

April 19, 1991

## PRISON LABOR IN CHINA

*Labor reform departments in China are not allowed to engage in foreign economic and trade activities, and China has never granted any labor reform department a permit to engage in foreign trade. No products made in prison are exported.*

Chen Defu, Press Counselor,  
Embassy of China, Washington  
(in Letters to the Editor, *New York Times*, October 5, 1990)

The United States has outlawed the importation of prison-made goods for over 60 years.<sup>1</sup> In that time, there has only been a single successful effort to apply Section 307 of the Tariff Act of 1930 and prohibit such imports.<sup>2</sup> The United States has long known that China used prison labor extensively in manufacturing and agriculture, yet there was no "smoking gun" to link prison labor to Chinese exports to this country. Now that smoking gun is available. The official Chinese documents attached demonstrate that the government of China is systematically exploiting the labor of prisoners to produce cheap products for export -- and specifically targeting the United States, West Germany and Japan. The documents show conclusively that Chinese government officials, including the embassy spokesman quoted above, who have consistently denied that China exports prison-made goods, have been deliberately lying. It is time to apply the letter of U.S. law to China and prohibit the importation of prison-made products.

Asia Watch obtained the attached articles from issues published in 1989 and 1990 of a "restricted circulation" (*neibu*) journal for Chinese prison and labor camp officials. The bi-monthly journal, entitled *Theoretical Studies in Labor Reform and Labor Reeducation*, describes in detail China's policy of using forced prison labor to produce goods for export to the West. These articles, all written by prison officials or officials of provincial Bureaus of Labor Reform, make clear that the use of forced labor is a central government policy, not one developed on an *ad-hoc* basis by labor reform units in the coastal provinces, where a large portion of the goods are produced.

For example, describing the situation of the New Life Cotton Cloth Mill of Nantong County, Jiangsu Province, a prison production unit which has been exporting goods to the West since 1983, one article states:

Since 1987, when production and export became integrated, the export authorities have energetically helped our mill develop into a base for export. In 1988, they helped us obtain a low-interest loan from Japan to be repaid from our export surplus.

The author boasts,

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<sup>1</sup> "All goods, wares, articles, merchandise mined, produced or manufactured wholly or in part in any foreign country by convict labor or/and forced labor or/and indentured labor under penal sanctions shall not be entitled to entry at any of the ports of the United States, and the importation thereof is hereby prohibited." (Tariff Act of 1930, Section 307).

<sup>2</sup> The item was Soviet canned crab meat, which was judged in 1951 as having been produced with convict labor. It was banned from importation into the U.S. until 1961.

**Our indigo-blue denim...won the title of 'quality product' awarded by the Ministry of Textiles. Many clients, both domestic and foreign, have asked for that product name. In the last six years, we exported 8.52 million pieces of knit underwear, 10.37 million meters of cotton cloth, 85 tons of knit grey, and no buyer ever claimed damage. We won goodwill and praise from customers in such developed countries as Japan, the United States and West Germany."**

**The authors applaud the growing production of exportable items in forced labor camps, and note that labor costs in such factory sites are "ten to twenty percent lower" than in other factories. They list as follows the overall advantages of prison labor:**

**A large number of prisoners have become commodity producers. They are cheap and concentrated. They produce labor-intensive products, and this accords with the direction of transfer [i.e. of production to low-wage areas] on the international market... Nearly every province (or city) has its own sizable community of labor reform enterprises. Their size varies; they include many different industries and cover a wide area, each with its own characteristics. This coincides with the demand on the international market: 'small lots of a wide range of products.'**

**The articles call upon labor reform camp managers to "deepen their understanding of the importance, necessity and feasibility of labor reform work units developing a foreign-oriented economy" and to "unearth talent from among the convicts" to enhance production of goods for export.**

**Most chilling of all, other articles recently published in the same journal but not included here confirm that it is common practice in China for labor reform camp prisoners to be forcibly and indefinitely retained as workers *after* they have completed their sentences so that export-oriented productivity will not be diminished by their departure from the system. As one contributor to the confidential labor reform journal notes in the April 1989 issue (p.11): "Time-served prisoners retained for in-camp employment...cannot join labor unions, do not enjoy retirement benefits when they become old, and their wages and living standards are low."**

**But the policy of "forcible retention of time-served prisoners for in-camp employment"<sup>3</sup> is most commonly applied against those inmates who have allegedly "remained unrepentant" during the period of their imprisonment, and its main purpose is to permanently remove such people from society at large. Moreover, as one recent article from this journal makes clear, political dissidents are included in the "unrepentant" category. The article, published in April 1990, even partly blamed the outbreak of the 1989 Tiananmen Square pro-democracy movement in China upon the authorities' insufficiently stringent application of the "forcible retention for in-camp employment" policy:**

**In particular, a small number of time-served prisoners, who stubbornly maintain their reactionary standpoints, will, if released, start whipping up disturbances at the slightest sign of trouble, collaborating from afar with reactionary forces both inside and outside the country, in a mutual plot to unceasingly subvert and undermine the political power of the state and engage in all kinds of counterrevolutionary sabotage activities. The acts perpetrated by a small number of released time-served prisoners during the counterrevolutionary rebellion which occurred in Beijing during the spring and summer of 1989, provided an**

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<sup>3</sup> *"dui xingman shifang ren yuan de qiangzhixing liuchang jiu yue."*

excellent example of this.<sup>4</sup>

These documents translated and included in this report make it abundantly clear that not only are items for export being produced by prisoners, but that the Chinese authorities are actively engaged in increasing the quantity of prison-made goods for export. Indeed, the official documents suggest that China's export industry is heavily dependent upon prison labor to maintain and increase export quotas and foreign currency earnings. They also indicate that the areas of China where the economic policy of "reform and opening to the outside world" is most developed – coastal provinces such as Guangdong, Jiangsu and Fujian – are those most actively engaged in the production of prison-made goods for export. And production is on the rise:

With the reform of China's foreign trade policy, we must boldly study the flexible mechanism of multi-port operation and increase the number of outlets for export...Some of the better-managed labor reform units are allowed to take advantage of their location in the coastal areas or open cities to gather information and obtain *sanlai yibu* (i.e. processing materials provided by foreign companies, manufacturing according to samples provided by foreign companies, and compensation trade) contracts...The possibility of establishing *sanzi* enterprises (joint ventures and enterprises owned solely by foreign capital) is also being boldly explored.

The coastal provinces may have fewer "counterrevolutionary" prisoners than elsewhere in China but several are detained there. In Guangdong Province, for example, **Wang Xizhe** is serving a 14-year prison term which began in 1982 for writing articles and editing an unofficial journal during the 1979 Democracy Wall movement. **Luo Haxing**, a Hong Kong resident who received a five-year sentence in March 1991 for trying to help dissident leaders to escape from China after the June 1989 crackdown is also incarcerated there, as is **Chen Zhixiang**, a young teacher at the Guangzhou Seaman's School, who was sentenced to 10 years' imprisonment in January 1990 for allegedly painting a protest slogan on a wall in central Guangzhou several days after the 1989 Beijing massacre.

Dissident figures currently detained in Jiangsu Province include **Xu Shuiliang**, a worker renowned for his erudite writings on political democracy and a leader of the 1979 Democracy Wall movement, who disappeared into the Chinese prison system following his arrest in April 1981 and has not been heard of since; and **Rui Tonghu**, **Zhu Hulming**, and **Li Huling**, all said to be members of the outlawed Nanjing Workers Autonomous Federation, who were arrested on June 10, 1989 for their activities in the pro-democracy movement.

These individuals and countless other political dissidents in China, whose ranks have been swelled by the ongoing repression since June 1989, now represent little more than production statistics in the eyes of the Chinese authorities, and the fruits of their labor may well be bound for markets in the West today.

Such dependence upon prisoners for the export economy is not surprising, given the size of the forced labor system. China's forced labor system can very fairly be called a gulag. The government of China sentences vast numbers of citizens to "reform through labor" or "reeducation through labor," forcing them to work in industry and agriculture on vast state-owned enterprises.<sup>5</sup> Estimates of the number of prisoners in China's forced labor empire

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<sup>4</sup> "Guanyu liuchang jiuye de jige wenti" ("Several questions relating to retention for in-camp employment") by Jin Quan, *Laogai Laojiao Lilun Yanjiu*, No.2, 1990, p.16.

