sino-Soviet trade), according to Chinese customs statistics, which do not include re-exports through Hongkong, and the US is China's third most important trading partner after Japan and Hongkong.

In addition to trade and cultural ties, the military relationship between the two countries has also deepened, with a historic port call by US warships to Qingdao last November, extensive mutual visits by military staff, a US\$550 million sale of radar and avionics for the Chinese F8 fighter signed last year, and more radio and radar equipment expected to be sold this year.

Analysts agree the events of early 1987 — Hu Yaobang's forced resignation as party general secretary and the launching of a domestic campaign against "bourgeois liberalisation" — do not appear to threaten these ties, which are based primarily on geopolitical considerations and mutual interest, as it is termed by the Chinese. There is general agreement among leaders of both sides of the current political struggle in China of the continuing need for technology and financial assistance from the West.

China's foreign-policy establishment, primarily liberal in orientation, and the more conservative military leaders both



US frigate in Qingdao: growing military ties.

tend to see the expansion of the Soviet Union's influence and power over the past decade as the most salient geopolitical development for Asia and the world. Looking ahead, Chinese leaders tend to see their northern neighbour as the competitor which poses the most serious potential threats to China in the next century, a consideration which underscores the importance of continuing US-China ties.

But China's recent political upheaval will inevitably affect certain dimensions of the Sino-US relationship. For the US, the resurgence of more orthodox Marxist forces within the leadership brings into question assumptions about China and its reforms that are part of the psychological underpinning of Washington's pro-China position.

The gradual and continuing advance of economic reforms in China in the decade of Deng Xiaoping's leadership and what appeared to be steady movement towards significant political reforms, have made it possible for a strongly anti-communist US Government to view China as fundamentally different from its primary global antagonist, the Soviet Union, and its client-states around the world.

As long as internal change in China continued in a liberalising direction, it was possible to imagine this process continuing indefinitely, and that its ultimate result could be a society whose economic and even political system approximated to the open and pluralist societies of the West.

Regardless of whether these assumptions were realistic or not, they have been shared by a broad spectrum of the political elite in the US and other Western countries, and contributed to a generally sympathetic understanding of China. To the extent that recent events in China undermine those assumptions, the political consensus behind pro-China policies may be weakened.

At the least, rightwing political forces in the US leadership who never accepted the theory of a liberalising China in the first place, will be less restrained in criticising China's shortcomings in the areas of human rights and political freedom, and will be able to take a stronger line on Taiwan as well as on trade and other bilateral issues which have been continuing sources of friction — but not fundamental disagreement — between Peking and Washington.

Sen. Jesse Helms, a rigid anti-communist, has objected for years to China's penetration of US clothing and textiles markets, and now the ranking minority member of the Senate Foreign Relations Committee has introduced two resolutions in the US Congress.

The first, citing arrests of demonstrators in Shanghai, the purge of Liu Binyan and Wang Ruowang from the party and the demotion of a former party propaganda chief, calls for the "current urgent situation on human rights in the People's Republic of China to be placed on the agenda of

the UN Human Rights Commission now meeting in Geneva."

The second resolution calls for the expulsion of a Chinese reporter in response to the expulsion of Agence France Presse reporter Lawrence MacDonald earlier this year and *New York Times* reporter John Burns in 1986, and directs the secretary of state to inform Chinese authorities that the US would be "forced to consider the US-PRC Cultural Agreement [signed in 1979] as null and void" in the event of any future Chinese expulsion of an American journalist or journalist working for a US news organisation.

On the Chinese side, the conservative swing may also lead to a cooling of enthusiasm for closer Sino-US ties. The hardline conservatives, who have recently become much more politically prominent, tend to be more xenophobic and suspicious of Western countries than the reformists.

Some of the key conservative leaders, including politburo member Chen Yun, head of the standing committee of the National People's Congress Peng Zhen, as well as ideologists Hu Qiaomu and Deng Liqun, rarely meet visiting US political leaders or the Western press.

More troubling is the fact that the campaign against bourgeois liberalisation is specifically targeted against Western concepts of democracy and political freedom, and prominent targets of the campaign, such as former university vice-president Fang Lizhi, are accused of advocating "comprehensive Westernisation."

Student demonstrations last December, which triggered the downfall of Hu Yaobang and the launching of the campaign, referred explicitly, if occasionally imprecisely, to American-style political freedoms.

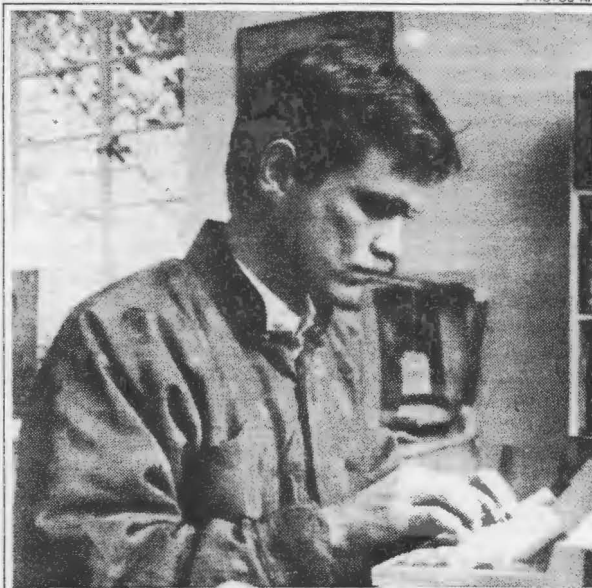
Deng Xiaoping, in the year's first central-committee document, pointedly rejected the applicability of such freedoms to China, criticising the "tripod"-style separation of powers of the US Government as the same as "three different governments."

A letter raising questions about Hu's dismissal, signed by several hundred Chinese students in the US has been the only public protest by Chinese over recent events to date.

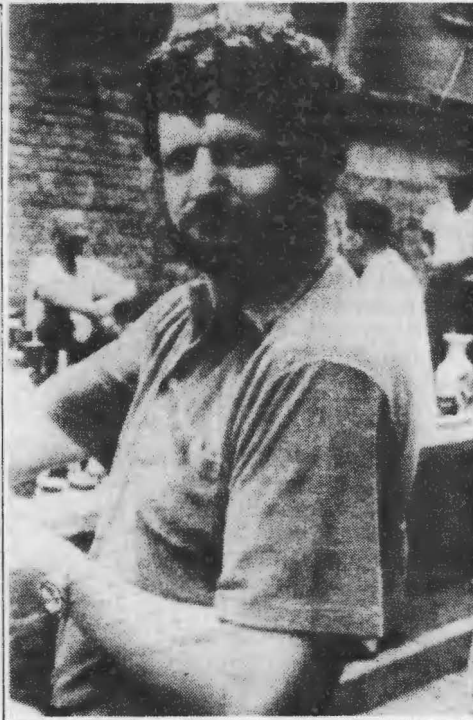
China's conservatives thus view the US as the international fountainhead of bourgeois liberalisation, and believe that the greater exposure to the US is related to what they regard as alarming ideological slackness among youth and particularly intellectuals.

For this reason, an important theme in the anti-bourgeois liberalisation propaganda has been to explain differences between the standard of living in China and the US in terms of historical factors, rather than different political systems. The Chinese media has recently taken pains to point out shortcomings and problems in US society and the US political system.

Thus, the *People's Daily* on 20 January described how the economic



Reporters MacDonald and Burns: anger over expulsions.



status of Blacks has deteriorated in the past decade, based on a study by the US National Urban Coalition. However, this story, as well as other reports on sensitive areas such as trade protectionism, was quite factual and objectively presented.

The official Chinese Government line continues to stress overall stability of Sino-US relations, though reiterating that problems remain, most importantly the question of Taiwan.

China insists that the US could do more to encourage the nationalist government to agree to talks with the mainland, leading to eventual reunification. The possibility that the US would consider exercising such a mediating role, or that Taiwan would respond, appears more far-fetched than ever in the light of China's new ideological campaign.

One positive note is the evident determination on both sides to minimise the fall-out from the campaign and Hu's dismissal on bilateral relations. Chinese leaders have stressed that the reform policies, including the open door, will continue. They have also studiously avoided directly linking bourgeois liberalisation to cultural influences from any particularly foreign country. Cultural relations between the two countries, which would seem an obvious potential target of the current campaign, remain normal and unaffected, US officials say.

If China's tilt towards orthodoxy poses potential problems for Sino-US relations, it does not follow that any benefit will accrue to the other corner of the triangle, the Soviet Union, despite efforts by the Soviets to improve relations.

Chinese officials express considerable scepticism about the Soviet Union's peace offensive towards China, most importantly Soviet leader Mikhail Gorbachov's speech at Vladivostok last July. Gorbachov announced in his speech the partial withdrawal of troops from Afghanistan and Mongolia, and said Moscow was prepared to discuss "commensurate lowering of the level of land forces" in the Far East with China.

Gorbachov also offered a concession on the two countries' long-standing border dispute, suggesting that the demarcation along the Amur river could pass along the main ship channel, and offered assistance to China in building the Xinjiang railway linking Urumqi with Soviet Kazakhstan. The Soviet concession on the Amur contributed to the resumption of border talks between the two countries.

The first round of border talks, held in Moscow in February, apparently did not result in significant progress, however, and Chinese officials reject any suggestion that there has been a significant improvement in Sino-Soviet relations.

The six Soviet regiments removed from Afghanistan are not even one-twelfth of total forces, and the one division out of eight removed from Mongolia means little, Foreign Minister Wu Xueqian told a reporter from West German TV in late February.

Even if there were significant Soviet movement in these two areas, Wu continued, the problem of Vietnam's occupation of Cambodia remains unsolved and is still the most important of the three obstacles to improved Sino-Soviet relations.

Chinese leaders are also concerned about the Soviet Union's growing influence and presence in North Korea, though officials insist that bilateral ties remain strong, and tactfully refuse to criticise the Kim dynasty's blatant cult of personality and unorthodox theory of Marxist succession. But relations with Pyongyang have suffered to some extent due to growing trade and other indirect contacts between Peking and Seoul, while Soviet political and military links with the North appear to be on the rise.

There has been no response to the rumours, attributed to East European sources, that Gorbachov has extended an invitation to Premier Zhao Ziyang to stop off in Moscow in June during his trip to five East European countries. Soviet sources, perhaps wary of a snub, deny that any direct invitation has been issued, but note that an invitation extended to Zhao last year to visit the Soviet Union by Soviet Deputy Foreign Minister Igor Rogachev, is still alive. □

JAPAN/CHINA

Sanity returns after the big buying spree

By Charles Smith in Tokyo

After what one trader calls the "crazy year" of 1985, sanity returned to Japan-China business relations in 1986, though at some cost to Japan's share of China's global trade.

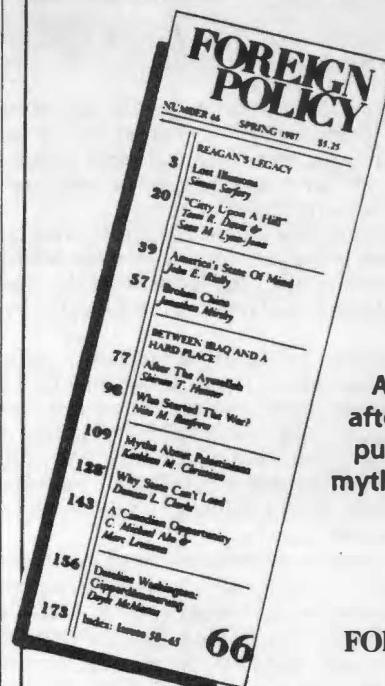
According to Japanese customs-clearance figures, Japan's surplus on bilateral trade fell from the 1986 figure of nearly US\$6 billion (described as unacceptably high by no less a person than Deng Xiaoping) to US\$4.2 billion, reflecting a steep 18% fall in exports (to US\$9.9 billion), partially offset by a 12% fall in imports (to US\$5.7 billion).

China's Central Statistics Bureau, now regarded as the most reliable of several conflicting sources on the nation's foreign trade, puts the deficit with Japan considerably higher, at US\$7.67 billion, almost certainly because of the inclusion of goods transhipped via Hongkong in the Japanese export figures. However, the bureau at least agrees with Japan's Ministry of International Trade and Industry (Miti) that the 1986 trade gap was significantly smaller than in 1985.

Officials in China's Ministry of Foreign Economic Rela-

A leading British journalist probes China's political evolution and search for national wealth and power in—

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tions and Trade are said to have described the general trend of China-Japan trade in 1986 as "healthy," in sharp contrast to the bitter comments made a year earlier. This clearly does not mean that China accepts the current level of deficit with Japan as something that can be continued for the indefinite future. Japanese sources claim, though, that China regards "a certain level" of deficit as reasonable, given China's status as a developing nation, dependent for its growth on imports of large amounts of capital equipment. Another reason for China's change of mood could be the expectation that higher oil prices will further reduce Japan's surplus on bilateral trade during 1987.

The shrinkage in exports that was the main feature of 1986 trade with China, left Japan with a 28% share of China's global imports as compared with the 33% stake achieved in 1985. But Japanese traders refuse to see this as a result of discrimination by Peking. Rather, according to Masaharu Hishida, a China specialist at the Japan External Trade Organisation, the change reflects China's policy of severely cutting back on imports of non-essential consumer goods.

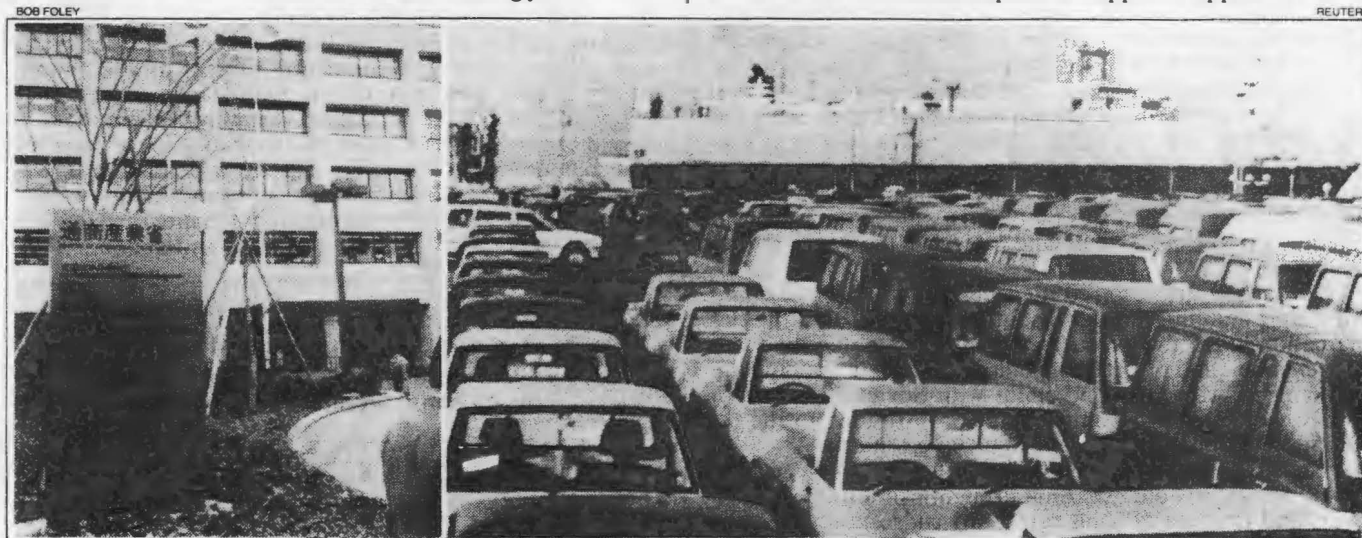
In 1985 when China opened its doors to massive imports of cars, TV sets and other electronic consumer goods, Japan took the lion's share of orders. In the following year, the im-

port of a revival in exports. China's policy, according to one source, is to step up imports from a given trading partner only after the country concerned has increased its purchases of China's products, not at the same time.

Analysts also point to China's tight foreign-exchange position as reason for caution with regard to imports. Peking's foreign-exchange reserves in September 1986 stood at US\$10.37 billion, down from the mid-1984 peak of US\$17 billion, but analysts point out that only US\$2.2 billion of this total were held by the state. The remaining US\$8.1 billion worth were attributed to the Bank of China.

Apart from doubts about China's ability to finance a new round of imports from Japan, Tokyo analysts feel that political developments may dictate caution towards foreign-trade partners for some time to come, even if there is to be no reversal of the "open-door" economic policy.

The dismissal of Hu Yaobang as general secretary of the Chinese Communist Party on 16 January was followed by a rash of announcements of plant and capital-goods import contracts involving Japanese suppliers. But China watchers suspect that the contract signatures may have been deliberately speeded up to reassure Japanese businessmen about events in China. Contacts between smaller Chinese importers and medium-sized Japanese suppliers appear to have



Miti headquarters; cars for export: plans to aid China despite export slump.

position of severe import controls cut Japan's car exports by 92% and its TV exports by 86%. Sharply falling sales of finished products, though, were offset to some extent by increased shipments of parts as Chinese factory managers struggled to keep production lines working.

Thus, Japan shipped 33% more refrigerator components to China in 1986 than in the previous year while selling 70% fewer refrigerators. Similarly, parts for washing machines rose by 50%, while shipments of finished machines fell by 80%.

On the export side of the trade account, analysts in Tokyo point to the collapse of oil and oil-product prices as the only significant reason for the shrinkage of Japanese purchases. Oil accounts for roughly half of Japan's imports from China (though for only 25% of China's global exports), but falling prices cut US\$1.2 billion off the value of oil imports in 1986, easily exceeding an increase of US\$500 million in other exports.

In addition to collapsing oil prices, China had to cope with weak markets in 1986 for nearly all the primary commodities it sells to Japan, but in most cases sharply increased shipment volumes made up for declines in value. Sales of raw cotton to Japan, for example, were up by 8% in value during the year, but by 45% in volume, indicating a steep fall in price per ton.

Japan's imports from China are expected to recover somewhat in 1986 if oil prices remain in the current range of

US\$18-20 per barrel. But few if any analysts see much chance of a revival in exports. China's policy, according to one source, is to step up imports from a given trading partner only after the country concerned has increased its purchases of China's products, not at the same time.

