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China Report

ECONOMIC AFFAIRS

(FOUO 2/82)



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CHINA REPORT
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FINANCE AND BANKING

FOREIGN MONEY KEY TO BETTER LIVING

Tokyo THE DAILY YOMIURI in English 15 Dec 81 p 5

[Article by Yoshio Matsui]

[Text] The Chinese people's eagerness for foreign currencies is surprising. Indeed they change color when they receive foreign money such as the Japanese yen or the American dollar.

This reporter was surprised at the phenomenon because there is no way a Chinese can use foreign money in the country. So I asked them about the reasons behind this.

Special Privileges

Whenever a Chinese goes to the Bank of China with foreign money, the bank not only converts the currency into the yuan but also offers special coupons called "tickets to supply materials."

If a person goes to a store with the coupon, he or she is offered an additional amount of rice, wheat or oil outside the framework of rationing.

It appeared that there were other kinds of special coupons with which Chinese could buy such articles as television sets or bicycles, all of well-known brand names, without waiting for their turns as per long waiting lists.

This means that special privileges are granted to those who turn over foreign currency to the bank, a system which has become

popular among the Chinese people.

Of course, ways of obtaining foreign currency are limited. If a person is lucky he may get foreign money directly from foreign tourists, although this practice is considered illegal.

Main Source

Under the circumstances, most foreign currencies come into the country either through remittances from overseas Chinese or left by the latter during their stay in China.

The system of granting special privileges to the Chinese people who deposit foreign currencies into the Bank of China is, of course, a desperate measure to garner all available foreign money in the country.

In fact, this is reflected in the Chinese Government policy on foreign exchange control. Any attempt that may result in an outflux of foreign money out of the country always faces strict checks by Chinese authorities. On the other hand, there are no restrictions on the influx of foreign currency into China.

Consequently, the Chinese people are encouraged to look for foreign money in the country.

There is another coupon in China. It is issued to foreign nationals. The value of the coupon, called "convertible tickets," is the same as the yuan.

Coupon As Passport

The coupon allows foreigners to shop at stores open only to foreign nationals where articles of well-known brand names and of higher quality are available. The coupon is extremely attractive to the Chinese people. Thus this coupon, together with the other coupon for supply materials, is considered a "passport" to better living in China.

Consequently, the living standard of Chinese who have well-to-do relatives abroad or who have contacts with foreigners in China differs from that of ordinary Chinese.

In Peking, for instance, Chinese families living next to foreign residents own TV sets, washing machines and bicycles of latest models. On the other hand, Chinese people living next to the above-mentioned Chinese have no choice but to use outdated bicycles by carrying out necessary repairs. This has created an imbalance in the living pattern of the Chinese people.

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When I visited a people's commune in Shanghai, I came across a farming household which was richly furnished with furniture. A check revealed that the family had a rich and influential relative in a foreign country.

Rich Provinces

By the same reason a similar imbalance also exists between provinces.

Guangdong and Fujian provinces which historically have sent out a great many Chinese overseas naturally receive foreign currency from abroad. Thus they are relatively richer than other provinces, and it appears that land-locked provinces are being left behind in "poverty."

This trend has gathered momentum since last year when a trade liberalization policy was adopted. Provincial and municipal authorities were allowed to keep aside for their own use part of profits earned from their trade with foreign countries. Richer provinces and cities wasted no time in seizing the opportunity, and started trading with foreign enterprises and countries.

Worth mentioning are their transactions involving black-and-white television sets. Richer provinces and cities imported them in a large quantity from Taiwan and Hong Kong.

The purchase price of a 12-inch set was 90 yuan (one yuan is equivalent to about ¥130) and the rich provinces and cities sold them for 300 yuan each to other provinces, netting a profit of 210 yuan per set. This means that they earned not only foreign exchange but domestic money too, depending on the type of transactions.

When the Chinese Government became aware of this unfair practice, it tried

to curb the "independent" import of finished products by provincial and municipal authorities from early this year. But it appears that the Chinese Government cannot easily retrieve decentralized power from the local authorities once it has been granted.

Furthermore, affluent provinces and cities can afford to invest according to their own free will. Naturally, they become energetic and spirited, and this led to a gap in wage scales.

