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China Report

ECONOMIC AFFAIRS

(FOUO 1/82)



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NATIONAL POLICY AND ISSUES

REPORT ON JAPAN-PRC ECONOMIC COOPERATION

OW220237 Tokyo THE DAILY YOMIURI in English 19 Dec 81 p 2

[YOMIURI SHIMBUN 18 December editorial: "China Must Help Itself"]

[Text] Frankly, the Japanese side was somewhat cool toward the second Japan-China ministerial conference held in Tokyo, not only because it was a structured meeting, but chiefly because China has tended to change its economic policy drastically.

Chinese economic policy shifts were particularly pronounced this year as the country tried to cope with financial deficits and inflation. Emphasis shifted back and forth from heavy industry to light industry. As a result, China canceled import orders for large amounts of Japanese plant equipment.

The extensive Chinese policy changes not only stunned the Japanese business community, but also jolted the Japanese public's general confidence in China.

Sometime last summer, the Chinese got their economic program back into shape and again placed importance on heavy industry. Meantime, the two countries have reached a settlement of the plant import cancellation problem. Japan has agreed to provide yen 300 billion in credits.

Unstable Factors

However, this agreement has not restored mutual confidence.

Although we have no intention of meddling in China's domestic and international economic affairs, we suggest that China itself has already realized that overabrupt changes in policy have a negative effect. In this connection, we must note that China must be deliberate in seeking Western partners in its modernization program.

There are several other unstable elements in Sino-Japanese economic relations. One of them is the correction of the trade imbalance in favor of Japan. A steady increase in Chinese coal exports to Japan is essential to erase China's trade deficit. But prospects of this happening do not look bright.

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Poor Use of Loans

Another problem is that China has not been making efficient use of Japanese yen loans. Prior to the latest bilateral conference, the Suzuki administration decided to extend China yen 60 billion in yen loans for the current fiscal year.

This step represented support for the present Chinese leadership from a political standpoint. We endorse this move. But we regret that China is not putting these yen loans to good use.

Chinese vice-premier Gu Mu told a press meeting that Sino-Japanese relations would progress well when China's rich natural resources and Japan's money and technology are combined.

Chinese leaders have often made such statements, but they need to recognize that the main responsibility for China's economic development rests with China itself. Japanese assistance is fruitless without proper Chinese economic management.

We wish to see China make economic progress and for this purpose it must go ahead with appropriate reforms.

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FINANCE AND BANKING

NECESSITY OF BALANCING BUDGET DISCUSSED

Tokyo THE DAILY YOMIURI in English 24 Nov 81 p 5

[Article by Yoshio Matsui]

[Text]

There is no country in the world where people like to pay taxes. But the Chinese people especially dislike taxes.

Zuo Chuntai, director of the secretariat of the Finance Ministry, whom this reporter met at his office in Peking, shrugged and said: "We know well that our present taxation system does not fit the actual conditions. But we can do nothing about it."

About three years ago the Finance Ministry hit upon the idea of imposing the registration tax of two to three yuan (one yuan equals about ¥13) on bicycle owners. It is estimated that there are about 100 million bicycles in China.

Income Tax

When the ministry's idea became known to the public, however, people opposed it vehemently, saying: "Is the government just talking about giving priority to improved living conditions and not really doing so?" and "Levying taxes on bicycles is a matter of life or death to us." Stung by the outcry, the Finance Ministry dropped the idea in no time.

Then the government

came up with a plan to introduce an income tax for individual citizens. There is an income tax in China but it is imposed only on people with very large incomes, including some foreigners living in the country. The government planned to levy a lower income tax on citizens of lower and middle income brackets.

But this plan also met strong opposition from citizens. "Some citizens went so far as to say that they would rather forego wage increases than pay the tax," Zuo said. So the government dropped the plan.

The Chinese Government's revenue consists of its income from taxes and some of the profits of enterprises which go into the government's exchequer. The government's revenue is equally divided into these two categories. It gets 50 billion yuan from the taxes and another 50 billion yuan from the profits of enterprises.

The major tax in China is a commodity tax called "industry and commerce tax." If goods sell well, the government's income from the tax collection increases. Since goods are in short

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supply, however, the government's income does not increase as much as the workers' income does.