Japanese investment in China in the form of joint ventures with Chinese partners shrank to almost half the 1985 level in 1986, as China's increasingly stringent demands for the earning of foreign exchange by foreign-manufacturing enterprises deterred companies from going ahead with projects. In the current year, most observers expect this situation to continue, but Miti — once distinctly cool towards China's requests for more investment — does at least appear to have taken the problem to heart. Among measures to encourage Japanese investment, the ministry is said to be thinking of establishing a joint-investment promotion entity which could lend Japanese aid funds to small companies establishing ventures in China.

Miti's plan to include China in its Specified Trade Commodity Export Programme, which provides special assistance to export industries in developing countries, is another sign that Japan at least pays lip service to the idea of helping China solve its foreign-trade problems. Despite this, China specialists in Tokyo feel it may take years for China to offer the kinds of export products to Japan that are now available from some of the Asian newly industrialised countries. Promoting economic relations with China is seen as a problem for the long term — despite the brief flowering which made China Japan's second largest trade partner in 1985.

INDUSTRY

Reforms could lose momentum in power shift

By Robert Delfs in Peking

Urban industrial reform in China stands at a crossroads, poised between retreating back to primary reliance on Stalinist mandatory planning or risky advance into fuller use of indirect market-based macro-economic controls.

Since late 1984, when the party central committee adopted its revolutionary "decision" on urban reform, the debate over reforms has focused primarily on practical problems of how and at what pace to expand the scope of market forces and incentives in the economy. But with the dismissal of Hu Yaobang from the post of party general secretary in January and the accompanying shift in the balance of power within the party towards orthodox ideology, the question of defining the ultimate goals of reform has once again been reopened.

The conservatives cannot at this time openly attack current policies. Economic reform and opening up to the outside world were adopted as the official policy of the communist party. According to the doctrine of democratic centralism, no party member can openly oppose party decisions, and the conservative wing of the party is least likely to challenge this doctrine. But criticism can be expressed indirectly, through euphemism and by exploiting ambiguities in the wording of the key reform documents.

Party leaders, particularly conservatives, have recently taken a more critical stance towards the economy, particularly excessively high levels of output growth and investment, and slogans emphasising the virtues of "plain living and arduous struggle" have become prominent in the party-controlled press.

The first signs of this were evident only a few days after Hu's dismissal at a meeting of members of the National People's Congress standing committee to deliberate reports by the state planning commission and Ministry of Finance. "We must pay attention to the planned part of the planned-commodity economy, follow objective economic laws and not make a huge hue and cry," said committee vice-chairman Huang Hua.

"We cannot totally negate mandatory planning and particularly we cannot negate all of the planned economy itself," said standing committee member Xu Dixin, an adviser to the Chinese Academy of Social Sciences. "It is unrealistic to promote high consumption and one-sided to say that high consumption can promote production" (REVIEW, 29 Jan.).

Ironically, 1986 was a very healthy year for the Chinese economy in many respects, a fact which underlines the politi-

cal basis of much of the recent criticisms of the economy. Industrial output expanded 11.1% in constant-value terms, reaching a total of Rmb 1,115.7 billion (US\$301.5 billion), slightly higher than the target rate of 8.8%, but a welcome cooling-off after the 18% increase of 1985, and China was able to rebuild stockpiles of some key raw materials that had been in short supply. Investment in fixed assets, though still higher than desired, was substantially brought under control, increasing by 16.7% versus 38.7% in 1985 and 35% in 1984.

One cost of the slowdown, however — and the most urgent problem facing China's economic planners this year — was a general decline in profits and mushrooming numbers of loss-making state enterprises. Total profits and taxes remitted to the state by state-owned industrial firms slid down 0.2% in real terms to Rmb 119.3 billion. This has led to a serious squeeze on the state budget, which ran a deficit of several billion renminbi last year. In 1985, the growth in profit and tax revenues had been more than 14%.

At the National Economic Work Conference in January, reformist supporters of Premier and acting Party General Secretary Zhao Ziyang were able to ward off what looked like a radical step back from the commitment to reform. The reformers remain on the political defensive and this situation will probably continue at least through the National People's Congress session scheduled for late March, where Zhao is expected to make a report on the nation's economic and social development.

The challenge to current economic policies posed by conservatives is probably not intended to achieve a complete reversal of economic reforms already in place, nor is there any support for the leftist hyper-collectivist decentralism of the Great Leap Forward and the Cultural Revolution, though some critics would prefer that the role of central planning be restored to something similar to the Stalinist model of a command economy that prevailed in the 1950s. The conservative

opposition appears united, however, in its concern that the ultimate result of further comprehensive reform could be an economy that is no longer, by their standards, socialist.

In the current ideological campaign, "bourgeois liberalisation" has been defined not only as opposing or negating the leadership of the party, but also in terms of negating socialism and attempting to divert China from the socialist road towards capitalism.

To say that reforms work in strictly pragmatic terms has not been enough so far. They must also be socialist, and the reformist leadership under Deng Xiaoping has to date successfully been able to justify the reforms ideologically by redefining the concept of socialism as an intermediate stage to communism.

The key element in this has been the argument that commodity production (that is, the production of goods for market) remains the primary economic mode even during the socialist stage. It is enough, say the reformists, that the state sector retains a dominant role in the industrial economy and that land ownership, though not necessarily operational control, remains in collective hands.

The real threat to further reforms posed by this campaign is that the conservatives will succeed in re-narrowing the def-



Huang Hua: for plain living.

initiation of socialism, or make a convincing case that further reforms will threaten the dominant role of the state-owned sector. Particularly sensitive issues are changes in the ownership structure of state-owned enterprises and further reduction of the scope of mandatory planning.

The fact that the Western press and other observers have also tended to interpret the reforms as a turning towards capitalism — dismissing the reformists insistence that China remains generically a socialist economy — is one measure of the potential strength of the conservative position at a time of leadership instability and the resurgent stress on ideology.

Structurally, since the 1984 central committee decision, China has already become what Chinese economists describe as a dual economy, in which elements of a planned and market economy coexist side-by-side. But in some respects, reform has already gone much further in China than it has in East European countries.

Last year's 11% rise in industrial-output value conceals significant differences in performance among the ownership sectors that make up China's mixed economy, differences which are alarming to conservative elements in the leadership which fear over-extension of the reforms. State-owned enterprises, accounting for about 70% of total industrial-output value, grew by only 6.2% last year, down by half from 1985.

Collectively owned enterprises, representing about 30% of total industrial output, gained 16.7%

in value terms, also about half the 1985 rate. Collective growth was led by rural industry, which expanded by 28.5%. Individually operated industrial enterprises grew even faster, with output value up 60.6% by value, but still accounts for less than 1% of total industrial-output value.

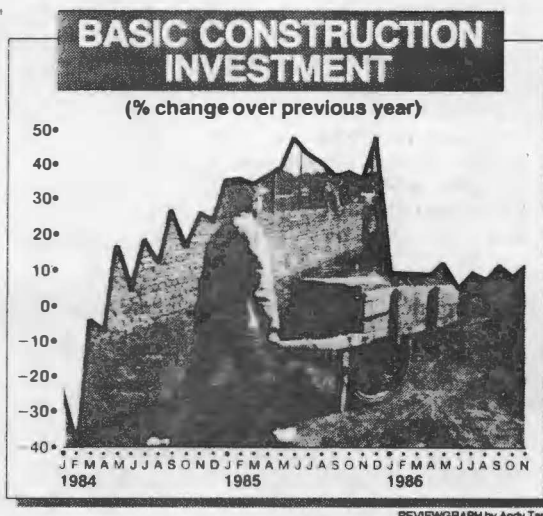
The experience of last year suggests that collectives have continued to outperform the state sector even under conditions of declining overall economic growth, constriction of credit and shortage of raw materials. When such constraints are removed, the collectives tend to rebound faster and farther than the state-owned enterprises.

The collective sector now includes a well-defined strata of enterprises operating almost exclusively under quasi-market conditions, consisting of rural collective indus-

tries as well as collective and private transport and commerce, both urban and rural. Under all conditions collectives appear more efficient in utilising investment funds and responding to both natural and artificial shifts and disruptions in market conditions.

In addition, many enterprises in the state-owned sector as well operate simultaneously in two different modes, with part of their production governed by mandatory plans using raw and intermediate materials obtained through state allocation and the rest consisting of market production using materials purchased outside the plan.

The number of commodities subject to unified allocation by the



Output cools off after unwelcome growth of 1985

Industrial output expanded 11.1% in constant-value terms in 1986, reaching a total of Rmb 1,117 billion (US\$301.5 billion), slightly higher than the target rate of 8.8% but a welcome cooling off after the 18% increase of 1985.

Light industry grew faster than heavy industry, with output value up 12.7% versus 9.6%, reflecting in part the fast-growing collective sector's almost exclusive concentration on light-industry products. Light industry's share of total industrial-output value recovered to 47.4%.

The combination of stress on increasing the output of key raw materials and the slow-down in industrial output in the first half of last year, has partially restored depleted stocks of commodities that had been in chronic shortage during the boom.

Steel output climbed 11.2% to 52.1 million tonnes, a remarkable jump, and rolled-steel output rose 9.8% to 40.5 million tonnes, about the same rate of increase as in 1985. China was

thus able to bring steel imports under control, after a trade-balance shattering rise of more than 61% in 1985. Steel purchases, almost entirely from Japan, were reduced by 6.6% last year to about 18 million tonnes. November stocks were reportedly up nearly 20% from a year before and spot checks with individual enterprises indicate that prices and availability of steel sold on markets had returned to reasonable levels by May 1986, though certain categories of speciality and alloy steels remain in short supply.

Generated electric power, still a critical constraint on industry in China, rose 8.5% to 445.5 billion kWh. New power-generating capability continued to grow rapidly, totalling 7.12 million kW, up 26.5% over 1985 and 52% over 1984.

Although the growth in generated electric power was slightly less than the proportional rise in industrial-output value, the electricity squeeze did not get any worse last year and may have improved slightly, due to the low growth

rate of energy-intensive heavy industry and energy savings through installation of more efficient equipment at most new plants and some older factories.

Coal production stagnated, remaining at the 870 million-tonne level, after several years of rapid gains in which China overtook the US and Soviet Union to become the world's biggest producer. Output of smaller locally operated and collectively owned coal mines, which account for nearly half of China's output and generated most of the increases in the mid-1980s, declined slightly as demand and the price of market coal softened during the first half of 1986. Coal stocks were reportedly up 7.4% last November, compared to the year before.

Although China is the world's largest producer of cement, it has been in short supply in recent years due to the boom in construction. Output increased 10.7% to 161.6 million tonnes, following an 18.6% increase a year before. November stocks were reportedly up 4.6% over 1985.

Production of motor vehicles dropped 15.6% to 369,000, tractors by nearly a quarter to 34,000 and machine-tools output slid by 5% — all reflecting slipping big-ticket purchases as the 1984-85 growth boom subsided. Ship-

state has declined from 256 to only 23 as of 1986. Of those commodities subject to allocation by the state, the proportion of total production actually allocated by the state using fixed prices is surprisingly low — in 1985 only 50% of coal, 57% of rolled steel, 31% of timber and 20% of cement, according to a study by Zhao Renwei, a Chinese Academy of Social Sciences economist, published in the journal *Jingji Yanjiu* (*Economic Research*) last September.

"It is impossible to abandon the original system just like that," Zhao concedes. But the increase in the volume of industrial materials traded at floating or negotiated prices has made life more complex for state enterprises which operate in both the planned and market sectors. The existence of two different prices for the same goods has provided obvious incentives for diversion of goods from the planned sector to the market, and makes it difficult or impossible for enterprises to compete on an equal footing under uniform market conditions.

There are four possibilities for the future, according to Zhao:

- ▶ Switching back to centralisation and the old system.
- ▶ Maintaining the current situation, keeping the dual economic system as it is, with remedial measures to reduce friction between its planned and market components.
- ▶ Bringing the dual system to a rapid end through a swift transition to a primarily market-based system using indirect macro-economic controls.
- ▶ Treating the dual system as a stage in a gradual transition from the old system to the new.

The first option, according to Zhao, cannot be excluded — it is the simplest and easiest for the state to operate, whereas operating under dual and interlocking market and planning systems is the most difficult and complex. Some of the techniques adopted to slow down economic growth last year constituted a return to reliance on the old system of mandatory controls, though this "should be kept within the bounds of necessity and not abused just because it is easy to carry out."

In view of the difficulties of excessively high investment and growth rates encountered in 1984 and 1985, Zhao believes that advocates of rapid transition may have underestimated the costs to be paid in the course of economic reform in the absence of mature mechanisms or macro-economic control.

The third option, of gradual transition to full reliance on indirect macro-economic controls under essentially market conditions, probably now represents the preferred choice of most of those leaders who have here been referred to as the reformers.

Concretely, this would require a commitment to thorough-going implementation of the factory-director responsibility system, substantial reforms in finance and banking, a political consensus on modifying the ownership structure of state-owned enterprises, plus a commitment to steady progress in price reform, though the implementation of these measures could be spread out over a number of years, or even a decade. The prospects that this programme will be unambiguously endorsed at the party congress (now scheduled for October this year), however, have declined dramatically in the past few weeks.

Zhao's second option — sustaining approximately the current mix of planning and market forces as a goal in itself, rather than viewing it as a transitional stage — is nobody's ideal choice. But this course can be defended in terms of the 1984 compromise position on socialism as a "planned-commodity economy," and may be acceptable to those in the party leadership who seek to retain as much of the old planning system as is consistent with high economic performance.

In the current political climate, an agreement that the economic system be maintained in its current form may be the most that the reformist forces can hope to achieve between now and the upcoming party congress. But once the momentum of reform is lost, it may be years before it is regained. ■

building fell 30.7% to 1.54 million dwt.

Sulfuric acid is vital in making synthetic fertilisers as well as other basic industrial processes. China — short of sulfur deposits — does not make enough. Production rose 11% to 7.5 million tonnes, but this was not enough for full recovery from the 18.2% drop in 1985.

Production of nitrogenous fertiliser had fallen 5.7% in 1985 to 11.8 million tonnes, and the more critical phosphate fertiliser dropped 28.3% to 1.8 million tonnes, exacerbating critical shortages in the first half of 1986 that contributed to disappointing agricultural gains last year. Fertiliser-production figures were omitted from the State Statistical Bureau annual report this year, but monthly output figures indicate that phosphate production recovered from March onward and total production is estimated to have reached 2.5 million tonnes, up 36%. Nitrogenous-fertiliser production increased by 2%.

Among light-industrial products, cotton-yarn production increased



Shanghai TV factory: production down.

12.1% to 3.96 million tonnes and cotton cloth by 7.8% to 15.8 billion m. Textiles and clothing have become China's most important export products with the collapse of the crude-oil market — in 1986 cotton-cloth exports rose 23% to about 2 billion m², cotton-fibre sales climbed 47.6% to 218,700 tonnes and clothing exports were up 43% by value to more than US\$2.3 billion.

As a result, the structure of China's

exports is changing. Manufactured goods may have accounted for nearly two-thirds of China's total exports by value last year, up from just over half in 1985 and only 45% in 1984.

Consumer durables showed lower and even negative rates of growth, a sharp contrast to 1984 and 1985. TV production fell 13.2% to 14.5 million sets, and colour sets were down 4.9%, versus increases of 61.6% and 206% respectively in 1985. Household washing machines were stable at 9 million sets and production of household refrigerators jumped 54.8% to 1.4 million, after a 154% increase in 1985.

While, to an extent, these changes may represent a consolidation in the consumer-durable market and cut-backs by less efficient or low-quality producers, much of the decline was due to the shortage of circulating capital in the first quarter of 1986, which hit hardest enterprises which had expanded most quickly in 1984-85, but did not in most cases discriminate between efficient and inefficient producers.

— Robert Delfs

STATE SECTOR

Reforms urgently needed to avert decline

By Ellen Salem in Hongkong

Unless effective reforms are put in place over the next several years, the state-owned sector could become China's albatross. Last year, that sector's growth, which accounts for about 70% of industrial output, fell to 6.2%. While the 12.9% growth registered in 1985 was too high, 1986's results are below target and are the lowest since 1981, when economic readjustment had a recessionary impact, as it did in the first half of 1986.

Also, as in 1981, the state budget suffered a deficit in 1986. In both years, the deficit primarily was attributable to a fall in the profits of the state sector. Some 17% of all enterprises are now operating in the red and losses in the first half of 1986 totalled about Rmb 2 billion (US\$537.34 million), compared with 1985 full year's losses of Rmb 2.7 billion.

Much of this loss was caused by poor sales. According to a survey conducted by the *Economic Daily*, an official Chinese-language newspaper published in Peking, about Rmb 40 billion had been tied up in stockpiling in large- and medium-sized state-owned enterprises. The problem of excess inventory was particularly severe in the heavy industrial sector, where stockpiling in the first three quarters of the year was 40.1% over the beginning of the year. Stockpiled rubber products increased by 82% and metal goods by 55.3%.

In the state-owned light-industrial sector, excess inventory had increased by 30.6% by the end of the third quarter. Stockpiles of consumer electronics were up 76.4%, while unsold consumer durables — except for refrigerators — registered increases ranging from 50-200%.

Part of the malaise of the state sector is due to factors intrinsic in China's still-evolving transformation into a socialist market economy. But the way it is currently organised and administered, the state sector can only slow down China's development if that development is to be in accord with the goals set by the Seventh Five-Year Plan.

The problem of supply not meeting changing and increasingly sophisticated demands is not unique to the state-owned sector, though it is more pronounced there. State-owned enterprises' reactions to market forces are constrained by the dictates of central planning. Technological innovation, for example, is not in step with China's overall development.

According to Sun Shuyi, the deputy chief economist of the State Economic Commission, in 1985 the output value of new products accounted for only 7% of total production, a failure he attributes to the paucity of research and development (R&D) facilities. At present, only 27% of the country's large- and medium-sized firms have R&D departments, and many of these are inadequately funded, he said. Increased state efforts to promote and support integration of industrial enterprises and scientific research institutes are planned for this year when 10% of China's governmental research institutes will be merged with enterprises.

Cao Jairui, formerly deputy director of the import of technology department in the Ministry of Foreign Economic Relations and Trade (Mofert), believes that poor state planning is an important contributing factor to lagging technological innovation. Macro-economic management has yet to find common ground with the micro-economics of the market. In an article published in Hongkong in the journal of the American Chamber of Commerce, Cao notes: "All plans to import technology are planned, approved and governed by regulations. Yet when these plans are carried out, they turn out to be no different from a planless mess."