Gap In Wages

For instance, the employees of No 1 department store in Shanghai are paid an average of 70 yuan a month. Similarly, the wages of employees at a state-run department store in Wuhan, Hubei Province, are 67.5 yuan, while employees at a department store in Chongqing in Sichuan Province earn only 53 yuan.

Indeed, product prices differ from province to province, but the quality of products also differs depending on the province or region. After taking into account these factors, wages are highest in Shanghai, followed by those in Wuhan and Chongqing in that order.

There had been a big pay differential between urban areas and farming communities, between factory workers and farmers and between white-collar and blue-collar workers. At one time the difference was narrowed, but it continued to exist. But the new policy for freer trade has resulted in widening the wage gap, and it may be safe to say that it is widening even further.

Weng Qiuan, a professor of economics at Fudan University in Peking, stresses that China is currently in a transitional period.

"Equality is an ideal form," he says, "but it is something to be considered after the living standard of the Chinese people has been improved a little more. Until that time, we need to shut our eyes to a limited wage differential."

Certainly, China is an economically poor nation. The current policy designed to make people work harder and to inspire them with higher aspirations differs from a policy to realize equality. Perhaps, China will find itself in this dilemma which may prevail for a considerable period of time.

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FINANCE AND BANKING

UNATTRACTIVE LOAN REPAYMENT METHOD

Tokyo THE DAILY YOMIURI in English 29 Dec 81 p 5

[Article by Yoshio Matsui]

[Text]

At the outset of my meeting with Huang Guoming, vice-superintendent of the Xiangzhou wool-knitting factory in Shuhai City, he said with a wry smile on his face: "I had no idea that the rates of interest on loans were so high."

The factory, which began operating last year, is a Chinese establishment but China provided only land manpower for the factory. The factory's buildings and machines were bought with loans totaling about 7 million Hong Kong dollars (one Hong Kong dollar equals about ¥40) which were obtained from enterprises in Hong Kong. The loans are to be repaid over a period of five years.

However, the factory must pay the loans including the interest, in terms of wool and woolen goods that it produces.

The rates of interest on loans are very high these days. The factory must pay an interest of 14 percent per annum on its loans. The total amount of interest that the factory is required to pay in the first year of the five-year period is nearly 1 million Hong Kong dollar. The company's production in the first year amounted to 3 million Hong Kong dollars, which means that it

must use one-third of its products as payment for the interest. This must be hard on the factory.

"Five years from now, however, the factory and its machines will become our own property," Huang said: "So the factory's staffers, including myself, are happy and eager to work." Certainly, a keen sense of purpose filled the air in the factory.

Local Viewpoint

Hong Kong enterprises granting loans to China to enable the country to build a factory and to buy machines for the factory do not constitute "investment of foreign capital" in China. It is a sort of ex-

port of machines and other materials to China on a deferred payment basis. Seen from China's viewpoint, it is the import of finished products.

It is called "compensation trade." The use of this formula has become popular in such provinces as Guangdong and Fujian, which have much dealings with foreign countries.

A simpler method of obtaining materials for goods, which is called "processing on a commission," is also being used. Foreign enterprises bring their own

materials and techniques for use at Chinese factories, where the materials are processed into finished products. The products concerned are mostly textile goods such as sweaters, gloves and pajamas. But this formula is gradually spreading into other sectors, such as the electronics and watch industries.

There are 300 cases of "Compensation trade" and "processing on a commission" in Shencho, which like Shuhai, is located near Hong Kong. There are about 1,500 items of goods involved in these cases.

Huang Shiming, mayor of Shencho, said: "We cannot belittle the benefits that we gain from these projects. We can absorb excellent techniques and the projects also give workers the will to work, which is most needed at Chinese factories."

Complex Methods

There is always a risk involved in large investment. Moreover, the procedures for such investments are very complex, although the government encourages large investments. Many foreign enterprises are troubled by new demands made by the Chinese side in connection

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with the investments. But there is little risk in "compensation trade" and "processing on a commission," and the procedures for these projects are quite simple. This makes the projects very attractive to foreign enterprises.

Besides, some foreign enterprises regard the projects as a prelude to full-scale investments. The projects are, so to speak, "a pair of lovers associating with each other before marriage."