Besides, the tax rate is high for luxury goods and low for goods classified as daily necessities. Therefore, an increase in consumer spending does not result in a corresponding rise in the government's income.

What about the profits of enterprises which go into the government's exchequer? The profits may increase over a long period of time. When seen from the short-range viewpoint, however, they do not.

Sharing Of Profits

The amount from profits given to the government is decreasing at present, because enterprises are expanding their rights and a system under which they keep much of their profits in their hands has begun to take root.

Under these circumstances, the amount has not been increasing during the past several years. Figures show that the amount has been decreasing instead.

That is not all. Since 1979, the government has been carrying out many new policies which require much outlay. As a result, the government has got into the red. The amount of the deficit in the government's budget was 17 billion yuan in 1979 and 12 billion yuan in 1980.

The deficit corresponds to a little over 10 percent of the budget. The rate of deficit is lower than that in the Japanese Government's budget. But it can be said that the situation is much more difficult in China, since the deficit resulted from decreases in the government's revenue.

In China there is a tendency to single out one factor, whenever something goes wrong. This tendency is evident in the case of the government's deficit.

Hasty Policy

All Chinese government leaders whom this reporter met said that the deficit in the government's budget resulted from excessive investments in factory equipment, in the development of mines and civil engineering and construction projects. They added: "We were too hasty in modernizing our country."

Certainly, that is part of the reason behind the financial difficulty facing the government. Take the government's fiscal 1980 budget, for example. The government originally planned to spend 50 billion yuan for investments in various industrial projects. But it ended up spending 54 billion yuan for that purpose. The extra 4 billion yuan spent by the government contributed to its deficit. But this is not the only factor involved.

Let us examine the new policies that the government carried out during the past three years. It raised the prices at which it buys agricultural products from farmers. The government granted subsidies to the people's communes to enable them to reform themselves. It also granted subsidies to enterprises in the light industries. And the government increased wages for city workers. There are numerous such examples.

The wage increases included those called "payments to retrieve the honor of persons who were defamed." These were made to people unjustly criticized or demoted during the cultural revolution and amounted to more than 1 billion yuan—no, a small sum.

The Chinese Government's budget deficit has resulted not only from excessive investments but

from a number of factors such as decreases in the government's income and the execution of many new policies. The government, however, covered up these factors, except excessive investments, and reduced funds for investments in fiscal 1981. The amount corresponded to 45 percent of that in the previous fiscal year.

But to say the government made excessive investments in past years is not fair at all.

Priority Projects

The main road leading from Guangzhou to Macao is rough and bumpy. And there are no bridges over four rivers running across the road. So people must use ferries to cross the rivers. The lack of bridges and other facilities in China not only inconveniences people but also hampers economic activity.

Vice-Premier Wan Li said: "Although we are cutting investment, we will give priority to projects for road construction and energy development." Since the total amount of investment has been cut greatly, however, the government cannot spend much on those projects, even if they are given priority.

The budget of a government is something which must be balanced well. If the government's income and its expenditure are not balanced and the government's money is not spent fairly, the budget would collapse. If the people do not like to pay taxes, then the government should slow down its work to improve their living conditions.

The Chinese Government cannot expect to rehabilitate itself financially and lower inflation if it is content to regard investments for various projects as villainous.

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FINANCE AND BANKING

INFLATION RUNNING OUT OF CONTROL

Tokyo THE DAILY YOMIURI in English 17 Nov 81 p 5

[Article by Yoshio Matsui]

[Text]

There are four kinds of prices for consumers in China today. The first is the officially fixed price for all goods. The second is the price which is set through bargaining between sellers and buyers as a result of the demand-and-supply situation. These prices are for goods like farm products which are sold at free markets.

The third is the black-market price. The fourth is the price for foreigners, which is markedly high. But the price for foreigners has nothing to do with the common people in China, of course.

There are three kinds of prices for the common people and it is very difficult to tell which price is the real one. Besides, there are marked regional differences in the prices of goods. In short, prices in China are in a great deal of confusion.