Poor plans, poor communication, intra-departmental rivalries and provincial protectionism are worsened by layer upon layer of local, provincial and national authorities that supervise state-owned enterprises. Lack of coordination aside, administration is expensive.

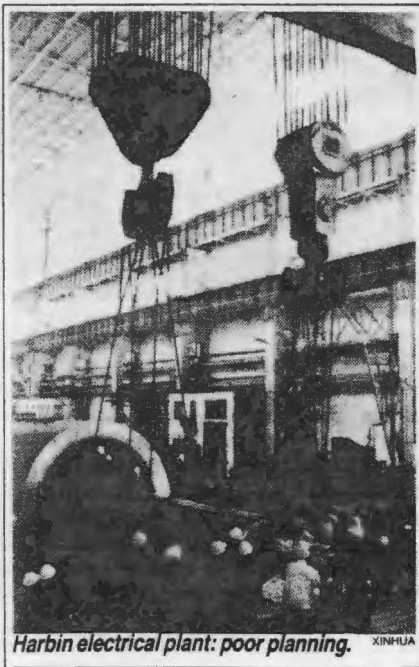
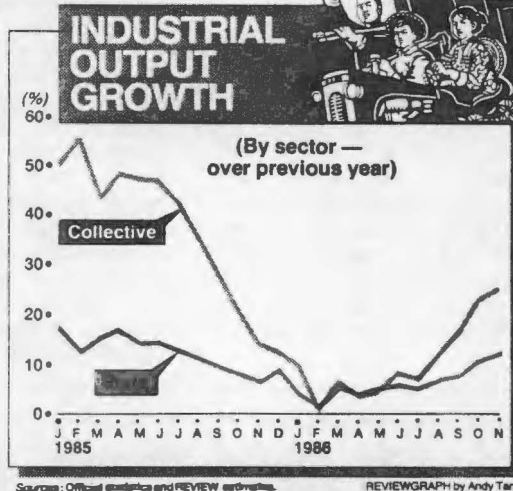
In Harbin, one of 10 cities that have cut back on the number of administrative companies (departments which liaise between factories and various government bureaux), enterprises reported a 65% cut in management expenses. Similar cut-backs have been initiated in Shanghai. In the absence of many administrative bureaux, enterprises now have more freedom to decide how their goods will be produced and marketed.

Nonetheless, problems of overstaffing and overlapping still exist in most enterprises. According to the *Economic Daily*: "The problem of overstaffing involves too many people in non-production positions, and not having enough for production-related jobs."

In the Peking Crane Factory 22% of the 3,200 workers are cadres and in a Shanghai computer factory cadres account for 41.9% of the workforce.

Overall, it is estimated that surplus personnel account for about 15-20% of the total workforce in state enterprises, presumably without dealing with the problem of cadres. Based on that estimate, some 10-12 million people will need to seek new employment between 1987 and 1990.

While the contract-labour system has been put in place with the ultimate aim of addressing not only the problem of the "iron ricebowl" but labour mobility as well, a number of issues must be ironed out if the state sector is to rationalise its labour force in the near future. Expansion of the contract-labour system beyond its present 4% of the total workforce is difficult given the lack of a labour market and unemployment insurance, plus the present policy of restricted labour mobility. These factors limit the factory director's ability to hire and fire in accord with the needs of his enterprise.



Harbin electrical plant: poor planning. XINHUA

Adding to the high cost of the state sector is that a high proportion of funds earmarked for productive investment appears to have been frittered away on parties, dinners, unearned bonuses and *guanxi* or connections. In Shanghai, for example, 40% of investment in fixed assets is said to have been spent on banquets and the like. It is unclear, however, whether unjustifiable extravagance is truly on the rise.

Overall, the percentage of non-productive investment — which usually refers to housing, schools, health facilities, hotels, etc. — stands at about 40% of the total. Indeed, given the current political climate, one cannot help wondering whether Shanghai's alleged excesses are merely being used as an excuse for closer supervision.

As state enterprises have gained limited autonomy, there has been a tendency for local units to invest in much-needed but non-productive fixed assets such as housing. In many localities, the party secretary will ignore the dictates of provincial and central authorities should they be counter to what he perceives as the interests of his work unit.

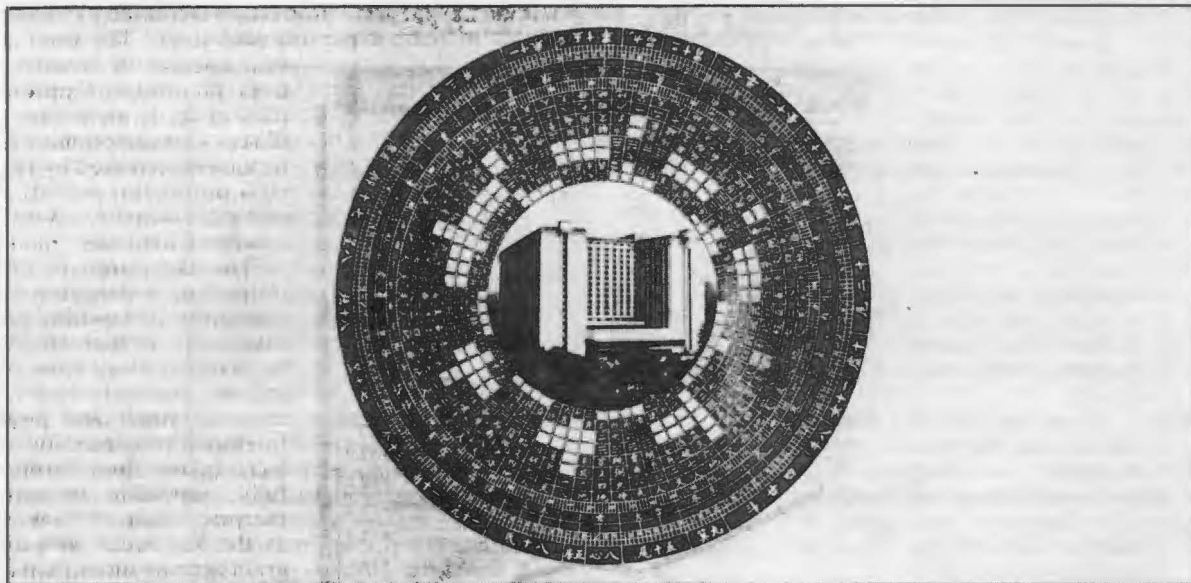
In sum, the state sector is inefficient, overstaffed and over-cossetted. If there is any message in this year's economic indicators it is that those sectors of the economy that must — in the Chinese context — fend for themselves are the most productive.

Some moves to turn the situation around have already been made. Approximately 29,000 small — and unprofitable — state-owned firms have been leased or contracted out. A factory-manager responsibility system has been put in place in 43% of all state enterprises. But apart from the constraints placed on managers by the powers vested in the workers' congresses, they themselves still form an integral part of the state system in terms of much of its funding, plans and quotas.

In effect, until the enterprise and bankruptcy laws are implemented, state enterprises are in a sort of jurisdictional and administrative limbo. In addition, failure to enact an enterprise law makes it impossible to proceed on anything other than a provisional basis with the proposed joint-shareholding system. This system if unfettered could go a long way in terms of transforming individual units into relatively autonomous productive units.

Even given the present political climate, it is foolhardy to say that reforms in this direction will be put on hold or even abandoned. Revitalisation of the state sector is a priority of the central government, but one must doubt that the measures taken to date — including the lure of increased wages and bonuses — are sufficient to reverse the present trend. ■

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The soil is the mother of mankind and it will furnish him life and the material basis for happiness and comfort if he does not make too strong demands upon it.

(*Geography of the Soils of China*, Thorp, 1936)

By Stephen Dowdle in Hongkong

The grain harvest in 1986 was China's second largest in history, yet due to a growing awareness that future growth in grain production will be more difficult to secure than many had realised, there was little opportunity for self-congratulation. Concern over grain production, a highly sensitive issue in China, has prompted public debates over agricultural policies, incentives and inputs, and the declining quantity and quality of agricultural land.

During the period 1978-84, grain production increased an average 4.8% a year and reached a record 407 million tonnes in 1984. Rural reforms implemented by Premier Zhao Ziyang were an indisputable success as evidenced by peasants' increasing productivity, expanding rural enterprises and industries, rising rural incomes and record harvests in an encouraging variety of grain and cash crops. China's goal of 425-450 million tonnes of grain by 1990 seemed within easy grasp.

Then came the poor harvest of 1985 — a 7% decline in grain production — brought on in part by new pricing policies aimed at reducing the enormous agricultural subsidy and the simultaneous challenge by conservatives voicing concern over the efficacy of relying on market forces to guarantee adequate grain production. Stagnant growth in grain production has become a powerful focal point for conservatives discontented over market-oriented reforms and the diminution of central control.

Measures were introduced during 1986 to encourage farmers to grow grain and included reducing the amount of contracted grain the state would purchase (allowing farmers to sell more on the free market at higher prices); raising the floor price of grain (the price at which the government would purchase above-contract amounts); and providing subsidised fertiliser, pesticides and seeds to farmers who contract to grow grain. In addition, administrative pressure was increased by urging local cadres to give greater attention to the "guidance plans" on sown-area and production targets which were passed down through administrative channels.

The results of these efforts were disappointing. The policies succeeded in reversing the decline in the area sown to grain, a trend since the late 1970s. However, the policies

were largely ineffective in supplying proper inputs to farmers. As a result, grain yields stagnated at 1985's depressed levels and despite an increase in grain area, grain production showed only a modest 2% increase, less than half its targeted growth.

This year will be critical for agricultural policy in China. It is apparent from announced measures that policy will, for the most part, continue to rely on market forces to achieve the desired mix of agricultural output. In 1987, grain production will be more profitable than last year. The state will further reduce the purchasing quotas set in state contracts, increase the procurement price for rice and maize, give farmers an advance payment, or interest-free loan, of 20% when grain contracts are signed, and provide 60 kg of fertiliser and 30 kg of diesel oil at subsidised prices to farmers who contract to grow grain.

Much concern and critical comment has centred on the increasing preference of farmers to grow more profitable cash crops, presumably at the expense of producing grain for sale to the state. Declining grain area is repeatedly cited by conservatives to imply a "spiritual pollution" of farmers. It should be noted, however, that the same forces which led to diversification of China's agriculture also led to record grain harvests, despite declining grain area. The dismantling of the people's communes and the return to family farming, coupled with vastly improved supplies of inputs resulted in impressive gains in yields.

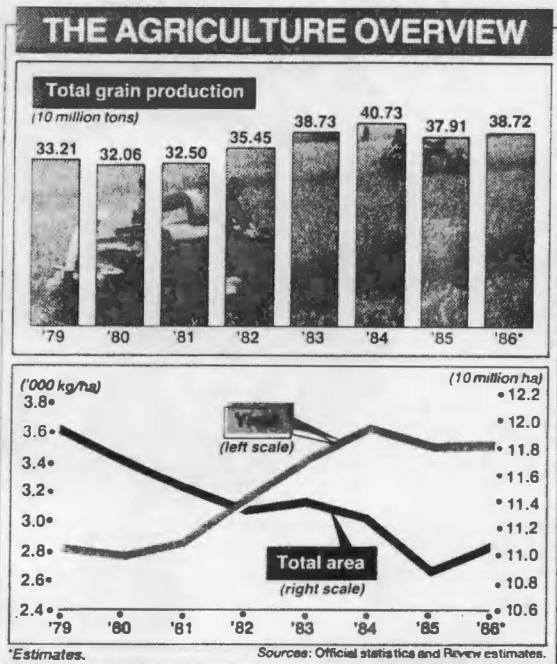
From 1979-84, the area sown to grain shrunk by more than 6 million ha, yet grain production increased by 22.6% due to a 29.6% increase in per unit area yields. This was made possible because of economic incentives to produce improved supplies of seeds, pesticides and fertilisers (consumption of chemical fertilisers increased by more than 60% during this period) and several years of unusually favourable weather conditions.

The experience in 1986 illustrates that a danger inherent in constantly juxtaposing grain and cash crops is that attention can be diverted away from recognising and resolving issues directly affecting yields and production.

In Hunan province, for example, local cadres and farmers dutifully responded to resurrected rhetoric, such as "taking grain as the key link," and expanded grain area by more than 2% over 1985. Nevertheless, grain output and yields declined by 9% and 11% respectively. Not coincidentally, there appeared several reports in the *Hunan Daily* complaining about shortages of chemical fertilisers, especially potash.

The issue of inputs is likely to be a deciding factor in whether China meets its grain targets this year and in future years. As it is impossible to greatly increase the area under cultivation, the focus should be on raising yields. This is evident in the report *China in the Year 2000*, prepared by the State Council and the Chinese Academy of Social Sciences at the end of 1985. According to the report, the area sown to grains is expected to decline by about 20 million ha from 1980-2000, while grain output is expected to exceed 500 million tonnes in 2000. In order to meet these targets and maintain a grain availability of 400 kg per person, grain yields will have to nearly double from 2.74 tonnes per ha in 1980 to 5.3 tonnes in 2000. This presents an enormous challenge to Chinese agriculture which is already producing at relatively high-yield levels.

Investment in rural areas will be critical. This year, state



capital spending in rural areas is expected to grow by nearly 40% from 1986. This has become necessary in part because the government can no longer mobilise voluntary labour to build and maintain rural facilities, such as dams and irrigation projects. In recent years, many facilities built during Mao's era have deteriorated and the ability to deal with floods and drought has been affected. The first large-scale irrigation drive in recent years was initiated this winter and incorporated a new reward system whereby labourers receive cash for their work.

Stable growth in grain production will depend on the government's ability to provide economic incentives and proper inputs for China's intensive agriculture. With the masses of China's rural inhabitants carefully considering every option available to them to maximise their earning potential, growing grain is in competition with more profitable crops and other activities, such as working in rural industries, construction, transportation, fish breeding, etc. The list is limited only by one's imagination. Recently, a farmer in Wuhan who became rich by raising scorpions was elevated to the status of "model farmer."

The government continues to control retail prices of basic food commodities. Although there is concern over increasing subsidies, passing higher costs onto consumers is at present a more politically controversial option. It is not clear to what extent the government will make grain truly competitive with other crops. The ability to affect farmers' income by fine tuning procurement prices appears to be on the wane. In a report in the *People's Daily* in November last year, a researcher from the State Administration for Commodity Prices estimated that farmers now get only 52% of their extra income from price rises, compared to 92% in 1979. This has the greatest impact on grain production. Increasingly, grain is being produced for self-consumption instead of for the nation as a whole because grain sales are not sufficiently lucrative.

In 1985 and 1986, the relationship between the price of inputs and the price the farmers received for their output deteriorated, much to the disadvantage of the farmers. The prices of rural-oriented industrial goods, especially fertilisers and insecticides, increased sharply, thereby largely negating the financial benefits of the state's abolition of its monopoly on farm produce.

In order to bring about stable growth in grain yields, the government must address a major impediment to increased yields—assured availability of high-quality chemical fertilisers. In 1987, farmers with grain contracts will be allocated 60 kg of nitrogen fertiliser and 30 kg of diesel oil at subsidised prices for every tonne of grain. Similar policies were tried in 1986, but were not consistently implemented because local governments were expected to finance the subsidies. Also, with black-market prices soaring as much as 200% of the price set by the state, it was a particularly difficult environment in which to expect local governments to subsidise prices. This year, the central government will assume more financial responsibility.

In 1986, the situation regarding fertiliser in the countryside reached crisis proportions. There were several reports in newspapers about peasants halting fertiliser-laden trucks and demanding to purchase the fertiliser. In 1985, domestic production of chemical fertiliser was down 9.5% against 1984, and production in 1986 did not pick up until the second half. Total production in 1986 is estimated to be only slightly above 1985 levels. Coupled with declining production was a dramatic reduction in imports. Imports of chemical fertilisers in 1985 were 17% lower than 1984, and for the first three quarters of 1986 were 47% lower than the same period in 1985.

As anxiety over grain production heightened, the government reacted to ease the severe shortages by adjusting pricing policies and stepping up imports. Fertiliser factories will be allowed to adjust prices seasonally. During the past two years, fertiliser factories had no profit incentive to expand

production as costs of raw materials and operations were rising and they were not permitted to increase prices.

The upgrading of China's fertiliser industry is a priority in the current five-year plan. China will concentrate its efforts on producing more of the higher-analysis urea at the expense of low-analysis ammonium bicarbonate, a cheap product that deteriorates rapidly in storage but accounted for 55% of domestic nitrogen production in 1985. The largest expansion, however, is planned for production of phosphates and potash in an attempt to promote a more balanced use of chemical fertilisers and to reduce the dependence on imports.

It is estimated that imports of urea and diammonium phosphate already contracted for 1987 exceed total 1986 imports. However, because farmers are increasingly interested in higher-quality fertilisers and in a more balanced supply of chemical fertilisers it is no longer simply a matter of supplying large quantities of nitrogen fertiliser.

Since China began using chemical fertiliser in the 1950s, the country has overwhelmingly been a consumer of nitrogen. Due to several decades of an imbalanced use of chemical



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fertiliser, there are now regions where soil fertility has deteriorated due to overapplication of nitrogen at the expense of phosphates and potash. The effect of this imbalance has been exacerbated by decreasing use of organic fertiliser, rising crop yields and higher cropping intensification which results in more nutrients being removed from the soil. As a result, the efficiency of nitrogen fertilisers and their ability to increase yields has declined.

In China, the imbalance between nitrogen and potassium is particularly serious and requires attention. Last July, the *People's Daily* reported that for the first half of 1986 only 12% of the total demand of potash had been provided. China's agronomists recognise this acute imbalance and have begun to educate farmers about the importance of using a proper balance of chemical fertilisers. In Guangxi province, for example, agronomists from the Academy of Agriculture Sciences conducted an extensive demonstration programme on farmers' fields in six counties on several crops. The results of this programme demonstrated the potential for increasing yields by applying potash along with nitrogen and phosphorus. Rice yields increased by an average of 20%, while kenaf yields rose by an average 38%.

In Liujiang county, Guangxi, from 1970-79 the application of nitrogen increased four-fold, yet yields increased only 34.6% over the 10-year period. In 1981, potash was applied to 670 ha of paddy rice, resulting in a yield increase of 47.4% in just one year. This year similar demonstration programmes are being implemented in Sichuan, Hunan, Jiangxi and Hubei.