<sup>5</sup> There is a difference between "reform through labor" which is a criminal sanction imposed by courts after trial, and "reeducation through labor" which is an extrajudicial punishment involving imprisonment for up to three years. The latter is imposed by the police.

range from 1 to 20 million,<sup>6</sup> though the true numbers will never be known since the authorities do not permit international human rights groups to inspect the labor camps or any other prison facilities in China; they merely allow occasional visits by foreign groups to designated "model prisons" where conditions are far from typical. Among the millions of inmates of the labor camps, imprisoned after trials utterly lacking in due process, are large numbers of political and religious detainees and other prisoners of conscience. Many thousands of pro-democracy demonstrators were arrested after the events of June 4, 1989 alone, and most of these remain unaccounted for. (The authorities have announced the release of less than 1000, and have refused to allow even the majority of those releases to be independently verified.) And as outlined above, millions of those who have served out their sentences since 1949 remain in the Chinese gulag as a captive labor force as a result of the "forcible retention" policy.

In addition, Asia Watch recently uncovered a secret directive issued on August 25, 1983 by the Central Committee of the Chinese Communist Party revealing that political dissidents have all along been one of the main targets of an eight-year-long campaign to "crack down on crime." Previously, this campaign was thought to have been aimed solely against major common criminals such as murderers, arsonists and rapists. The confidential 1983 Party document, however, lists a "seventh category" of those to be included in the campaign, namely:

Active counterrevolutionary elements who write counterrevolutionary slogans, fliers, liaison messages and anonymous letters...

And as the Party document explains,

The seven types of criminal elements should all be dealt resolute blows and given severe and prompt punishment...Those requiring severe punishment must be sentenced heavily, and those who deserve to die must be executed.<sup>7</sup>

No reference to this crucial "seventh category" – political dissidents -- can be found in any publicly-released literature on the anti-crime campaign in China. Conversely, however, such reference is frequently found in restricted-circulation publications on the subject, indicating that a concerted official effort has been made to conceal the fact that political repression has been an intrinsic aim of the ongoing "crackdown on crime." In the course of this campaign, an estimated 10,000 or more people have been sentenced to death and executed since 1983. Hundreds of thousands have been sentenced to long terms in jail. The official total of those arrested in the anti-crime campaign's most recent phase, between May and September 1990, is a staggering 986,000.<sup>8</sup> China's prison labor force has thus undergone a rapid expansion in the 1980s, and it now seems likely that a significant proportion of that growth is attributable to a Chinese government policy of secretly detaining political prisoners.

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<sup>6</sup>"Forced Labor in the People's Republic of China," U.S. General Accounting Office, July 1990.

<sup>7</sup> "Decision of the Central Committee of the Chinese Community Party to Strike Severe Blows Against Criminal Activities" (*Zhonggong Zhongyang guanyu yanli daji xingshi fazui huodong de jueding*), dated August 25, 1983. The one-page extract from which the above quotes are taken appears in a restricted-circulation volume entitled "Dazu Xian" Jiancha Zhi ("Annals of the Dazu County Procuratorate"), compiled and published by Dazu County Procuratorate, (Sichuan, 1988), p.132. Another document cited in the book, *Zhonggong Zhongyang Zhong-Fa (1983) 31 Hao Wenjian* ("CCP Central Committee Document No.31 (1983)"), appears to be closely related to the CCP's *Decision* of August 25, 1983.

The document previously regarded as having supplied the authoritative legal basis for the ongoing "crackdown on crime" campaign is the September 2, 1983 *Decision of the Standing Committee of the National People's Congress Regarding the Severe Punishment of Criminal Elements Who Seriously Endanger Public Security*. In practice, however, policy documents issued by the Communist Party authorities often take clear precedence over laws or resolutions passed by the National People's Congress.

<sup>8</sup> *China News Agency*, cited in the *South China Morning Post*, December 1, 1990, "One million held in blitz on crime."

In human rights terms, prison labor *per se* is not necessarily abusive, nor is it prohibited by international law. International Labor Organization (ILO) Convention No. 29 excludes from its definition of forced or compulsory labor "any work or service exacted from any person as a consequence of a conviction in a court of law, provided that the said work or service is carried out under the supervision and control of a public authority and that the said person is not hired to or placed at the disposal of private individuals, companies, or associations." The opportunity to work is actually a humane feature of many prison systems around the world, including our own. Even Cuban prisons, which have many abusive aspects for political offenders, have a prison labor program in which inmates may work for decent wages in a safe environment.

In the case of China, however, prison labor has an extremely abusive character. Working conditions are grim, exhausting and often highly dangerous. According to an official Chinese law journal, for example, prisoners are sometimes even forced to carry out such tasks as handling explosives and performing on-site blasting operations in open-cast mines.<sup>9</sup> Prison medical services range from the rudimentary to the non-existent. Food rations are, according to former prisoners, often drastically cut for infringements of discipline or failure to meet labor reform production quotas. And physical punishment, including beatings and torture by prison officials using electric batons, and prolonged solitary confinement, is liberally dispensed against prisoners regarded as "resisting their reform."<sup>10</sup> Prisoners generally receive no pay for their labor.<sup>11</sup> In some model prisons and labor reform units, a token payment of a few *yuan* per month is made. And under the "strict regime" treatment which is often meted out to political prisoners, or "counterrevolutionaries" (regarded by law as the most dangerous category of criminals) the following drastic conditions apply, according to the official account: "Solitary confinement and the 'four cessations' (no visits, no personal money, no letters, no leisure activities)."<sup>12</sup> In most cases, indeed, political prisoners never leave the cells in which they are solitarily confined: they perform their mind-numbing production tasks on their own, without even the limited comfort and solace of daily contact in the workshop with other prisoners.

China's labor camp officials, who are fully aware of the sensitive and controversial nature of their foreign exporting efforts, make systematic efforts to conceal from foreign buyers the true character of the Chinese enterprises concerned. In the case of the Nantong New Life Cotton Cloth Mill, for example, an official says, "We began by tightening controls, and revised and perfected our system of supervision. For example, we stepped up the education of prisoners in foreign affairs discipline. We made it an explicit rule that whenever foreign businessmen come to the workshops to inspect product samples or quality, they must be accompanied by a special person. The prison authorities would assign people to our mill and help with supervision. Prisoners are not allowed to have direct contact or talks with foreign businessmen...[n]o secret has ever been leaked, and other incidents involving foreign contacts have been effectively prevented from happening."

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<sup>9</sup> "Chuntian de Zhaohuan," in *Zhongguo Fazhi Bao* (China Legal News), May 28, 1987.

<sup>10</sup> During the several years of relative judicial openness which prevailed in China prior to the military crackdown of June 1989, the official press openly reported numerous cases of severe physical abuse and ill-treatment of prisoners in China's penal institutions, including several reports of fatal abuse. One of these (reported in the *Law Daily* on July 7, 1988) involved a prisoner named Lou who died after being savagely beaten by a prison warder merely for having failed to appear at a roll-call of inmates. The incidence of violence by penal officials against prisoners is reliably believed to have greatly increased since the June 1989 crackdown.

<sup>11</sup> As one contributor to the confidential labor reform journal (No.2, 1990, p.48) observed, "The idea of instituting a wages system for prisoners contravenes the policy and principles of labor reform work, and would be disadvantageous to protecting, consolidating and developing the achievements of China's Four Modernizations project."

<sup>12</sup> *Laogai laojiao Nium Yanjin*, No.1, 1991, p.22.

Over the years, there have been attempts by private citizens and Members of Congress to apply the prohibition on importation of items produced by prisoners which is contained in the 1930 Tariff Act.<sup>13</sup> Yet it has been almost impossible to document that particular items being exported to the United States have been produced with forced labor, and only the importation of Soviet canned crab meat (mentioned above) was actually prohibited in 1951 by the Customs Service. With respect to China, the International Trade Commission in 1984 reviewed the nature and extent of U.S. importation of goods produced by Chinese prisoners, but concluded that there was no direct evidence of such labor being used in the production of exports.

