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ECONOMIC INTELLIGENCE REPORT

DOMESTIC TRADE IN COMMUNIST CHINA 1950-57



CIA/RR 114

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ECONOMIC INTELLIGENCE REPORT

DOMESTIC TRADE IN COMMUNIST CHINA
1950-57

CIA/RR 114
(ORR Project 38.1648)

CENTRAL INTELLIGENCE AGENCY
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FOREWORD

This report describes the conditions and prospects of domestic trade in Communist China. It deals with an important sector of the economy that is changing rapidly under the impact of the industrialization program of China. Among the topics discussed are the changes in ownership and organization of domestic trade, the increase in volume of domestic trade, and problems such as maintaining the quality of goods and containing the pressures on the price structure.

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DOMESTIC TRADE IN COMMUNIST CHINA*
1950-57

Summary

Domestic trade,** which accounts for approximately 9 percent of the gross national product (GNP) of Communist China in 1957, is completely under the control of the state, and commercial activity is resolutely directed to promoting the state program of industrialization. Apparent concessions to the small merchant or to the consumer, such as the program inaugurated in 1956 for development of a "free market" for retail trade, should be viewed as attempts to improve the efficiency of the system, not as relaxation of control or abandonment of orthodox Communist economic goals.

Since the establishment of the Chinese Communist government in 1949, success has been achieved in transforming the domestic trade system to government ownership, in increasing the flow of consumer goods and agricultural materials through the system, and in averting mass regional starvation. There remain, however, important problems such as the restoration of pre-Communist standards of quality, the balancing of disposable income of consumers with the amounts of consumer goods available, the decentralization of decisions to the appropriate local units, the reduction of marketing costs, and the distribution of goods in a way that maximizes incentives of workers and peasants.

The success of the socialist transformation of domestic trade in Communist China is found in the decreasing importance of the private

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 September 1957.

** Domestic trade in this report is defined as the movement of goods in relatively small amounts down through a network of wholesale and retail organs to urban and rural families and the movement in the opposite direction of agricultural and light industrial products from millions of small producers up through the commercial network. Domestic trade involves not only consumer goods but also the movement to rural families of farm tools and supplies and the movement to industry and export centers of raw materials produced by agriculture.

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trade sector. Private retail trade (including peasant trading) decreased from 87 percent of total trade in 1950 to 22 percent in 1956. Private retail trade is expected to remain approximately 20 to 25 percent of total retail trade for some time, depending on the policy toward the "free market." Private wholesale trade decreased from 76.1 percent of total wholesale trade in 1950 to 30.3 percent in 1953 and 1.9 percent in 1956. Operations of the remaining private traders are closely regulated by the state.

Under the Second Five Year Plan (1958-62), domestic trade in Communist China will continue to be directed and developed according to the needs of, first, heavy industry and, second, light industry. The state market is to be the main part of the socialist market with the "free market," introduced in 1956, serving as an auxiliary. By 1962 the retail volume of consumer goods is to be increased approximately 50 percent compared with that of the 1957 Plan.

The Chinese Communists face many problems in administering domestic trade. A basic problem is one of shortages. Shortages have plagued the Communists from the beginning and will continue for some time to come. Shortages of agricultural raw materials adversely affect the quality of goods because industry stretches the limited supply. An insufficient supply of agricultural materials brings about shortages in cotton cloth and grain. Both must be rationed, and consumers are forced to queue up for goods. Prices go up as supplies are exhausted, although only within limits tolerated by the government.

For the last 2 years the Chinese Communists, although admitting actual shortages in some cases, have used the excuse that increased purchasing power brought increased demand. They point out that industrial wages and procurement prices paid in rural areas have increased substantially. The Communists claim that they have stabilized wholesale prices for the period 1950-55. The cost of living, however, has not been wholly stable. From 1950 to 1953 the cost of living increased at a rapid rate and then continued to rise, but at a much slower rate.

Lack of experienced personnel, overstaffing, and bureaucracy have been some of the faults in the system of domestic trade in Communist China. There has been a lack of flexibility in the system because of the centralized control. Retail personnel on the lower levels

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have not had much freedom to cope with local problems, and attempts are now being made to decentralize decision-making.

I. Importance of Domestic Trade.

In a broad sense, domestic trade in Communist China encompasses all the internal movements of goods in the vast continental area under the control of the Chinese Communist government. These internal movements of goods are outlined below.

First, products of heavy industry (construction materials, machinery, transportation equipment, chemicals, and fuels) are moved from the northeastern and eastern industrial areas to other parts of the country. These products move by waterway and rail.