One thing is however certain that prices of all goods are going up. In April this year the National Statistics Bureau announced figures concerning price increases for the first time, saying that prices rose by 8.1 percent in cities and jumped by an average of six percent in the entire country in 1980.

Misleading Figures

The figures show that prices went up considerably last year. But it seems that these figures do not tell the whole truth. The statistics are based mostly on the officially fixed prices, with some free market prices being added to them. The ordinary people are buying most goods at the free market prices, which are much higher than the officially fixed prices. They feel that prices rose by far more than six percent last year.

Li Lanlan, a 36-year old housewife and textile worker of Chengdu, Beng Yugui, a 56-year old retired worker of Chongqing, said precisely the same thing about the impact of the price spiral on their lives. They said: "Prices certainly have gone up. Two years ago the monthly living expenses of a person amounted to only 20 yuan (one yuan equals about ¥130) or 25 yuan at the most. Now a person needs at least 30 yuan a month to make both ends meet, no matter how much he may cut his expenses."

If this is right, it means that prices rose by 20-25 percent during the past two years. The two aforesaid persons said that prices in-

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creased especially for pork, chicken, eggs and marine products which the Chinese partake as side dishes in addition to rice. These are the kinds of food that the common people need everyday. So the rise in prices of daily necessities is very hard on them.

Factors Responsible

It used to be said that there was no price spiral in China. Why, then, has inflation started so suddenly in the country? It has much to do with wage increases for city workers and the hike in the prices at which the government buys agricultural products. These two developments occurred in 1979. Another factor is the boom in investments which has been going on since 1978.

All these developments resulted in a sharp increase in the government's expenditure and the government ended up developing a deficit in its budget. On top of that, the government covered most of the deficit by issuing more paper money.

To begin with, China is a country where various goods are in short supply. Naturally, too much money being circulated in the country triggered inflation. Japan plagued by an "imported inflation" resulting from increases in the price of crude oil.

The inflation in China is of a different kind. It is a typical case of "paper money inflation."

With much money in their pockets, the Chinese are now very eager to buy goods. This is evident from what the Academy of Social Sciences of China said. "Be-

tween 1970 and 1978 the purchasing power of the Chinese people increased by an average of 9 billion yuan each year," the academy said. "In 1979, however, the purchasing power increased by 32 billion yuan. And in 1980 it increased by 35 billion yuan."

Besides issuing more paper money, the government took a series of economic liberalization measures. The government liberalized economic activities in order to make the people more eager to work. This resulted in the people not only becoming more eager to work but also becoming more anxious to do things which pushed up prices.

Economic Measures

Under these conditions, it is quite natural that black-marketing and the illegal sale of goods became rampant. Nowadays there are many newspaper reports on such matters: as an old woman in Shanghai being arrested after many imported watches were found in her inside pocket and a young man being arrested for trying to sell 212 silver coins hidden in his money belt.

Becoming impatient, the government ordered the freezing of prices last December. The State Council sent a notice to local governments, saying that on and after December 7 the prices of certain goods should not be raised. The people could not laugh off the move by saying that the notice was just a piece of paper.

The Chinese people are used to being controlled by the government. A notice sent by the government

works much more than the Japanese people can imagine. Price increases have begun to level off since the beginning of this year.

Difficult To Control

But inflation is something which is most difficult to control. Even if the price spiral is checked for some time, prices will begin edging upward again in due course. If the government tries to control prices forcibly, the price spiral suddenly shoots upward once the weight which is put on it is lifted.

Xu Dixin, vice-president of the Academy of Social Sciences of China, said: "After all, it is necessary to eliminate the deficit in the government's budget and to increase the production of goods which are in short supply now." He is apparently aware of the fact that forcible measures alone cannot put an end to inflation.

Xu also said that he experienced a very bad inflation while living in Chongqing during the 1930s when China was under the rule of the Nationalist Party.

"In those days workers ran to a shopping district as soon as they got salaries. Goods disappeared from store shelves in a matter of minutes," he said. "People never saved money and they became dissolute . . . Of course, the situation is better today than in those years. But if we do nothing to improve the situation, it can become as bad as it was before. We should not allow the inflation to become worse."

