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ECONOMIC INTELLIGENCE REPORT

THE ECONOMIC CONTROL MECHANISM OF COMMUNIST CHINA



CIA/RR 69
20 January 1956

CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

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ECONOMIC INTELLIGENCE REPORT

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CIA/RR 69

(ORR Project 41.524)

CENTRAL INTELLIGENCE AGENCY
Office of Research and Reports

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FOREWORD

This report attempts to describe analytically the economic organization of Communist China and to evaluate the effectiveness of that organization as an economic control mechanism. Through a description of the nature of Soviet influence and control over the Chinese economic structure and of the close parallel between the Soviet and Chinese systems, the degree of Chinese dependence upon the USSR is made manifest.

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(ORR Project 41.524)

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THE ECONOMIC CONTROL MECHANISM OF COMMUNIST CHINA*

Summary and Conclusions

The economic control mechanism of Communist China is formally in the hands of 24 ministries, 2 commissions, and 5 specialized agencies -- all under the State Council, which is China's equivalent of the Council of Ministers of the USSR. The number of economic control agencies has steadily increased over the brief life of the regime as various sectors of the economy have developed and as China has increasingly modeled its economic and political institutions after those of the USSR.

The 12 ministries which control the productive and extractive industries and the 10 ministries (and 1 specialized agency) which control the service industries are typically organized into line and staff units with Control Bureaus responsible for the industrial installations or other producing units in the various economic subsectors and with staff offices concerned with such functions as planning, design, finance, and production techniques. There is reason to believe, however, that in some cases the principles of line and staff organization are violated with resulting confusion of authority.

The remaining agencies in the economic structure are primarily control and coordination agencies concerned with such matters as over-all planning, budgeting, and auditing. Although these organs would appear to have what are normally considered staff functions, there is a tendency to give some of them line responsibility so that, for example, the accounting function throughout the state-controlled operating sector of the economy is directly under the jurisdiction of a separate accounting administrative system under the Ministry of Finance. A further administrative anomaly is the formal independence of the People's Bank of China from the Ministry of Finance, although it functions as the operating arm of that ministry. Much of the recent

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 15 December 1955.

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growth in the bureaucracy and the proliferation of new economic agencies at the central level can be attributed to the growing need for centralized control over industry which is not part of the state enterprise sector. Two new ministries have been established for this purpose, and there are, in addition, two special agencies of the State Council which have responsibilities for these sectors.

In addition to the normal economic controls exercised by the economic agencies, the Ministries of Public Security and Supervision act as watchdogs over these agencies and their subordinate enterprises in order to ensure against inefficiency and mismanagement as well as against the more flagrant crimes and misdemeanors. Finally, the Chinese Communist Party maintains ultimate control over the economy through the placement of trained Party members at key posts within the government hierarchy and in all important industrial installations. Thus the mechanism described herein is in fact an instrument for the execution of Party policy and Party decisions.

Much of the economic control mechanism appears to be closely modeled on Soviet prototypes. The presence of large numbers of Soviet advisers with assignments all the way from the State Council down to the individual plants reflects the continuing close ties between the USSR and Communist China and is reflected in the increasing Soviet cast being given to Chinese manufacturing and productive processes, management and control techniques, and planning procedures and methods. Soviet advisers appear to participate in all these activities, although there is no evidence of their regular participation in major policy decisions. Such decisions may, of course, reflect Soviet decisions as to the direction and amount of aid which is granted to China and in many instances are doubtless arrived at in ad hoc discussions between Soviet and Chinese leaders.

Although certain administrative weaknesses are apparent in the mechanism as described here and although the Chinese Communist press and radio frequently complain of waste, inefficiency, and mismanagement, it has not been possible to evaluate the strengths and weaknesses of the Chinese economic control mechanism in any detail on the basis of presently available information. It is apparent that accounting and statistical techniques still leave much to be desired. There appears also to be considerable duplication and an overelaborate hierarchy for the control procedures

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in many key sectors. Paradoxically, this situation probably reflects the shortage of trained managerial personnel, since there is an apparent tendency to regard quantity as a substitute for quality in this field. In spite of these weaknesses, however, the progress made by the Chinese Communist economy and the apparent success of the control mechanism in such key matters as the control of inflation are some evidence that the system is increasingly developing an ability to provide the strong controls required at this stage in China's economic growth.

I. Introduction.

The economic control mechanism of Communist China consists in part of that portion of the formal structure of government devoted to economic matters and in part of the Communist Party organization, which has firm control over the government structure through the placement therein of reliable Party functionaries. Although this report is devoted largely to a description of the government structure, it should be borne in mind that major policy decisions are made in the high organs of the Party and that the structure described here exists primarily to carry out these decisions and other expressions of the Party's will.

II. Economic Control Organization.

The Chinese Communist economy is formally controlled by a number of economic ministries, commissions, and agencies under the State Council, a body similar in structure and function to the Council of Ministers of the USSR. (See Figure 1.*) The State Council, although responsible to the National People's Congress and its Standing Committee, is the highest administrative organ of the state. Of the 34 ministries which comprise the Council, 24 may be classified as economic, and 2 of the 5 commissions and 5 of the 20 specialized agencies have primarily

* Following p. 4.

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economic responsibilities. The number of these economic agencies has grown considerably over the period since the establishment of the regime. For example, only 13 economic ministries were listed in the People's Handbook as of 3 February 1951. 1/* New ministries have been created by dividing the functions of a predecessor ministry, as in the case of the Ministries of the Coal Industry, the Petroleum Industry, and the Electric Power Industry, which were created from the several control bureaus of the former Ministry of the Fuel Industry in June 1955 2/; by taking functions away from an existing ministry, as in the case of the several Ministries of Machine Building which were created out of the Ministry of Heavy Industry 3/; or by establishing a new ministry to handle some function that has assumed pressing importance, as in the case of the Ministry of Agricultural Products Procurement created in June 1955. 4/

The gradual increase in the number of economic agencies reflects an increasing degree of specialization and probably is designed also to reflect the growth of developing sectors of the economy to the extent where full-fledged ministries are required to administer them. The creation of new ministries probably also reflects the Soviet influence. [redacted] following a major reorganization of the government in the fall of 1952: "The Chinese leaders have been taught by the Soviets to be fanatical believers in specialization. They aim to increase the number of ministries to as many as sixty when the construction program gets into full stride." 5/

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In the majority of cases the name of each economic organization is sufficient clue to its general function. An attempt is made here, however, to delineate the responsibilities and functions of the more important of these agencies so far as is currently possible in order to present in detail a picture of the organization of the economy.