Since Tiananmen Square and the repression that followed, there has been growing interest in China's forced labor gulag. Human rights advocates have been particularly distressed by the fact that large numbers of prisoners of conscience were swept into the labor reform system in the round-ups that followed the suppression of the democracy movement since June 1989. Isolated news reports indicated that items for export were produced by labor reform prisoners: shortly after Tiananmen Square, for example, the *Financial Times* reported both that "Dynasty Wine," produced by Chinese prison labor, was being widely marketed in the West by a major French liquor company, Remy Martin, and also that Beijing had attempted unsuccessfully to woo the Swedish-based Volvo Company to China with promises of a large, cheap prison labor population for its factories. And Seagram's, the Canadian liquor company, was recently embarrassed by reports that packaging for its products was being produced by prisoners in Shanghai.<sup>14</sup> Moreover, a major *exposé* on the subject by *Business Week* (April 22, 1991) identified several more examples of Chinese prison-made goods being exported to the West -- and highlighted the fact that the practice is being vigorously pursued by the Chinese authorities. The fact that Chinese prisoners make products for export is now undeniable.

The revelations contained in the attached documents pose a clear challenge to the Bush Administration. Despite the vastness of the Chinese gulag and official Chinese secrecy on the subject, however, it is now becoming possible for the first time to try and identify some of the prison-produced products on the international market. In Asia Watch's view, the Customs Service should conduct a thorough inquiry into *all* exports from China, and require each company which imports Chinese products into the United States to certify that the goods were not produced by prisoners. Further, the U.S. should request that the Chinese permit inspection of all prison factories and farms so that a complete picture of China's export industry may be obtained.

Abuses of human rights in China -- including but not limited to the appalling prison labor gulag-- are so great that stopping imports of prison-made goods alone is not enough. Since the start of 1991, Beijing has deflected international criticism of its repressive domestic policies by offering limited "cooperation" in the U.S.-led response to the Persian Gulf crisis. The price paid by Chinese dissidents has been high, however. Almost the first act taken by China's leaders after they agreed to meet with Assistant Secretary of State Richard Schifter in December 1990 to discuss human rights issues was to commence the biggest wave of dissident trials in China since the summer of 1989. Several months later, on March 14, 1991, the authorities executed a young worker for having set afire two vehicles during the June 4 crackdown. And on April 9, 1991, *Reuters* reported that a Beijing student activist, Chen Yanbin, had

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<sup>13</sup> In the 1970s and early 1980s, for example, there were considerable efforts to invoke the prohibition against goods entering the United States which were produced by Soviet prisoners. The regulations for enforcing Section 307 instruct the U.S. Customs Service to withhold release of imported merchandise if the Customs Service Commissioner finds "information that reasonably but not conclusively indicates that merchandise within the purview of section 307 is being, or is likely to be, imported..." If the items are found to be in violation of Section 307, the Commissioner of Customs will issue a finding and all classes of merchandise specified in the finding will be prohibited from importation.

<sup>14</sup> *Hong Kong Sunday Standard*, March 31, 1991.

**recently been convicted of "counterrevolution" and sentenced to no less than 15 years' imprisonment for engaging in peaceful underground opposition to the government after June 1989. Having obtained international respectability through the Gulf crisis, the Chinese government now appears to be flaunting its wholesale repression of the pro-democracy movement.**

**Sometime before June 3, 1991, the Bush Administration must request from Congress a waiver of Section 302 of the Trade Act if China is to maintain its Most Favored Nation trade status.<sup>15</sup> Legally, MFN for non-market economies is conditioned only upon a country's compliance with standards relating to emigration. China does not live up to the emigration standard in the law and should be denied MFN on those grounds. China's human rights record generally and the discovery of official government documents which confirm the use of prison labor in the export industry are an even more compelling reason to disqualify China from receiving Most Favored Nation treatment.**

**The documents follow.**

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<sup>15</sup>**Most Favored Nation (or "MFN") status permits foreign nations to trade normally with the U.S. Most countries of the world have MFN status. Non-market economies are denied MFN status unless the Administration waives a provision of law. The U.S. Congress may overturn the President's waiver request, but their action is subject to a presidential veto which must be overturned by a two thirds majority of both the House and Senate.**

## Thoughts on Developing a Foreign-oriented Economy by Labor Reform Enterprises<sup>16</sup>

by Ding Banghua

The development of a foreign-oriented economy is an important aspect of China's economic development strategy. It is also a brand new task assigned to the labor reform enterprises. We should now concentrate our study on the following questions: Can a labor reform enterprise develop a foreign-oriented economy? What are its advantages? What policies must be adopted? In what follows, I would like to offer my humble opinion on these questions.

I. Can a labor reform enterprise develop a foreign-oriented economy? The answer must be affirmative. Under the powerful impact of the party's policy of reform and openness, the reform of the labor reform economy has made important progress since the Third Plenum of the Eleventh Central Committee. It broke through the traditional economic structure and economic system, transformed itself from a "closed" to an "open" system and from a purely production to a production and operational entity, and developed extensive horizontal economic alliances. All this injected into the labor reform enterprises a new vitality, and they have become prosperous as never before. Let us take labor reform production in Jiangsu Province as an example. It has grown at an average annual rate of 18.06 percent since 1983. By 1987, the aggregate labor reform economy amounted to 334 million *yuan*, 97.7 percent higher than, or almost double, the 1983 output value of 168.92 million *yuan*. The aggregate 1987 profit amounted to 54.48 million *yuan*, 127 percent higher than, or more than double, the 1983 profit of 24 million *yuan*. The growth of the commodity economy not only changed the rigid, single-product economic model; more important, it also brought about changes in people's thinking. The theory that "labor reform is something unique and

special," which hampered the reform of the labor reform economy, has been discarded. That represents a significant change in people's thinking. In the process of the socialist planned commodity production, the labor reform enterprises have boldly developed foreign trade production. We are happy to witness that in the last few years, a group of enterprises made the development of foreign trade their strategic choice. They led the march and achieved initial successes. Those located in the coastal areas of Jiangsu Province have moved ahead more rapidly. Developing a foreign-oriented economy primarily by producing for export has now become an outstanding characteristic feature of labor reform production in Jiangsu Province. In 1987, aggregate procurement value for export came to 69.25 million *yuan*, a 78.4 percent increase over 1986. The range of products exported rose from just a couple several years ago to 21 exported to a score and more countries. Looking at China from the vantage point of Jiangsu, and indisputable fact becomes clear, i.e., it is not only possible for the labor reform enterprises to develop a foreign-oriented economy, but some enterprises have already done so with flying colors. They made achievements not by accident, but because they enjoyed certain advantages and the external conditions were favorable. In my opinion, the labor reform enterprises should avoid their disadvantages and develop their advantages, adopt effective policies and energetically develop foreign-oriented economy. The prospects are encouraging indeed.

II. Let us analyze in what follows the advantages and favorable conditions enjoyed by the labor reform enterprises for developing a foreign-oriented economy.

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<sup>16</sup> "Laogai qiye fazhan waixiangxing jingji de sikao," *Laogai Laojiao Likun Yanjiu* (Theoretical Studies in Labor reform and Labor Reeducation), No.1, 1989, pp. 46-50



**(1) Favorable external factors. These may be summed up in three areas.**

**First, the policy of openness of the party and the state provides a guarantee to the labor reform enterprises in their efforts to develop a foreign-oriented economy. Since the Third Plenum of the Eleventh Central Committee, the decision of the party and state to carry out reforms and open China's doors to the world has helped move the majority of the labor reform enterprises out of the valley and onto a new plateau. This is a plain fact for all to see. Now that the party and the state have devised important strategic measures for the development of a foreign-oriented economy, they have offered a policy guarantee to the labor reform enterprises. This will inevitably help push the labor reform enterprises on to a still higher plateau.**

**Second, as the express aim is to improve reform work and increase economic benefits, it becomes all the more reasonable for the labor reform enterprises to develop a foreign-oriented economy. As we enter a new historical era, the central authorities set for us the target of improving reform work and increasing economic benefits. While working untiringly to improve reform work, the labor reform units are also boldly reforming their economic structure and working hard to develop commodity production. They have already succeeded in markedly improving the economic benefits, and this, in turn, provided a solid material basis for the reform of prisoners and promoted the reform of the enterprises themselves. Since the target is still to improve economic benefits, this will undoubtedly give an impetus to the labor reform enterprises in their efforts to develop a foreign-oriented economy.**