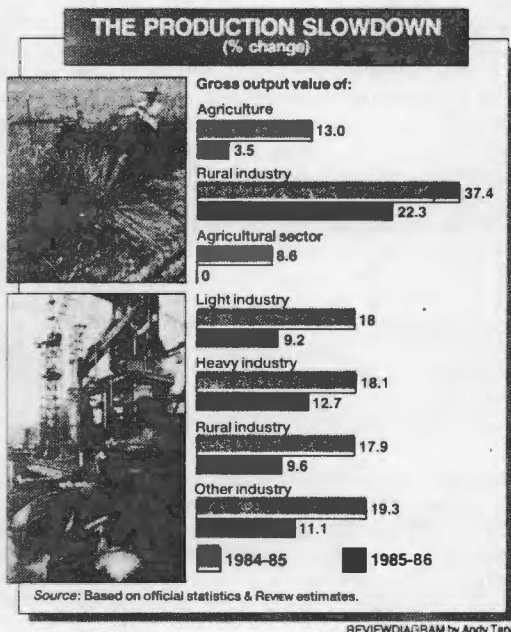
With different ministries involved in the production, transport, distri-

bution, import and research of chemical fertilisers it is not surprising that China has been slow to react to the changing conditions and demands of the agricultural economy. Grain production is more sensitive to disruptions in the supplies of inputs than in the past, and better coordination or revised roles among the numerous organisations involved with fertilisers will be necessary to serve the farmers properly.

In 1987, it is not yet clear whether proper inputs will be available and whether the incentives to use them will be adequate to increase grain yields significantly. The Ministry of Agriculture, Animal Husbandry and Fishery is fully aware that it is impossible to greatly expand the area under cultivation and that the pressing task is to take measures that will lead to higher yields. Clearly, there is an urgent need to guarantee farmers a steady supply of high-quality inputs to support the modernisation of China's agriculture.

Grain production is taken seriously in China, as it should be in a country with an enormous population growing at approximately 1% (10 million) annually and with approximately 0.1 ha of arable land per person. It will be important for the continuation of reforms begun in 1979 to analyse and understand the underlying reasons behind stagnating grain production. It is imperative that those concerned primarily with political movements realise the importance of solving the technical shortcomings that exist in the agricultural sector.

The importance of taking corrective measures and reigniting growth cannot be overstated. As events in recent years and months can testify, political stability in China has no stronger ally than stable grain production. □



TRADE

A policy marked by erratic twists and turns

By Louise do Rosario in Hongkong

China's market of 1 billion people is easily the most volatile and unpredictable in the region. The enthusiasm with which China went on a buying spree in late 1984 and the severity with which the authorities clamped down on imports in the middle of the following year, is just the most recent example of erratic twists and turns in policy.

China traders have reached different conclusions about the nature of this market, which is shaped by more complex factors than just supply and demand. Japanese traders, who have done more extensive research on the China market than others, trace a two-year (some say three-year) boom-bust business cycle. Small businessmen in Hongkong, well known for their smart, but sometimes dubious, business deals with their mainland cousins, believe business opportunities are always there, given the right timing and connections.

Whatever their marketing strategy, most traders will find

the market more difficult to crack this year. The recent political upheavals will make already cautious Chinese bureaucrats even more hesitant about committing themselves to major business deals with foreigners. There is also the problem of the US\$12 billion trade deficit (customs figures) at end-1986 — a level still too large for conservative planners.

China's challenge lies in narrowing the politically sensitive deficit to a more acceptable level by further squeezing imports and pushing exports. To this end, China had a relatively successful year in 1986 as the merchandise-trade deficit narrowed from US\$14.9 billion to US\$12 billion, according to Chinese customs authorities. The Ministry of Foreign Economic Relations and Trade (Mofert) said the deficit narrowed from US\$7.61 billion to US\$5.76 billion. (The two bodies have different methods of calculation for imports and exports, but customs figures are generally regarded to be more accurate.)

But more hard work is needed if the deficit is to shrink to US\$7 billion by 1990, as predicted in the Seventh Five-Year Plan (1986-90). To finance its trading, China is already borrowing more in the international market, in a radical departure from its traditional conservative financial policy. IMF figures, available through diplomatic sources, estimate China's foreign debts to have doubled from US\$9.6 billion in 1983 to US\$20 billion in 1985.

To promote exports, Peking has come up with more incentives, such as tax rebates, lower export tariffs and higher foreign-exchange retention for factories. To reduce imports, Peking imposed an overnight ban on popular consumer goods, a credit squeeze and a strict licensing system. There is

also strict prohibition on rerouting of imports from one province to another — a common practice which had enabled Shenzhen and Hainan Island (once exempted from duties for certain products) to make great profits by importing popular consumer goods.

Import and export licences, once widely used until they were swept aside during the 1984-85 buying spree, have re-emerged as a powerful weapon to control the movement of goods. For vital goods, the licences are in the hands of Peking-based Mofert officials; others are issued by local authorities and Mofert's provincial branches. The customs act as the final gatekeeper to ensure that goods obtain the necessary approval before leaving or entering the country.

In the current belt-tightening process, China's foreign-trade system has been recentralised again and Mofert emerges as the real winner. Since debate on the restructuring of the trading system began a few years ago, Mofert has always been on the defensive. Reformers envisioned decentralising the traditional centrally planned trading structure, thus transforming Mofert into a supervisory body devoid of actual trading power. Developments in that direction in recent years have already eroded some of Mofert's power base, with non-Mofert enterprises joining the once-exclusive foreign-trade game.

The past few years' experience, however, has indicated that whenever there is a decentralisation of trading power, it always leads to confusion, speculation, cut-throat prices and a heavy drain on foreign exchange. Inevitably, a chaotic period would be followed by a clampdown on illicit trading companies, a foreign-exchange freeze and a resultant depression.

In reforming its foreign-trade machinery, China has for years tried to strike the right balance between the two extremes of chaotic decentralisation and rigid central control. The pendulum is currently tilted towards the latter — and Mofert, the machinery and the symbol of centrally directed trading, is making a strong comeback.

There has been a clean up of so-called briefcase companies, which at one stage completely outcompeted well-established national firms in the trading of certain products, known commonly as parallel goods. Mofert has also regained a monopoly in the trading of certain products.

Thomas Chan, an economist at the University of Hongkong (Centre of Asian Studies), describes China's current foreign-trade system as "a combination set-up," with Mofert and non-Mofert interest groups sharing the pie. As a general rule, provinces north of the Yangtze river and in remote inland areas are within Mofert's orbit of influence, while those in the south and along the coast are more independent because of their better connections with the outside world.

China's latest belt-tightening began in mid-1985, but it was not until a year later that exports began to catch up with imports. Exports and imports grew 13.1% and 1.6% respectively in 1986. If oil losses are discounted, the growth is even more impressive when compared to the average percentage growth for exports.

Falling oil and other commodity prices have been a blessing in disguise because they forced China to export more manufactured and non-primary products. Textiles have overtaken oil as the leading export, contributing US\$6.5 billion, or one-quarter of China's exports. Other manufactured exports, namely electronics (105% up from the 1985 level) and electrical machinery (40% up), also registered impressive increases. Non-merchandise goods and services (notably tourism, labour and technology exports) also grew 10% to US\$5.6 billion.

A further testimonial to China's successful rural reforms are the exports of agricultural products and other foodstuffs which recorded a big increase last year (exports of aquatic products and peanuts grew 40% and 60% in quantity respectively). Cotton, an import item as recently as 1982, contributed US\$500 million in exports. China is now the world's second-largest cotton exporter.

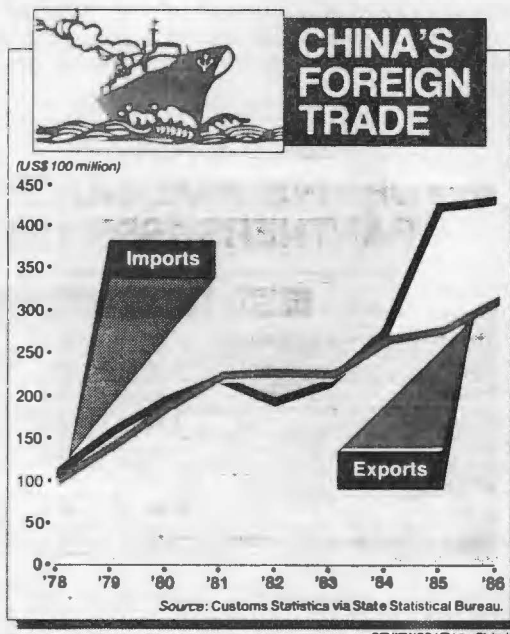
On the import side, the picture is mixed. TV sets and motor vehicles, which together accounted for 16% of China's imports in 1985, dropped to negligible levels. With the clampdown on capital construction, imports of cement, copper and copper alloy, aluminium and alloy, and other raw materials

for construction, fell as much as 50%. Steel, which accounted for 29% of all imports in 1985, also had a bad year as a result of full inventories stockpiled during the period of spiralling imports and earlier local production. Domestic steel prices have plummeted to new low levels.

Certain imports, such as chemical fertilisers, components and machinery, however, continue to enjoy good sales. Imports of technology and equipment are still going strong, with a 50% increase to US\$4.45 billion last year. Contracts worth

US\$8.38 billion were also concluded in 1986, most of them energy related and financed by concessional loans.

In the short to medium term, the foreign-exchange shortage will continue to be the major hurdle in China trade. In February this year, Chen Muhua, president of the People's Bank of China (PBoC, the central bank), said at a Nanning meeting for PBoC managers that controls on foreign exchange will be further strengthened this year. She stated that foreign-exchange revenue and expenditure will be subject to close supervision and that no local authorities or units are to exceed the foreign-exchange limits set



Shanghai textiles: exports soar.

for them. Unnecessary trips overseas and other unproductive uses of foreign exchange are to be severely curbed, she added.

With the current emphasis on thrift, the market for consumer goods appears dim. For certain "luxury" products, demand has literally dried up because of the high import tariffs and the sudden squeeze on money. One press report said 90% of the 20,000 microcomputers imported by Peking-based enterprises are still in warehouses. The state is also having difficulty in disposing of imported motor vehicles, which are sold at prices many times more than locally produced ones.

Unless China abandons its modernisation goals, it will need to continue to import advanced technology and equipment. Also, to keep the many assembly lines imported in 1985 and other processing industries running, China has no alternative but to continue importing semi-finished products and components for the foreseeable future.

When it comes to exports, China is preparing itself for another major assault on the international market this year. Special export bases, or trans-provincial associations, have been set up in the past two years for the textiles, electrical and mechanical industries to facilitate better division of labour. A typical arrangement is to have a resource-rich province provide the raw materials and a highly industrialised coastal area familiar with overseas markets the processing, with Mofert responsible for marketing, transportation and other coordination work. More such bases are expected to be established this year.

For items which China considers to have under-utilised potential, export targets set this year have been extraordinarily high. Chinese offi-

cials claim export contracts for electronics will be four times more than 1986. There are also plans to boost coal exports from 9.8 million tonnes to 16 million tonnes this year, a 63% increase. Critics doubt if the target can be reached, given the depressed world market and the uncompetitiveness of Chinese coal in terms of price and quality when compared to that from the US, Canada and Australia.

The share of oil exports in the country's overall export revenue, meanwhile, will decline further. China has said it will not increase oil exports in 1987 in accordance with an Opec agreement.

China exported 28.5 million tonnes of crude oil (5% less than 1985) and 5.4 million tonnes of refined oil (12% less) in 1986, earning about 55% less revenue than the previous year. Making use of the cheap spot market, China also imported (mainly from Indonesia) oil for domestic use.

Chinese exports have been suffering for years from the high cost of production, caused by domestic inflation and the partial deregulation of prices. To promote exports, Peking has been subsidising factories, but the record budget deficit this year means the support will have to stop somewhere. Minister of Foreign Trade Zheng Tuobin said in February this year that traditional exports are now at a crossroads at which production costs must be reduced and quality raised. He hinted that Mofert will have to end its long-established practice of paying factories high purchase prices to ensure adequate supplies for export.

The current caution brought about by political uncertainty means that the existing foreign-trade system is unlikely to undergo any drastic changes this year. However, long-standing proposals to make the hundreds of Mofert provincial and municipal branches nationwide financially independent, may be given a harder push this year.

CHINA'S TOP FIVE TRADING PARTNERS 1986

(US\$ million)			
Chinese exports			
	1986	% in total	% change
Hongkong and Macau	9,829.76	31.76	+31.9
Japan	4,764.02	15.40	-22.0
United States	2,622.05	8.48	+12.1
Britain	1,433.33	4.63	+305.2
Singapore	1,214.92	3.93	-41.6
Chinese imports			
	1986	% in total	% change
Japan	12,436.18	28.99	-17.3
Hongkong and Macau	5,622.71	13.10	+15.9
United States	4,714.16	10.99	-7.4
West Germany	3,555.38	8.29	+47.7
Soviet Union	1,439.95	3.36	+46.6

Source: Customs statistics.

REVIEWABLE by Andy Tang

The Big Two, again

Japan and Hongkong again dominated China's foreign trade in 1986, accounting for 42% of its imports and 47% of its exports. The US is China's third-largest trading partner, followed by West Germany and the Soviet Union. Such an order is unlikely to change in the foreseeable future. China's efforts to diversify its markets have been hampered by protectionism, the relatively low quality of Chinese products and other structural problems of Chinese industries.

Hongkong has been both a lucrative and troublesome market for China. The trade in so-called parallel goods outside traditional state channels has been most rampant between Hongkong and neighbouring Guangdong province. These activities have led to cut-throat prices, chaos, and serious losses of foreign exchange. As a result, certain kinds of Chinese medicine and poultry products have

dropped to record-low prices as excessive supplies flooded the Hongkong market.

With the clampdown on parallel goods, China's exports to Hongkong grew 32% to US\$9.8 billion in 1986 (compared to a 5.76% growth in 1985). However, much of this volume is probably Hongkong-originated exports to China processed there and re-exported to Hongkong. The extent of the double-counting is unknown, but is believed to be substantial, especially for textiles products. Textiles have been Hongkong's No. 1 export to China since 1978, with the exception of 1984 and 1985, ranging from 22-48% of total exports, according to HongkongBank China Services economists.

China continued to suffer a large deficit of US\$7.67 billion with Japan last year, thus accounting for about 60% of China's US\$12 billion deficit.

In light of the recent ousting of party general secretary Hu Yaobang, who is generally regarded as pro-Japanese, there is concern that the politically sensitive deficit will become a thornier issue in bilateral economic relations.

Compared to China's trade with Japan and Hongkong, Sino-American trade has been relatively stable. For both 1984 and 1985, the US deficit with China was US\$400 million (Chinese statistics, which do not cover China's exports to the US via Hongkong, instead show that trade was in the US' favour). The deficit rose to US\$2.1 billion, according to US official figures. Analysts say the bilateral trade has much untapped potential — China's exports to the US are only a fraction of the four mini-dragons (Singapore, Hongkong, South Korea and Taiwan) to the same market.

China's trade with the Soviet Union increased from US\$363 million in 1982 to US\$2.63 billion in 1986. Based on barter, the trade has been largely balanced. — Louise do Rosario

FOREIGN INVESTMENT

Caution prevails as politics takes centre stage

By Elizabeth Cheng in Hongkong

A combination of unhappy experiences by foreign investors and continued tight foreign-exchange controls led to a dramatic close to 50% drop in new foreign investments in China last year from 1985 levels. But just when the foreign-investment climate appeared set to change for the better, with the speedy 11 October promulgation of the 22-article Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment, foreign confidence was rocked by the removal of Hu Yaobang from the post of communist party general secretary in January. The departure of Hu, one of elder statesman Deng Xiaoping's chosen successors, indicates to many an erosion of reformist strength against orthodox Marxists.

Despite assurances from Premier Zhao Ziyang, China's acting general secretary (also a protégé of Deng) and other leaders that economic reforms would continue, the mood in the foreign business community is decidedly cautious, with few showing interest in doing business with China, one banker told the REVIEW. Many are waiting to see how the foreign-investment provisions will be implemented in the cities and provinces and for a return to stability at the top of the political hierarchy. If the provisions are implemented in a cloudy manner and wrapped in red tape, the international community will react negatively, said a US lawyer.

Contracted foreign investment fell sharply last year, for the first time since China opened its doors in 1979, to US\$3.31 billion from US\$6.3 billion in 1985, according to Zhou Keren, a spokesman of the Ministry of Foreign Economic Relations and Trade. He said at a news conference in Peking in January that the actual foreign-investment level was better at US\$2.16 billion, compared with US\$1.9 billion in 1985. Zhou said China last year approved 1,400 ventures with foreign investment, compared with 1,900 in 1985. This brings the total number of foreign-invested ventures since 1979 to about 7,738 — 3,210 equity joint ventures, about 4,390 contractual joint ventures and 138 wholly foreign-owned firms. Production ventures made up the bulk of those approved last year, and the number of non-production ventures was lower than the 1985 level.

Chinese officials said the drop was due to a policy to reduce non-productive projects, such as hotels, service firms and taxi fleets, while encouraging productive enterprises, such as those offering advanced technology and producing for export. Tight credit controls in the first half of 1986, which made it difficult for Chinese partners in proposed ventures to get funds, may also have contributed to the fall.

Foreign businessmen, on the other hand, believe that the investment decline was largely due to red tape, excessive costs, inadequate legal protection, lack of access to the domestic market and difficulty in converting renminbi-earned profits into foreign currency. Foreign investors' unhappy experiences appeared to have come to a head last year, in the wake of problems connected with some showcase

ventures, such as the US\$51 million Beijing Jeep Corp. joint venture between China and American Motors Co. Beijing Jeep's problems with high costs and production (delayed by a lack of foreign exchange to buy imported parts) were widely reported around the world and came to symbolise investors' problems in China.

China's answer to these problems was the promulgation of the foreign-investment provisions, which, though commendable in spirit, left many wanting more. Since the new regulations need to be fleshed out considerably on local levels, businessmen have expressed doubts about whether middle-ranking officials would interpret the regulations in the way their leaders intended. A major weakness in the regulations is the lack of provision for an effective mechanism to supervise their implementation. They noted that the regulations deal mostly with the post-investment phase, when what is needed is more pre-investment incentives, such as waiving or lowering service fees and simplifying in-



Zhao; joint-venture car workers: foreigners cautious.

vestment procedures so that a one-stop department would handle all investment enquiries and procedures.