There is no doubt that the present price spiral and the resultant confusion is the Achilles' heel of China.

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FINANCE AND BANKING

BANKS BEGIN BACKING BUSINESS INVESTMENT

Tokyo THE DAILY YOMIURI in English 27 Nov 81 p 5

[Article by Yoshio Matsui]

[Text] Since machines and other equipment at China's factories are mostly old-fashioned, plant and equipment investment campaigns are in full swing in the light industry sector that is being given high priority in the industrial "readjustment" instead of heavy industry.

Xu Xixiang, chief of the state-run First TV Set Manufacturing Factory in Chengdu, Sichuan Province, said: "New additions to our production facilities are now in progress. Given the new facilities, our output of TV sets, which in 1980 was 35,000 units, will jump to 100,000 per year."

"In the innovative efforts to improve our factory, we have learned a lot from the latest plant of Japan's Victor Company," he said.

Zeal for investment was also evident in a silk fabrics plant in the provincial capital, which is not run by the state but was established through merger of local factories for joint management.

The vice-director of the plant, Wu Derong, said: "We are considering introducing shortly the latest models of machines as well as making substantial investments in a variety of programs for diversifying designs of our products."

Aggressiveness

What has made those responsible for managing plants so aggressive for investment?

It may be partly due to the ongoing "autonomy expansion movement" for individual enterprises.

But it seemed that the increased enthusiasm was primarily and directly resulting from recent improvements in China's "bank loan system."

In fact, both of the two plants mentioned above have obtained 440,000 yuan (one yuan equals about ¥130) and 1,000,000 yuan, respectively, in bank loans for investment purposes.

Maoist Days

Although there did exist a bank loan system even in the Maoist days, the amount of bank loan available was limited and industries entitled to get bank loans were also restricted to a handful.

Under the too rigidly planned Chinese economy before the adoption of the readjustment program, there might well have been little stimulus for giving rise to the very idea quite common to Free World countries: borrowing money from banks for investment purposes.

In addition, the notion

of "interest" on loans was left unexplained to the Chinese people until recently.

At one time, Chinese officials used to ask visiting Japanese businessmen such a question in all seriousness as: "How can it happen that money is able to beget money?" although this, of course, is never the case in today's China.

Chinese Government leaders, for their part, have officially come out with a "switch in priorities" from funds for public finance to bank loans for financing projected investments.

"Loans should be preferred to government-granted funds," said an official, "because enterprises are better motivated to raise their productivity and efficiency in order to pay back the loans."

Setup Improved

In line with the government encouragement, the one-time heavily intricate setup of Chinese financial institutions has recently been streamlined remarkably.

Following the simplification of loan procedures, public works-related loans from the Ministry of Finance, for example, are being funneled through the People's Construction Bank, while individual en-

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terprises are supposed to borrow from the People's Bank.

Thanks to the procedural reform, banks themselves have become increasingly willing to extend loans.

A recent report by the Wuhan branch of the People's Bank on its follow-up investigation of 400 cases of its loaning says one of the enterprises which are loaned by funds the bank "made profits at a rate of 10 yuan per one yuan it borrowed, simply because the enterprise went all-out to repay the loan."

Although the report should be taken with some reservation because it covers loans only for production equipment investments in the light-industry sector, there now is little doubt that bank loans in China have begun to move smoothly.

With the increase in bank loans, a system for "solvency screening" of loan requests also has been put into practice.

According to Qiu Changyao, vice-director in charge of loaning at the Guangzhou (Canton) branch of the People's Bank, enterprises desiring to get loans are asked without exception to submit written applications, with the highest importance in the screening given to purposes for which the enterprises are going to use the borrowed funds.

"Needless to say, the would-be borrowers' repayment plans as well as their business showings and inventory-sales ratios are taken into consideration," he said.

In case of borrowers failing to pay back the loans when due, a 20 percent surcharge is levied, Qiu added.

Fledgling State

While China's money market has thus been set in motion, it certainly is in a fledgling state.

Both banks and borrowers are apparently behaving cowardly, tending to minimize the amounts of loans and the terms of redemption only for the safety of their money.