Second, products of light industry are moved from Shanghai and the less important centers of light industry in the eastern and northern areas to other parts of the country. Shanghai, however, still has 40 to 70 percent of the manufacturing capacity for most products of light industry. The movement of products of light industry to the interior is heavily dependent on the Yangtze River system. Rail transport plays a smaller role. In the western areas, road transport is especially important. As new industrial centers in the interior, such as Sian and Chungking, have been built up, they have become suppliers of products of light industry over a wide area.

Third, food is moved from agricultural areas with a surplus of food, especially the Yangtze River Basin and the North China Plain, to the cities and villages of the eastern and central areas where there is a shortage of food. Inland and coastal waterways mainly are relied on for this movement.

Fourth, coal, ores, and agricultural raw materials are moved from their sources of origin to the centers of heavy and light industry.

Fifth, farm and handicraft products such as foodstuffs, textiles, farm tools, ceramics, and construction materials are moved locally by water and highway.

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Sixth, goods, primarily products from important agricultural areas, are moved to the coastal cities or border rail points for export.

Considered in the broad sense, domestic trade includes a large number of direct transfers within or between state production ministries: for example, the procurement of textile machinery and its movement to the site of a new cotton textile mill. This type of commodity flow between state ministries is not included within the more restricted definition of domestic trade ordinarily employed by government officials of Communist China in discussing the domestic trade problems of the country. The narrow definition as used in this report confines the term domestic trade to the movement of goods in relatively small amounts down through a network of wholesale and retail organizations to urban and rural families and the movement in the opposite direction of agricultural and light industrial products from millions of small producers up through the commercial network.

Domestic trade in the narrow sense involves not only consumer goods but also the movement to rural families of farm tools and farm supplies and the movement to industry and to export centers of raw materials produced by agriculture. Official pronouncements on domestic trade emphasize its importance in promoting the exchange of the agricultural products of the countryside for the manufactured consumer products and farm supplies of town and city.

Several million people in Communist China are engaged full time in domestic trade. In addition to the government officials, private merchants, peddlers, salesclerks, bookkeepers, warehousemen, and others directly engaged in the activities of state and private trading enterprises, there are numerous peasants who act as part-time merchants in rural areas and numerous employees of industrial enterprises and transportation agencies. By the end of 1955, China had a total of 3,287,000 commercial organizations and 6,132,000 commercial personnel. Commercial personnel accounted for 1 percent of the population. (In 1955, commercial personnel accounted for 1.9 percent of the population in the USSR and 6.5 percent in the US.)

The basic personnel situation in the national commercial network in Communist China in 1955 was as follows 1/*:

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<u>Sector</u>	<u>Organization (Thousand)</u>	<u>Personnel (Thousand)</u>	<u>Average Number of Personnel per Organization</u>
State	515	2,490	4.8
Private	2,772	3,642	1.3
Total	<u>3,287</u>	<u>6,132</u>	1.9

The distribution of personnel between rural and urban domestic trade is as follows:

<u>Sector</u>	<u>Organization (Thousand)</u>	<u>Personnel (Thousand)</u>	<u>Average Number of Personnel per Organization</u>
Urban	1,860	3,708	2.0
Rural	1,427	2,424	1.7
Total	<u>3,287</u>	<u>6,132</u>	1.9

Throughout Communist China, 56.6 percent of the organizations and 60.5 percent of the personnel are concentrated in the cities, whereas the 500 million peasants in the rural areas have only 43.4 percent of the commercial organizations and 39.5 percent of the commercial personnel.

The socialist area of domestic trade was enlarged further in January 1956, when all the private commercial establishments in Peking came under state-private ownership. The same transformation was made in nine other large cities in Communist China a short time afterward, 2/ and in 1957 almost all urban commerce is at least nominally under state-private control.

Income originating in domestic trade is estimated to account for approximately 9 percent of the GNP of Communist China in 1957 as well as in the earlier years of the First Five Year Plan (1953-57). Domestic trade should account for approximately the same percentage of GNP in the next few years, and the need for additional resources in domestic trade should be proportional to the rate of expansion in

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industry and agriculture. The following considerations are to be noted: (1) the government plans to increase the volume of farm tools and fertilizers flowing to the farmers through the domestic trade system; (2) the government intends to expand and improve the domestic trade system in order to exercise more control over the use of goods through programs of "planned purchases and sales" ^{3/}; and (3) in any nation an era of industrialization is associated with a decline in self-sufficiency and a corresponding rise in the importance of marketing as a part of total economic activity.