"At this point in time, the foreign-investment incentives just introduced are not much use," a China trader said, "though they may be useful in the medium to longer term in providing direction." He believed the decline last year could partly be attributed to the panicky response of potential investors in faraway countries to dramatic headlines on the problems of foreign investors in China. In contrast, Hongkong and Macau Chinese, who account for the bulk of foreign-investment ventures in China, though mostly in assembly-line operations, have a relatively more balanced and realistic view.

Some bankers, such as China investment consultant S. C. Tam, are optimistic. Tam expects a pick-up in China's foreign investment this year, after last year's dramatic fall. The provinces are likely to take another two to three months to expand upon and implement the national provisions which represent efforts to resolve some of the problems faced by foreign investors.

The second half is likely to be significantly better than the first half, particularly after the party congress in September and October when a new politburo will be selected, Tam said. Once the new leadership is in place, businessmen will

have a clear idea of who to deal with in government, and that should facilitate operations, he said. Tam and many others believe that Peking will do all it can to step up economic momentum this year — given that it is the second year of the Seventh Five-Year Plan — even if in order to achieve this it becomes necessary to loosen foreign-exchange controls.

Although the 22-article provisions have only addressed some of the most common and blatant problems raised by overseas investors — businessmen feel the provisions do not go far enough and are merely a sop to the unprecedented flood of complaints and criticisms last year — the fact that they have been made at all holds out hope for further improvements. The Chinese Government has further indicated that it is preparing to promulgate 16-20 more sets of regulations to supplement the 22-article provisions.

The all-important supplementary regulations, most of which have yet to be announced, are expected to cover implementation in such matters as foreign exchange, import substitution and the Chinese definition of "advanced technology." China's eagerness to solve the investment problem is shown by the speed with which some of the implementing regulations — seven such regulations offering preferential tax terms have already been announced — have been introduced (in a matter of months, in contrast to the years it took to implement the 1979 Joint Venture Law).

The 22-article provisions offer some important incentives. One of the most important is Article 14 which provides for the adjustment among foreign-invested firms of foreign-exchange surpluses and deficits. In addition, Sino-foreign firms may borrow renminbi to pay for local costs from the Bank of China and other banks designated by the People's Bank of China (the central bank), using excess foreign exchange as collateral. A major complaint from foreign firms in China has been about the difficulty in offsetting renminbi use with hard currency. Foreign-exchange trading, which has been started recently in various cities, will come under the "supervision" of foreign-exchange control departments, and not be subject to their approval, as has been the practice. But the mechanics of trading and the applicable exchange rate have not been spelled out.

Other provisions include exemptions for exports of foreign-investment firms from industrial and commercial consolidated tax. More importantly, imports for export processing will no longer need approval or be subject to duty, thus cutting through much bureaucratic red tape.

They also offer strong incentives to two newly designated types of foreign-investment enterprises — export-oriented manufacturing concerns and technology enterprises (which provide advanced technology, engage in the development of new products, or contribute to the upgrading and replacements of products in order to increase foreign exchange generated by exports or to substitute for imports).

These two types of enterprise are now assured of important improvements in infrastructural supports that include priority in water and electricity supplies, transportation and communication equipment — at the same cost that applies to Chinese state enterprises. This provision is expected to smooth many operational problems connected with erratic utility supplies, extremely slow installation of telephone and telex lines and unpredictable cargo-space allocations. Although the provisions have not guaranteed priority in the supply of raw materials, some cities, such as Peking, Canton, Tianjin and Shanghai, have, on their own initiative, set up special companies to procure materials and equipment for foreign investment enterprises, at the same cost as applies to state enterprises, US sources said.

Export and technology enterprises will also enjoy a bunch of tax incentives, including exemption from paying a 10% profit-remittance tax on repatriated profits, reduced land-use fees, priorities for short-term working loans and reduced subsidies for labour. Labour costs are now limited to wages, labour insurance, welfare expenses and housing subsidies, and exclude subsidies for heat, cooking oil, grain allowance and other items. ■

ENERGY

Oil exports drop as demand at home increases

By Michael Morrow in Hongkong

China's petroleum industry has lost glamour but gained credibility during the past year. Despite a drastic drop in export revenue and a slackening of foreign interest in exploration, production has grown steadily. China is pulling away from the pack as Asia's largest crude-oil producer while also becoming one of the region's largest consumers with domestic more than international markets now driving production growth.

Last year China National Chemicals Import and Export



Geologists examine fossil in Shandong: new discoveries needed. XINHUA

Corp. (Sinochem) was displaced as the country's top export earner by China National Textiles Import and Export Corp., king of China's rag trade. Lower international oil prices and sluggish international markets were largely responsible for a 49.6% drop in oil-export revenues. Indeed, 1986 may be remembered as the beginning of the end of China's crude-oil exports.

Oil and textiles have more than a casual relationship, particularly given the expansion of China's synthetic fibre production. Although it may be of little immediate consolation to China's oil traders or others charged with righting China's balance of payments with oil exports, China is having considerable success with its industrial, agricultural and aquatic exports, and the oil industry, as well as coal, gas and other energy-related industries, are doing yeoman's work in support of expanding domestic production.

China has good reason at this stage in its development to process more crude for home use and, if it can find the capital, to continue to expand production, development and exploration activity. Given the depressed state of today's international oil markets and the increasing ability of some Chinese consumers to pay hard currency for out-of-plan oil products, the argument is even more compelling, particularly if one must make a virtue of the necessity that the quick-fix

hard currency of oil exports is a habit that cannot be sustained.

Revenues from oil exports fell to US\$3.8 billion in 1986, from US\$7.8 billion in 1985, on exports reportedly down about 5% from 1985's record 30 million tons; they are expected to fall again this year. Meanwhile, oil production last year rose 4.6% to reach 130.6 million tons (about 2.6 million barrels per day [bpd]) and may rise by a similar rate this year.

Last year Sinochem was reportedly criticised for trying to export into a dead international market when oil products were short in Guangdong and other export-orientated southern provinces. This is less likely to happen this year, especially given Guangdong's ability to pay for extra oil at fixed prices in hard currency while international markets still demand netback contracts.

China's Seventh Five-Year Plan aims to have the country's refiners processing 110 million tons of crude by 1990 from a total production targeted to reach 150 million. Both of these objectives are attainable. China National Petrochemical Corp. (Sinopec), the cash-rich owner of China's 26 major refineries and a competitor of Sinochem, would like to see refining increase even faster. Sinopec's general manager, Chen Jinhua, has said that the refining target could be met before 1990 if more crude were allocated to the refining industry. Given the difficulties Sinochem faces in moving Chinese crude abroad, he appears to be getting his way. Sinochem is likely to send less crude to Singapore for processing this year.

China's refiners are constantly tinkering to eke out more

products for the market and more profits for themselves. (So much so, said one senior Sinopec official, that even he does not know actual refining capacity.) Officially, Rmb 4.33 billion (US\$1.16 billion) was committed to petrochemical projects in 1986. About 70 petrochemical projects are under way. New projects mostly aim to increase yields of lighter distillates and sophisticated products and to raise product quality.

All over the developing world, refiners are doing much the same. While China can hope to increase its exports of oil products somewhat, competition for international market share will keep margins slim. But, again, China can hope for refinery and petrochemical-plant investment to impact favourably on domestic production and transportation and to reduce imports, which in 1986 were US\$150-200 million.

China is now the world's sixth-largest oil producer; moreover, while most other countries are curbing exploration, development and production, China is powering ahead. According to Chinese press reports, a record 5,700 wells will be drilled this year. Drilling efforts will focus on Heilongjiang's Daqing field complex, China's ageing super field, where enhanced oil recovery methods are now required to sustain production at slightly more than 1 million bpd; the Shengli-Gudong complex near the mouth of the Yellow River and other large fields in the northeast where production is still expanding, and the large and highly prospective basins of China's western provinces. The offshore segment of the industry, which despite a reported increase in production from 94,000 tons in 1985 to 375,000

The world's biggest producer?

China may have quietly become the largest coal producer in the world. Including production from small private and collectively run mines, China produced about 880 million tons of coal last year, a 60 million-ton increase on 1985, and by Chinese reckoning enough to pull ahead of the Soviet Union.

At an estimated 5,000 billion tons, China also has the world's largest coal reserves and by 1990 should have little difficulty in reaching its production goal of 1 billion tons a year.

The country counts on coal for about 70% of all commercial energy. With coal's share in the rapidly expanding power sector also increasing, coal's role is becoming even more central to overall development. But the Ministry of Coal Industry takes pride in having made major strides in easing domestic-coal shortages and now has its eye on the international coal trade.

Coal exports have taken on increased importance with the decline of China's oil trade and also with the increased influence of Peking's conservatives, many of whom, including Peng Zhen, have their rear-base constituencies in the coal heartland of northern China.

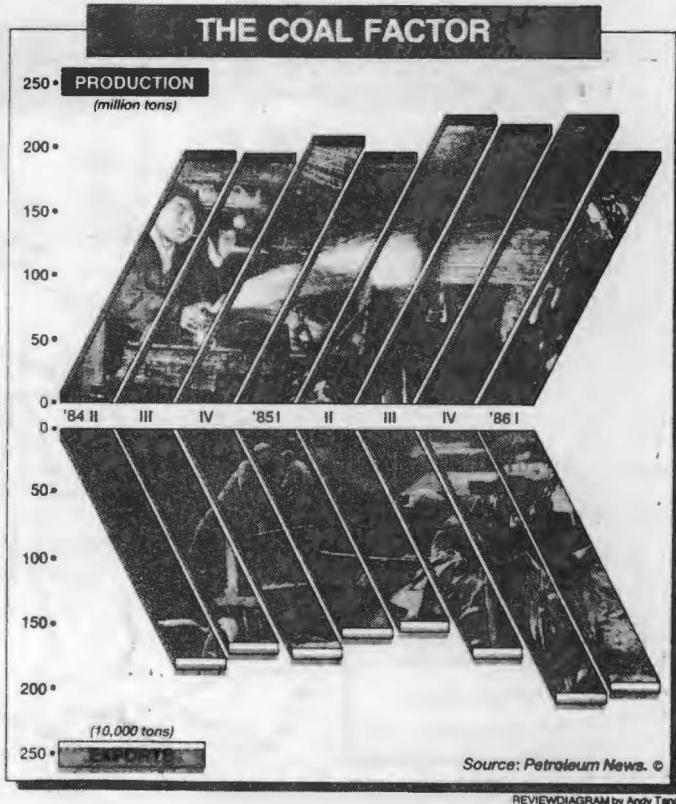
Beginning with the Pingshuo stripmine joint-venture project in Shanxi, on which a consortium of international companies led by Occidental Petroleum are spending about US\$325 million to open a reserve of 500 million tons, whole mines are being designated as producers for export; special funds are being allocated for expanding the network of coal-dressing plants.

Railways and ports are also being built, upgraded or expanded and overall competitiveness sharpened. Plans to modernise 77 major coal mines by 1990 by introducing mechanised coal cutting and tunnelling operations, aim to achieve two tons of production per worker a workday, more than double the national average.

China currently produces more than three times the 270 million tons of coal internationally traded, but, despite a 25% increase over 1985, was able to export only about 10 million tons in 1986. During the current five-year plan new production of 318 million tons is planned. China hopes to export

16 million tons of coal this year and would like to see exports rise to 30 million tons by the end of the current plan.

At the centre of China's coal-export strategy is Shanxi province, home of world-famous Datong steam coal. Electrification of the double-track railway between Datong and the port of Qinhuangdao has already been completed. Shanxi spent over 40% of its total development budget in the



tons last year, still claims less than 3% of China's crude and will account for less than 1% of all wells drilled.

Although state councillor Kang Shien was recently quoted as saying that Daqing's production could be sustained at current levels for another 10 years, his projection assumes increasingly expensive recovery techniques. Attention has already begun to shift to Shengli and Gudong, where combined production is approximately 700,000 bpd, and to Zhongyuan and other fields in the northeast. Gudong, a new field located at the estuary of the Yellow River, is targeted for special treatment with advanced domestic and foreign technology and equipment being deployed there, including 50 drilling rigs and 1,000 vehicles. Discovered in July 1984, the infrastructure is already in place and production already over 130,000 bpd.

China is also beginning to develop heavy oil deposits in Karamay, Liaohe and Shengli, having begun thermal enhanced production at the far northwestern Karamay field in 1985. According to Chinese reports, China has confirmed 1.7 billion tons of heavy oil deposits and is planning 5 million tons per year refining capacity to handle heavy-oil production.

The highly publicised state-of-the-art efforts of foreign oil-exploration companies, confined for the most part to offshore areas, have so far contributed little to national production. Consortiums led by Japan National Oil Corp. in the Bohai Sea and Total in the Beibu (Tonkin) Gulf have the only producing fields; at today's prices these are of questionable commercial value.

Which is not to say that foreign oil companies have acquitted themselves poorly. China has so far given foreign com-

panies access to vast virgin offshore basins or to small hard-scrabble onshore basins only; that is, to areas where its own drilling companies are not technically or financially prepared to go, or where potential for large discoveries is low. Results are acceptable — though too late for the era of high prices — despite the well-publicised failure of British Petroleum and several others.

Arco's gas-field discovery south of Hainan is of world scale. Operators Agip-Chevron-Texaco, Occidental, Phillips, Pearl River, and, just this past month, Amoco and Huanan, have made a cluster of significant discoveries southeast of Hongkong. Had international oil prices not collapsed, all of these fields would be immediate candidates for development. As it is, China pondered so long on how it could best exploit the worldwide need for exploration acreage of the late 1970s and early 1980s that it missed the peak. Yet, it did its best to browbeat with exorbitant costs and ponderous bureaucracy those companies to whom it eventually did licence acreage and is now scrambling to keep the foreign oil-exploration companies from packing their bags and going home. A new, more flexible way of integrating foreign oil companies into China's oil industry is beginning to emerge — including service contracts, optional drilling programmes and reduced royalties.

Although a new modus vivendi with the international oil industry is now being worked out, it will not be sufficient to affect the self-reliant character of China's oil industry. Even offshore, Chinese companies are taking on more responsibil-

Sixth Five-Year Plan on the energy sector, most of it coal related. But more work remains. The province can still transport less than half of the coal it produces.

Shanxi produces about 25% of all China's coal; together with the provinces of Henan, Shaanxi, Ningxia and Inner Mongolia — the so-called "northern energy base" — it produces 40% and this figure is targeted to rise to 50% (700 million tons) by the end of the century. Development of the 20,000 km² Shenfu coal fields in Shaanxi-Inner Mongolia is part of this plan. The field complex in the Ordos Basin is con-

sidered one of the world's seven largest coal fields with reserves estimated at 200 billion tons. 50% of Shenfu's production will go to exports.

China will have much greater difficulty in attaining its 30 million-ton export goal than its 1 billion-ton production goal by 1990. Even if it does, the decline of coal prices in the interim may strip the effort of much of its profits.

Despite rail and port expansion, Chinese coal is still handicapped by transportation costs when competing against Australian and South African coal. Australia and South Africa are both closer to European markets and can handle vessels of up to 100,000 tons. Chinese ports are restricted to 50,000 tons. The Japan market, where China has done well, is in decline, under the impact of cheaper oil and gas prices and structural changes in the Japanese economy. Only South Korea (with whom trade is expanding rapidly on an unofficial but direct basis), Taiwan and Southeast Asia offer much hope for expansion.

Steam-coal prices have fallen to about half their 1985 levels (US\$43-45) with both Australia and South Africa determined to hold their market share. South Africa, facing a boycott in some markets, is said to be offering steam coal at US\$20 fob and South Korea is looking at landed prices no higher than US\$29. Chinese insensitivity to international market conditions usually means that Chinese prices lag in a falling market, which limits opportunities for marginal sales.

China's coal-equipment manufacture deserves watching. As it modernises its own mines, China is developing economies of scale at home to become a major exporter. The country is also increasing the sophistication of its coal technology. China's first coal-gasification project, a 240,000 m³ facility plus a 240-km pipeline from Fuxin, Liaoning, to Peking is under way. The country's first coal-slurry plant, with a production capacity of 50,000 tons per year, has been completed in Liaoning.

— Michael Morrow

MAJOR EXISTING / PLANNED RAIL NETWORK AND COAL PRODUCTION



ity — with plans to develop their own discoveries in Liaodong Bay and the East China Sea.

Nor is their equipment as bad as it once was. While oil-field equipment manufacturing is languishing in most other countries, it is, in the words of Prof. Bao Hongshu, secretary-general of the Chinese Petroleum Equipment Association, "developing vigorously" in China; 50 manufacturers now produce nearly 200,000 tons per year of oil-field equipment and spares, much of it under licence from foreign manufacturers and it is American Petroleum Institute certified.