Banks have turned to what they call the "three-point safety principle": giving priority to small-amount loans rather than large ones; giving preference to short-term loans over long-term ones; and loaning more for equipment investment than for operational purposes.

The principle obviously shows Chinese banks' particularly cautious attitude toward lending: limiting loans to small amounts and drawing them in during shortest possible periods by lending money mainly for solid investments in equipment.

Because of this safety-first principle, a great majority of bank loan borrowers are said to be state-run enterprises.

For example, more than 90 percent of loans being extended by the Guangzhou branch of the People's Bank are for state-run enterprises, according to Qiu.

Under the circumstances, the avowed policy of thinking much of "enterprises under collective management or those run by individuals" is no better than a slogan which has yet to be achieved.

Money Rate

Furthermore, the money rate structure of the People's Bank is something irregular, as the interest on one-year fixed deposits with the bank is set at 5.4 percent per annum, higher

than 5.04 percent the bank charges for its loans for operational funds, thus giving rise to the so-called "adverse spread."

This can hardly be considered normal, although Liu Yansun, director of the bank's saving department argued that there in fact was no adverse spread "as we set the deposit rate for enterprises at 1.8 percent per annum, compared to that for individuals at 5.4 percent."

Admitting that the existing money rate structure could function as long as the quantities of loans remain small as they presently are, it might eventually affect seriously the banking business with increases in loans in the future.

Despite a variety of such problems, it is evident that the bank loan system in China has gradually been taking root.

It may safely be said that China is well advised to take good care of the burgeoning bank loans.

Before the recent growth of bank loans, investment projects were mostly financed directly by the government, so that those enterprises and groups with bigger voices or connections with government leaders, irrespective of their business showings, tended to grab unreasonably large portions of funds available.

The more bank loans are used for raising funds for investments, the more opportunities may be given to place the business performance of each enterprise under impartial and cool assessment by bankers, which in turn would greatly help enterprises and other production units improve their efficiency.

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FINANCE AND BANKING

GROWING GOVERNMENT RELIANCE ON NATIONAL BONDS SEEN

Tokyo THE DAILY YOMIURI in English 3 Dec 81 p 5

[Article by Yoshio Matsui]

[Text]

This year the Chinese Government issued national bonds amounting to 5 billion yuan (one yuan equals about ¥130). It was the first time in many years that the government had taken such an action. This was an epoch-making event because the previous issuing of national bonds had taken place in the distant past.

There is no problem in getting the bonds underwritten because the government practically allots them to various organizations. Zuo Chuntai, director of the secretariat of the Finance Ministry, said: "Almost all national bonds have been underwritten by local governments, enterprises, major people's communes and other organizations. So far, no individual has been allowed to buy national bonds."

For example, Shanghai City was allotted national bonds totaling 400 million yuan. Of this total, 300 million yuan were allotted to first-rate enterprises and people's communes in the city and the remaining amount was underwritten by the municipal government.

Zhang Feng, chairman of the municipal economic committee, said: "There were almost no problems. The negotiations for the

underwriting of the bonds progressed quite smoothly."

Even the Wuhan steel plant, which is having financial difficulty resulting from the government's policy of adjusting steel production, has underwritten national bonds amounting to 10 million yuan by using part of its savings.

Part Of Assets

Tang Zongze, director of the accounts office of a watch manufacturing corporation in Chongqing, said: "We eagerly bought national bonds totaling 400,000 yuan. We regard them as part of our assets."

He would not have said that the bonds were part of the corporation's assets, if he did not trust the government at all. He said so, because he trusted the government, even though the bonds were allotted to the corporation by the government. His statement showed that national bonds were being accepted well and the Chinese people have begun, though gradually, to trust their government.

Like national bonds in Japan, national bonds issued by the Chinese Government are good for 10 years. But national bonds in China are different from those in Japan in that the rate of interest on them is

only four percent per annum and the government begins to redeem them five years after they are issued. The government chooses by lot the bonds to be redeemed.

But the interest rate of four percent is relatively high in China, considering that the interest rate on citizens' deposits in the people's banks is extremely low—1.8 percent per annum. So national bonds in China are an "attractive merchandise," so to speak.