II. Domestic Trade Policy.

A. Major Features.

1. Socialization.

State control of domestic trade in Communist China is not only an end in itself but also a means of socializing the economy and of insuring the success of programs for industrialization and construction. It is the plan of the Chinese Communist government to control the economy of the country at all points by the use of state trading and other agencies. State-conducted trade is considered a prerequisite to price stabilization, proportional distribution of commodities, and general economic improvement. Control of the market is a basic objective of the Communist government.

The development of supply and marketing cooperatives in rural areas in Communist China was hastened by giving members preferential treatment in obtaining credit and in buying scarce commodities. Political and social pressure was also used to hasten socialization. ^{4/}

Control of distribution and of price is used to bring about the socialization of the economy. One of the reasons given by the Chinese Communists for the introduction of the planned purchase and supply of grain in 1953 was that these measures were basic to the socialization of agriculture. The Chinese felt also that if economic problems of the time had been allowed to continue, these problems would lead to political difficulties because the worker-peasant alliance would be undermined and the leading position of the working class would be lost. ^{5/}

State trading companies are required to support the program for industrialization. In rural areas these companies purchase

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agricultural products from the peasants at less than the market price and sell the peasants available goods at state-fixed prices. In urban areas, state trading companies perform a similar function with respect to manufactured goods and handicraft products. Most of the margin between the purchase price and the sales price is channeled into the budget in the form of profits and taxes. 6/ In 1953 the planned purchase and sale policy was introduced partly to promote the program for industrialization. In 1954, cooperatives were used to promote the increase of agricultural production to support industrialization. The "three fix" policy* was introduced in March 1955 to insure industrial construction by increasing agricultural production. This policy was an improvement over the planned purchase and sale policy and was designed to give an incentive to the peasant by permitting him to keep a greater share of output above norm. 7/

During the Second Five Year Plan (1958-62), domestic trade will be directed toward the consolidation and reorganization of state control already won during 1949-57. The commercial network will continue to be used in implementation of the program for further industrialization and construction. 8/

2. Price Control.

Up to 1955 the basic task of national price policy in Communist China was the stabilization of commodity prices. Since 1955 a major effort has been made to maintain this price stability. The state regulates the legal prices of commodities for unified buying and selling to which all government, cooperative, and private enterprises must adhere. The government has the power to increase the categories of goods under unified buying and selling. Wholesale and retail prices of government-operated enterprises have become the determining factor in the market. The official price quotation of government-operated enterprises is one of the essential tools for directing and promoting the planned expansion of industrial and agricultural production. 9/

In September 1956, Li Hsien-nien, Vice Premier and Minister of Finance, listed four achievements of the Chinese Communist price policy: (a) generally stable market prices; (b) appropriate relative prices for different kinds of farm produce; (c) less price

* See 6, p. 12, below.

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disparity between manufactured goods and farm products; and (d) success in the policy of using, restricting, and socializing capitalist domestic trade. Among problems still persisting he noted that prices for certain nonstaple foods had gone up and that the policy of paying more for better quality had not been strictly followed. Among the proposals to correct some of the problems was the increase in procurement prices of farm products. This proposal was aimed at stimulating production and increasing the supply of nonstaple food. 10/

In April 1957 the State Council announced a price rise. The rise, amounting to about 2 to 3 percent, affected all categories of consumer goods, including pork, some edible oils, woolen textiles, the more expensive grades of cigarettes, and salt. The price rise in most of these commodities and in seasonal vegetables and medicinal herbs had already taken place.

The price rise was claimed to be necessary to obtain a balance in the budget and a balance in the relation of consumer purchasing power to supplies of consumer goods. The rise would be kept within limits, it was announced, as a result of increases in production and increased government control of basic commodities. Prices for the bulk of commodities, including grain, cotton piece goods, coal, knitwear, and other daily necessities, were not changed.

The shortage of pork and edible oils necessitated the price rise. Low government purchasing prices had resulted in a decline in the number of live pigs and in stagnancy in the acreage sown to oil crops. To end the shortage of pork, the government increased the price paid for live hogs by 13 percent, whereas the public paid only 7 percent more for pork. To prevent a budget deficit, the difference was spread over other items.

The main effects of the price rise will be felt by the better paid workers of the urban population. Peasants will be better off, it was claimed, because, as a result of the increased prices for a number of agricultural products, their incomes will rise more than will the prices of the articles which they purchase. 11/

3. Tax Policy.

Taxation in Communist China has certain functions as follows: (a) to finance national construction; (b) to adjust the monetary income of the various classes to the amounts of goods available

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to these classes; and (c) to further the socialization of the economy by using, restricting, and transforming capitalistic enterprises in all fields.