The Sanyo Denki Company commissioned a Chinese enterprise in Shenzhen to produce transistor radios. The project succeeded and this became the springboard for a joint venture, for which the funds were supplied on a 50-50 basis by Sanyo and the Chinese enterprise.

Sanyo acted cautiously in carrying out the first project and launching the second one. The "processing on a commission" project was undertaken by Hong Kong Sanyo, a subsidiary of Sanyo, and the joint venture was undertaken by the head office of the company.

Limitations

But there are some limitations to such projects. Firstly, there is the problem of quality of the products. Many of the goods produced in these projects are faulty and quality of the goods is uneven. This creates headaches for the foreign enterprise concerned. There is also the problem of transportation.

A staff member of a Japanese trading company stationed in Hong Kong said with a wry smile on his face: "There are times when the products are delivered

very quickly. But there are also times when we must wait for a long time for the products to arrive. This is partly due to the unavailability of ships.

"But the main reason is that Chinese transportation agencies never let a ship leave a port until it is fully loaded. So goods which are loaded on a ship just before it leaves the port are de-

livered earlier than expected. But goods which are loaded on a ship first take a long time to reach us."

Sudden Change

There is yet another problem which goes even deeper. It often happens in the case of "compensation trade" that a Chinese official suddenly appears and says: "We want to sell the products of our factory in China. We want to give other goods to repay the loan."

For example, a Japanese fishery company was negotiating with a Chinese enterprise on a deal in which the company would lease fishery equipment to the Chinese enterprise and the Chinese side would make repayment by supplying marine products to the company. Suddenly, the Chinese side began saying that it would supply raw silk instead of marine products. Needless to say, the fishery company cannot use silk in any way.

There was also a case of a Chinese enterprise offering to give pajamas to a Japanese company to pay for the leasing of a radio production line. The Japanese company was astounded.

The whole deal might be washed out, if the Chinese side makes such a strange offer. Luckily, there are fewer such cases recently. Chinese enterprises and foreign companies have begun to see what each other

wants. Thus, the "compensation trade" and "processing on a commission" formulas are taking root in China.

There was a time when enterprises of foreign countries, including Japan, were jubilant over big deals such as the export of industrial plants to that country. They were hit hard by the reduction of Chinese investments in the construction projects in the country under the modernization program. For some time, they did not know what to do.

But now they have found "realistic," though not always, means of engaging in trade with China.

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INDUSTRY

LACK OF INTEREST IN SERVICE INDUSTRY

Tokyo THE DAILY YOMIURI in English 22 Dec 81 p 5

[Article by Goro Tagawa]

[Text] One morning this writer was surprised to some extent when a girl still with an innocent face came to me at a hotel in Zhengzhou, formally greeted me and asked for my morning order. This was because I had thought that I could not expect good service in a socialist country.

Seeing her working like a beaver made me comfortable and I felt like tipping her generously if she accepted it.

At first I thought of her as a high school student who was working at a part-time job as she wore a tag with "trainee" written on it. But she was a student at a hotel school in Chengdu.

Rare Eagerness

She said that she would find a position this autumn after a four-month on-the-spot training. Her explanation satisfied me about her eagerness.

Her everyday schedule, however, appeared very tight. She stood at a booth selling souvenirs during intervals between meal time and entertained foreign customers at a bar at night. She usually went to bed after 1 am. "But I don't mind this as I will graduate in two months," she said in fluent Japanese.

I rarely met such a serious service industry worker

as her during my several visits to China. Most workers were busy chatting with colleagues even when customers come in and they are so unmannerly as to place ordered things on the desk rudely as if they were throwing them.

During my latest trip to China, I wanted my bath to be repaired as it did not supply hot water but I had to wait three days until it was repaired. At a stationery shop in Shanghai I was urged to decide in a hurry what to buy before even I had the chance to inspect the shop completely.

This writer got the impression that service in other areas must be very bad since service in Shanghai, a reputed area, was so bad.

Suggestion Books

When I told of my complaint to a friend staying in Peking for three years by saying that China was still as it used to be or had rather deteriorated, he said, "I will tell you a good way. Use suggestion notebooks."