For the purpose of this delineation, the several agencies may be divided into those which control productive or extractive industries, those which provide services, and those which perform over-all planning and control functions. It is recognized that this division is somewhat artificial because certain of the agencies have responsibilities which cut across these lines. The approach serves, however, the purpose of placing them in a workable order for examination and analysis.

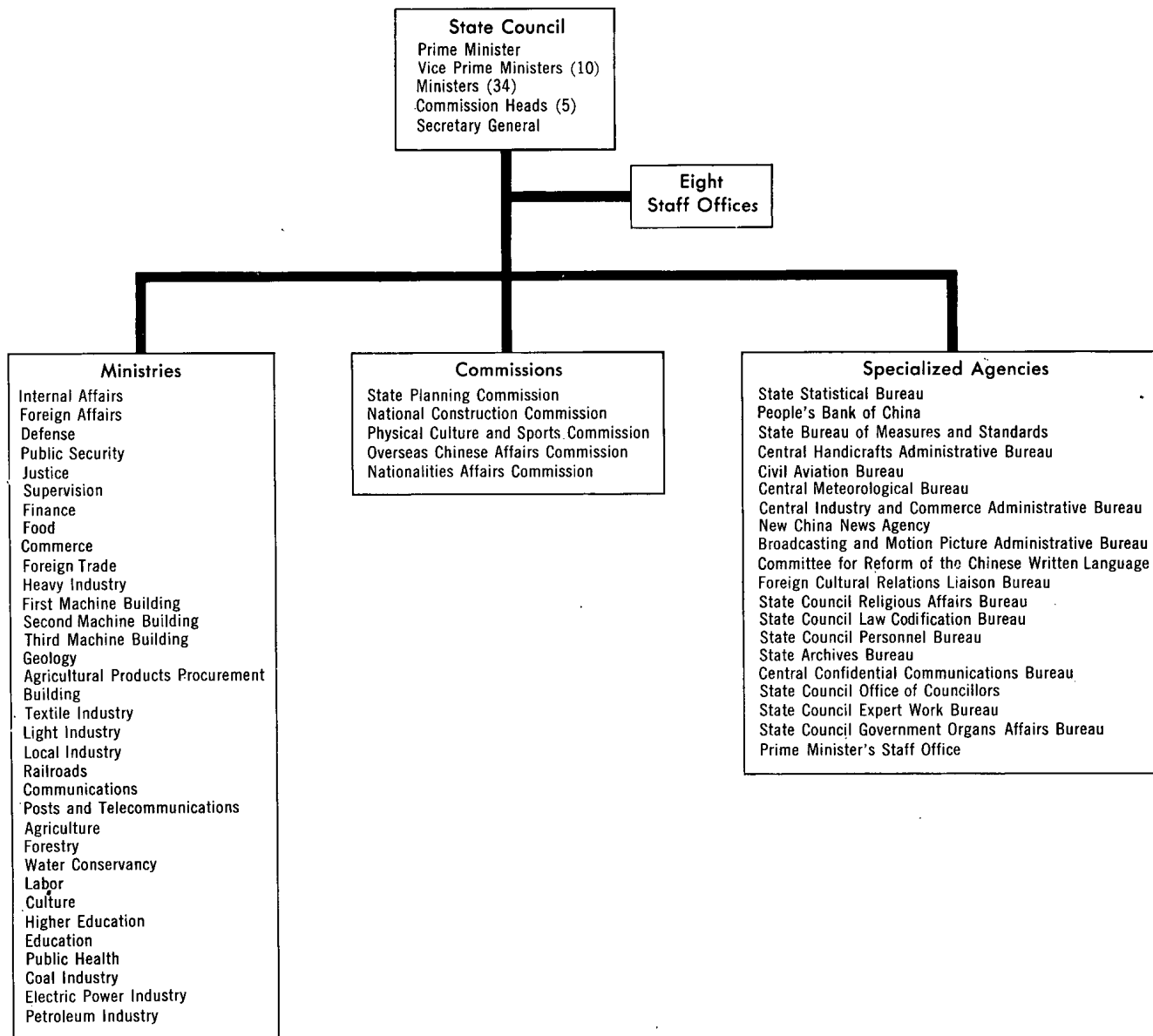
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COMMUNIST CHINA

The State Council and Its Subordinate Bodies

as of 1 December 1955



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Figure 1.

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A. Productive and Extractive Industry Agencies.

The 12 ministries which make up this group and the sectors of the economy which they control are shown in Figure 2.* The typical ministry in this group is organized into staff or functional offices and into control bureaus, which are the line organizations responsible for the state-operated plants of the several subsectors of the economy assigned to the ministry.

Figure 3* presents a summarized organization chart of the Ministry of Heavy Industry as an example of the typical ministerial structure. 6/ This ministry and others in the group appear to follow simple line and staff organizational principles, but information on the actual working relationships of the functional offices (staff) and the control bureaus (line) is too fragmentary to provide an accurate picture of the true nature of the organization. In some cases it appears that the offices have functional authority over units in the line organization; in others their responsibility appears limited to staff advisory and technical assistance to the line organization. For example, in the planning process, the ministry's Planning Office appears to have some functional authority. Plans made by units at each level in the organization are drawn up in accordance with a format imposed by the immediately superior unit based on the requirements of that unit and on the requirements and regulations of all organizations higher in the scale. Thus the plan of a Control Bureau is a consolidation of the plans submitted by the individual enterprises under its control. The approval of the ministry's Planning Office is required before the bureau plan can be included in the comprehensive plan for the ministry. It appears, however, that the approval is given or withheld in the name of the ministry itself, so that the principle of line authority is honored. 7/

The principle of functional authority of organs at the office level appears to obtain also in the field of design. At a conference of subordinate designing units called by the main Designing Office of the First Ministry of Machine Building in September 1953, it was noted that a policy had been established of unifying and

* Following p. 6.

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concentrating the designing force with the main bureau responsible for directing design work and the subbureaus responsible for undertaking it. 8/

In other instances the office units probably function as line units themselves. This is evidently true of the Basic Construction Offices which are characteristically a feature of ministries of this type and which have construction and engineering companies under their control. The large number of construction agencies which results from this organizational arrangement appears to have been recognized as a possible source of the chronic problems in the construction field, which the National Construction Commission (see p. 8, below) presumably was created to solve.

B. Service Agencies.

The 10 ministries and 1 specialized agency which make up this group and the sectors of the economy which they control are shown in Figure 4.* Because of the great variation in activities and the lack in several cases of detailed information on organizational breakdown, no one ministry in this group can be considered typical. It is believed, however, that, where feasible, the same pattern exists which was observed in the industrial ministries -- that is, Control Bureaus in charge of subsectors of the economy and staff offices handling such functions as planning, personnel, and other specialized matters. Thus the organizational pattern of line and staff appears to be generally characteristic of the ministries in both groups.