Vague Details

Yet China, unlike Japan, has no bond markets. What happens to the Chinese Government's bonds which have been bought by various organizations? This reporter asked an official of the Chinese Finance Ministry.

Here are some of the questions and answers that we exchanged.

Does the government permit various organizations to resell national bonds?

"We are considering that now."

Isn't there the possibility of an organizations going bankrupt with national bonds?

"The situation has not yet reached that stage."

Is there a system under

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which the government buys up national bonds?

"We are considering that too."

In short, the details of the national bond plan have not yet been worked out. The Chinese Government issues national bonds without, deciding what to do with them in the future. Small wonder the bonds were issued not for the fiscal 1981 budget but to make up for the deficit of 12 billion yuan which had developed in the fiscal 1980 budget.

So the government describes the issuing of national bonds as "a temporary measure." This description is correct. For the government did not issue any national bonds for the fiscal 1981 budget. The government reduced the size of the budget for the current fiscal year by drastically curtailing its investments.

Income Source

Certainly, it will be good if the government's budget is balanced well and the government can do without issuing national bonds. But is that possible in China? China cannot stop its drive for liberalization. The pressure for increases in the government's expenditure will grow further in the future, even though China is a country with a government which is good at controlling the people.

If the government can obtain an enough revenue

to make up for the rise in its expenditure, there will be no problem. But that is not likely. So the government must find a new source of income to operate its budget.

This reporter feels that the government should introduce a normal national bond plan. The government should also consider issuing bonds to raise money to build roads and bridges, to improve and expand port and harbor facilities as well as rivers, instead of issuing bonds just to make up a deficit in its budget.

It is said that big floods in the areas along the Yangtze River which occurred in 1980 and this year resulted from the fact that mountains in the areas had become treeless because of the government's failure to carry out afforestation projects. This means that the government must make investments in afforestation and other similar projects.

Surplus Money

Since the savings of the Chinese people are increasing sharply, it is quite possible for the government to issue about 5 billion yuan of national bonds each year.

National bonds serve the purpose of absorbing into the national exchequer money which is in abundance now. In China today goods are in short supply although the people are eager to buy goods. This means that there is too much money in the coun-

try, which is one of the main causes for inflation.

Therefore, it is meaningful to issue a certain amount of national bonds.

This reporter expressed this view to faculty members of Fudan University in Shanghai, which is one of the famous institutions of higher learning in China. But Wu Pallin, a professor at the university's economics department, disagreed with the view.

"If the government keeps running its budget on a deficit, it will lead to inflation," he said. "The Chinese people are still so poor that they cannot cope with inflation. Economist John Maynard Keynes' idea of expanding the economy by strengthening the national finance may hold good in Japan but it is not necessarily good in our country.

"Certainly, it may be dangerous for us to view China as a country with a population of 1 billion, in the same way we view Japan, which has a population of only 100 million," he added.

But this reporter could not give up the idea that the Chinese Government should consider issuing a small amount of national bonds, because China is lagging in investments in construction projects, the government revenue is decreasing and inflation is tightening its grip on the country because of the shortage of goods.

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FOREIGN TRADE

JAPAN-CHINA MINISTERIAL MEETING VIEWED

OW231051 Tokyo MAINICHI DAILY NEWS in English 21 Dec 81 p 2

[Editorial: "Sino-Japanese Economic Ties"]

[Text] Japan and China have concluded their second ministerial meeting in Tokyo after reaching an agreement that Japan would extend 300 billion yen for China's construction of the Daqing petrochemical complex and the Baoshan steelworks, and also 60 billion yen in loans for the current fiscal year.

Regular ministerial meetings are essential for the deepening of mutual understanding between the two governments' leaders. Since the first ministerial meeting, the Sino-Japanese relations have been at a low ebb to some extent due to the Chinese annulment of the export contracts of Japanese industrial plants or its postponement of the plants.

The latest meeting was expected to offer a good chance for the two countries to restore a strong relationship. The signing of the Japanese extension of funds for the construction of the industrial plants met such an expectation, putting an end to the disputes resulting from the Chinese annulment or postponement of the plans. Together with the 60 billion yen in credits, the agreement is expected to open new prospects for bilateral economic cooperation in the future.