The suggestion notebooks are hung at the entrance of restaurants and shops in order to allow customers to write their observations or complaints.

One time this friend became irritated at a restaurant as nobody came to take his order for a long time. He then started to write his observations in the suggestion notebooks. Whenever he went back to the same restaurant he was served well.

The sudden change of the waiters' attitude apparently came from the fact that registration of complaints against them would mean a reduction in their bonus. But phenomenon of this kind makes a common slogan like "Serve for the People" look empty.

It seems that not only visitors but also Chinese themselves find poor service in the tertiary industry a troublesome experience.

Guan Zhihao, editor of the China Youth Annual Bulletin, said: "It takes us as long as two months to have a people's suit made in Peking. We find it not long even when we are kept waiting for three hours at a barber's shop."

Many Chinese people residing abroad have succeeded in the service industry in their respective countries. Nevertheless why service in mainland China been not improved?

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Wrong Notion

In Peking after the revolution, emphasis was placed on industrialization under a slogan of conversion from a consumption city to an industrial city and as a result the category of service was set aside.

"At the same time a wrong notion spread that those who serve are low-class people and those who are served are higher-class people. This has resulted in such an atmosphere that young people want to work at factories instead of working in the service industry," Guan explained.

This phenomenon contrasts with that in Japan where the tertiary industry is far more popular

than industrial manufacturers among job-seeking students.

It seems that a remarkable trend of disregarding the service industry in China cannot be separated from the prevalent economic view peculiar to Marxism which attaches value only to jobs directly connected with manufacturing.

In the capitalist society even waitresses in restaurants are evaluated for their work as members responsible for development of the national economy.

Social Outcast

But in socialist countries' performance in the tertiary industry (except for transportation), which does not produce goods, is not included in the gross national product (GNP). Under such circumstances, the service industry is something like

a social outcast and those who are engaged in this category will not be able to have an inducement even if they want to do so.

It is quite wrong to think that the service industry will quickly develop if a great number of young people seeking jobs are put into this category. Of primary importance is that those who enter this field regain pride and responsibility for their jobs.

In this respect the girl whom I met in Zhengzhou provided a proof that education and training could help provide a warm-hearted service to travelers even in a socialist country.

Although I say this out of my somewhat middlesome kindness, her service for customers at the bar until late at night is overservice. A habitual manner of this kind may lead to an unfavorable result.

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FOREIGN TRADE

BRIEFS

COMPUTER IMPORT--Hitachi Ltd. has recently obtained the approval of the coordinating committee for the Control of Exports to Communist Countries (COCOM) for the export of a medium computer to China. An order for the computer, "M-150H," which is used for training technicians was sent in from the management modernization research institute of the Chinese Scientific and Technological Association. For Hitachi, which has exported more than 40 computer sets to China to date, this will be the first computer exported for training purposes. The Chinese Scientific and Technological Association is to use the "M-150H" computer to train computer technicians in computer technology and software. [OW120235 Tokyo NIHON KEIZAI SHIMBUN in Japanese 7 Dec 81 Morning Edition p 9 OW]

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LABOR AND WAGES

UNEMPLOYMENT BECOMING SERIOUS PROBLEM

Tokyo THE DAILY YOMIURI in English 11 Dec 81 p 5

[Article by Goro Tagawa]

[Text] In China, there are many people who want to work but cannot find a job. For some reason, these people are not called "shiyé" (unemployed) persons but almost always referred to as "daiyé" (job-awaiting) persons.

Asked about the difference between the two, an official explained: "Unemployed people are those who have lost their jobs because they were either dismissed or their companies went bankrupt. People waiting for jobs are those young people who have not yet found a job after graduating from schools.

"There are job-awaiting people in our country, but never unemployed people."

Coining A Word

This reporter was deeply impressed with the Chinese ability to coin such a sensible expression as "daiyé" as might be expected of the people of a country with a rich culture. But it is difficult to find its equivalent in Japanese. A barely comparable Japanese expression might be "shushoku ronin."

"Shushoku ronin," however, refers to a rather "carefree" job seeker who is refraining from taking up a job until he can find a position that he likes.