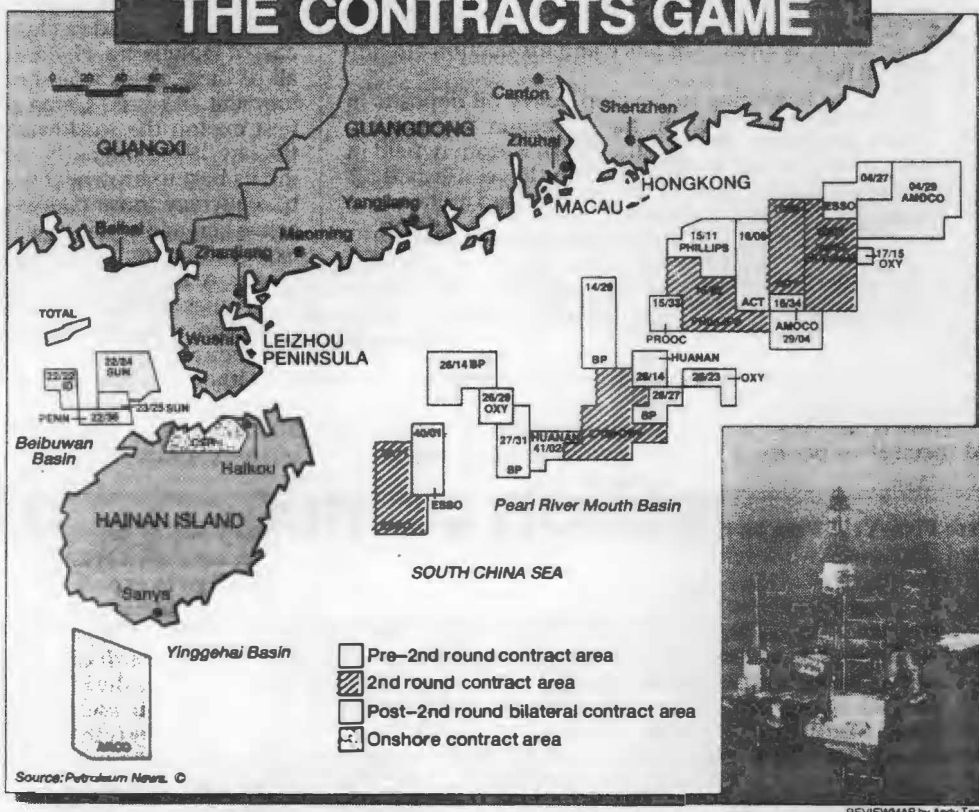
As China reaches for its 1990 production goal of 150 million tons of crude, it is creating conditions for its oil-equipment manufacturers to squeeze out imports and eventually become a significant force in world markets. At the same time, China has been able to take advantage of depressed equipment prices elsewhere to buy equipment abroad. Nanhai West Oil Co.'s recent purchase of the Bow Drill 2 semi-submersible offshore drilling rig from its location on Canada's east coast is a case in point. Less than four years old, the rig was built in Norway for US\$112 million. The selling price was undisclosed, but Husky Oil, one of the owners, confirmed a loss on the sale.

World Bank assistance is also proving a boon to Chinese oil fields, helping them to purchase consulting services and equipment, and even financing confirmation wells.

Foreign oil experts who visit Chinese oil fields usually return

with grotesque tales about Chinese techniques and technology. Nonetheless, there is a growing respect for those scruffy, stubbled men (there are almost no women) with all that rusty equipment who keep producing more and more oil. Backward and jury-rigged as they often are, domestic drilling operations, following in the footsteps of China's respected home-grown geologists, are responsible for nearly all of China's oil production. China's petroleum industry is not as glamorous as it was a few years ago when the social life at Canton's White Swan Hotel and China Hotel was at full tilt, but it is more credible.

THE CONTRACTS GAME



Power shortages major headache

The power sector is the first priority of China's Seventh Five-Year plan, and not without reason. One of the most serious obstacles to China's economic development is its shortage of electrical power. The country is experiencing its worst-ever power shortage, one that will require the rest of this century and between 1% and 2% of gross domestic product to overcome.

According to a report recently released by Hongkong-Bank China Services, in the past two years, electricity production has been around 50 billion kWh short of demand, causing around 25% of total industrial-plant capacity to lay idle. With the exception of the sparsely populated northwest region, most areas are now seriously affected.

Power shortage is causing China to brake industrial growth, which, according to the HongkongBank report, slowed from an annual average of 11% in the Sixth Five-Year Plan, to 6.4% in the first three quarters of 1986. Meanwhile, electricity output increased 9.1%, against a target of only 5.6%.

World Bank estimates made during the sixth plan pegged electricity growth to GDP expansion at a 1:1 ratio. But the HongkongBank report suggests that the rate of industrial

growth, a higher figure, is the better figure. China had 11% annual industrial growth during the Sixth Five-Year Plan and only a 6.3% increase in power generation. Industry accounts for about 70% of China's primary consumption of commercial power.

By 1985, China ranked sixth in world generating capacity and sixth in output; nonetheless, given its 1 billion people, per capita production was a low-ranking 389 kWh. As important, China's economy is now growing rapidly and it will take staggering investment for the power sector to overcome the shortages and the economic entropy that accompanies them.

In the current five-year plan, 2% of GDP is targeted to power generation, double the previous plan. 6-7,000 mW a year of new generating capacity will come on line during the current plan, with an equal amount for completion in the next plan. Thermal power plants, almost entirely coal fired, are favoured, accounting for more than 70% of new construction. Units will be 300-600 mW, effecting fuel economies, but increasing reliance on technology imports.

Eventually all oil-fired plants will be converted to coal. Many of the new plants will be mine-mouth plants using high-voltage transmission to obviate the need to move coal from pit to power plant by China's inadequate rail system.

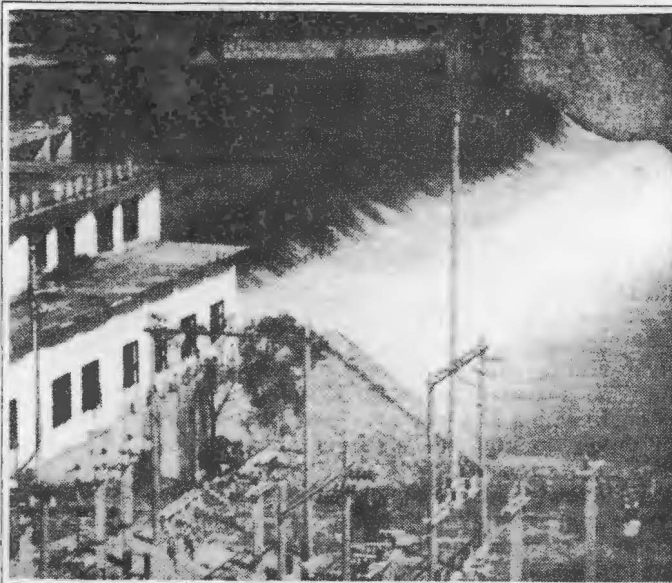
China has tapped only 7% of its 380,000-mW hydropower potential, according to the bank study. However, the greater capital efficiency of investment in thermal power is commanding the attention of planners. The same can be said of nuclear power more or less, even though China is still com-

mitted to two of the four nuclear plants originally planned — the first, being built at Qinshan in Zhejiang province to Chinese design with Japanese assistance, and the second, with French and British technology, at Daya Bay near Hongkong. But why even two nuclear plants are being built remains a question. The World Bank estimates steam coal must rise to US\$70 per ton (it is now about US\$25) and the cost of nuclear-power capacity fall to US\$1,200 per kW before coal-nuclear parity will be achieved.

Such heavy reliance on coal is going to create even graver pollution problems for China, even if it does appear the most economic choice. Another option, which is just beginning to be looked at, is the use of gas turbines. As David Spottiswoode, director of Gasistance and one of the world's leading gas consultants, recently pointed out, the speed with which gas turbines can be put in place and their relatively low capital cost per kW (US\$400 compared with US\$900 for steam), make gas a good option when alternative uses for the gas are not available or unaffordable, even if turbines are less energy-efficient than other technologies. And when you burn gas the residue is water.

China recently purchased from John Brown Engineering of Britain turbines for five power plants at Liaohu, Shengli and Zhongyuan oil fields. The units will be installed over the next two years to run on gas that would otherwise be flared.

— Michael Morrow



Guangxi power station: demand grows.

TOURISM

Competition comes to the industry

By Jill Hunt in Hongkong

China's travel industry is in the throes of a major organisational upheaval. Government-supported decentralisation and deregulation of the industry, first advocated in late 1984 as a means to quickly increase overseas arrivals and build tourism revenue, has resulted in a surge of new tour operators throughout China to challenge the organisations traditionally responsible for handling tourists from overseas — China International Travel Service (CITS), China Travel Service (CTS) and China Youth Travel Service (CYTS). At the same time, the Peking control bases of the three state-owned corporations are losing ground to their increasingly independent regional branches.

Most significant for China's tourist industry is the fierce competition that has sprung up within the ranks of CITS, China's largest agency. The branch offices, which used to passively receive foreign tour groups sent to them by head office, now liaise directly with foreign operators, and, most importantly, receive foreign-currency payments. Foreign operators report that CITS regional branches are consistently undercutting the head office by 10-15%, and attempting to attract away head-office custom with promises (often unfounded) of better service. In 1986 over half the 454,000 tourists handled by CITS came through branch offices.

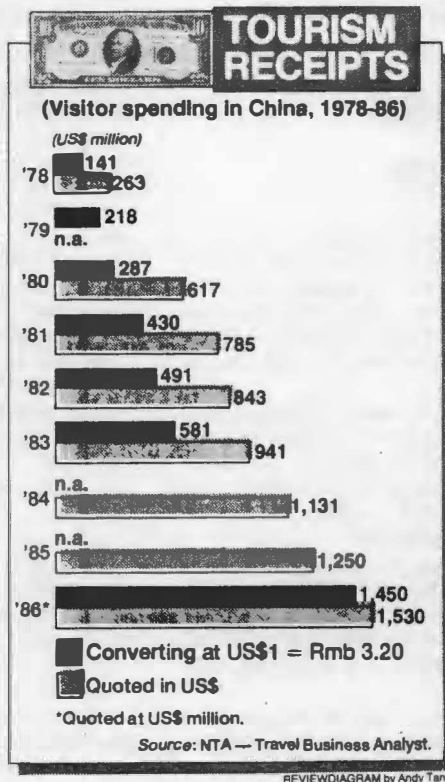
Competition among the branches has grown so rapidly that veteran US operator Lars-Eric Lindblad envisages a situation similar to Yugoslavia in the 1950s, when all branches of the centralised state tourist organisation were

given complete financial autonomy, and competed with each other on a price and quality-of-service basis.

The full extent of the boom in new tour operations in China — some state-owned, some run by collectives, and some private operations — is not yet clear. In theory, new operators should register with China's National Tourism Administration (NTA), the policymaking body of the travel industry, but, in practice, a number appear to be operating without NTA approval. In 1986, an NTA spokesman put the number of new agencies in China at 1,000, but this figure included agencies only permitted to deal with domestic tourists.

New operators are covering the whole spectrum of the travel industry. Some are simply ground handlers, like the collective of Peking University teachers, which is doing lucrative business providing guide/interpreter services for non-group clients of upmarket travel agents such as Lindblad Travel. Others have more ambitious targets, such as the Crane Travel Service, just launched by newly formed Shanghai Airlines, which boasts its own taxi fleet, its own guides and offers a range of nationwide tours. Some have clear travel-industry interests — Shanghai's Jingjiang Group, for example, involved in hotels, shipping and aviation, has set up its own travel agency — while others are unrelated enterprises jumping at an easy way to earn foreign currency.

Some new operators are simply state-initiated CITS clones, with NTA permission to operate exactly on the



lines of CITS, CTS and CYTS. China Civil International Tourist Corp. (CCITC), for instance, funded by a Peking trade corporation, is headed by an ex-head of CITS' Peking branch and relies heavily on CITS branches to do its ground handling in provincial cities. But the handful of state-initiated competitors have so far made little impact — CCITC aimed for 5,000 visitors to China in 1986, but is believed to have handled less. As yet, none of the new agencies come near CITS' volume, which still represents the lion's share of the tour-group market.

So far, however, the goals of decentralisation — a speeding up of growth in the volume of arrivals and revenue — are only partially successful. The financial returns for 1986 look healthy enough, with a 22% rise over 1985 (though lack of detail on how the statistics are compiled undermines the validity of the figures). But the sums involved are still small — the expenditure of the annual 3 million visitors to Hongkong, for instance, is more than that of the 22 million visitors to China.

However, overall growth in arrivals slowed in 1986. Particularly disappointing is a slowdown in the category that counts most for the tourist industry — the high-paying foreigner. The larger increase in traffic from Hongkong and Macau is little consolation for Peking's tourism planners, since it is mainly low-yield. Overseas Chinese growth should also be treated cautiously, since the method of counting this category, on the NTA's own admission, is particularly rough.

Growth in foreign arrivals is down 13 percentage points, from 20.8% in 1984-85 to 7.8% in 1985-86. Although many destinations in Asia would be delighted with this increase, it is not good enough to match the expectations outlined by the NTA at the start of 1986. The NTA calls for an average annual 11% increase (not including Hongkong Chinese visiting friends or relatives) until 1990, to reach 5 million arrivals, of which 3 million would be foreigners. Then arrivals should slow to an annual increase of 7-8% to reach 8-10 million (7-8 million of them foreigners).

While the 1986 economic slowdown suggests a levelling off of foreign-business traffic (China does not publish a business/leisure breakdown), there is also evidence that tourist arrivals slowed. Most telling are CITS' own figures for the first 10 months of 1986, which show a drop in volume of 2.4% over the same period in 1985. This is the first time since China started to develop its tourist industry in 1978 that CITS has recorded a drop, and the figure contrasts strikingly with its 17% growth in volume from 1984-85. Indicators for the 1987 tourist traffic are gloomy, with a senior official at CITS predicting a 30% drop for the first half of the year.

CITS president Wang Erkang blames the tourist slowdown partly on CITS branches, which have been squabbling over the existing market, rather than attempting to expand it. To this extent, the intentions of decen-

VISITOR ARRIVALS IN CHINA

VISITOR ARRIVALS IN CHINA, 1978-85

Item ('000)	1979	1980	1981	1982	1983	1984	1985	1986
Foreigners**	362	529	675	765	873	1,134	1,370	1,480
Overseas Chinese	21	34	39	43	40	47	85	21,330
Hongkong/Macau/Taiwan*	3,821	5,139	7,053	7,117	8,584	11,718	16,379	
TOTAL	4,200	5,700	7,770	7,920	9,480	12,850	17,833	22,800
Received by CITS	184	219	268	316	320	380	489	n.a.
Received by CTS	806	695	886	865	908	826	773	n.a.
Received by CYTS	n.a.	n.a.	n.a.	24	29	47	52	n.a.

Notes: *Chinese from these three areas. **Non-Chinese. n.a. = not available. Source: NTA.

% CHANGE IN VISITOR ARRIVALS IN CHINA, 1982-86

Item	1983 % change	1984 % change	1985 % change	1986 % change
Foreigners**	10.9	30.0	20.8	8
Overseas Chinese	-0.3	17.7	78.5	n.a.
Hongkong/Macau/Taiwan*	144.7	36.3	40.3	n.a.
TOTAL	115.3	35.6	38.8	26.7
Received by CITS	0.4	19.0	17.8	n.a.
Received by CTS	4.2	-9.0	-8.4	n.a.
Received by CYTS	0.5	61.7	9.2	n.a.

Notes: *Chinese from these three areas. **Non-Chinese. Source: NTA.

1986 actuals:

The State Statistics Bureau reported that the grand total for 1986 was 22.7 million, up 26.7%, and earnings were US\$1.47 billion, up 16%. However, the 1.47 million count was up only 7.8% — a slow growth for China. Of these, the Japanese count was up 1.4% to 470,000, Americans up 20.8% to 290,000, Germans 48,000, Soviets 19,000.

New breakdowns are now being given, but it is not known on what basis. Under this, for instance, the SSB reported that the number of foreign businessmen was up 41.2% to 240,000, and the number of "sightseers" was up 9.2% to 347,000. And, according to CITS, CITS had a drop in foreign visitors January-October 1986 of 2.37%, though the drop in "person-nights" was only 0.78%.

REVIEWTABLE by Andy Tang

tralisation have misfired, he says. Wang is also unhappy about the current price war, which he views as "damaging to the competitors, and also damaging to the industry as a whole." He says the NTA and CITS head office are working on a scheme to control prices, possibly through indirect taxes, but some foreign observers feel deregulation has spread too far for controls of this kind to halt it.

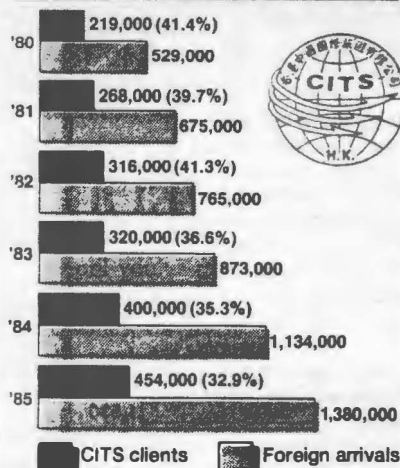
Foreign-tour operators identify other disturbing trends to account for the slowdown in foreign tourists. The competi-

tive market place has not brought any improvement in the quality of service. On the contrary, says one operator, the branches are deliberately mishandling clients sent to them through head office, in order to demonstrate to foreign operators that they would do better to deal directly with the branches. But many of the branches are too inexperienced, and lack a nationwide network to successfully handle tours to several destinations.

One angry US operator, facing several law suits from disappointed clients in 1986, said he had used a CITS branch to organise a number of his nationwide group tours, but had discovered too late that the branch did not have enough clout to reserve hotel space and air tickets elsewhere in China.

CITS' approach to pricing is becoming a major deterrent to foreign tourists, say foreign operators. China is already at the high end of the scale in Asia and there are fears that it will fare even worse in comparison with its neighbours in 1987, following tour-package price increases of 30-70%. Although many foreign operators have subsequently managed to reduce prices through individual negotiation, the scale of the increases is unprecedented anywhere else in the world. US operator Abercrombie and Kent

THE DOWNWARD PATH OF CITS' SHARE OF ARRIVALS 1980-85



() CITS share of foreign arrivals

© Asia Travel Trade.

Sources: NTA, CITS.

REVIEWDIAGRAM by Andy Tang

says that, in the context of wholesale rises of 2-5% in Asian destinations like Burma, Thailand and Indonesia, it is difficult to justify to the consumer a 30% increase for a China tour.

Wang says price rises were imperative because of the fall in the value of the renminbi against the US dollar, resulting in a loss for CITS of US\$360 million in 1985 and US\$250 million in 1986. Wang cites a 30% rise in CAAC's domestic air fares for foreigners, with a possibility of a second 30% rise in April this year, as further justification. He argues that higher hotel rates have to be covered, though hoteliers point out only a dozen or so foreign-managed hotels in China are actually charging international rates.

In any case, none of these factors can appease the consumer unless the rise is coupled with some visible improvement in standards of service and facilities. While some developments are obvious — in 1986 the first of CAAC's new aircraft came into service (more than 75 aircraft were ordered in 1985 and 1986) and some 15 international-standard hotels were in operation — a number of basic tourist gripes remain.