**Third, the experience of the more advanced enterprises gained in the course of their development of a foreign-oriented economy serves as a guide to the labor reform enterprises developing a foreign-oriented economy. This experience includes, "forming an alliance of industrial and trading concerns," "multi-port exporting," "working according to blueprints provided by foreign businesses, processing materials provided by foreign firms and assembling imported parts." This experience may even be called a "model,"**

**which is worth emulating and extremely useful for the development of a foreign-oriented economy.**

**(2) Internal advantages. To cite only the more important, the labor reform enterprises have rich labor resources at their disposal, and these are relatively cheap. There are many different industries producing a wide range of products and the enterprises are spread all over the country. There are obvious advantages for the development of a foreign-oriented economy.**

**First, a large number of prisoners have become commodity producers. They are cheap and concentrated. They produce labor-intensive products, and this accords with the direction of transfer of the production of labor-intensive products to low-wage areas -- *tr.* on the international market. That is to say, the labor reform enterprises enjoy an advantage in manpower in developing labor-intensive products for export and shifting orientation to the foreign market.**

**Secondly, after thirty years and more of hardship of getting started and vigorous development, the labor reform enterprises throughout the country have great potential for developing exports and earning foreign exchange. Nearly every province (city) has its own sizable community of labor reform enterprises. Their size varies; they include many different industries and cover a wide area, each with its own characteristics. This coincides with the demand on the international market: "small lots of a wide range of products."**

**III. The analysis clearly shows that the labor reform enterprises enjoy certain advantages in developing a foreign-oriented economy. But at the present moment, they also face some real difficulties. First, there is an inferiority complex, a fear of difficulty. Second, the actual work itself is difficult. Third, certain conditions are lacking for them to compete effectively. Fourth, there is a lack of talented personnel. In order to overcome these difficulties and develop a foreign-oriented economy, ways must be worked out to deal with the following problems:**

**(1) Consciously foster the ideal of developing a foreign-oriented economy.**

The Central Committee of the party has already made the decision to develop a foreign-oriented economy. Those people who have their minds emancipated and who dare to take the first step, inevitably seize the initiative and get there first. Otherwise, they would have missed the opportunity and fallen behind in increasingly sharp competition. Therefore, cadres engaged in labor reform work must enhance their understanding of the importance, the necessity and practicability of developing a foreign-oriented economy by the labor reform units, and overcome their fear of difficulty. It is especially important that they discard the rigid idea that "labor reform is something unique and special." Cadres of all levels must share the same purpose and determination.

(2) Guide the labor reform enterprises in accelerating their strategic shift.

First, keep an open mind and solve the problem of talent. The enterprises must first train their existing personnel, imparting to them knowledge on international trade. Secondly, they must energetically recruit college and intermediate technical school graduates as well as available science and technology personnel in society. In this, we have been rather cool and uncaring. This is a serious lesson. We must also discover talent from among the prisoners. For a long time we leaned either to "left" or to "right," and were consistently unable to handle this problem well. For example, we have not made use of the managerial talent from among the prisoners. We did not dare use existing talent, and did not know how to use it, thus landing ourselves in a passive position. This problem must be effectively tackled in the process of our developing a foreign-oriented economy, so that the personnel potential of the labor reform units can be tapped fully.

Secondly, in order to develop a foreign-oriented economy, we must continue to readjust our industrial structure and product mix, upgrade our product mix to facilitate export and earn foreign exchange. This is an important way to accelerate the development of a foreign-oriented economy. We must energetically increase our capacity to turn out those items we are already exporting. We must utilize all

available production facilities with the labor reform system to gain overall advantage in export production. We must redeploy our production capability within the system in a rational way so as to increase our export capacity and foreign exchange earning power. Those labor reform enterprises engaged in farming must take advantage of their abundant agricultural resources to develop processing industries to meet the needs of the export trade. They must develop agriculture and the production of other raw materials to satisfy the needs of the processing industries. In this way, a production structure embracing trade, industry and farming is brought into being, and by making export and foreign exchange earning the central task of farming, a self-perpetuating cycle is set in motion, giving impetus to the growth of the agricultural economy.

Third, the strategic thinking of starting with technical advance must be established, so that we have a clear-cut direction for investment of the existing enterprises. Facts have shown that technological renovation and technical improvement provide the material conditions for the labor reform enterprises quickly to switch to a foreign-oriented type economy and increase the output and lot size of the export products. The export production of the labor reform enterprises cannot satisfy the demand of the international market by far both qualitatively and quantitatively. It is, therefore, necessary to import advanced foreign technical equipment set by step, enhance the technical level of the enterprises, so as to increase their international market share.

Fourth, build and strengthen horizontal alliances and switch from the old pattern of small enterprises doing everything on their own in isolation to forming alliances in which each enterprise specializes in some particular line of activity. Alliance means scale, competitiveness and more efficient exports. The enterprises are entering into three major forms of alliance: 1. alliance of labor reform enterprises to develop the advantages within the labor reform system, with the export product serving as the lead; 2. alliance with other local enterprises – "small boats tagging themselves onto large ones" "and small boats stringing themselves up in a line" to develop local and professional advantages; 3. alliance of industrial and trading, or farming and trading

enterprises to integrate information, raw material and marketing.

Fifth, improve management and switch from extensive to intensive management. Our enterprises are poorly managed and have a rather weak foundation. Some people ridicule us, calling our way of doing things "Yenan style" -- by mass mobilization and issuing orders. The enterprises are now trying to upgrade themselves by strengthening the foundation of their management. These important measures should be rigorously carried out.

(3) Create the necessary external conditions for the labor reform enterprises developing a foreign-oriented economy.

The disadvantages faced by the labor reform enterprises in competition to develop a foreign-oriented economy is also quite obvious. In addition to the backwardness of their equipment and technology, an outstanding fact is that these enterprises cannot compete with the other enterprises on society on equal terms, as they also have to fulfil the very serious task of trying to reform the prisoners, and this imposes on them as extra burden as they try to take off economically. It is therefore necessary to speed up and deepen the reform of the labor reform enterprises and create the necessary conditions for them to compete more effectively.

Fifth, increase the number of outlets for export. With the reform of China's foreign trade structure, we must boldly study the flexible mechanism of multi-port operation and increase the number of outlets for export. In addition to consolidating the existing ports, we must energetically for industry-trade and farming-trade alliances. The Labor Reform Bureau and Jiangsu Province recently applied to the provincial government for permission to have the labor reform units form a new structure of alliance with the foreign trade departments on their own. Some of the better managed labor reform units are allowed to take advantage of their location in the coastal areas or open cities to gather information and obtain *sanlai yibu* (processing materials provided by foreign companies, manufacturing according to samples provided by foreign companies, and compensation

trade) contracts. They also process imported materials. The possibility of establishing *sanzi* enterprises (joint ventures and enterprises owned solely by foreign capital) is also being boldly explored.

Second, turn the key enterprises and products into factories specializing in the production for export, and export bases. Key enterprises and products must be developed in the light of local conditions, in order to turn out the most promising and unique product for export. We must organize a large number of foreign-oriented enterprises in order to increase the lot size of export products. This is practicable for those labor reform units located in the coastal areas in developing labor-intensive products for export should be exploited to the full. Assistance should be given to the key enterprises, so that they can lead the way in developing a foreign-oriented economy.

Third, give tax credit to labor reform enterprises. The central authorities should pay attention to the question of reform and openness of the labor reform enterprises. They should regard these enterprises as an important force in economic construction, and recognize the fact that they face many real difficulties. It is hoped that the state and the provinces (cities) would adopt more lenient policies toward the labor reform enterprises developing new export products and establishing new export enterprises.

(The author's unit: Labor Reform Bureau, Jiangsu Province)

## The Path Is Under Our Feet<sup>17</sup>

by He Liang

Confronted with the situation in which the state is strengthening macro-economic controls and tightening credit, what path should the reform-through-labor units take for their own development?

*I. Judge the hour, size up the situation, and seize the opportunity.*

As the economy slackens on a nationwide scale, getting the supplies, marketing and financing have all become more difficult for the time being. Confronted with a shrinking market, the reform-through-labor units now face intensified competition from enterprises run by villages and towns and those run by the military and others. In this competition, we suffer from our own weaknesses. It is, therefore, necessary for us to judge the hour, size up the situation, adjust our orientation in a timely manner, and find a path that suits us, in view of our own conditions and the external environment.