During the two-day conference, the Chinese ministers repeated criticisms of the Soviet hegemonism and reconfirmed their basic policy for the improvement of cooperative relations with Japan and the United States. They said that China wanted to cover its shortage of funds with the introduction of foreign capital for the promotion of its modernization programs.

The Japanese counterparts expressed their readiness to cooperate actively with the Chinese economic policy. We believe it quite reasonable for Japan to support China as long as China maintains an open economic system aimed at a stable development.

It is too hasty to conclude that the two-day meeting could completely erase mutual concerns and helped the two countries to take new steps for stronger relations. We cannot deny the existence among the Japanese economic circles of a deep-rooted distrust toward the unstable Chinese economic policies.

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In his recent policy speech, Chinese Premier Zhao Ziyang said the Chinese economy had overcome a crisis but added that a potential crisis still remained, adding that China needed five or more years to complete its economic adjustment and improve the managerial system.

Difficulties in the economic management are indicated by the fact that the Chinese Government had been unable to disclose the blueprints of the current Sixth Five-Year Plan (1981-1985) and the new 10-year program (1981-1990).

Zhao also said in his report that China planned to triple agricultural production by the end of this century. Some have expressed skepticism concerning this because, to attain such a target, China must realize an annual economic growth of six percent.

Under such circumstances, the Japanese economic cooperation to China must correspond to the reality of the Chinese economic situation. We do not support an idea that the more the Japanese financial aid, the stronger the Sino-Japanese ties would become. We must remember that an excessively gigantic economic aid to China would compel Southeast Asian nations to look suspiciously at the future Tokyo-Beijing relations.

China and Japan will greet the 10th year in 1982 of the establishment of normal diplomatic relations and we expect the mutual visits of prime ministers. During the past decade, the trade volume expanded from \$700 million to \$10,000 million and the number of Japanese visitors to China increased from 9,000 to 90,000. We must maintain this trend.

The ministers have agreed to have official talks, early next year if possible, for the Japanese import of Chinese oil and coal from 1983 to 1985. The joint press statement issued after the meeting said that the two countries must conclude agreements on taxation and investors' protection, and the promotion of the opening of a regular freight services.

We hope that the two countries will steadily solve pending problems one by one to further strengthen the Sino-Japanese relationship.

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LABOR AND WAGES

'WENMING' REPLACING OLD IDEOLOGY

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[Article by Masaru Maruyama]

[Text]

The Wuhan No 1 cotton-spinning factory is a model plant, which was once inspected by the late chairman Mao Tse-tung. When this reporter visited the factory, a staffer explained to me about the achievements for which workers at the factory received special allowances as incentives.

One of the achievements is "wenming production." The word "wenming," pronounced by the Japanese as "bunmei," means "civilization."

When asked what "wenming production" meant, he said that it meant "being neatly dressed" or "having the habit of putting things in good order at a factory."

The amount of allowances paid to workers at the Wuhan No 1 cotton-spinning factory accounts for 15 percent of the total amount of special allowances paid to them for their good actions. This means that each worker judged to be carrying out "wenming production" gets 28 yuan (one yuan equals about \$1.30) a year. This is no small sum, considering that the average basic monthly salary of workers at the factory is 64 yuan.

Not all workers at the factory are paid the full amount of the special allowance, however. Those

who wear their hair long or do their work with bare feet lose points, thus becoming ineligible for receiving the payment in full.

Principle Of Spirit First

Two characters representing "wenming" are now seen everywhere at factories and large stores in China. One of the main points of China's present economic policy is a sort of rationalism under which it is considered silly for workers to march to their places of employment, carrying the Red Flag. Since the end of last year, however, the principle of spirit-comes-first has been gradually taking root in the country again.

At factories, stores and other facilities where various kinds of service are rendered, the principle takes the form of "wenming production." The principle calls for the promotion of "spiritual culture" as well as "material civilization."

The expression "bunmei-kaka" (civilization and enlightenment) was in vogue in Japan during the early years of the Meiji era when the wave of Western civilization swept across the country. But "wenming," which the Chinese are talking about these days, is different from the Japanese expression.