C. Planning and Control Agencies.

There are 11 agencies in the administrative structure of the Chinese Communist government whose duties may be characterized as including economic planning or control functions. This figure includes 5 ministries, 2 commissions, and 4 agencies of the State Council.

1. State Planning Commission.

Like its predecessor, the State Planning Committee, the State Planning Commission has been little publicized, and its exact

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COMMUNIST CHINA

Sectors of the Economy Controlled by Productive and Extractive Industry Ministries

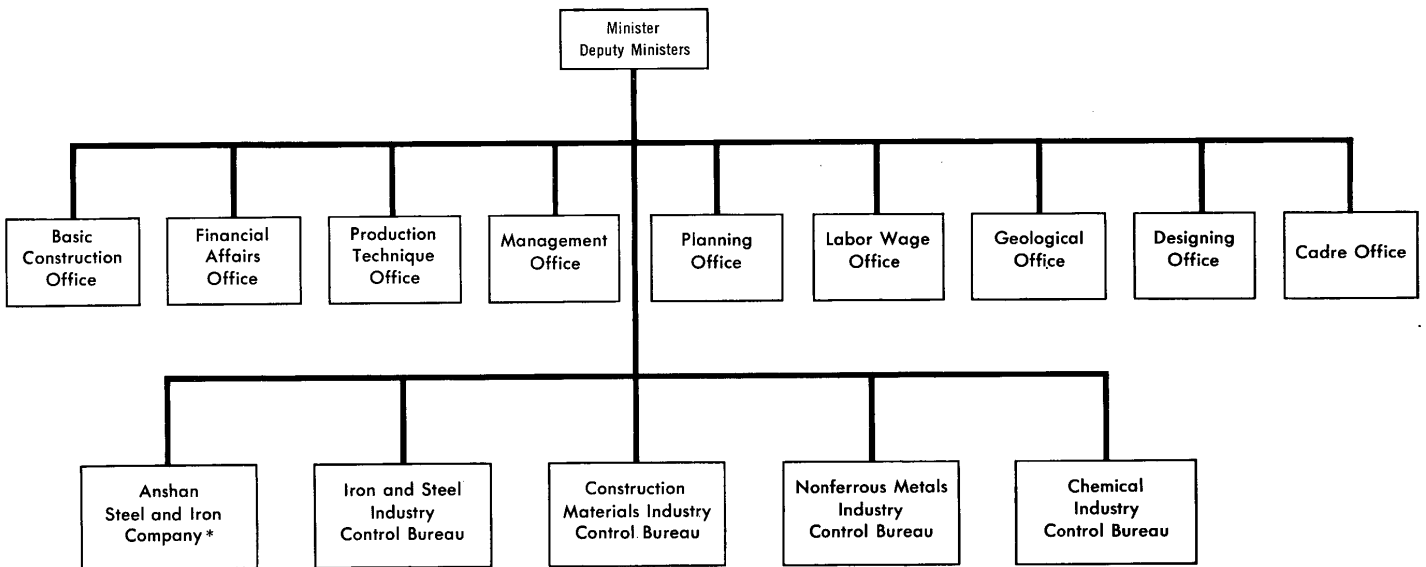
as of 1 November 1955

Ministry of Heavy Industry	Ministry of Light Industry	First Ministry of Machine Building	Second Ministry of Machine Building	Third Ministry of Machine Building	Ministry of the Textile Industry	Ministry of Local Industry	Ministry of Agriculture	Ministry of Forestry	Ministry of the Coal Industry	Ministry of the Electric Power Industry	Ministry of the Petroleum Industry
Iron and Steel Construction Materials Nonferrous Metals Chemicals	Tobacco Liquor Processed Foods: Salt Sugar Canned Goods Oils and Fats X-Ray and Medical Equipment Pharmaceuticals Paper Goods Rubber Goods Leather Goods Paint Weighing and Measuring Equipment	Machine Tools Shipbuilding Locomotives and Rolling Stock Automobiles Electrical Equipment Mining Machinery General Industrial Machinery and Equipment Agricultural Tools and Equipment	Arms and Munitions	Local, public-private, private, and cooperative machine and electrical industries	Textiles Textile Machinery and Equipment	Other local, public-private, private, and cooperative industries	Agriculture Fisheries and Marine Products	Reforestation Timber-cutting Lumber Mills	Coal	Electric Power	Petroleum

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COMMUNIST CHINA
Organization of the Ministry of Heavy Industry—Simplified
as of 29 April 1955



**This important industrial complex is administratively separate from the rest of the iron and steel industry*

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COMMUNIST CHINA

Sectors of the Economy Controlled by Service Ministries and Agencies

as of 1 November 1955

Ministry of Commerce Domestic Trade (including supervision of State Trading companies)	Ministry of Foreign Trade Export and Import Administration Customs Administration: Shipping Registration of Private and Foreign Export-Import Firms	Ministry of Geology Geological Survey	Ministry of Building Construction City Planning	Ministry of Railroads Railroad Operations, Construction and Maintenance	Ministry of Posts and Telecommunications Postal Service Telephone Service Telegraph Service Radio Service	Ministry of Communications Highways Ports, Harbors, and Waterways Inland, Coastal, and Ocean Shipping	Civil Aviation Bureau Civil Aviation	Ministry of Water Conservancy Flood Control Irrigation Projects	Ministry of Food Storage and Distribution of Grain (See also Ministry of Finance) Some food processing	Ministry of Agricultural Products Procurement Collection and purchase of grain, cotton, vegetable oilseeds for domestic supply and rationing purposes
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structure and functions are not known. Because the Commission is now listed as one of 39 ministries and commissions, all presumably equal in rank, it is believed that it holds a lesser position in the government hierarchy than did its predecessor. Further evidence for this belief is the purge of its former Chairman, Kao Kang, and the fact that appointees to the new commission appear to have less stature in Party and government ranks than did their predecessors. Also, the establishment of a National Construction Commission may have divided in some degree the over-all planning responsibility in the Chinese economy.

In Figure 5* is shown the tentative structure of the State Planning Commission, the subordinate bureaus of which are those of the predecessor committee. Only the Bureau of Technical Cooperation has been identified since the reorganization. ^{9/} If this bureau, as is implied by its title, is involved in the program of technical aid from the USSR and the European Satellites, it probably plays an important role in the functions of the Commission.