Industrial and commercial taxes are set as follows:

(a) business operating taxes are based on volume of turnover, (b) rates for income vary with the size of income, and (c) lines of business of interest to the national economy and the welfare of the people are favored with tax discounts. 12/

Private trade in Communist China has been discriminated against not only by high tax rates but also by unequal methods of assessment and collection. The amount of business tax to be collected was determined to a great extent by the "self-reporting democratic assessment" method. A trader submitted his own statement, but the final amount to be taxed was decided by meetings of fellow traders and government agents. Under these circumstances and with the usual Communist prodding, the final amount was usually decided at a higher level than that legally called for. 13/ A new set of regulations, put into effect in August 1956, abolished the democratic appraisal method in the case of the small merchant and peddler. Business tax is to be collected from the cooperative stores according to their account books, and income tax is to be collected at a percentage of pure profit (gross profit minus expenses computed according to the expenses fixed by the state for different trades). The amount of tax payable each year by the components of cooperative teams -- small merchants and peddlers -- is to be determined according to the sales targets set by the central stores (wholesale stores).

One of the features of the new tax regulations is the provision for consideration of the business difficulties of the cooperative stores and the cooperative teams. In essence these cooperative stores and teams are to be allowed to survive difficulties by the use of tax reductions or exemptions. 14/

4. "Free Market."

Although the Chinese Communists have followed a policy of extending government control to the whole area of domestic trade, in 1956 Vice Premier Chen Yun proposed the institution of a "free market" to cover a limited segment of total commercial activity. This "free market" was introduced in nine provinces in the latter half of 1956, but after a short trial its scope was restricted.

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Generally the "free market" is a supplementary one operating within very restricted limits under the leadership of state commercial agencies, including supply and marketing cooperatives. The "free market" makes it possible for peasants to sell their own production of small native products and products from their secondary occupation and for petty merchants to trade in goods not under state control. This market also allows direct business transactions between producers and consumers. 15/ Major commodities such as grain, cotton, yarn, cloth, coal, paper, and export goods continue to be purchased and sold only by the state.

Originally the "free market" was not to extend to more than 25 percent of the total national trade. The total amount of active produce -- handicraft products and general goods which were to be bought and sold on the "free market" -- was about 12 billion yuan,* or a little more than one-fourth of the 46-billion-yuan worth of retail sales in Communist China in 1956. 16/

The purpose of the "free market" was to correct the shortcomings both in the manufacture and processing of goods and in the state purchasing and selling policy. Factories producing daily necessities were to have an incentive to produce more varieties of goods and to raise the quality of these goods. To sell their goods, the stores would have had to study the needs of the consumers and select goods suited to those needs. The "free market" thus would necessitate actions likely to increase production and to expand commodity circulation. Because of the stimulation of production of certain agricultural byproducts, the government hoped that the "free market" would meet the needs of the urban and rural population. 17/

Abuse of the "free market" in the field of agricultural production and distribution has led to its restriction. In January 1957 the State Council announced that there would be no expansion during 1957 of the freedom of transactions between industries and wholesale-distribution cooperatives. District peoples councils were authorized to restrict the free production and marketing of certain goods. Reestablishment of the former process of planned orders and monopoly sales was allowed on goods which have an important influence on state policy and the livelihood of the people. Restriction of the

* The official rate of exchange of the Chinese Communist yuan to the US dollar is 2.46 to 1. This rate overstates the value of the Chinese yuan in terms of purchasing power.

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"free market" has stopped its extension short of the 25 percent of total national trade originally planned. 18/

The shift of government policy toward the "free market" is illustrative of the flexibility of the Chinese Communist leadership. Regulation of the various aspects of industry and commerce is tightened or relaxed according to the needs of the day, although the long-term course or policy is toward increased governmental control over economic decisions.

5. Government Policy Toward the Consumer.

In August 1956, the Chinese Communist periodical Shih-shih Shou-ts'e (Current Affairs Handbook) carried an editorial on conditions prerequisite to a lowering of the price level. 19/ According to this editorial the welfare of the consumer was less important than the accumulation of funds for state construction. Furthermore, a reduction in the price level, although it might not mean much to the individual consumer, would reduce greatly the state income. When the cost of production and charges for transportation are not reduced to any considerable extent, a general fall in prices only brings the state a loss and diminishes capital for state construction.