As commodity producers, even though we are hampered by many disadvantages, we also enjoy some obvious advantages. Comparatively speaking, we have greater manpower at our disposal, and our workers are young, concentrated; they cost less and they follow a military routine. But, as a result of the low level of our economic development and the lack of other factors, the great majority of the reform-through-labor units do not get enough contracts to have themselves fully occupied. There are not enough productive posts for all the convicts. And our labor resources have not been fully utilized. One of the problems facing the reform-through-labor units that urgently requires a solution is to find ways to commit the surplus convict labor to production as soon as possible. One advantage lies in the full utilization of the rich convict labor resources for the development of labor-intensive products. However, the capacity of

the domestic market for labor-intensive products is limited. Some village-and-town-operated enterprises, which are fighting to win or die, will pull out all the stops to seize this market, and, taking advantage of their managerial flexibility, fiercely compete with us for their survival. This makes it difficult for us to give full play to our own strong points. If we have our eyes on the world market, its capacity is very much larger. At the present time, the wage costs in the developed and some of the economically powerful developing countries are far higher than our present level. The production of more and more labor-intensive products will be transferred to the low-wage third world countries. In recent years, China's ordinary enterprises have been adversely affected by rapidly rising wages, and their costs for earning foreign exchange have gone up, so that they are gradually losing their advantage on the international market of labor-intensive products. In some cases there is no more profit to be made. If we can take full advantage of our strong points, seize this favorable opportunity, there is plenty of room for the development of labor-intensive products for the international market by our reform-through-labor units.

*II. Squeeze onto the international market through "cracks."*

From the strategic point of view, in order to enter the international market, the reform-through-labor units should adopt the strategy of going through "cracks." They should avoid their disadvantages, give play to their strong points, seek out cracks in the market, in the product as well as the price, making use of every bit of time or space, to find a path through the cracks.

By "cracks" in the market, I mean first of all the blind spots not covered by the large enterprises as

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<sup>17</sup>"Lu zai jiao xia," in *Laogai Laojiao Lilun Yanjiu*, No.2, 1990, pp.56-57 and p.33.

they radiate their products on the international market; secondly, those spots not covered strongly enough by the large enterprises; thirdly, vacancies on the market left by the large enterprises as their output declines due to tightened credit and default on the part of their debtors; fourthly, the time lag between getting the supplies and marketing. It is through these cracks that the flashlights, bench clamps, marble slabs, terrazzo, and other products for export made by some reform-through-labor units in Guangdong Province have entered the international market.

By "cracks" in the product, I mean those products that meet certain demands on the international market, but the large enterprises are unwilling to produce, and the small ones run by villages and towns are unable to make. For example, woollen knitwear is a low-profit item that the large enterprises are unwilling to produce. Since it must be exported in quantity, the small enterprises are unable to produce. Yet, woollen knitwear is in great demand on the international market and is selling very well. So the Red Star Woollen Textile Mill of Guangdong Province seized the crack and is exporting all its products.

By "cracks" in the price, I mean that we should adopt the tactic of medium pricing, neither too high, nor too low. This is because to command high prices, we must first have high-grade, precision and advanced products. For the low price strategy to work, one must have mass production capacities in order to make small profits but achieve a quick turnover. Since we are not in a position to do either, we must adopt the policy of medium pricing, so that the reform-through-labor units are able to handle sales on the market and their profits can rise steadily. The Dong Feng Co. Ltd. of Guangdong Province (Shenzhen) set the profit margin of its power transformer at 0.50-0.60 *yuan*, which is lower than the profit margin (1.20 *yuan*) of famous brand products, but higher than that (0.40 *yuan*) of products made by enterprises run by villages and towns. Because its products are low priced and of good quality, thirty per cent of them are exported, and its annual output has gone up from 3.5 million units to 4.06 million units.

From the tactical point of view, with the exception of a few units that have highly marketable products and a solid foundation in foreign trade, for

the majority of the reform-through-labor units in the coastal areas to enter the international market, they must take advantage of their geographical location and engage in *sanlai yibu* (processing the materials supplied by foreign companies, and compensation trade). Since the marketing end is taken care of by foreign companies, we need not worry about the most difficult part of our operations, and the pressure resulting from changing external environment is more or less reduced. Our main job in operation and management is simply to organize production and make scientific allocation of convict labor. At the same time, foreign companies provide us with technology, equipment and managerial know-how. This helps improve our competitiveness and create the conditions for our entering the international market at a high level. In October, 1984, the Red Star Tea Farm signed a ten-year contract with the Hong Kong Gong Fashion Trading Corporation to process materials supplied by the latter. This resulted in the establishment of the Red Star Woollen Textile Mill of Guangdong Province. It imported 850 looms in the last few years and became internationally competitive.

Take the Jiguangtang Farm of Guangdong Province as another example. It suffered losses every year in the past. In 1987, it began processing foreign-supplied materials in the manner of *sanlai yibu*. It ended the losses and turned a profit of 165,000 *yuan* that same year. Its profits for the first six months of 1989 topped one million *yuan*. Plowing back part of those profits, it bought agricultural machinery, saved farm labor and lowered its costs of production. It committed the manpower displaced by farm machinery to processing imported materials, thereby starting an upward spiral of farming and manufacturing promoting one another.

### *III. The path is under our feet, how do we take a step?*

#### **1. Emancipate the mind and advance bravely.**

Comrade (Deng) Xiaoping stressed that in developing foreign-oriented economy, we must quicken our steps, be bold and make sure that we do not miss the opportunity. The words "quicken" and "bold" that he used meant that he wanted us to emancipate our mind further. Personnel of those reform-through-labor units in remote and economically backward areas should travel more, so

as to broaden their outlook and emancipate their mind. When making comparisons, it is essential to emancipate one's mind, avoid comparing one's own weaknesses with others' strong points, so that one does not blame God and man. One should make a point of learning from others the way they discarded the theory that holds the reform-through-labor units to be something quite unique; the way to formulate good policies, discover one's own strong points through comparison, and be good at developing those strong points under unfavorable conditions, overcome one's fear of difficulty and strengthen one's confidence and aggressiveness.

## **2. Establish many-sided alliances and strengthen foreign-oriented economy**

For a product to enter the international market, it is necessary that it be of high quality, low price and promptly delivered. As modern products are serialized and form complete sets, the capability of a single reform-through-labor unit is far from adequate. This means that the various units must unite and develop their combined advantages in order to enter the international market. Those units in the coastal areas enjoy the advantages of good transportation, abundant sources of information, an early start in the development of a foreign-oriented economy, and a solid foundation. But they also consume more; their costs are higher, and they face a shortage of manpower. Those units in remote areas suffer from lack of transportation facilities and information. But they are endowed with rich resources and their costs of production are low. If each of these units gives full play to its respective strong points and allows rational interflow of the factors of production among them, and, with those units in the coastal areas taking the lead, radiating their products to remote mountain areas, and form all types of horizontal combinations, a powerful international competitive force would result.

## **3. "Building a nest to lure the phoenix," creating a good environment for investment**

For investors, in choosing partners for cooperation and investment, pay attention primarily to the environment. The environment for investment includes both hard and soft aspects. By hard aspects, I

mean energy, transportation, water supply, ventilation and other components of the infrastructure. By soft aspects, I mean policy, personnel, quality and the level of management, goodwill, etc. The prerequisite and foundation for the development of a foreign-oriented economy by the reform-through-labor units mean exactly the creation of a good environment, hard and soft, for investment. To create a good hard environment, the units must, on the one hand, try to get personnel, financial and material assistance from the Bureau of Reform-through-labor. On the other hand, they must also enlist the support of the local governments and relevant departments. There is a great potential to be developed in terms of the soft environment, which, in turn, would help create a hard environment. We must work hard to improve the soft environment.