"Wenming" is an umbrella term which refers to many different things, such as enriching the communist ideology, being refined in speech, observing sanitation rules and etiquette. All these things fall under the category of "wenming."

As might be imagined, however, the expression sounds awkward. Talks about "wenming" tend to become abstract.

In recent years Chinese workers have been told that the more they work, the more money they can earn, and this was the principle to be maintained to modernize the country. Now they are being told that spirit comes first. They are finding it difficult to adapt themselves to the change.

Seen from this angle, the Chinese authorities' action of putting "wenming" on the list of good deeds by workers, is quite clever. They say that spiritual civilization means being neatly dressed or keeping their places of work clean and in good order. This is certainly easy to understand.

But "spiritual civilization" is something which is hard to put in figures. Is it right to use a point system to find out whether each worker is carrying out "wenming"?

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Confusion At Factories

The wenming movement is apparently causing confusion at factories in various cities which this reporter visited. It is something like a set of rules for workers to follow in their daily lives. So it is different from the drive to propagate the Mao Tse-tung ideology. It is also different from the principle of modernization, which says that the more a person works, the richer he becomes.

Here are examples of slogans that this reporter found written on posters displayed at some factories.

"Let us maintain safety by engaging in production under the principle of wenming." (Baosan Steel Plant in Shanghai)

"Observe strictly the custom of signing your name when reporting to work or leaving the factory for the day." (Shanghai Machine Tools Factory)

"Let us have great ambitions and climb the high peak of science in the world." (Wuhan Steel Plant)

The slogans written on posters pasted on the walls are a disorderly mixture of new things and old things. They are all abstract. In the bygone days there were "Quotations from Chairman Mao Tse-tung" and such adages as: "Learn agriculture from Tachai and learn industry from Taching." (Both Tachai and Taching are the names of places.) But now there are no models and idols to take the place of those old adages.

Success In Service Sector

There are bulletin boards covered with cotton dust which stand idle with no

slogans written on them, because there are no slogans to be written. And in some places wastebaskets are called "wenming baskets." As far as factories are concerned the "wenming movement" apparently has not yet taken root.

But in the areas of commerce and services, the movement has been fairly effective, because in these sectors things like good manners and good order, the virtues emphasized in the movement, can be put into practice, with employees improving the way they treat their customers.

Posters bearing slogans calling on employees to be polite to their customers, which were written in red letters, were pasted on the walls in all sections of department stores in Wuhan and Zhengfu, the capital of Sichuan Province, which this reporter visited.

Certainly, it was strange that these posters were displayed conspicuously at places where they could be seen by customers as well as staffers. But I could see that the management of the respective department stores was eager to improve staffers' service to customers.

Popularity Contest

At a store complex in Wuhan labor unions and communist youth organizations were holding a popularity contest to choose a store whose staffers served their customers better than any other store in the complex.

Wang Jianan, vice-president of the complex called the Wuhan Complex of Stores Selling All Kinds of Goods, said that at each store in the complex members of a watchdog organ,

named the Committee for Discipline at Stores, were keeping a sharp eye on staffers to see if they were speaking to a customer as soon as they spotted him.

In the case of stores too, the point system is used to judge how faithful each worker is to "the wenming movement." And each worker gets a reward in terms of money, or allowance, for his contribution to the movement.

How well a staffer serves customers at the Wuhan Complex of Stores Selling All Kinds of Goods is the equivalent of "Wenming production" at factories. And the allowances paid to the staffers for their good service to customers account for 60 percent of all allowances given them. The rate is 33 percent at the Shanghai No 1 department store, the largest department store in the city.

How to eliminate materialism or money worship will gradually become a big task that must be accomplished in the process of rehabilitating China economically. For financial reasons, it is becoming impossible to pay special allowances to workers as incentives for their good work.

Moreover, there are signs that workers who do not get such allowances are seeking a vent for their pent-up emotions.

Certainly, a sense of crisis prompted the "wenming movement." But there are indications that the movement will be incorporated into the system of giving incentives in material terms or will end up becoming a mere formalism which won't do any good.

It is apparently not easy for the movement to take root as a system of spiritual incentive for workers.

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