"Daiyé" young people are decisively different from "shushoku ronin" in that they are hard pressed with everyday life and cannot afford to look for a job in a leisurely manner.

If unemployed people are defined as those who have the ability and will to work but cannot find a job, "daiyé" people belong to them. The word "daiyé" has recently begun to be used in China, presumably because job shortage has become a serious social problem.

This reporter happened to meet a "daiyé" young man in Shanghai and chatted with him for a while. He said: "I understand that Japanese newspapers allow much space for help-wanted ads every day, but why are there more than one million unemployed people in Japan?" This reporter was at a loss for an answer.

The young man, who said he was loitering around a park every day, sounded incredible when he said: "I would be willing to do any job . . ."

Young people wanting to find a job in a major city numbers 300,000 in Shanghai, 230,000 in Peking and 600,000 in Sichuan Province. The total number of such people in China is said to amount to tens of million.

Gout Policy

How so many "daiyé" people were created in China where there are no "shiyé" people?

Article 48 of the Chinese constitution stipulates that the government should take the responsibility of helping the people find employment. China achieved the "feat" of almost perfect employment in the beginning of the 1960s.

Although the Chinese Government provided jobs for nearly all the people, every establishment suffered from an extreme surplus of labor because it hired workers far more than actually needed.

Many Chinese factories have three to five times as many employees as corresponding Japanese companies. If such factories want to rationalize their management by introducing modern machinery, they cannot afford to do so because of their excessive manpower.

Life Employment

Once a worker finds employment, he will not be fired unless there is some exceptional reason, and an enterprise will never go bankrupt how big a deficit it may run. A worker has no fear of losing his job.

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If a vacancy is created by a worker who retires under the age limit system, it will be filled by his offspring. Thus a worker holding a position has vested rights to it.

At the Wuhan steel complex, whose operation rate was reduced by half as a result of economic adjustment, 2,000 workers were laid off and forced to stay at home, but they received their regular salaries. They were not advised to resign voluntarily, nor was there a personnel reduction.

That may be the way socialism works, but in the eyes of a person who has been brought up in capitalism, China's perfect employment is only superficial. In China, so to speak, the whole nation is devoted to employment and welfare projects. This situation is akin to the operation of Japanese National Railways (JNR).

Under the above circumstances, it will be difficult for China to employ new workers unless it increases its economic growth rate sharply.

During the Cultural Revolution, however, the employment problem did not surface very much because young people living in cities were sent to factories and were engaged in farming on the pretext that they should diffuse knowledge to farming villages.

But after the Cultural Revolution when a great number of such young people returned to cities, the employment situation was thrown into a great confusion, suddenly bringing the

"daiye" problem to attention.

Some such young people began to commit crimes or other acts of misdeed and some others started underground antigovernment activities. Is it natural for young people who have graduated from schools but cannot find a way of earning a living to become desperate and act recklessly?

New Measures

China is now making efforts to increase job opportunities by developing privately operated stores and the service industry. China is also exporting labor—in cooperation with Japanese companies. It has sent workers to construction projects in other countries.

But can such measures alone secure employment for all "daiye" young people?

Some Chinese even have begun to argue that the employment of married women should be restricted for the purpose of giving jobs to young people.

The editor of a certain newspaper said: "If both husband and wife continue to work in China, which has a big population, the 'daiye' problem will never be solved. Partly to make comfortable homes, women should stay at home. It is not a good trend that electric washing machines and refrigerators sell well because nobody wants to do housework."

This is of course a minority opinion in China where women's say has gained power since the revolution compared with that in Japan.

(To be continued)

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GENERAL

FINANCE OFFICIAL ON ECONOMIC READJUSTMENT

HK290835 Hong Kong FAR EASTERN ECONOMIC REVIEW in English 25-31 Dec 81 pp 46-48

[Report from Beijing: "Open to the World: A Top Beijing Finance Official Talks of the Problems and Opportunities in Economic Readjustment"]

[Text] In his report to the fourth session of the Fifth National People's Congress (NPC) Premier Zhao Ziyang reaffirmed China's commitment to expanding economic cooperation with foreign countries and further utilisation of foreign capital.