An increase in production and the practice of economy are two solutions advanced to solve the problem of shortages. The deficiencies have been caused, supposedly, by the backwardness of production and the excess of purchasing power. The basic problem of shortages will take a long time to solve. Socialist industrialization is claimed to be in the long-term interest of the people. There is a contradiction, however, between this long-term interest and the immediate interests of the living standard of the people. To industrialize, the state must divert a part of the national income to industrial construction and must invest more in heavy industry and less in light industry which meets the immediate demands of the people. In the official view, present improvement in the living standard of the people can be achieved gradually only on the basis of increased production and labor effort. 20/

Not all people are sacrificing material comforts for the state. Leaders of many enterprises and government organs have become accustomed to purchasing automobiles, expensive furniture, and good-quality consumer goods. These leaders also have been entertaining guests and presenting them with gifts, cigarettes, fruits, and

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other things. Although editors admit that the leaders should be given the privileges of using automobiles and of living in better quarters because of their tasks, they also note that additional special considerations create dissatisfaction among the people. Mao Tse-tung has cautioned leading officials to lead a Spartan life and to oppose extravagance and unnecessary spending of all kinds. 21/

6. Rationing.

Communist China has had the problem of shortages of consumer goods since 1950. The government has tried to solve the problem by two complementary means: procurement and incentive plans for producers and distribution and rationing plans for consumers.

Procurement and incentive plans for grain producers began in May 1950 when the government introduced the unified distribution and transfer of grain throughout the country. To restore Chinese Communist agriculture, the state organized the purchase of grain from the producers and also exerted efforts to help the peasants increase production by supplying farm tools and fertilizers to producers.

State control of the distribution of grain enabled urban inhabitants, grain-deficit peasants, and the army to be supplied at reasonable and steady prices. The effects of these measures during 1950-52 were to increase the output of grain, thus restoring Chinese agriculture, and to stabilize commodity prices. 22/

In the latter half of 1953 a serious situation developed in the grain market. State targets for purchases of grain went unfulfilled, whereas targets for sales were topped. Consequently, in November 1953 the government introduced the planned purchase and supply of grain. Under this plan the state was to purchase some of the grain surplus from the peasant. The state also fixed the prices at which grain was bought and sold. Distribution, purchases, and sales by private traders were forbidden, and residents in cities were given ration cards for grain, although rationing was not strictly enforced during 1954 and early 1955. 23/

Natural calamities and the uncertainty of government purchases worked against the state plan, however, and the incentive of the peasant was adversely affected because he never knew how much the government would take.

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In March 1955 the government decided to enforce the "three fix" policy -- fixed production, fixed purchase, and fixed sale -- based on planned purchase and sale of grain in rural areas and a policy of grain supply according to actual needs of households in the cities. In the fixing of production, annual output per unit was determined according to quality of land and conditions of cultivation. In the fixing of purchases of grain, the quantity of the purchase was determined before spring sowing according to conditions of grain-surplus households. Under normal conditions the fixed quantity would remain unchanged and would not be increased when peasants produced more. Having fulfilled their quota of sales to the state, grain-surplus households were at liberty to dispose of their surplus grain stocks. Only in the event of serious calamities would the state increase grain purchase. In the fixing of sales of grain the quantity of the supply was determined according to the actual needs of grain-deficit households. The "three fix" policy represented a further development of the policy of planned purchase and sale of grain. It was a policy which attempted to make a correct combination of state and peasant interests to enable the state to acquire adequate grain stocks to undertake socialist construction while at the same time heightening the capacity for production of the peasant. The passivity of the peasant was overcome with the new policy because he knew how much grain the government would take and he was at liberty to sell his supplies. Production thus was increased to a considerable extent.

In August 1955, Communist China published two regulations which outlined in sharper terms what was to be expected with the "three fix" policy. There was to be a more rational distribution of grain among the inhabitants of towns so that the waste of grain would be eliminated. The quantity of supply was fixed according to persons. Different supply standards were fixed for the urban population according to ages and intensity of labor, and grain was to be supplied against certificates. Grain required by industrial and commercial establishments was fixed and supplied according to actual needs. 24/

There have been similar attempts to alleviate shortages in commodities other than grain. In November 1953, edible oils were put under the planned purchase and supply system, and in September 1954 the planned purchase of cotton and the planned purchase and supply of cotton cloth went into effect. 25/