Typical of current complaints are those outlined in an unpublished report from seven major China-tour operators in France. The report identifies major problems as deteriorating standards of guides, who are accused of rudeness and incompetence, the worsening quality of food fed to tour groups and lack of hygienic conditions in some hotels. It notes little change in CAAC's performance and continuing difficulty in securing seats on trains and aircraft and on Yangtze River cruise boats — despite reservations made a year in advance. On some routes — notably the Silk Road — it complains of tour groups stranded for over a week because of lack of transport. The report makes a plea for reimbursements to foreign operators for substandard service, pointing out that it is unfair for them to bear the full brunt of compensation to the client for damages and inconvenience.

Lars-Eric Lindblad agrees that China now has less value-for-money appeal. It can be boring for the average tourist, he says, who has no particular intellectual interest in the China — a point reiterated recently by NTA director Han Kehua, who said China's tourism was monotonous and urged agencies to develop more specialist programmes.

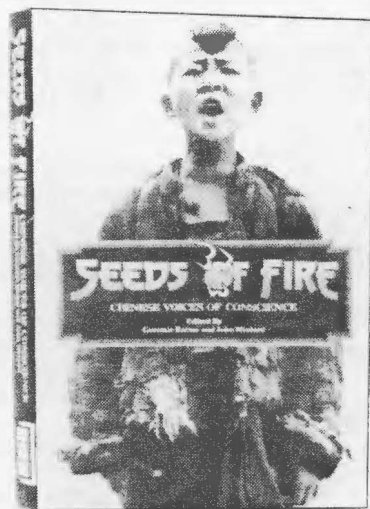
However, foreigners involved in the industry also point to positive developments. They stress the government's obvious concern to maintain tourism development, a point that was underlined by Han at the national-tourism conference in Peking in February this year.

China's supply of first-class hotels will continue to improve. It is not known how many of the planned 60,000 rooms (in some 150 hotels) will be foreign managed (a prerequisite for quality), but firm projects in Peking and Shanghai alone amount to over 25 foreign-managed international-standard hotels by 1990. Developers and foreign-management groups say they do not expect any finalised projects will be tampered with, though some suspect outside investment may slow.

There are signs that much-needed marketing of China will also improve — to date, a low priority for tourism authorities. Although the NTA's promotion budget is a low US\$7 million for 1986-90, marketing impetus is expected to come from CITS branches. Already, the larger branches are making their own sales trips to the US and Europe and attending trade shows. China's first travel mart, held in April last year, was organised not by the CITS head office, but by Hangzhou. The head office followed suit, organising a travel fair in December.

Another new trend is the apparent (though not accurately documented) increase in independent travellers. China is easier to manage both for upmarket and budget travellers. An easing of travel restrictions in 1986 (the troublesome travel permits were abolished) and the official opening of a number of new areas, which increased from 192 to 436, are more evidence of government determination to support tourism development. □

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CAAC jet: service shortfalls remain.

BUSINESS TRAVEL

The executive's lot is a much happier one

It is eight years since the Inter-Continental hotel group announced to the world it would bring international standards to China with a chain of Inter-Continental hotels across the length and breadth of the country. But hotel development did not turn out to be the smooth process foreign hoteliers had hoped for, and today China is still far from being able to offer business visitors a network of international-standard accommodation in major business and industrial centres.

Although Inter-Continental has long since dropped out of the running, other foreign-hotel groups have managed — with much-publicised difficulty — to get hotels operating. First came the Peninsula-managed Jianguo in Peking in 1982, and now Holiday Inn, Sheraton, Hyatt, Shangri-la, JAL subsidiary Nikko, Swedish group Sara, Hongkong-based New World and GFIS, and Swiss group Movenpick are running 15 hotels in nine cities.

It is these hotels which have been largely responsible for improving the businessman's lot. Facilities outside the hotels are still minimal, though there are notable exceptions like the wave of new Japanese joint-venture golf-courses (by May there will be three in Peking alone) and a handful of newly formed World Trade Centre clubs.

Amenities in the new hotels would be unexceptional in many other Asian cities — confirmed reservations, computerised billing, credit-card facilities, 24-hour room service, palatable Western food, tennis and squash courts, a dry-cleaning service that can be trusted, foreign newspapers, business centres, telex operators and typists, fax machines and direct dial (now possible from a dozen cities in Guangdong and Fujian, and from major northern cities). But in China just five years ago none of this was available. In Peking, Canton, Shanghai and Tianjin at least, the days when corporate presidents could be seen punching in their own telex messages at the telecommunications building, or typing out a memorandum of agreement on a borrowed portable are over.

Some of the new developments are on an expansive scale. Holiday Inn runs an expatriate mini-city in northern Peking, where an investment of US\$150 million to date has provided 1,000 rooms, an office block, residential apartments, a members-only sports club, a supermarket and an international school, with more to come. The

Peking Shangri-la, which has lavished over US\$80 million on its upmarket interiors, has one wing of residential rooms with adjoining, fully equipped offices. The Huating Sheraton in Shanghai offers its business guests plush meeting rooms, and a secretarial staff prepared to work through the night. And the Tianjin Hyatt's two Regency Club floors provide such high quality decor and service that some longtime business visitors to the city say they are unnerved by the luxury.

But the pockets of Western-standard hotels are widely scattered. Together, they only account for 15% of the 60,000 rooms the National Tourism Authority (NTA) says exist for overseas visitors. The majority of locally run hotels are still not capable of providing such basics as confirmed room reservations, clean bathrooms and table linen, or reliable message delivery. There are more airconditioners around than five years ago and fewer straw mattresses, but mostly the cosmetic changes do not iron out the quirks of Chinese-style hotel management. And, now that the first flush of enthusiasm for overseas guests has gone stale, staff tend to be less welcoming than five years back.

There are, of course, a few notable locally run exceptions like the White Swan in Canton — a member of Leading Hotels of the World — and the Jingling in Nanjing, whose staff were initially trained by Hongkong's Mandarin group. These two are regularly singled out by the NTA as models for China's other locally run hotels, but without any obvious follow through. Improvements to state-owned hotels have consistently been urged by the tourism bureau and at state-council level since 1979, and a special hotel committee was set up in 1986 to coordinate staff training and raise quality. But no measures to date have had more than a piecemeal impact on general standards.

Many more joint-venture, foreign-managed hotels are due — this despite an estimated 75% dropout rate on hotel projects announced over the past two years — giving rise to industry fears of a glut of first-class rooms in some cities. In the short term this can only be good news for business travellers who are now being wooed by management groups anxious to build up a loyal clientele before their competitors open.

To date, businessmen have had to pay a high price for their Western-style comforts. Rooms rates at Peking's most expensive hotel, the Sheraton Great Wall, are moving towards Hongkong's levels (US\$120 for double occupancy), though standards, not unreasonably, are not. The Sheraton's newly opened Huating in Shanghai, which is enjoying a short-lived monopoly as the city's only foreign-managed hotel, came in with published rates of US\$125 for standard



Business travellers, Peking: better facilities.

double occupancy. This year rooms are hard to secure at the Huating, which predicts an occupancy rate near 90%, but the picture may be different in 1988, when another eight or nine foreign-managed hotels are scheduled to open, including a Hilton, Meridien, three major Japanese groups, Hyatt and Holiday Inn.

The fight for rooms in Peking's joint-venture hotels has been fierce — last year the four foreign-managed properties again clocked up average annual occupancy rates of over 90%. This year, hoteliers predict slightly lower occupancy, coupled with an increase of "special-offer" rates, and like Shanghai, face a barrage of competition from another 9-10,000 international-standard rooms. Already, the few businessmen in the capital in January could have benefited from an astonishing offer from the Great Wall of US\$25 a night.

But value for money in China is best found in Canton, where three world-class hotels operate at very competitive discounted rates (except during the trade fair), and, surprisingly, in Tianjin, which now boasts a top-quality Hyatt and the soon-to-open Crystal Palace managed by Swissotel, a group that specialises in top business hotels in major cities

worldwide. A Sheraton will open in Tianjin later in the year, bringing the count of international-class rooms in the city to 1,500, despite the fact that the city received 50,000 overseas visitors last year — a small number compared with Shanghai's 600,000 or Peking's 1 million.

Prices in Western restaurants are also expected to level off, as more Western ingredients can be sourced locally. But a drop in high import duties, some well over 100%, look unlikely. The duties are cited by hoteliers as a prime reason for the high prices in restaurants that serve mediocre food by world standards.

While China's hotel accommodation has improved dramatically in some cities at least, domestic transport has not. The state airline, CAAC, has recorded substantial growth, with its passenger load doubling in two years to almost 10 million in 1986, but there has been no parallel improvement in quality of service, which still falls far short of acceptable standards.

A record number of aircraft (76, and possibly more) have been ordered for China and the first deliveries are in service, making a happy contrast with the decrepid Antonovs and Ilyushins which are still much in evidence on

BANKING

Future direction of reforms still uncertain

By A Correspondent in Hongkong

The jury is still out on the impact of the dramatic reforms — at least on paper — which swept through the Chinese banking system in 1986. The nature of the reforms was itself paradoxical: the People's Bank of China (PBoC), the country's central bank, stepped up its overall central control over both domestic and international banking activities, and yet a series of quasi-capitalistic measures were introduced, albeit with central approval, by several major Chinese cities.

Literally at the centre of these reforms was the highest-ranking woman in China, PBoC president Chen Muhua. Dubbed a centralist by many observers, Chen has again confounded onlookers by presiding over an explosion of hitherto unthinkable local initiatives. No one should really have been surprised: in her previous bailiwick over on Chang An Boulevard, when she served as the minister of foreign economic relations and trade, she had overseen the break-up of the monopoly system of the national import and export corporations. Either Chen has not been able to control two successive bureaucratic giants she has been sent in to reform — an unlikely scenario — or she is a person comfortable in wielding her authority in unexpected ways.

In her own words, as quoted by China's official news-agency Xinhua in late December: "The financial pattern which has long pertained in China under the commodity economic system can no longer meet the needs of economic reform. In order to promote the early formation of money markets in China, banks opened up new banking businesses this year." These new banking businesses were characterised by the establishment in 10 cities of clearing houses for the honouring and discounting of commercial bills, the opening of domestic money markets among Chinese banks and the issuance by Chinese banks of bonds and stocks on behalf of local enterprises.

Simultaneous with these structural reforms, the brakes were sharply pulled away from the expansion in credit. By

November 1986, industrial loans had reached Rmb 43.58 billion (US\$7.98 billion) and agricultural loans Rmb 29.71 billion, up 115% and 145% respectively over the year-earlier period. As Chen explained it, credit funds had run out of control in 1984 and the banking system in 1985 had adopted a control measure of "killing first and resuscitating later." In 1986 this was replaced by a policy of "seeking relaxation through stability."

This policy is to be continued through 1987, but it is to be complemented with a further thrust towards "smashing the iron rice bowl." In no uncertain terms Chen stated: "All specialised banks may be permitted to interchange business. In future, banks may select their own customers and customers their own banks. Banks will not guarantee the supply of funds. In short, banks should support economic development as well as stabilise currency circulation."

As with all aspects of Chinese social, economic, commercial, financial and political life, any predictions for 1987 made in December 1986 must be subject to re-evaluation given the startling political events of the past two months. Even as early as 24 December 1986, there was a warning in Peking's *Jingji Ribao* that "bonds should not be issued in a flurry." The influential newspaper observed: "It appears that bond issues are a good method since everybody thinks of it. However, we are somewhat worried about this practice. If everybody chooses to issue bonds taking into account their own resources, it will possibly lead to a craze of haphazard bond issues, which can be used as a means of transferring capital or squeezing money from others." The journal was by no means



domestic routes. But poor safety standards on domestic flights and inefficient, surly service on the ground continue to frustrate.

One glimmer of hope for business travellers lies in the new computerised-reservations system, currently being introduced. By April this year, Shanghai, Peking, Nanjing and Guilin, as well as Canton, should be linked to the reservation-service computers, temporarily based in Hongkong. But for anyone travelling extensively in China, securing a return-trip booking is still a major headache which even the new joint-venture travel agencies cannot resolve. This handful of new agencies, however, do offer a useful service to foreign travellers who want to arrange outbound travel.

The signs are that no rapid improvement is likely in China's air transport, despite attempts at administrative reform. CAAC has been deliberating since autumn 1984 on how to split itself into separate competing airlines (the first were originally due in 1985) in order to improve its service. Although it appears to have moved nearer to sorting out the split-up process, industry sources suggest that in the short term, at least, the regional CAAC airlines will introduce further complications into the already ailing air-transport system. Competition from other newly created airlines seems

to have had little impact on CAAC's performance, and have not offered business travellers a particularly attractive alternative to CAAC.

Most "new" airlines have turned out to be no more than CAAC satellites, and the largest of the genuine competitors, China United Airlines, carried just 300,000 passengers in 1986. Shanghai Airlines (which says 30% of its passenger load since it began its service mid-1986 was foreigners) flew just two routes weekly last year, carrying just 20,000 passengers in total, compared with the 1.96 million that CAAC Shanghai branch carried during the year.

Overseas business visitors also have the relatively new phenomena of the massive domestic-travel market to contend with at railway and bus stations and at airports. This amounted to 270 million people on the move in China in 1986. The only aspect of travel to noticeably improve is the provision of taxis. There even appears to be a surfeit in Peking and some other cities, the result of the formation of hundreds of new taxi companies in an effort to exploit this apparently easy-to-generate source of foreign currency.

— Jill Hunt

advocating a retreat from bond issuance, however. Instead it called for the quantity of issued bonds to be controlled, the funds raised to be used for key projects, and never for the construction of non-productive facilities.

The political events unfolding within the highest leadership of the communist party and the government have not yet reached the stage when pronouncements can be made about the country's future financial system and practice. However, if the structural reforms in the system over the past 18 months are to be regarded as beneficial, then there could be no better person at the helm of the People's Bank than Chen, a woman who has never been associated with radical reformers but who has pushed on with decentralising reforms, while maintaining a strong central control over those very reforms.

There are those that have argued that the reforms in the Chinese financial system in the past year or so have been paper reforms that have actually changed very little. These arguments are tenable, but not necessarily sustainable. The approval, for example, for selected branches of the Industrial and Commercial Bank of China (ICBC) to participate in foreign-exchange transactions and the reciprocal permission for the Bank of China to deal in renminbi will open up competition considerably, and thus opportunities for Chinese enterprises. With an established network of some 20,000 branches and offices throughout the nation, ICBC is geared to take advantage of further allowance for its branches to compete in the lucrative and prestigious foreign-exchange business. Similarly, the Bank of China will be in a position to expand its customer base through its renminbi transactions.

On the other end of the scale, establishment of Aijian Finance and the Bank of Communications in Shanghai will further promote competition in an industry which has existed in a stagnant pool for nearly 40 years. In addition, the confident restructuring of the China International Trust and Investment Corp. (Citic), to include a de facto international bank cannot be underestimated. Both ICBC and Citic have quickly established correspondent banking relationships with major international banks around the world, and are already providing competition to the Bank of China and, indeed, among themselves, with the setting up of ICBC's Trust and Consultancy Corporations.

The reforms of the past year must also be seen in the light of the changes in China's banking structure since the late 1970s. What was then an inflexible system with a domestic monopoly controlled by the People's Bank and an international connection controlled only by the Bank of China has now been blown wide open. Some of the reforms, must be seen as fragile and open to some reversal, but it is difficult to foresee a total reversion. □

LAW

Long march to the present, long way to go

By Edward Epstein in Hongkong

With hindsight, widely publicised and discussed legal events such as the adoption last April of the law on wholly foreign-owned enterprises and in October the 22 articles for encouragement of foreign investment will become the non-events of 1986. Instead, attention should have been focused on other developments largely ignored outside China, such as the adoption of China's first socialist code of civil law, the first ever unified national examination for entry into China's burgeoning legal profession and the rocketing number of civil and economic cases taken to the courts. These will prove to be the real events of recent legal history.

Traditional China never had a code of civil law. Such legal rules as did exist regulated a vertically oriented society in a bureaucratic way. There were few rules about the procedure for applying the law. There were no courts or judges, only the formidable magistrate who was at once an administrator, investigator, judge and jury. Naturally, there were no lawyers. As a result, most disputes were settled by the parties without resort to legal process.

What progress the nationalists made in introducing the rule of law and instilling a respect for a legal process was swept away in 1949 and the attempts by the communists to adopt Soviet-style law, courts and lawyers were themselves short lived. China's legal profession was revived in 1980, but only last September did several thousand prospective lawyers take the first national examination to enter China's 30,000-strong legal profession. Sponsored by their work units, candidates must sit for the examination, even if they were one of last year's 6,000 graduates from China's 40 law schools.

In both urban and rural areas the profession has been organised into several forms of legal services, not only as an extension of the bureaucratic administration of justice but also as financially independent law offices staffed by so-called

state legal workers, many of whom are part-time lawyers. Major cities now abound with law offices specialising in foreign trade and investment. With a total of only about 30,000 lawyers, or about one for every 300,000 persons, the strength of China's legal profession cannot compare with that of the US (1:513) or even Hongkong (1:3,750). But already,

China's lawyers have had an impact on legal behaviour, including dispute-resolution habits, especially in the course of business relationships which have blossomed under decentralised economic control.

By the middle of last year 40,000 Chinese large and medium-sized enterprises had retained legal advisers. This contrasts starkly with the mere 411 Chinese organisations with legal advisers in 1982. Although there is no legal obligation to do so, many organisations place announcements in the national legal daily *China Legal News* to publicise their retainers. A survey of these public announcements shows that, as might be expected, enterprises engaged in light industry, heavy industry and commerce are retaining by far the most legal advisers.

As a large number of these enterprises are located in the economically advanced provinces of Jiangsu, Zhejiang and Sichuan, not surprisingly the percentage of retained legal advisers is highest in these areas. It is more difficult to explain why Shanghai and Canton, in particular, show remarkably low percentages of retained legal advisers as compared to other economically advanced areas. It may simply be the result of a preference to announce their retainers in the local rather than the national press.

The demand for the services of a lawyer is not limited to state and collective enterprises. Organs of state administration, individual enterprises, a mayor and even a monastery in Sichuan were also among those organisations which announced they were retaining the services of a lawyer.

The functions of a Chinese lawyer are not limited to in-house legal advice. For the payment of a mod-

est fee set by the state, salaried lawyers working out of state-approved legal offices will dispense advice, draft documents and represent clients in court proceedings. In large cities where legal services are more readily available, more than half of the parties in civil cases are represented by a lawyer. In criminal cases the proportion is even higher. Higher still is the proportion of legal documents written by lawyers on behalf of their clients to start or defend court proceedings.