To gain further insights into what China's policies toward foreign investment will be in the period of readjustment now extended until the end of 1985, Robert Delfs talked to Wei Yuming, vice chairman of the Foreign Investment Control Commission (FICC) and the Import-Export Commission (IEC), chaired by Vice Premier Gu Mu.

The FICC and IEC are one organisation, with identical staff, operating out of a single office complex in Beijing. As the FICC, the organisation has the sole authority to approve foreign investments in China, and coordinates the related activities of ministries and local government agencies. As the IEC, it supervises foreign trade and oversees the related work of ministries, foreign trade corporations and the general administration of exchange control.

This interview took place prior to the conclusion of the NPC session.

[Question] How will the extension of the period of readjustment affect foreign investment in China?

[Answer] At the third session of the NPC, it was decided that the policy of opening up would be adopted in our economic affairs with foreign countries. At the same time, the policy of readjustment was also adopted. As you know, after the 10 years of the Cultural Revolution, our national economy suffered heavy losses and was out of proportion, so without readjustment our national economy cannot be further developed.

The policy of opening up to the outside world ... is not a temporary policy, it is a long-term strategy. Of course, China is such a large country, with such a large population, we must develop our economy relying on our own efforts. But

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at the same time, we should expand our foreign trade with various countries. Only by introducing advanced technology from advanced countries and by absorbing foreign funds can we solve the problem of lack of capital, and realise the four modernisations.

Recently some foreign friends have been confused about the significance of our present readjustment. They thought that readjustment meant a slowing down of the modernisation process. But actually, the current readjustment doesn't mean slowing down. Progress will be made in some economic sectors.

For example, our light industry and textile industry have been developing quite quickly: their growth rate this year will reach 12 percent. It is also true that the growth rate of heavy industry dropped a little, because some factories are under-utilised. This is only temporary. It is our hope that by readjustment internally--within heavy industry--the growth rate of heavy industry will catch up a little bit.

The utilisation of foreign funds will not adversely affect our national economy, but will serve the readjustment and expansion of our national economy. Just as Premier Zhao said, we will actively utilise foreign funds, and we will use foreign funds from various sources.

[Question] Will China maintain high levels of capital inflow during the extended period of readjustment?

[Answer] Under the guidance of the policy of opening up to the outside world, we have been utilising foreign funds for the past 2 years, and we are going to use more. Here I can give you some figures: over the past 2 years, loan agreements were concluded with various governments and organisations totalling \$17.3 billion. In the past 2 years (1980-81) we have used up \$1.2 billion. Besides this, we have also used foreign funds in the form of processing imported materials and compensation trade, imported equipment and new technology.

[Question] Does the \$17.3 billion include loans from international organisations, that is, World Bank loans and International Monetary Fund (IMF) credit?

[Answer] Of the \$17.3 billion, purchasers' credits account for \$12 billion, but up to now we have not used a single penny of the buyers' credits. It does not include IMF credit, but it does include the World Bank loans.

We have utilised loans from Japan, both OECF (Overseas Economic Cooperation Fund) and EXIM (the Japanese Export-Import Bank), mostly relating to development of railways, port facilities and coal mines. We have also used certain amounts of loans from the World Bank--\$200 million for education and \$200 million for agricultural development.

In the field of economic cooperation, we have approved 29 joint-venture projects and more than 400 coproduction projects as well as compensation trade and processing of imported materials. The coproduction projects represent a utilisation of funds equivalent to \$1.5 billion, and the compensation trade represents another \$300 million.

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These figures really are not very big, however. Actually, in relation to the size and population of our country, they are quite small. We have decided to use more foreign funds in the Sixth 5-Year Plan (1981-86). If you ask me how much, I cannot really tell you. But I can assure you we will use much more foreign funds. For example, in the field of coproduction, compensation trade, and processing of imported materials, we will approve not hundreds but thousands of projects in the years to come.

[Question] According to Minister of Finance Wang Bingqian's report on the budget at the NPC, government revenues this year include 8 billion yuan (\$4.7 billion) in foreign loans. So there must be foreign loan receipts other than IMF credit that are not included in your figures.

[Answer] The figures we gave you do not include IMF funds, which are used for deficit purposes. They also do not include loans arranged in the 1978 contracts, for instance the Balgang (Baoshan Steel) Complex, and they do not include loans to the government from the Bank of China.