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These systems for planned production and distribution, however, have not solved the problem of shortages. It was admitted in 1956 that although total production of grain in Communist China had increased since 1949, the supply of grain per capita is little, if any, greater than in the peak years before World War II. The improvement lies in a more even distribution of grain now than in pre-war years 26/ and in an avoidance of mass starvation regionally. In April 1957, however, grain was still rationed. 27/ To make proper arrangements for the planned supply of cotton textiles, the Ministry of Commerce in November 1956 issued regulations requiring ration cards for various types and measurements of cotton textiles. New regulations concerning the use of ration cards for cotton textiles were issued in February 1957, and the practice of economy in the use of cotton textiles was urged. 28/ Edible oils were still rationed in certain cities in May 1957. 29/

In addition to trying to solve the problem of shortages by a system of rationing, the Chinese Communist government must try to prevent people from circumventing the system. During April 1957, Chinese newspapers reported instances of irregularities in the handling of ration coupons for grain and cotton cloth. The irregularities were in violation of the state policy of centralized distribution of those products. Dealing in tickets for profit or attempting to cheat the state is forbidden under state decree. 30/

B. Goals for the Second Five Year Plan (1958-62).

At the Eighth Congress of the Chinese Communist Party in September 1956, goals for domestic trade under the Second Five Year Plan (1958-62) were given in general terms of the needs of Communist China during the industrialization period. Domestic trade is to continue to be directed and developed according to the needs of heavy industry (the priority task), and light industry is to be developed as energetically as funds and raw materials permit. The state market is to be the principal part of the unified socialist market, with the state-sponsored "free market" serving as an auxiliary. Domestic trade will be directed toward the goal of carrying through socialist transformation, but its emphasis will be on the consolidation and reorganization of state control already achieved. Living standards will improve gradually, it is claimed, but patience is needed until the industrialization program is well advanced.

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In the procurement of industrial products the method adopted will be that of offering prices according to trades and the quality and grade of the products concerned and of purchasing some commodities selectively in order to encourage backward factories to improve production; to raise the quality of their products; and to increase the variety, patterns, and colors of products.

The Eighth Congress of the Chinese Communist Party planned that by 1962 the retail volume of consumer goods would be increased by approximately 50 percent compared with that of the 1957 Plan. There is to be a corresponding increase in the volume of daily necessities such as grain, meat, fish products, vegetable oils, sugar, cotton textiles, knit goods, coal, and kerosine. The volume of production supplies which are sold to the agricultural and handicraft producer cooperatives by state-operated and privately operated domestic trade also is to be increased.

The continuation of unified procurement and marketing of grain, oil-bearing crops, and cotton textiles and of unified procurement of cotton are among other official proposals. "Free markets" are to develop in a planned manner to promote the exchange of goods between urban and rural areas and to supplement state-operated markets. An effort is to be made to intensify the procurement and supply of exportable goods to insure a balance in the import and export of commodities. To insure the even and planned progress of the state construction program, an attempt is to be made to strengthen the supply of state-distributed goods, to control the balance of supply and demand, to streamline supply and marketing organizations, to improve the distribution of supplies, and to strengthen the work of stockpiling major commodities.

Other proposals concerning domestic trade were made at the Eighth Congress of the Chinese Communist Party. It was proposed that more attention be given to the various forms of management, that under the guidance of state-operated and cooperative-operated commerce commercial enterprises be allowed to maintain their present dispersal and that an appropriate number of petty merchants and dealers be allowed to remain in urban residential districts and rural areas to meet the daily needs of the people. 31/

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III. Organizational Structure of Domestic Trade.

A. Top-Level Government Organizations.

Chinese society under the Communists is minutely controlled through five major chains of command -- Party, government, economic, military, and secret police. These chains of command are bound together at national and local levels through the device of having key Party members simultaneously fill leading offices in the different chains and through establishing duplicate sets of offices. For example, a provincial government may have a commercial control bureau that duplicates the supervisory functions of commercial bodies in the province.

Domestic trade, being primarily an economic matter, is controlled through the economic chain. Next to the chief organizations of the Party itself, the State Council, headed by Chou En-lai, is the final arbiter of general policy in the economic and political fields. Under the jurisdiction of the State Council are 41 ministries, many of which are economic ministries, each overseeing an important sector of the economy such as railroads, agriculture, labor, and light industry. Because 41 ministries constitute an unwieldy span of control, the State Council makes use of 8 staff offices to administer and direct the affairs of groups of ministries with related functions. The Fifth Staff Office, headed by Li Hsien-nien, a member of the State Council, has jurisdiction over finance, currency, and trade and directs the Ministry of Finance; the Ministry of Food; the Ministry of Commerce; the Ministry of Foreign Trade; the Peoples Bank of China; the All-China Federation of Supply and Marketing Cooperatives; and, probably, the Ministry of Procurement of Agricultural Products.