Although the State Planning Commission may have lost some power and prestige, as has been conjectured, it still remains one of the key economic control bodies. Its place in the economic planning process makes it responsible for the internal consistency of the national economic plans, and accordingly it must play a role in resolving conflicts between other economic agencies over the all-too-scarce resources of capital, raw materials, and skilled labor. The problems confronting such an organization are compounded in Communist China by the transitional nature of its "progress towards socialism." At present, there is a complicated combination of state enterprises (some under the control of the central government and some under the local governments), private enterprises, cooperatives, and public-private joint enterprises. The organizational changes which have recently taken place are undoubtedly a reflection of the enormous task of coordinating the activities of these various groups with a limited number of trained economic planners, statisticians, and other experts.

* Following p. 8.

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2. National Construction Commission.

The National Construction Commission is a relatively new organization, created in September 1954, under the chairmanship of Po I-po, who has held other leading government posts in the regime and is a member of the Central Committee of the Chinese Communist Party. Although little is known about the functions of this commission, it is probably modeled after the State Committee on Construction Affairs of the USSR, which acts as an advisory and consultative body to the Council of Ministers.

Probably the major reason for the creation of such a commission in China was the lack of coordination between the construction units of the various industrial ministries and their subordinate organs, the numerous local state-operated construction enterprises, and the Ministry of Building. A recent announcement indicated that there are 183 civil engineer construction companies, 8 installing companies, 50 designing units, and 178 enterprises engaged in construction work in China. 10/ Instead of being centrally coordinated through one ministry or some other control organ, these apparently have been responsible to a multiplicity of authorities, including the various industrial ministries and the provincial and municipal governments. The exact role of the Ministry of Building and its relationship to these various construction units has never been clear. It is, however, apparent either that the ministry was never intended to coordinate the activities of these units or that, if it was so intended, it was a conspicuous failure in this respect. Chronic complaints in the press of waste, inadequate planning, and nonessential construction have reached a peak in 1955, 11/ and it is assumed that the new commission will be expected to cope with this problem. Probably its activities will thus include a role in the detailed planning of the capital construction program, which is the core of China's Five Year Plan.

A further organizational step which was taken to centralize control of the construction enterprises was the creation of the People's Construction Bank in September 1954. 12/ This bank was placed under the Ministry of Finance and accordingly is discussed below under that body.

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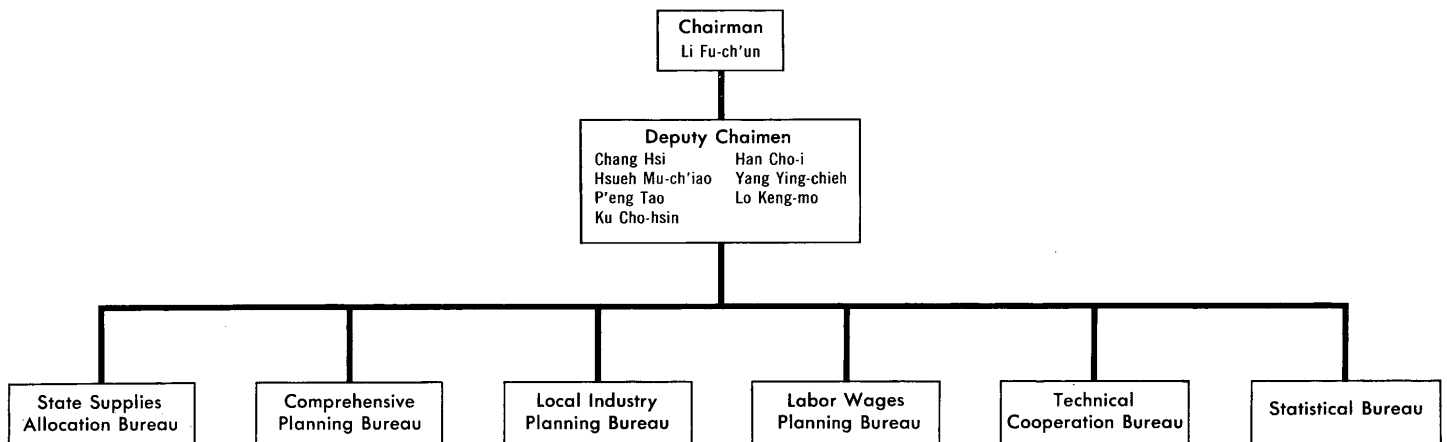
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COMMUNIST CHINA

Tentative Structure of the State Planning Commission

as of 15 March 1955



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3. Ministry of Finance.

The Ministry of Finance is one of the major control organs of the Chinese Communist government because of its responsibilities (a) for tax collection and administration 13/; (b) for the preparation, execution, and audit of the National Budget 14/; (c) for inspection and supervision of financial policies, budgets, accounts, and audits of enterprises and agencies of the Central Government 15/; and (d) for the management of the National Treasury. 16/ In addition, the ministry's Office of Food Control has responsibility for the organization and control of China's public granaries, which are considered part of the treasury system. 17/

Although the People's Bank of China appears to be charged with the detailed administration of many of the functions formally the responsibility of the Ministry of Finance (for example, it acts as the national treasury and exercises monetary control over state organs, state-owned enterprises, and cooperatives 18/), it was established as an independent organ and retains that status as one of the 20 specialized agencies under the direct supervision of the State Council. (See Figure 1.*) It is noteworthy that a major banking function -- that of providing investment funds for capital construction -- has recently been put under the Ministry of Finance by the establishment, in September 1954, of the People's Construction Bank. The announced functions of the new bank were as follows: channeling investment funds to capital construction units, supervising the use of these funds and the execution of investment plans, and implementing cost accounting and financial controls in capital construction units. 19/ The bank thus became the successor to the Bank of Communications, which had previously been charged with these responsibilities, and it accordingly took over the accounts of the various construction units originally with that bank. 20/ This transfer, which appears to be a further symptom of generally unsatisfactory performance in the field of capital construction, removes the responsibility for overseeing the use of construction funds from a subsidiary of the People's Bank and places it directly under the Ministry of Finance. It is not yet clear whether the Bank of Communications, which may have had some nominal private interests, has been abolished. Possibly it continues

* Following p. 4, above.