## **4. Implement the preferential treatment policies and open wide the possibilities of production**

In developing a foreign-oriented economy, the key points for luring foreign investments are as follows:

a. The implementation of preferential treatment policies to encourage *waiying neilian* (introduction of foreign investment and technology and combination within them country. For example, when Guangdong Province engages in *sanlai yibu*, the reform-through-labor enterprises charge fees for their services that are 10-20 per cent lower than those charged by other enterprises. They charge rents for existing plants that are 20 per cent lower than that collected by other enterprises.

b. Encourage acts of go-between and valuable advice and suggestions. In order to provide information for the development of *sanlai yibu* projects and the foreign-oriented economy, all units and individuals either working for the enterprises in question, or from other enterprises, who have played a useful role in introducing a profitable project may be rewarded a one-shot bonus as a percentage of the profit or processing fee.

(The author is a cadet of this academy.)



## **How Our Factory Has Developed A Foreign-oriented Economy<sup>18</sup>**

**By Qin Guishan**

Compared with other enterprises, it is far more difficult for the reform-through-labor units to develop their economy, especially foreign-oriented economy. But this is by no means impossible. The New Life Cotton Cloth Mill of Nantong County, Jiangsu Province provides an eloquent example. Since 1983 when it started producing for export, it had by 1988 produced a cumulative output value of 180 million *yuan*, of which 110 million *yuan*'s worth was procured by the state for export, resulting in foreign exchange earnings of US \$28.51 million. Its products had been exported to seven countries, including Japan, the United States and West Germany. It has become a major foreign exchange earner among Jiangsu's textile mills. For three years in a row, it was named an advanced unit in earning foreign exchange by the provincial people's government. It was promoted to the class II category of state enterprises in 1988 as a unit of the country's judicial administration. It was cited for collective merit, first class. The basic experience of the Nantong mill consists of the following: operations must proceed according to economic laws, with a heightened sense of competition and the market.

### ***I. Insist on achieving success by virtue of quality***

Work to improve quality serves as an economic lever. In a situation in which the international market is full of competition, the role of work to improve quality as a lever becomes all the more prominent. Survival of the fittest is the internal mechanism of competition. In competition, success is achieved primarily by virtue of quality. This means that an enterprise is under tremendous pressure. Taken seriously, however, pressure can be turned into driving forces, pushing people to change their way of thinking.

There are several basic principles governing the production of export commodities. "Quality comes first;" quality has priority over quantity -- such is the first basic principle governing the production of export commodities. In judging the level of an enterprise, one looks first at the quality and reputation of its products. Poor quality not only makes sales difficult, but also brings political and economic losses. By "political" loss, we mean the enterprise is discredited, and this is something that must be avoided at all costs, in developing the foreign-oriented economy. By "economic" loss, we mean sluggish sales, price markdowns and damage claims by clients. In this sense, quality is the life blood of an enterprise, and this is especially true of those enterprises trying to develop a foreign-oriented economy. Therefore, the sense of quality is the foremost sense for developing a commodity economy. For many years, we have upheld the principle of "achieving survival, development and goodwill by improving quality," taking it as essential for the survival and development of our enterprise. We started by strengthening management, concentrating on management, tackling the key problems, and developing high quality products, so as to ensure the quality of our products for export. In improving management, we maintain a very strict standard of quality. First, we make a serious analysis and study of the blueprints and samples provided by our foreign clients, and set the standards to be followed. Second, we make every one responsible for quality, from the general office down to the workshops, teams and groups, so that we have a complete responsibility system that guarantees quality. Third, we set up nine quality control points at the key processes of all our production lines, so that we have strict quality control at every step of production. We instituted strict quality inspection, so that all problems found are tackled immediately. No material that is not up to standard is allowed to be processed; no substandard, semi-finished product is allowed to be further processed;

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<sup>18</sup>"Wo chang fazhan waixiangxing jingji de zuofa" in *Laogao Laojiao Lilun Yanjiu*, No.3, 1990, pp.38-41.



and no reject is allowed to be shipped out of our mill.

At the same time as we strengthened quality control, we grasped the development of high quality products as an important link in improving competitiveness, and we have done everything possible to develop such products. In the last few years, seven of our products won the title of "quality product" awarded by the provincial authorities. These included half-yarn denim wool fabric and naval T-shirts made of 32-count cotton-dacron blend. Our indigo-blue denim won that same honor in 1986. We further improved its quality by optimization techniques and it won the title of "quality product" awarded by the Ministry of Textiles. Many clients, both domestic and foreign, have asked for that product name. In the last six years, we exported 8.52 million pieces of knit underwear, 10.37 million meters of cotton cloth, 85 tons of knit grey, and no buyer ever claimed damage. We won goodwill and praise from customers in such developed capitalist countries as Japan, the United States and West Germany.

## **II. *Insist on "neilian waixie"* (internal alliance and external cooperation).**

The foreign-oriented economy is characterized by high quality requirements and prompt delivery. In order to develop production for export in accordance with the economic laws, there is only one way out, namely, to form horizontal alliances in a comprehensive, multi-level, multi-channel and multi-format way. This is also an objective necessity arising from our socialist planned commodity economy. In this way, we broke out of the closed system, in which all the units were compartmentalized vertically and horizontally. All units can now develop their own advantages and the factors of production can be combined in an optimal way. No unit needs to join the battle single-handed. The enterprises form a collective with the unit producing the export product as the leader. They compete on the market with their collective strength. Our mill broke through the regional and professional barriers and established cooperative relations in foreign trade with the Sutong Textile union and the Dasheng Industrial Company of Nantong County. On that basis, our knitwear department in a joint venture with the provincial Knitwear and Cotton Textile Import-Export Corporation,

founded the New Life Knitwear Mill of Nantong County, Jiangsu Province, which combines manufacturing and trading. In this way, it increased its sources of capital for production. At the same time, a collective export structure was formed, with 12 cotton and dyeing mills including the State No. 1 Cotton Mill of Changzhou County and the Cotton Mill of Rugao County a suppliers of raw materials, our mill and the No. 2 Garment Factory of Nantong County as knit underwear producers, and the Jiangsu Province Knitwear and Cotton Textiles Import-Export Corporation as the marketing arm. Thus, group production and materials supply have become integrated, and the drawbacks of the former practice have been effectively overcome. In the past, exports were centrally controlled by the state, whereas production was under local control, and all units were vertically and horizontally compartmentalized. This meant that export management was divorced from autonomous production. Now that the interests of the foreign trade and production enterprises coincide, the initiative of both is brought into play, and production and export orientation are now regulated consciously in response to international market demand. In the past, the interests to the production and trading concerns were divorced and separate; they were at loggerheads, and their energy was dissipated in infighting; opportunities were missed and competition was ineffective. All this has now changed. Since 1987, when production and export became integrated, the export authorities have energetically helped our mill develop into a base for export. In 1988, they helped us obtain a low-interest loan from Japan to be repaid from our export surplus. That made more funds available to us and enabled us to carry our further technological renovation. That same year, we ran out of cotton yarn. The provincial export corporation, out of its own foreign exchange resources, imported 150 tons of raw cotton and met our urgent need.

## **III. *Insist on financing imports from exports and grow by self-reliance***

An important link in the expansion of production for export and the development of a foreign-oriented economy consists of the following: energetic renovation of existing equipment; accelerated technological advance; and enhancement of the enterprise's ability to adapt itself to change.

However, most reform-through-labor enterprises have a poor foundation to start with. They lack the capital to buy large quantities of equipment needed for the large-scale technological renovation of the enterprises. Our mill adopted the policy of "financing imports and exports, renovating the old plant, and developing by self-reliance." We started with backward equipment, worked hard to improve management, and, with existing equipment, turned out products that met the demand on the international market, exported them to earn foreign exchange, from which we imported equipment and advanced technique for the technological renovation of our enterprise, and gradually increased our output capacity and improved and upgraded quality, thereby enhancing our reserve power for further development. Thus, we have been able to start a cycle of "exporting to earn foreign exchange—importing technology to improve our capacity -- expanding exports to earn more foreign exchange." In doing this, we pay attention to three things: 1. We have tried to follow closely changes on the international market, readjust and improve our product mix to meet the demand on the international market. We succeeded in turning out quality brand items and a whole range of products that enjoy advantages on the international market. We have also increased the lot size of our exports. 2. We have given priority to importing the technology needed for the renovation of our key equipment, gradually replacing those outmoded machines that suffer low output, poor quality and high consumption of energy and materials. In this way, we have created new productive capacity. 3. We have imported equipment by every means, especially by compensation trade. In 1987, we signed a US \$3.5 million contract for compensation trade with the American firm *Baotong Huahang* (China Branch). The latter provided us with such advanced foreign equipment as horizontal knitting machines, and we paid for them with our knit grey. That helped increase our exports and reduce the expenditure of the foreign exchange needed for technological renovation.