The four ministries which direct various aspects of domestic trade are the Ministry of Commerce, the Ministry of Foreign Trade, the Ministry of Food, and the Ministry of Procurement of Agricultural Products. Of these four ministries, the Ministry of Commerce has the fundamental responsibility, being charged with "leading the over-all commercial undertakings in the country." The Ministry of Foreign Trade, through approximately 20 subordinate corporations organized by type of commodity, controls the domestic purchase of commodities for export and the domestic sale of imported goods at the wholesale level. The Ministry of Food arranges for the storage of grain and other important foodstuffs and for the transportation of food supplies from

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surplus to deficit areas. Together with local Party and governmental bodies, the Ministry of Food administers the grain-rationing program as set forth by the State Council. The Ministry of Procurement of Agricultural Products was established in 1955 to relieve supply and marketing cooperatives of the responsibility for purchasing major crops such as grains, cotton, and vegetable oilseeds.

In November 1956, at a time when the operations of the domestic trade system had been under continuous official criticism, Vice Premier Ch'en Yun was made Minister of Commerce, probably as a temporary trouble shooter.

B. Staff Bureaus of the Ministry of Commerce.

The duties of the eight staff bureaus of the Ministry of Commerce illustrate the economic functions performed by the ministry. ^{32/} These bureaus have a planning and advisory role but do not actually deal in the physical commodities. The bureaus and their functions are as follows:

1. The Economic Planning Bureau conducts market studies to ascertain the relative surplus or shortage of the various goods moving in domestic trade. On the basis of these studies and other information, this bureau drafts the economic plans for the ministry.

2. The Financial and Accounts Bureau controls accounting procedures for the purchase and sale of commodities by the subordinate trading companies of the ministry and presumably audits their accounts.

3. The Agricultural Products Collection and Sales Bureau plans for and coordinates the collection and sale of agricultural products by state-operated companies. Since 1955 the Ministry of Commerce has shared jurisdiction over the collection of agricultural products with the newly formed Ministry of Procurement of Agricultural Products.

4. The Industrial Products Collection and Sales Bureau plans for and coordinates the collection and sale of industrial products by state-operated companies.

5. The Goods Storage and Transportation Bureau establishes plans and standards for the storage and transportation of

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goods throughout the country. Goods which do not fall under the jurisdiction of this bureau are those major foodstuffs handled by the Ministry of Food.

6. The Price Bureau sets official prices for the products of state-operated companies and collects and tabulates price data. This bureau is not the ultimate authority in pricing, because major changes in price policy must be either initiated or approved by the State Council.

7. The Private Enterprises Administrative Bureau guides and supervises private industrial and commercial enterprises throughout the country. Where it relates to industrial enterprises, however, this function is now being taken away from the Ministry of Commerce, and control over the few remaining private industrial enterprises is being assigned to the appropriate industrial ministry.

8. The State-Private Enterprises Administrative Bureau guides and supervises state-private industrial and commercial enterprises throughout the country. Where it concerns industrial enterprises, however, this function is being transferred to the appropriate industrial ministry. Furthermore, jurisdiction over commercial state-private enterprises is shared with the All-China Federation of Industry and Commerce, a propaganda organization that closely regulates the conduct and attitudes of the transformed capitalists.

In addition, the Ministry of Commerce has a personnel office; a statistical office; and a political office, which supervises the political education and Party activity of employees of the ministry.

C. Trading Companies Under the Ministry of Commerce.

Under the Ministry of Commerce are a number of relative autonomous state trading companies, each of which controls the purchase and sale of a group of related commodities. In 1956 the names and functions of 22 of the most important of these companies, or corporations, were as follows 33/:

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<u>Trading Company</u>	<u>Commodities Controlled</u>
Chemical Industry Raw Material*	Chemical industry raw materials, varnish, dyestuffs, and paint.
Coal and Building Materials	Coal, cement, and building ma- terials.
Cotton Yarn and Cloth	Cotton yarn and cloth (under the program of planned purchase and supply).
Cultural Supplies	Office supplies and educational materials.
Foodstuffs	Subsidiary foodstuffs, cattle, meats, poultry, eggs, fruits, and canned foods.
General Merchandise	Footwear, cloth, sewing machines, bicycles, glassware, hardware, candies and biscuits, and other general merchandise.
Grain	Grain (under the program of planned purchase and supply).
Grain and Miscellaneous Cereals	Special types of rice and flour, miscellaneous grains, and ex- ports of these crops.
Instruments	Optical instruments and laboratory apparatus.
Knitted and Cotton Goods	Cotton and woolen knitted goods, woolen yarns, readymade clothing, and sundry fabrics.
Marine Products Supply and Marketing	Marine products.
Medical Herbs	Medical herbs and patent medicines.