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its responsibility for controlling long-term investments in public-private enterprises. 21/ In any event, it is apparent that the move is expected to provide a greater degree of supervision by the central authorities over construction activities. The Ministry of Finance's role in supervision of the budgets, accounts, and audits of subordinate organizations, including enterprises of the Central Government, gives it a control function over these enterprises which is apparently independent of the industrial ministries. According to a textbook on government accounting, "... The agencies or divisions in charge of a unit or general accounting system are independent from other agencies or divisions of the same government organization. ... The accounting officials ... in the central government have jurisdiction in accounting matters over the accounting agencies in their affiliated agencies, organizations, and enterprises. ... No accountant shall be appointed, dismissed, or transferred without the consent of his superior in the accounting administrative system. However, all accountants obey the principal officials of their organizations in executive matters. In this sense, a dual system of control exists." This system is said to be adopted from the accounting laws and practices of the USSR. 22/

4. The People's Bank.

The People's Bank of China was established in December 1948 as the state bank of the regime. Under its direction were the following four special banks: the Bank of China, responsible for controlling foreign exchange operations; the Bank of Communications, responsible for investment in basic construction and now superseded by the People's Construction Bank; the Agricultural Cooperative Bank, responsible for investment in agriculture, water conservation, and forestry (this bank apparently never functioned, and on 25 March 1955 a new Agricultural Bank under the People's Bank of China was established 23/); and the People's Insurance Company (transferred to the Ministry of Finance in July 1952). 24/

The functions of the People's Bank of China can best be summarized by the statement that it is the operating arm of the Ministry of Finance, although it is formally subordinate not to that body but directly to the State Council. It is the national treasury and clearinghouse and exercises monetary and currency control. It also serves as the tax-collecting agency and conducts the construction bond drives and other national borrowing activities.

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A major activity of the People's Bank of China has been the monetary control system which is designed to minimize the use of cash and commercial credit in order to maintain price stability. The bank acts as a clearinghouse for all transactions undertaken by government offices, the armed forces, state enterprises, and cooperatives. By limiting the amounts of cash which may be held by the various enterprises and by handling their receipts and disbursement, thus channeling all transactions involving the transfer of funds through the books of the state banking system, the bank is allegedly able to "assure that the budget is faithfully executed, ... strengthen economic planning, ... and keep monetary circulation at a normal level." 25/ Although it is doubtful that these objectives are achieved as completely as stated, there seems little doubt that the monetary control system does give the bank a strong supervisory and control role in the national economy and probably has been a major factor in the Communists' ability to halt the runaway inflation which characterized the last years of Nationalist rule on the mainland.

5. Ministry of Labor.

The Ministry of Labor, which has no counterpart in the USSR, does not appear to play an important role in the Chinese Communist economic control mechanism. Its unimportance may have been attributable to the fact that the Minister until the recent reorganization was Li Li-san, formerly a powerful figure in the Party but in recent years very much in eclipse. Since policy apparently was against an outright purge, it may have been decided to give him a high-sounding but relatively meaningless post. He has now lost even this vestige of power, and it may well be that the ministry itself will disappear as the Chinese government organizational structure grows ever closer to its Soviet prototype.

The control of labor appears to lie not with this ministry but in the labor union organizations headed by the All-China Federation of Trade Unions. The Federation was originally controlled by Li Li-san, from his post as First Vice Chairman, but he was removed in 1953 when Lai Jo-yu took over the chairmanship. 26/ The union organization also took over from the ministry the administration of the labor insurance program in June 1954. 27/ The labor insurance office of the Ministry of Labor was forthwith abolished, leaving only a staff office, a Labor Disputes Office, and a Labor Protection Office

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identified as subordinate units of this ministry. There is no information on the activities of these offices, but, given the totalitarian nature of the regime, it is doubted that they are particularly active.

6. Ministry of Local Industry.

The Ministry of Local Industry was established in the government reorganization of September 1954. Nothing has been published about its actual functions and responsibilities, but it seems probable that it was created to coordinate the work of the local state-operated industries and of other small plants which have assumed importance with the increased program of conversion of private capitalistic enterprises to state capitalism. 28/ Its Minister, Sha Ch'ien-li, was formerly a Deputy Minister of Commerce, while 2 of the 3 Deputy Ministers were formerly with the local industry bureaus at the regional administration level. The third was director of the finance department of the Hunan provincial government. 29/

7. Third Ministry of Machine Building.

The Third Ministry of Machine Building was established in April 1955 as a further step in the program to centralize control over smaller factories which did not come under the direct control of the previously established Machine Building Industry Ministries but which contributed to their over-all production program through contractual arrangements. The official announcement of its establishment stated that it was "to direct the machine and electrical engineering industries of local State enterprises, joint State-private, co-operative and private enterprises." 30/ The new Minister, Chang Lin-chih, is a former Deputy Minister of the Second Ministry of Machine Building, which is believed to control the armaments industry.

The recent establishment of these two ministries with jurisdiction over the nonnationalized state and other enterprises is indicative of the belated recognition which is being given to the importance of this sector of the economy. Such plants, while coming increasingly under government control and dependence on government orders for their continued existence, were apparently considered among the prime targets of the campaigns against inefficiency, waste, and corruption. Although ministries exist to control state enterprises in the economic sectors served by them, it was apparently

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felt that separate organizational status was needed for the detailed planning and supervision of production in the plants scattered throughout the country which have been working on government contracts with little systematic supervision. It may prove very difficult to achieve adequate control apparatus in this area because of the large number of small enterprises concerned and the shortage of trained supervisory personnel. 31/

8. State Statistical Bureau.

The State Statistical Bureau was established in the fall of 1952 as the highest organ of a nationwide statistical organization, designed to provide the basic data for national planning. Subject to the approval of the State Planning Commission, this bureau was authorized to establish statistical systems and forms for the use of all government organs and economic control agencies and enterprises. It also has the duty, as the highest organ of statistical work in Communist China, of collecting and analyzing all statistical data for the development of the national economy. 32/

It is evident that difficulties in the field of statistical reporting remain one of the principal weaknesses in Communist China's efforts to establish and operate a planned economy. The accurate and timely presentation of data so essential to modern industrial organizations and control systems is hampered in China not only by the lack of trained personnel and the variety of types of economic organization but by the language itself, which is ill-adapted to this purpose. Moreover, China's efforts in the statistical field have apparently been marked by overzealous efforts to fill the control and reporting channels with forms and charts which bear little relationship to the realities of the situation being reported on or to the facts needed for control purposes. 33/

9. Central Handicraft Industry Administrative Bureau.

There is no information on the structure or functions of the Central Handicraft Industry Administrative Bureau. Presumably it is responsible for organizing and controlling the vast number of small-scale handicraft industries, which play a large role in the Chinese economy. It is estimated that handicraft enterprises account for about one-third of the total industrial production of Communist China by value and that they supply between 70 and 80 percent of the peasant needs for capital and consumer goods. 34/

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10. Central Industry and Commerce Administrative Control Bureau.