Different government departments use different bases for calculating these figures. We just calculate how much foreign funds have been utilised. For example, we would determine the value of equipment and technology used in a compensation trade agreement or a joint-venture agreement, and then incorporate this into the figures.

The budget is prepared by the Ministry of Finance, which has a different accounting approach. The foreign loan receipts and loan repayments are recorded in the Ministry of Finance Accounts. But I do not have the figures for a breakdown of the 8 billion yuan in foreign loan receipts in the budget for this year.

[Question] Why is it that only a small portion of the available credit has been used so far?

[Answer] Due to readjustment, the scale of capital construction has been reduced and curtailed. Because the loans obtained from foreign governments were mostly in the form of purchasers' credits, we have not used most of them. [Words indistinct] have to confess that we have very little experience in using foreign loans--this is also a reason we have not used up the entire amount of foreign loans available. Another is the inadequacy of our economic legislation, the lack of relevant laws and regulations. Furthermore, poor organisation and management have delayed our use of these loans.

[Question] The World Bank in its report on the Chinese economy of June 1981 basically urged higher levels of capital inflow, but cautioned that unless exports expanded quickly, China could face debt-service problems by 1990. Could you discuss your strategies to avoid future debt-service problems?

[Answer] We have considered this problem very seriously. Our conclusion is that, up to now, the problem is that (shortage of capital has) bound our hands. Some experts have suggested that debt servicing and repayment of principal should not be allowed to exceed 20 percent of foreign-currency income. We have

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decided that our debt servicing should not go beyond 15 percent. Also, we have coal, we have oil and we have non-ferrous metals. We can use these to pay our foreign debts. There will be no debt-servicing problems.

We have also determined that we will keep our reputation and credit standing. If we borrow from a foreign country, or from an international organisation, we will surely repay in full.

[Question] Zhao's report on the economy and future policy indicated that the Sixth 5-Year Plan is still not in its final form. Can you discuss the overall directions the plan will take, and perhaps some of the specific projects where foreign participation could play a major role?

[Answer] In general, the first priority will be given to transport and energy resources development, because these are the weakest links in our national economy. For example, we have large amounts of coal in Shanxi Province, at least 10 million tonnes (annual production), but there is a problem in rail transport. That is why we want to expand railways and coal facilities in conjunction with coal-mining development.

We also have abundant hydroelectric resources. Up to now, we have used at most 5 percent of the exploitable hydroelectric potential. So we want to bring our advantages in these fields to their full potential, by developing more hydroelectric and coal-fired power stations. Also, because of our abundant coal reserves, coal will be a good card to play in foreign trade.

The second priority is technological transformation of the machine-building industry. The third priority comprises light industry, the textile industry, agriculture, forestry and animal husbandry.

The emphasis is on the technical renovation of existing enterprises, but we will also be building some new factories. We have 370,000 existing (industrial) enterprises that urgently need technical transformation to raise the quality of their products and their competitiveness in international markets.

We have decided that in the Sixth 5-Year Economic Development Plan we develop coal mines in Shanxi Province and in Guizhou Province. Reserves in Shanxi amount to 200 billion tonnes. In Guizhou, there are 12 billion tonnes of recoverable reserves. In Guizhou we will develop not just the coal mines, but in an all-round way. There are sulphate and non-ferrous metals in Guizhou as well as coal. We will improve the railway between Guizhou and the port of Zhanjiang in Guangdong Province, and expand the port facilities in Zhanjiang. To develop Guizhou, the capital that will be needed is very large. Not hundreds of millions of dollars, but billions of dollars. We also plan some major projects in the northeast plain, and we plan to develop one or two nuclear power stations during this period.

What I have discussed here are mainly large-scale projects for which the capital needs will be high and in all of them foreign capital will be used. We have contacted various foreign governments and consortia, which have shown very

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strong interest in participating in joint-venture development projects (in these areas). We also plan to establish some medium and small projects (in these areas). We also plan to convene an international conference.

[Question] When will this take place and who will participate?

[Answer] Next year, roughly in June. Approximately 200 foreign businessmen will be invited. During the conference, we will offer 100 medium- and small-sized projects.