#### ***IV. Attach importance to information resources***

The quality of a product is appraised on the market. The sense of the market is, therefore, the most basic sense in modern commodity economics. We

must produce whatever is in demand on the international market. The market changes extremely rapidly, like a gust of wind. To find out what is in demand on the international market, we must establish our own system of foreign trade production information, and conduct serious market surveys, investigations and analysis, in order to obtain market information.

Since 1983, we have managed information work at three levels: the general office -- the workshops (administrative or technical offices, detachments) -- teams and groups. We have smoothed out the dispatch, relay and feedback of all sorts of information, and effectively served decision-making. In 1987 alone, we relayed and fed back 227 pieces of information, including 24 pieces of class A, 146 pieces of class B and 57 pieces of class C information, achieving an effectiveness of 94 percent. In 1985, when we learned that denim was selling briskly on the international market, we quickly started producing denim with our outmoded equipment and sold them indirectly on the international market. It later became our primary product, and it crowded the denim made in Tianjing off the Guangdong and Fujian markets. Our denim became the chief material from which jeans are made in those two provinces. Even though denim was not selling well in general for a while in 1988, our sales never lost momentum.

#### ***V. Insist on continuously developing new products***

If an enterprise wishes to survive under sharp competition on the international market, and still have reserve force for continuous growth, the only way is to develop new products that meet the consumers' fancies and are competitive, and to carve a niche for its lead product on the market. In order to be able to develop new products: 1) the enterprise must have a strong sense of modernity, and try to develop a product that is refined, novel, comfortable, elegant, and make effective use of time and space. In short, it must be a unique product with the kind of beauty that modern man admires; 2) it must attach importance to the technical reserve and technological development. In developing foreign trade production, we have tried to make our knit underwear colorful, stylish, and can be worn like street clothes. We have

added color printing and embroidery to upgrade our knit underwear. Over the last five years, we successfully developed 19 new products in 252 different colors and shades and 453 different styles. The timely production of these new products enabled us to cover a larger area on the international market, and compete at an advantage, so that our enterprise is now totally secure.

#### ***VI. Step up supervision and reform***

The five points described above explain how we succeeded in developing a foreign-oriented economy. In addition, our special feature also helped us succeed. That is to say, we have correctly implemented the party's policy on labor reform, and properly handled the relationship between production and reform, with emphasis on supervision and reform. Experience tells us successful handling of that relationship benefits both, and *vice versa*. This is easy to comprehend:

1. Without successful reform and orderly production, it is impossible for a labor reform enterprise to develop a foreign-oriented economy. We must regard the supervision and reform of prisoners our primary task. Foreign trade production is difficult, risky, and foreign trade production of the labor reform enterprises is even more difficult, even more risky. Convicts working in a labor reform factory are not masters of the enterprise; they are criminals in society, and there is a negative, antagonistic and disruptive side to them. Faced with a serious task of foreign trade production, our mill has insisted on instilling into our cadre of police a sense of dictatorship and a sense of hardship, so that they are constantly on the alert. As a result of our successful development of a foreign-oriented economy, our mill has become well-known and our interaction with society has increased. An increasing number of people began coming to our mill to exchange technical know how and discuss business. Under these new circumstances, we began by tightening control, revised and perfected our system of supervision. For example, we stepped up the education of prisoners in foreign affairs discipline. We made it an explicit rule that whenever foreign businessmen come to the workshops to inspect product samples or quality, they must be accompanied by a special

person. The prison authorities would assign people to our mill and help with supervision. Prisoners are not allowed to have direct contact or talks with foreign businessmen, etc. We have summed up and formulated a whole set of effective administrative measures such as "preventive measures taken well ahead of time, prevention by means of regulations, prevent at key points, and timely prevention." In this way, the "three orders" have been effectively maintained in the prison, and no secret has ever been leaked, and other incidents involving foreign contact have been effectively prevented from happening. In education and reform, our work has become routinized, systematic, and done in classrooms. At the same time, we have emphasized educating individual prisoners in accordance with their personal characteristics, thus effectively integrating the education of the prominent anti-reform elements with that of the entire criminal collective, and education in the prison with enlisting social forces to help with education and reform. As a result, the effectiveness of education has been markedly improved. According to observation of 1,100 ex-convicts, who have served their terms and been released, their rate of recidivism declined steadily from 6.4 percent in 1987 to 1.9 percent in 1988. Two hundred and forty-two of them have become department or section chiefs, or key technicians in enterprises run by towns and villages. Experience shows that stepped up supervision and reform and the creation of order within the prisons is a prerequisite for organizing foreign trade production and for the development of a foreign-oriented economy.

2. For a labor reform enterprise to develop a foreign-oriented economy, attention must not only be paid to economic matters, it is especially important to improve the quality of the prisoners. Over the last few years, our mill insisted on educating the prisoners in patriotism and national spirit, linking it with the reality of the development of a foreign-oriented economy. All detachments in our mill raised the slogan "develop foreign trade production and win honors for our country." Whenever a foreign trade task has been successfully fulfilled, the prisoners are encouraged to report their accomplishment to their loved ones, thus inspiring in them patriotism and a sense of national pride. In addition, we pay attention to giving prisoners systematic technical training to improve their

**production technique in order to meet the requirements of foreign trade production, as well as bring up talent for the four-modernization program. In the last three years, we offered two intermediate-level technical training courses, four technical vocational training courses and thirty-eight work post training courses. In 1988 alone, 1,700 prisoners were trained to fill work posts and 98 percent of them were successful. Improvements in prisoners' work skills guaranteed the quality of foreign trade products and a high percentage of up-to-standard export items. This fully demonstrates that educating the prisoners ideologically, culturally and technically so as to change their thinking, improve their knowledge, rid them of their bad habits, constitutes not only a basic measure for "reforming and cultivating people," but also an important guarantee for a labor reform enterprise in its development of a foreign-oriented economy.**

**(The author's unit: The New Life Cotton Cloth Mill of Nantong County, Jiangsu Province)**

## **Keep an Eye on the Market and Breathe Life into the Reform-through-labor Economy<sup>19</sup>**

**By Wu Mingliu**

For the reform-through-labor enterprises to keep their eyes on the market and breathe life into their economies, they must adapt themselves to the external environment, meet the needs of the market, and try their best to survive; at the same time, they must try to create their external environment, develop markets and grow as best they can. While meeting the requirements set by the guideline "*linagge jinachi, sango tigao* (two upholds and three improvements), they must look for market opportunities. To do this:

**1. They must target a market and try to meet its requirements.** In order for a reform-through-labor enterprise to keep its eyes on the market and breathe life into its economy, it must first target a market. This is because commodities produced by the reform-through-labor enterprises are designed to satisfy social needs. Every reform-through-labor enterprise must select one or more groups of consumers as its target market in an area where large quantities of its products would be in demand, and where it does not have to face many competitors, always keeping in mind the advantages it enjoys, its special features and external conditions. It must draw up a plan for optimum operation, concentrate its efforts and try to satisfy the needs of the market. This is especially true for those reform-through-labor enterprises that lack competitiveness on the larger markets. They should carefully target a small market, develop a relevant commodity to carve a niche for its product on that market. Having a target market means that the reform-through-labor enterprise has found its particular consumer group in the boundless universe. With proper means to promote sales, it would be unlikely for unsold stocks to accumulate. Generally speaking, those enterprises that have done so have been successful in quickly disposing of their merchandise. Take the Wanjia Detachment of Sichuan Province, for

example, having conducted its market survey, it has avoided the City of Chengdu, where competition is fierce, and chosen the outskirts of that city instead, targeting the service industries as its particular consumer group. It launched a promotion campaign, and its coking coal is selling like hot cakes. The I-beam for automobiles was made by only three enterprises in China, one of which being the Yaan Prison. Today, there are scores of producers. That prison was also one of four factories in the country capable of making that universal valve. Today that part is also being turned out by scores of factories, and many of them are well-equipped with advanced technology. Faced with powerful competitors, the prison has targeted the southwest region and chosen the auto parts companies and motor transport companies there as its particular consumer groups. Its efforts have been rewarded by a stable "partnership" established with those groups. Its sales have been growing steadily.