There is a similar lack of information on the structure and functions of the Central Industry and Commerce Administrative Control Bureau. It is assumed to be the central government's counterpart of and controlling agency for the provincial and municipal Control Bureaus of Industry and Commerce which have jurisdiction over the private firms in their respective areas. 35/ The State Council Control Bureaus for Handicrafts and Industry and Commerce, if they in fact have the responsibilities noted, would appear to overlap with the newly established Ministry of Local Industry and the Third Ministry of Machine Building. As a matter of conjecture, it is suggested that the ministries concern themselves with the production problems of the enterprises concerned, particularly for those items produced under contract for state enterprises, while the State Council Bureaus probably are concerned with organization control and with the program for bringing such enterprises along the path toward socialism.

There remain two ministries -- the Ministry of Public Security and the Ministry of Supervision -- which, although not primarily economic, play an important role in the economic control system.

11. Ministry of Public Security.

The Ministry of Public Security, although not ordinarily considered an economic ministry, has certain functions which bear directly on the area of economic controls. Not only does it have control of the reform-through-labor program, 36/ which plays an important role in water conservancy work, highway construction, and maintenance and construction programs of a varied nature in hardship areas, but its various measures for control of the population, including efforts to prevent mass migration of the peasantry to the cities, must be considered to have an economic effect. In addition, at least one economic ministry, the Ministry of Railroads, has a Public Security Bureau, which appears to be subject ultimately to the Ministry of Public Security rather than to its nominal parent organization. 37/

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12. Ministry of Supervision.

The Ministry of Supervision is the successor to a former committee-level organization, the Committee of People's Supervision. It presumably controls the People's Supervisory Offices which are attached to government organizations and enterprises at all levels. A press report on their activities in November 1954 stated that there were almost 4,000 supervisory organs -- "mainly supervisory offices of financial and economic enterprises." These organs were alleged to be "supervising all activities of production and finance, concentrating on the supervision of economic construction." 38/ These supervisory organs appear to serve several functions. They are a channel through which individuals can bring complaints to official attention. "... The masses of people are entitled ... to prosecute and charge lawbreaking Government officials. ... Supervisory organs at all levels have consistently paid attention to the prosecution and charges of the people, thereby promoting closer relations between the Government and the people ... [and enabling] the people to develop their supervision of the implementation of State policies, laws and decrees, and economic construction plans." 39/ They also supply the government with a system of unpaid informers in the Communist tradition. Under the various supervisory offices is a network of secret supervisory correspondents, charged with investigating and reporting on "all kinds of lawbreaking activities and dereliction of duty" and collecting "people's opinions towards the government policies, orders and work." 40/ As of May 1954 there were 78,196 of these correspondents. 41/

In the case of the Ministry of Railroads, a People's Supervision Bureau was established in June 1954. Although under the joint jurisdiction of the railroad ministry and the then Committee of People's Supervision, primary responsibility fell upon the latter 42/ and presumably now lies with the Ministry of Supervision. The establishment of the new bureau was coupled with the abolition of the investigation units under the finance and accounting agencies of the Ministry of Railroads. Thus it would appear that an important function was being moved from the Ministry of Finance to the Supervision Committee. There is no evidence that similar changes have taken place in other economic ministries, and it is probable that the railroads constitute a special case. If irregularities or problems arise in other ministries, however, it may be

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that the new ministry will acquire supervisory powers, beyond what it now holds, in other areas of the economy.

III. Role of the USSR in the Chinese Communist Economic Control Mechanism.

The ramifications of the Soviet technical assistance program to Communist China spread throughout the Chinese economic and political system. The Chinese are modeling their economic administrative framework on Soviet prototypes, and Soviet advisers are believed to be present at all levels in the Chinese economic ministries, administrative organs, and industrial organizations. Although such formal mechanisms for Soviet control as the Sino-Soviet joint companies have been abandoned,* the widespread Soviet influence continues through a number of different devices discussed in the sections below.

A. Agreement on Scientific and Technical Cooperation.

Among the several agreements between the USSR and Communist China announced on 11 October 1954 was an agreement on scientific and technical cooperation. This agreement called for the exchange of technical documents, information, and specialists and was carefully phrased to indicate a two-way exchange. ^{43/} The agreement also provided for a joint commission to administer the exchange. This commission held its first meeting in Moscow in December 1954 and defined in greater detail the mutual obligations of the parties. Under the agreement approved at this meeting, the USSR will furnish (free of charge):

1. Plans and blueprints for industrial construction (including metallurgical and machine building plants, power stations, and others).
2. Blueprints for machinery and equipment.
3. Plans for producing many types of industrial goods.
4. Scientific, technical reference, and training material.

* As of 1 January 1955.

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The Chinese, in their turn, will furnish (also free of charge):

1. A description of production methods and samples of products from light, pharmaceutical, and local industries.
2. Samples of agricultural crops (including subtropical plants, citrus, vegetables, grain, and others). 44/

The effort made in this and other communiques on technical exchange to emphasize the Chinese Communist contribution is shown by the following oblique reference to Soviet specialists: "The Chinese People's Republic will enable Soviet specialists to learn about the achievements and work experiences of the national economy." 45/ Thus, in Communist logic, the furnishing of Soviet specialists to China becomes a Chinese contribution to the USSR.

This agreement is the latest of a number of similar agreements which provide the formal basis for the continuing program of Soviet technical assistance to Communist China. The program is not limited to the announced Soviet assistance in renovation or construction of 156 major industrial projects, which is covered by separate agreements but appears to cover every phase of economic activity. The detailed arrangements for Soviet advisers to China -- including their numbers, assignments, and arrangements for compensation and upkeep -- continue to be concealed, but there is ample evidence that the number is large and that they are assigned not only at the plant level but also at the various administrative levels, including that of the State Council itself. Thus the influence which they are able to bring to bear on the Chinese economy is widespread.

B. Use of Soviet Administrative Prototypes and Procedures.

The Soviet influence on the Chinese Communist economy is readily apparent in the types of institutions which have been established to handle Chinese economic affairs and in the procedures used. It is apparent in the management and control procedures used within industry and in the techniques and work methods used by the workers themselves.

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It is logical that Communist China, in its efforts to establish a planned economy and to follow the course of growth which its leaders ascribe to the USSR, should adopt many of the formal institutions which the mentor country had established for this purpose. Thus the State Council, the supreme governmental administrative body, is obviously modeled on the Council of Ministers of the USSR, and the State Planning Commission is modeled on Gosplan, the State Planning Committee of the USSR. The State Statistical Bureau of Communist China is believed to be modeled on the Central Statistical Administration of the USSR. Although China's economic ministries do not imitate the USSR in every instance, those which can be compared appear to be close copies of Soviet prototypes, and the trend which has been noticed in China of increasing the number of ministries as certain sectors of the economy grow in importance also appears to mirror Soviet practice. A list of the Chinese Communist economic agencies and their counterparts is given in Appendix A.