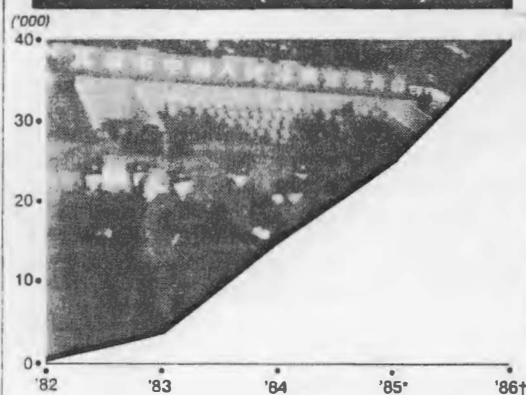
For China's legal profession, however, many problems still remain. Some are simply a result of the shortage of lawyers which cannot be relieved in the short term. If, as is now commonly the case, 10 or 20 similar enterprises in the same area share one legal adviser, conflicts of duty are bound to arise. There are still no clear guidelines, however, for lawyers to resolve such conflicts. Other problems are more fundamentally rooted in China's political and ideological system.

Like their Soviet counterparts, Chinese lawyers are coming to the crossroads: demand increases for their services to be professional and independent, but so does state pressure to politicise the role of lawyers. At a national conference of lawyers last July, Vice-Premier Qiao Shi reminded lawyers that they were "state legal workers not independent professionals," who must "faithfully serve the interests of the party, the state and the people and not put their clients' interests before those of the state and the collective."

In recent years individuals in China have been allowed to engage in private business and even medical practice, but Marxist ideology on the interdependence of law and politics will, as has occurred in the Soviet Union, effectively drive the private practice of law underground.

Closely related to the prospects of China's legal profession is the current five-year campaign of legal proselytism, whereby the general public is being instilled with an awareness of major laws and a respect for legal process. In highly politicised fields, such as the criminal law and human rights, such a campaign may be viewed with cynicism both in China

TOTAL CHINESE ORGANISATIONS WITH RETAINED LEGAL ADVISERS (1982 to 1986)



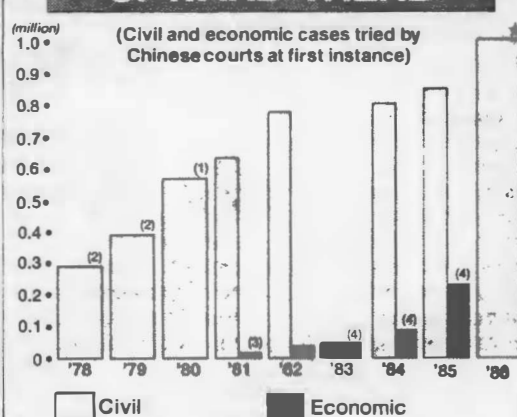
* Estimate only.

† Figure includes only enterprises: People's Daily 27 Sept. 1986.

Source: China Statistical Annual (1985).

REVIEWGRAPH by Andy Tang

UPWARD TREND



* China Daily 17 Feb. 1987.

(1) This figure quoted in China Facts and Figures Annual (1982).

(2) These figures are calculated on the basis of reported percentage increases.

(3) Includes some cases involving economic crime.

(4) 90% are contract disputes.

Note: Reported figures are for 12 month periods but not necessarily a calendar year.

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Source: Supreme People's court Work Reports 1981 to 1986.

REVIEWDIAGRAM by Andy Tang

THE LEGAL NETWORK

Locality																														
Activity	Peking	Tianjin	Shanghai	Jiangsu	Guangdong	Shandong	Shanxi	Guangdong	Henan	Shaanxi	Sichuan	Inner Mongolia	Heilongjiang	Guangxi	Yunnan	Guizhou	Qinghai	Ningxia	Shanxi	Inner Mongolia	Heilongjiang	Jilin	Yunnan	Anhui	Hubei	Guangxi	TOTAL	% of total		
Agriculture					1		1				1																24	2.7		
Service industry	8	2	1			2	2	1			1	2	1	1	7	1	1				1	3					4	42	4.8	
Light industry	12	10	28	14	3	10	4	7	3	3	14	13	7	25	74	7	61	1	6	3	1	3	2	2	1	5	2	319	36.5	
Heavy industry	2	6	11	8	1	8	8	1	4	8	9	10	2	21	34	7	17	1	5	3		4	6	1	2	9	1	187	21.4	
Commerce	9	2	3	8		10	5	10	1	2	12	11	2	24	28	8	11	2	8		3	5		1	1	7	1	173	20	
Tech. services	4		1				1																					19	2.2	
Transport	1						1				1																	1	15	1.7
Joint ventures	2					1	1	1	1							1												17	1.9	
Individuals			3			1	1									1												7	0.8	
Non-commercial	8	2	2	2	1	5	2	1	2		4	1	2	5	10	5	5	1	2	1						1	3	67	7.7	
Miscellaneous	1																											4	0.5	
TOTAL	47	22	49	32	5	38	25	22	12	11	42	39	15	84	168	26	101	5	28	11	9	13	17	6	5	28	2	7		
% of total	5.4	2.5	5.6	3.7	0.6	4.3	2.9	2.5	1.4	1.3	4.8	4.5	1.7	9.6	19.2	3.0	11.6	0.6	3.2	1.3	1.0	1.5	2.0	0.6	0.6	3.2	0.2	0.8	874	

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Source: Public notices of professional lawyers retained by Chinese organisations analysed by the nature of the retaining organisation and its locality (September 1984 to October 1986 inclusive).

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Source: Public notices of professional lawyers retained by Chinese organisations analysed by the nature of the retaining organisation and its locality (September 1984 to October 1986 inclusive).

REVIEWTABLE by Andy Tang

and without. Yet some progress has been made in instilling even lawmakers and enforcers with a sense of legal process.

Crackdowns on crime in the early 1980s, for example, flagrantly ignored the procedural rule requiring all death sentences to be approved by the Supreme People's Court. Later the rule was amended. More recently, student demonstrations prompted the hurried approval of regulations on public demonstrations in a number of major Chinese cities. The result may be effectively to legislate away the constitutional right to demonstrate, but, even so, in these two situations it is significant that Chinese lawmakers felt the need to take legal measures at all.

In the law affecting the day-to-day lives of ordinary people, however (such as laws about housing, divorce and family

property), the new confidence shown in legal process is truly remarkable. The Chinese, as conventional wisdom would have it, shun litigation or similar forms of institutionalised adjudication of disputes. The traditional preference is to settle differences by mutual agreement after negotiation or mediation by a disinterested third party. The socialist Chinese have from an early date, on the one hand, seized upon this preference for mediation, politicised it and created an important place for it among socialist institutions. On the other hand, they have more recently attempted to instil a respect and confidence in law and legal process.

The result has been an astonishing rise in the number of civil actions and contract disputes brought to the courts for resolution. In 1986 there were more than 1 million civil disputes taken to court in China. This was an increase of 16% over the previous year and almost four times as many as the

Laws on ownership and economic reform

Like agricultural reforms, the fundamental goal of economic reform in the tertiary sector is to link economic performance to material incentives without radically changing the system of ownership, which for ideological reasons must remain essentially public. Since policies for urban economic reform were first formally articulated in 1984, China's lawmakers have been experimenting with a number of legal measures to separate ownership from the use of the means of production in the tertiary sector. This has proven much more difficult than separating the use of land from its ownership, as was achieved in agricultural reforms.

No single model of economic responsibility was or could have been envisaged for tertiary reform. The reformers have used legislation to experiment with several different models. The first and most controversial model is *gufenhua*, or securitisation of enterprises. Although securitisation among collective enterprises has been going on since 1983, legislation including state enterprises and mixed forms of ownership (such as foreign and domestic joint ventures) was first issued late in 1986 in Guangdong and Xiamen.

These regulations limit public subscription to 49% of the net value of the enterprise property and annual dividends must not exceed 15% of share capital. China still has not promulgated a company law, but in September last year

Guangdong province adopted a set of regulations applicable to foreign companies registered in the Special Economic Zones (SEZs) with liability limited by shares. These are clearly the most detailed provisions on the internal organisation of companies thus far seen in China and like much of the SEZ legislation will serve as an experimental model for the time being.

Secondly, in a State Council Report Concerning the Reform of the Commercial System in 1984, the leasing of small state enterprises to collectives and individuals or their complete "denationalisation" were both mooted and since then many such measures have been reported, including even the sale of small state concerns to wealthy private individuals. Apart from general contract legislation, however, there have been no new laws regularising these kinds of activities.

Thirdly, the General Principles of

Civil Law, promulgated last April, give recognition to the partnership between natural persons and joint forms of cooperative investment between domestic enterprises. The partnership, as a form of business, had legal status in the 1950s, even if it was not so recognised by name. Having fallen into disuse, it has recently become more popular as a business association and the civil code has six provisions on partnership, which, though only general, may well be a basis on which to stimulate its more widespread use. The three provisions on domestic joint undertakings, however, only address questions of civil liability and more detailed rules about their establishment and composition were already adopted in 1980.

Finally, most legislation on non-agricultural private enterprise in China was promulgated from 1981-83. It included all manner of regulations on registration and administration of individual enterprises. Generally, permission to engage in private enterprise is restricted to unemployed or retired persons and the scope of business activities is limited to one of seven specified trades: commerce, serving food and beverages, repair trades, other service trades, transport, small-scale handicraft trades and housing maintenance. In practice, other activities are permitted, such as medical practice and private kindergartens, according to demand.

So successful has private enterprise been in China that last year a new set of tax regulations was applied to tax them at 7-60% with an additional 10-40% supertax on income over Rmb 50,000 (US\$13,434) a year.

— Edward Epstein



Private enterprise in Hebei: legal restrictions.

number of civil cases taken to court in 1978. The type of disputes taken to court is also changing. Divorce cases and property settlements once constituted more than half of all civil actions. Now divorce cases have given way to disputes over inheritance, property (especially housing disputes) and simple debts.

The same economic changes affecting the demand for legal advisers must also be behind the even more extraordinary increase in economic-contract disputes handled by the courts in the past five years. Economic contracts are those agreements subject to state planning which are made between enterprises or other economic entities, such as rural production units, including the individual enterprise or rural-production household.

Before 1980, Chinese law, after the Soviet model of arbitration, provided that economic-contract disputes firstly be mediated or *arbitrazh* by a state-administrative organ. Appeals could then be heard by a court. Since contract disputes can now be taken directly to court, the number of cases has doubled in almost every year since 1982. In 1985 economic cases, 90% of which are contract cases, increased by 73% over the previous year.

At the same time the work of the courts has increased, the number of "people's mediators" and cases mediated has been falling, despite an overall increase in the number of mediation committees throughout China, which now number nearly 1 million. This is a very significant development in a society where non-litigious dispute settlement has been so firmly entrenched by traditional norms and socialist ideology.

Was the conventional view of the reluctant Chinese litigant merely a myth? Studies of Taiwan under Japanese rule and non-Chinese indigenous peoples under British and

PEOPLE'S MEDIATION 1980 TO 1985			
	Mediation committees	Mediators (million)	Cases (million)
1980 ¹	810,000	5.7	6.1
1981	n.a.	—	—
1982 ²	880,000	5.3	9.17
1983 ²	930,000	5.56	6.98
1984 ²	940,000	4.38	6.75
1985 ³	977,499	4.7	6.3

¹ China Facts and Figures Annual (1982).

² China Statistical Annual (1985).

³ People's Mediation (1986) Vol. 2.

Source: Edward J. Epstein Hong Kong 1987.

REVIEWABLE by Andy Tang

French colonial rule, have shown similar patterns of dispute-settlement behaviour when new external mechanisms have been made available to resolve disputes. Far from exploding the myth of a reluctant litigant, however, the relatively small decline in people's mediation tends to support China's very strong ideological and political commitment to mediation as an institution for dispute settlement.

It must also not be forgotten that most civil actions do not end in a court judgment, but are successfully mediated by the court itself. The proportion of cases successfully mediated by the courts, however, has also decreased in recent years.

The most significant event for Chinese legal process in 1987 will probably be the Supreme Court's recent decision gradually to establish *administrative* chambers at all levels of people's courts. Initially, this chamber will hear appeals on the decisions of public-security organs, as is provided under the new Public Order Regulations. Ultimately, however, they are bound to take over from the courts' "economic chamber" the jurisdiction to hear all kinds of administrative appeals, such as taxation appeals, patent and trademark appeals, appeals from environmental orders and so on.

Increased economic activity and prosperity, heightened awareness of legal rights and the procedure for enforcing them, the novelty and hope entertained by disputants in the courts, and judges and lawyers have all played a role in significantly elevating the status and function of the legal process in China. Nevertheless, lawyers are still beaten by the police and thrown out of court by tyrannical judges. Parties are still forced to compromise disputes when judgment would be more favourable to one side, and courts still give judgments without hearing the parties. ■



PLA on parade: better technology.

MILITARY

PLA marches on regardless of political rumpus

By David Bonavia in Hongkong

The latest round of political controversy in China is thought unlikely to cause more than a ripple in the People's Liberation Army (PLA). Already closely protected from "bourgeois liberalism" and its "corrupting" influence, the army is concentrating on raising its technical and tactical level and on demobilising a million men, or about 25% of its previous strength.

The military press and political commissars have summarised the campaign against bourgeois liberalism for the benefit of those in uniform. The *Liberation Army Daily* has noted that it has caused confusion. "Some of our comrades are worried that the opposition to bourgeois liberalism may hamper reform, opening up and enlivening the economy because of some negative phenomena."

Until quite recently, the PLA commanders were deeply involved in politics and most of the ruling politburo had a military background and numerous useful contacts in the armed forces. Elder statesman Deng Xiaoping, however, has tried to depoliticise the PLA to a considerable extent and instructed it to concentrate on turning itself into an effective, modern fighting force.

As chairman of the Military Affairs Commission of the communist party, Deng has the most direct access to commanders at the highest levels, so that army interference in national politics could be easily stalled by him. Over the past 37 years of communist rule in China, high military commanders have opposed policies supported by the majority of the leadership half a dozen times, but in all cases unsuccessfully.

This does not mean the PLA has had no input into the policymaking process. From 1976-78 especially, when Deng purged the more Left-leaning members of the leadership, he could have been challenged by the army commanders, who

had grievances against him going back to 1975 when he excoriated their primitive tactics and poor leadership. But nobody cared to face him down.

With their new, smart uniforms and the recent emphasis on technical and general education in the PLA, its officers may be less inclined to support the late Mao Zedong's exhortations to plain living and political study. The soldiers' diet has been improved, which means higher incomes for the peasants in areas around large military concentrations — even the PLA cannot grow all its own food.

Nonetheless, it is only a decade or so since the PLA was invested with the halo of Maoist political purity and the role of protector and servant of the peasants and other civilians. Its production facilities for arms and other military goods have been to a large extent converted to production for the civilian sector. Meanwhile, there is difficulty in finding jobs for the 1 million men supposed to be stood down, and many of them are simply being put in charge of militia units in towns and rural areas.

In fact, only about half of the total demobilisation target has been met. The civilian economy cannot cope with more in such a short time. However, soldiers with technical training are useful in factories, transport concerns and communications, while those who were born in rural villages may reconcile themselves to returning to peasant life, because economic reforms have made it more profitable.

As to its true military role, the PLA faces a dilemma. There is no serious military threat to China just now from either of the superpowers and even the Vietnamese are not anxious for war while so many of their troops are deployed in Cambodia. There has been no obvious enemy since the smile diplomacy towards Taiwan was begun five years ago. The Sino-Soviet border problem shows signs of possible solution, though relations with India remain tense on both the Sino-Indian and frontier sectors.

Without an obvious enemy, it is hard to make troops fanatical, and fanaticism has been the best weapon of the Chinese army both in history and in recent decades.

One modernising move last year was the creation of seven army groups, in place of the former 11 military regions. This makes it easier for the PLA to fight an invasion in depth, and works against political fragmentation among regional commanders.

Western arms manufacturers have mostly been disappointed so far in their hopes of selling large amounts of up-to-date weaponry to China. The Chinese have looked, and smiled, and kept their cheque-books in their pockets. But some small advances in their demand for foreign hardware have been observed.

Meanwhile, Peking has entered the lists as a substantial exporter of conventional weapons. In November last year, a large exhibition of Chinese-made arms was shown among other countries' defence technology. It included missiles, tanks, armoured vehicles, planes, artillery, radar and new engine and laser systems.

China is estimated to have earned about US\$1.5 billion in arms exports to Third World countries in 1986. This helped

to finance prospective purchases of advanced military technology from Western countries — especially in avionics, radar guidance and computers.

Particular attention is being paid to modernisation of the air force, the crucial arm in much of modern warfare. Tactical exercises held last spring involved "advanced supersonic fighters, attack planes, bombers, transports, helicopters, tanks, airborne troops and surface-to-air missiles," according to Xinhua newsagency. China has also designed and built a naval bomber with air-to-ship missiles.

In other service branches, China boasts development of Chinese-character computer and telex systems, automatic decoders and lasers which determine whether a shot "fired" in an exercise actually hit its target.

Military experts judge that China could not outgun any major military power in the world today. But with its successful rocketry programme — now being touted for commercial hire — its ICBM capability is accepted by chiefs of staff of all big powers, who would hesitate to deliver a nuclear blow to China for fear of damaging retaliation.

Despite the removal of their political glamour, China's soldiers are still involved in the life of the area where they are



Anti-aircraft missiles: everything for sale.

stationed. A recent report from Sichuan province said there had been a big transfer of power over local militias to civilian authorities.

Emphasis is again being placed on academic preparation of military officers. The National Defence University — described as "China's highest military institution" — was opened last September after a 20-year period in which formal instruction was neglected.

The Peking *Monthly Forum* reported that the university had been completed in 1985. It has subsumed the roles of three previous academies — the military academy, the political academy and the logistics academy. A university spokesman said the new school would focus on turning out "highly knowledgeable and capable" military intellectuals with "strategic minds and the ability to direct combined operations, who know not only the ground forces, the navy and the air force, but also military affairs, politics and rear-service work."

The academy has a national-defence research department, a "basic department" (presumably for new officer cadets), a refresher-course department and a teachers' training department. Later there will be a post-graduate institute, according to Xinhua. The school already has 78 professional research fellows "who are quite influential inside and outside the army," Xinhua claimed.