[Question] How will the new economic laws under consideration at the NPC affect foreign investment? There is some confusion about these laws among foreign businessmen, especially the income-tax regulations for foreign firms.

[Answer] The principle is that economic cooperation should be based on equality and mutual benefit. So, we will create a legal environment for foreign business to make investments and to protect their interests. Some foreign businesses are concerned that our policies may suddenly change, or they fear expropriation. This fear is groundless. We will make more efforts to make more laws in this area to give very firm protection to the foreign business interests.

The income-tax law under consideration at the current NPC session is one of these. As far as I know, the tax levels set forth in this law are not high, relative to developed countries and relative to some developing countries. In order to provide more protection for the legitimate interests of foreign businesses, the Chinese Government is negotiating bilateral agreements for mutual investment insurance and protection. We have concluded such an agreement with the United States, and an agreement will be concluded very soon with Switzerland. We are discussing and negotiating similar agreements with France, Sweden, Canada and West Germany.

There have been serious shortcomings and weaknesses in our utilisation of foreign funds. In many cases, both parties have not clearly understood our position and policies. Maybe we have not publicised our policies, laws and regulations very effectively, or very efficiently. We have established four special economic zones (SEZ). Later, we will also grant more autonomy to coastal provinces. Another way to encourage foreign investment is to try to do a good job with the existing joint ventures and coproduction projects. Another measure is to strengthen and expand the popularisation of economic laws and policies. We have decided to publish a booklet of guidelines for investment in China.

[Question] When will this be available?

[Answer] As early as the first quarter of 1982.

[Question] As a condition of joining the IMF, China has essentially agreed to take steps to abolish the present system of dual exchange rates for internal and external foreign-currency transactions. When will this take place, and what will be the effects on domestic prices and prices of export articles?

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[Answer] I assure you, there is only one exchange rate.

[Question] I'm referring to the internal settlement rate. As I understood it, this would constitute a dual exchange-rate system as far as the IMF is concerned.

[Answer] That is not an exchange rate. The internal settlement rate is used only to subsidise exports, and it cannot be called an exchange rate. It is a means of subsidising our export industries--many countries adopt such means to encourage exports, and we still use this means. Whether or not this means will still be used in the future is a matter which will be considered.

[Question] As a condition of IMF membership, China will also eventually have to make public the method used to determine the official exchange rate, which we understand to be a weighted basket of other currencies. Will this happen soon? And have there been any recent changes in the composition or weighting of the basket? Will you move towards making the renminbi a freely-traded currency?

[Answer] For the present we cannot give you a good answer to this question. The calculation method used to determine the exchange rate is very complicated. As for making the renminbi a freely-traded currency, this can only happen when materials (that we produce) are very abundant, otherwise the results could be catastrophic to other countries.

[Question] China has recently pursued a policy of decentralising economic decision-making to the provincial, municipal and enterprise levels. But excessive investment at the local levels was a major factor in the large budget deficits recorded in 1979 and 1980. This has induced a countervailing trend to reassert central control over local investment. Could you discuss the issue of local autonomy versus centralised control over investment decisions?

[Answer] I think this is really a problem. You know, some Chinese provinces have populations reaching 100 million--so it is quite reasonable to grant more autonomy to the provincial authorities. The direction of reform and restructuring is to enlarge the power of decision-making of various entities. We are now considering the problem of centralised management and control over foreign trade affairs. We will increasingly practise our control via the price and market mechanisms.... I have to admit, we are quite inexperienced in this matter. How can we manage to grant greater autonomy to local levels but not (let the situation) run into disorder and chaos?

[Question] How do you evaluate the experience of the SEZ so far, and will you establish new SEZ in the coastal provinces, for example at Tianjin, or elsewhere?

[Answer] The four SEZ have only recently been established, so it is too early for us to be able to cite any remarkable results, but I think the progress has been fine. The SEZ have made good contributions to market prosperity in local areas, and have also contributed to the utilisation of foreign funds.

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[Question] But SEZ cannot be established anywhere. They can be established only in certain geographical and economic conditions. Our SEZ are presently run on an experimental basis, and for the time being, we do not want to establish any more. We must wait to see the results.

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