Chinese Communist management practices are also closely similar to Soviet ones. For example, the effort is made in Chinese industry as in Soviet industry to combine the principles of one-man management with those of collective responsibility. Definite areas of responsibility for labor unions, workers' committees, and Party representatives are specified, so that these groups act as watchdogs on management, while at the same time the factory manager is given full responsibility for the fulfillment of production goals, allocation of resources, and other administrative matters. ^{46/} This attempt to integrate a system of centralized authority with so-called "democratic management" appears very similar to efforts of like character in the USSR. ^{47/} Frequent mention of the adoption of "advanced Soviet management practices" is made in Chinese publications and broadcasts. ^{48/} This description presumably refers not only to the planning, statistical, and accounting procedures but also to the Soviet practices for the development of improvement of worker morale and efficiency, such as "socialist competition," campaigns against waste, patriotic production drives, and similar devices which have characterized Soviet industry.

The Chinese Communist planned management system requires an elaborate system of controls and reports, which in turn require sophisticated statistical and accounting procedures. The weaknesses of the Chinese in these fields have been and still are particularly

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glaring, and they have accordingly made extensive use of Soviet help. Soviet advisers have been called upon to lecture on specialized subjects and to set up statistical and accounting systems, and workers in these fields are continually urged to adopt the advanced experiences of the USSR. Most of the Chinese texts on these subjects currently in use appear to draw heavily on Soviet materials and methods. 49/

Although it is impossible to estimate accurately the extent to which the Chinese have been successful in adopting Soviet methods of planning and control, it appears that this is a field in which problems will continue to exist for a long period. One problem appears to be the enthusiastic adoption of elaborate records and charts without adequate understanding of their uses. One instance of a cotton mill in Shantung, which had a special section of 30 workers (out of a total working force of 500) engaged in keeping statistical records on production norms, conducting speedups of the stakhanovite type, and preparing elaborate graphs and charts of output increase, none of which activities bore any relation to reality

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Early in 1955 the problem of adopting Soviet accounting techniques received official attention in a press release of the Bureau of Accounting and Financial Affairs of the Ministry of Commerce. This release, after describing the vast improvement in Communist China's commercial operations attributable to the assistance of Soviet specialists since early 1951 in drafting an accounting system for state commercial enterprises, complains of the failure to "coordinate the advanced experiences of the Soviet Union with actual conditions in China." It was stated that the disregard of urgent suggestions of Soviet specialists to proceed with caution in carrying out the new economic accounting system by state commercial enterprises produced a series of "irrational measures" and warned that failure to adapt Soviet experience to conditions in China would lead to continued difficulties. 51/ That this problem is not susceptible of easy solution is indicated by the appearance of this caveat some 4 years after the inauguration of Soviet assistance.

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Judging from the frequent exhortations to follow Soviet models more closely, it is evident that the Chinese Communist leadership is frequently dissatisfied with the performance of lower echelon management in respect to this problem. For example, a Jen-min Jih-pao editorial of 16 April 1955 complains that "the study of Soviet experiences has been ... without system ... [and has] caused imbalance in work." 52/ At a meeting of cadres and technical personnel of the Ministry of Heavy Industry in October 1954, there was further complaint of shortcomings in carrying out Soviet suggestions, and it was decided to set up inspection committees to promote acceptance of proposals by Soviet experts. 53/ It is concluded that among the most glaring weaknesses of Chinese industrial management is the continuing inability to make effective use of modern techniques, particularly in planning and control mechanisms.

With regard to working methods and techniques, there appears to be no field of the Chinese Communist economy which is not under considerable pressure to adopt the teachings of Soviet specialists. This is particularly noticeable in fields where complicated equipment and advanced technology are required, such as petroleum exploration, production, and refining; coal mining; iron and steel manufacture; electric power production; and machine tool operations, but it extends also to light industry and agriculture. The complaints indicated above of slowness in adopting Soviet proposals undoubtedly apply in the case of working methods also, inasmuch as claims of tremendous improvement in production because of the use of such proposals are only a little more frequent than complaints that more must be done in this field.

C. Soviet Influence at the Plant Level.

The great majority of gains in efficiency or productivity in various Chinese Communist plants are attributed in press reports to the suggestions of Soviet technicians or of Chinese who have received training at Soviet hands. Thus in the coal-mining industry, for example, it is alleged that the Fu-hsin coalfield is developing "along the lines of the Soviet Donets coal basin under the guidance of Soviet specialists." Soviet technical supervision is credited with doubling the extraction rate, improving safety conditions, and mechanizing 74 percent of the works at Fu-hsin. 54/ The steel complex at An-shan is alleged to have benefited from

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some 30,000 Soviet proposals in 5 years, 55/ while in the field of electric power "progressive Soviet techniques" at plants of the Wu-han Power Bureau have led to a 50- to 85-percent reduction in the repair and inspection of boiler time. 56/ These are only fragmentary examples of the claims of alleged benefits received from the Soviet technical aid program which have filled Chinese press and radio reports since the Communist accession to power. This continued reiteration, although impossible to judge as to accuracy of content, does indicate that Soviet technical advice must be widespread and substantial. On the other hand, the sustained propaganda campaign may be a response to considerable reluctance on the part of Chinese workers to acknowledge the practical value of Soviet advice. There is considerable evidence of this reluctance, seemingly compounded of generalized Chinese resentment against the USSR and its representatives in China and of contempt for many of the Soviet suggestions themselves on the part of some Chinese workers. 57/

D. Soviet Advisers at the Ministerial Level.

The group of Soviet personnel in Communist China is not limited to technicians and skilled workmen at the plant level but includes a substantial number of advisers within the ministries themselves.

Although in most instances it is not possible to ascertain accurately the role played by the Soviet advisers in the various economic ministries, the following description of the activities of seven principal advisers to the Ministry of Communications between May 1949 and January 1953 may be cited as an example of the claimed extent of influence and assistance which the USSR has provided to Communist China. Allegedly the Deputy Minister of Communications reported the following activities of the Russians attached to the ministry:

1. Assistance in organizing the ministry, especially in developing a detailed division of labor and a clearly defined command channel.
2. Formulation of standards and principles for planning the engineering of highway bridges and tunnels.
3. Planning and direction of repair and construction projects involving 34,077 kilometers of highways, harbors at Pu-kou and T'anku, and wharves at Tsingtao.