According to information I have garnered, many reform-through-labor enterprises have no idea where their target markets might be, how strong their demands would be, and how they would behave when making procurements. It is only natural that they do not know what to do in market competition with many powerful adversaries. They move blindly, missing opportunities to carve a niche for their products on the market. This is something that is alarming and worth pondering on.

Experience shows that in order to target a market, the basic requirements are: (1) it must be measurable. To find out the quantity demanded by the consumer group on the target market, we must try our best to quantify the demand, so that comparisons can be made; (2) there must be a niche to be carved for its product. The consumer group must be effectively

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<sup>19</sup>Wu Mingliu, "Li zu shichang gaohuo laogai jingji" in *Laogai Laogiao Likun Yanjiu*, No.2, 1989, pp.46-48

attracted by every method of promotion; (3) it must be profitable. If only losses are to be incurred, the market is not worth targeting; (4) there must be potential for development. There must be plenty of room for the demand to grow, and the market needs to be further developed.

**2. *Make a serious study of the conflict between demand and supply, so as to adapt oneself to change in market conditions.*** Market activities are complex, composite economic activities influenced by many factors. There is a certain pattern, but there is also a randomness caused by rapid changes in supply and demand. Therefore, once a reform-through-labor enterprise targets a market, it must study changes in demand and supply, so as to grasp the pattern of economic operation on the targeted market, and seize the initiative in commodity exchange.

There are three main forms in which market demand comes into conflict with supply: demand is equal to, greater, or smaller than supply. This shows that social demand and social supply can come into conflict for any commodity. Once a reform-through-labor enterprise recognizes the pattern of conflict and change, it is in a position to set its output to meet the demand and promote its production by sales efforts, in accordance with the principle of optimum commodity production. When the commodities produced by a reform-through-labor enterprise achieve a basic balance on the market and are selling briskly, it shows that production will not be limited by market sales. Production should then be organized according to plan so that both the output level and quality can be ensured. When supply falls short of demand and a shortage develops, it shows that there is a sellers' market, and it is necessary to tap the latent power of the enterprise, so as to increase output, stabilizing it at a higher level, and increase sales. When the supply outruns demand and sales become sluggish, it means there are obstacles and the causes must be analyzed. If sales lag because of poor quality, the product must be improved. If price is the problem, it should be reset according to market conditions. If it is a result of limited social demand and there is over-production, the plan should be readjusted in a timely manner, and production should be quickly reoriented. If this cannot be done due to technology, equipment, capital and other limitations, every effort should be made to

dispose of all the products that already been turned out, so as to control the damage caused by accumulated inventory. In order to be able to do all this, the reform-through-labor enterprise must know something about systems analysis, pay attention at all times to the role of reform-through-labor production as a means of reforming the convicts as well as the need to react to changes in market conditions and meet the needs of society. These two functions should be integrated in such a way that the reform function does not suffer. A comprehensive plan should be carefully worked out so that reform and production can be carried out in optimum balance under the internal conditions and external environment. In this way, the enterprise can react to market changes with flexibility, and unnecessary economic losses can be avoided.

**3. *Diversify operations and develop the market.*** The majority of reform-through-labor enterprises suffer from the fact that they are single-product concerns and have difficulty adapting themselves to market changes in a commodity economy. Once the market demand for that particular product falls, or a shift in demand away from that product occurs, production suffers. Asbestos, the kingpin product of Sichuan Province, lost its pride of place because a new type of refractory material had been invented. The enterprise in question has developed no new product to win a niche on the market. Its production remains at a low ebb. This profound lesson tells us that single-product reform-through-labor enterprises lack vitality. China has a huge market for a wide range of products. At a time when production is steadily growing, science and technology are constantly changing, market demand is extremely varied and volatile. If the reform-through-labor enterprises fail to adapt themselves to changing conditions and continue to turn out large quantities of commodities for which there is no market demand, and remain unable to produce those items that are in demand, they inevitably fail.

Diversification means more ways are opened up for breathing life into the reform-through-labor economy. There is room to maneuver even when the market changes. It also means reduced risks, and this is its greatest advantage. For example, an enterprise turns out five different kinds of commodities. It is

unlikely that all five suffer from slack sales, and the enterprise always loses money. Some of the products would enjoy brisk sales and bring profits. These would compensate for the others, so the risk is spread and the operation is safer. Some reform-through-labor enterprises have recognized this. They are beginning to readjust their product mix within their technical and managerial capabilities. They are gradually moving from single-product to diversified production. They are overcoming difficulties (next line unreadable) business, we must establish goodwill, which is an invisible asset and embodies the operational ethics of the enterprise in question. It is an ideological expression vis-a-vis the visible assets. It is a reputation established as a result of a high sense of responsibility and loyalty to consumers on the target market. As the old saying goes: "One pays a high price to buy reputation." The greater the goodwill, the more consumers are attracted, and the safer one's niche on the market, and vice versa. Since the reform-through-labor enterprises are not the regular state enterprises solely engaged in production, consumers who do not know them well are biased against them. They also suffer from all kinds of unfair competition. Their reputation would suffer if they do not pay attention to goodwill. And society would react unfavorably to the reform-through-labor institutions. Therefore, goodwill is especially important for the reform-through-labor enterprises.

Goodwill is marked by guaranteed quality, delivery in strict compliance with the contract, timely repayment of all debts, fair prices and good service. All this serves to win consumers' trust, and quality of the product is the most important of all. Selling goodwill means selling quality. Quality and goodwill must come first. This is the ABC of doing business. Under the conditions of competition, consumers always make comparisons and buy only quality products. With high quality products to offer, an enterprise does not have to worry about customers. "If your wine smells terrific, it does not matter if your shop is located at the end of a long alley." This has been proven again and again. For example, the galvanized wire produced by the No. 2 Prison of our province has been accepted by the Chongqing Hardware Company as so reliable that it requires no further quality checks. Its electric fans have been named "trustworthy products." Both are hot items on

the market. The high-grade pig iron made by the Wangcang Detachment is being exported. In 1989, it was cleared by the State Inspection Bureau as "trustworthy" and requires no further inspection. It has been proved to be quite competitive. The ZY 5140 column-shaped vertical drill developed by the Zigong Detachment has found its way onto the Hong Kong market and gained consumers' trust because of its reliable quality. The other marks of goodwill also must not be neglected. The reputation of a reform-through-labor enterprise can be ruined by breach of contract, default on debts, unreasonable pricing or poor service.

**4. Establish and strengthen marketing departments so as to keep an eye constantly on the market.** As is well known, commodity production is the unity of the production of use value and value. To realize the value of a product made by a reform-through-labor unit, it must be sold on the market. The reason why we study the market is to repudiate the attitude of paying attention only to production and not bothering about whether the product is marketable. In this sense, the market activities of a reform-through-labor enterprise must begin with the needs of consumers and end with the satisfying of those needs. Its production and operational activities must center on the consumer. But the majority of the reform-through-labor enterprises of our country are located in remote, out-of-the-way and poverty-stricken areas. As they are far away from the center towns and markets, transportation facilities and information are both lacking. These enterprises would not be able to keep an eye on the market, and they would inevitably miss opportunities as the market changes rapidly, if they have no marketing personnel to serve as a link between their production and social consumption, to channel the products to the market, to study the market, and try to increase market share. It is therefore essential for them to establish and strengthen their marketing departments staffed with people who are capable of discerning changes and launch offensives on the market. They must not hesitate to staff the marketing departments with talented people, who are versed in legal matters, who have a sense of commodity circulation, a high sense of business ethics, who are versed in economic theory, enterprising, worldly, sociable, with a good knowledge of the market, and well-informed. They must train their existing staff and enhance their level, introduce and

**consolidate the system of economic responsibilities with proper rewards and punishment. Constant checks must be made on performance of the staff in order to bring their initiative into full play.**

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*News From Asia Watch is a publication of Asia Watch, an independent organization created in 1985 to monitor and promote internationally recognized human rights in Asia. The Chairman is Jack Greenberg, the Vice Chairs are Harriet Rabb and Orville Schell, and the Executive Director is Sidney Jones.*

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