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4. Direction of the Shanghai Ship Repair Factory.
5. Introduction of a system of inspection of oceangoing vessels.
6. Supervision of the introduction of an improved management program for (navigation on ?) the Sungari River.
7. Inspection and recommendations concerning management, distribution of vessels, selection of harbor sites, adjustments in navigation routes, and transportation methods on the Yangtze River.
8. Introduction of Soviet methods of "automobile transportation planning and calculation." 58/

If this example may be accepted as typical, it appears that Soviet influence at the ministerial level is widespread, including not only advice on technical matters but also activities in the organization and management of the ministries themselves.

E. Soviet Influence on Chinese Communist Economic Policy and Planning.

In addition to the Soviet advisers in Communist China who are assigned at the ministerial level and the Soviet technicians assigned to major industrial installations, there are believed to be Soviet personnel functioning as advisers at high-policy levels. It has been acknowledged that the program of Soviet material aid has been accompanied by "proposals in principle and in the concrete concerning the task of China's five-year plan." 59/ It is probable that the program has been developed through hard bargaining sessions, at which Soviet decisions played a role in limiting and directing Chinese plans for industrial development. The assignment of Soviet personnel to Chinese government bodies, although undoubtedly welcomed by the Chinese, who readily admit their need for high-level guidance, gives the USSR an opportunity for influencing Chinese decisions in carrying out their plans.

The highest public body to which the assignment of Soviet advisers has been publicly acknowledged is the State Council. 60/ Although it is impossible, of course, to assess their precise role and influence on the Council's decisions, the mere fact of their assignment at such a high level is evidence enough of the extent of Soviet influence in the government hierarchy.

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The principal Soviet advisers at the ministerial level [redacted] function as an advisory group to the Committee of Finance and Economics, which was, until the reorganization of the Chinese Communist government in the fall of 1954, a coordinating body of the several economic ministries. [redacted] the group met weekly to study reports submitted by the Chinese. These reports contained data on the use of manpower and materials, cost, and so forth, and indicated problems which came up during the production period. The Soviet advisers would attempt to eliminate the problems by rewriting the plans and adding new specifications to improve the final results. The advisers also made inspection tours to plants and factories throughout China. 61/

Although the Committee of Finance and Economics was eliminated from the Chinese Communist governmental structure in the fall of 1954, it is probable that the group role of the chief Soviet advisers at the ministerial level has not been substantially altered. Possibly the Soviet advisory group referred to above now functions in a similar fashion with respect to the State Planning Commission. Little is known about the day-to-day operations of this body, but there has been no concealment of Chinese adoption of Soviet techniques in planning procedures since early in the regime. In the introduction to a book entitled Planning in Industrial Enterprises published in Peking in 1951, it was stated that the industrial plans for 1951 (of the Ministry of Heavy Industry) were drawn up with the assistance of Soviet specialists and that Soviet national plans were used as reference material for drawing up the industrial plans for China. 62/

It should be noted, however, that there is no substantial evidence of formal Soviet influence or participation in the councils of the Chinese Communist Party. As stated above, the higher Party organs are the real policymakers in Communist China, and it is probable that their deliberations and decisions are carried on without active Soviet participation. Such influence as the USSR may be able to bring to bear at this level doubtless stems from the personal relationships of individual Russians with key Chinese Party officials and from whatever pressure can be achieved in the negotiations over the extent and direction of Soviet aid.

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The over-all picture which emerges from this brief survey of the widespread Soviet influence on the Chinese economy has the following general characteristics:

1. There is no area of the Chinese economy which has not been influenced by Soviet techniques and methods, but they have been particularly pervasive in the fields of extractive and heavy industry and in the organization and control of the economy.
2. There has been some resistance on the part of Chinese workers and lower level administrators and managers to the Soviet innovations, but this has not been of proportions serious enough to threaten the existing relationships between the parties.
3. Conversely, there has been a tendency toward blind acceptance of Soviet innovations without adaptation to local conditions or, in the case of accounting and statistical control methods, without effective use being made of the results.
4. The influence of Soviet technology and of Soviet principles of organization and control is combining with material aid to create in China a replica of the Soviet economic system which, as Chinese industrialization proceeds, will be only in minor details distinguishable from its prototype.

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APPENDIX A

COUNTERPART ECONOMIC AGENCIES IN COMMUNIST CHINA AND THE USSR

<u>Communist China</u>	<u>USSR</u>
State Council	Council of Ministers
<u>Commissions</u>	
State Planning Commission	State Planning Committee (long-term planning) State Economic Commission (current planning)
National Construction Commission	Gosstroy -- State Committee for Con- struction Affairs
<u>Specialized Agencies</u>	
State Statistical Bureau	Central Statistics Directorate
People's Bank of China	Gosbank
State Bureau of Measures and Standards	Chief Directorate of Standardi- zations
Central Handicrafts Administrative Bureau	*
Civil Aviation Bureau	Chief Directorate of Civil Air Fleet
Central Industry and Commerce Administrative Bureau	*
<u>Ministries</u>	
Agriculture	Agriculture Meat and Dairy Products Fish Industry State Farms

* No identified counterpart on the national level.

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Communist China

USSR

Agricultural Procurement	Agricultural Procurement
Building Construction	Construction
Coal Industry	Coal Industry
	Construction of Coal Industry Enterprises
Commerce	Internal Trade
Communications	Automobile Transport and Highways
	Maritime Fleet
	River Fleet
Electric Power Industry	Electric Power Stations
	Electric Power Statics Construction
Finance	Finance
Food	*
Foreign Trade	Foreign Trade
Forestry	Timber Industry
Geology	Geology and Conservation of Mineral Deposits
Heavy Industry	Chemical Industry
	Construction of Metallurgical and Chemical Industry Enterprises
	Building Materials Industry
	Ferrous Metallurgy
	Nonferrous Metallurgy
Labor	State Committee of Labor and Wages (?)
	Chief Directorate for Organization and Recruitment of Manpower (?)
Light Industry	Light Industry
	Paper and Wood Processing
	Foodstuffs Industry
Local Industry	*

* No identified counterpart on the national level.

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Communist China

USSR

Machine Building (First)	Automotive Industries Construction and Road Machine Building Heavy Machine Building Machine Instrument Building Machine Tools Industry Medium Machine Building Electrical Industry Radio-Technical Industry Transport Construction Transport Machine Building Shipbuilding Industry Tractor and Agriculture Machine Building
Machine Building (Second)	Defense Industry Aviation Industry
Machine Building (Third)	*
Petroleum Industry	Oil Industry Construction of Petroleum Industry Enterprises
Posts and Telecommunications	Communications
Public Security	State Security Committee
Railroads	Transport
Supervision	State Control
Textile Industry	Textile Industry
Water Conservancy	*
*	Chief Directorate of Labor Reserves
*	Chief Directorate of State Material Reserves
*	State Committee for New Techniques

* No identified counterpart on the national level.

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