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<u>Trading Company</u>	<u>Commodities Controlled</u>
Medical Supplies	Pharmaceutical preparations and medical and therapeutical equipment.
Metals and Machinery	Domestic and imported metal products, machinery, and tools.
Monopoly Goods	Wines, cigarettes, and other monopoly goods.
Motion Picture Distribution*	Foreign and domestic motion pictures.
Oils and Fats	Edible oils, wood (tung) oil, and oilseeds (under the program of planned purchase and supply).
Petroleum	Gasoline, kerosine, diesel oil, and lubricants.
Salt	Salt.
Tobacco and Jute	Tobacco and jute.
Transport and Electrical Engineering Equipment	Domestic and imported transportation equipment, communications equipment, electrical appliances, and vehicles.
Vegetables	Vegetables.

These state trading companies of the Ministry of Commerce normally have their head administrative offices in Peking and branch administrative offices in provincial capitals and other commercial centers. The actual purchasing, storing, and selling of goods is carried on by a network of 35,000 wholesale and retail branches. This state-owned trading system employs 660,000 people. 35/



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The wholesaling operation of these trading companies consists of buying goods directly or under contract from a wide variety of suppliers such as state-operated enterprises, state-private and private producers, supply and marketing cooperatives, agricultural producer cooperatives, handicraft cooperatives, independent peasants and handicraftsmen, and import-export companies of the Ministry of Foreign Trade. These goods are shipped in bulk to major supply centers and then broken down into smaller lots for shipment to lesser wholesale supply centers. Goods destined for export or use in industry may be sent to concentration points and shipped in increasingly larger lots.

The mission of the Knitted and Cotton Goods Company illustrates the complexity of the organizational structure of the trading company. This company "will establish procurement and supply stations in large cities with centralized production and will set up provincial, municipal, and area offices in each province, municipality, and autonomous district. It will establish outlets in the economic centers of each province and, in general, will set up municipal offices in the leading provincial cities. In areas where organizations are not set up, operations will be carried on by the General Merchandise Company." 36/

D. Complexity of Lower Level Organization.

Because of factors such as the tremendous area of Communist China, the great variations in climate and topography, the widely varying density of the population, the diversity of products entering trade channels, and cultural differences in the minority areas, the structure of domestic trade in Communist China is marked by a multiplicity of special kinds of organizations. The system in early 1957 was a mixed system, public and private elements appearing in different blends in different areas and for different kinds of goods. The system also is mixed technologically. In many widespread areas of China the old system of primitive rural exchange centered about a small market town continues. In other instances, trade is carried on by a complex state organization manned by trained administrative and technical people who arrange for the shipment and sale of goods procured from many distant producing centers.

At the retail level the distribution of goods, although firmly under state control, involves an important remnant of private enterprise. The organization of commerce at lower levels (provincial,

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municipal, county, and town) differs as between urban and rural areas and as between the supply of goods to the consumer and the procurement of goods from peasants and handicraftsmen. These differences are explained in detail in the sections that follow.

E. Flow of Consumer Goods to the Urban Consumer.

State trading companies of the Chinese Communist Ministry of Commerce monopolize wholesaling operations in the cities of Communist China. Former private wholesalers have retired from business, invested in some other kind of enterprise, or continued operations as branch units of state trading companies.

The number and categories of state wholesaling organizations vary among different cities. In Shanghai, there are major purchasing and supply centers of 6 trading companies (dealing in cotton yarn and cloth, general goods, petroleum, pharmaceuticals, and other products) and branch companies of 16 other trading companies (dealing in grain, jute, salt, machinery, and other products). In smaller cities the organizations are reduced in size and number, and sometimes consolidated branches handle the products of more than one trading company.

Retailing in large cities is carried on mainly through state-owned department stores and specialty stores and through formerly private stores now operated jointly by the state and the former proprietors. State trading companies of the Ministry of Commerce operate the state-owned retail stores and supply the state personnel who participate in the operation of the joint state-private stores. The influence of former private owners is being systematically eliminated in state-private stores and probably will have vanished completely by 1962, the end of the Second Five Year Plan. Small vendors of unimportant products in urban areas have been left relatively unhindered in the conduct of their business, partly because the state system has had difficulties enough in absorbing the larger private stores. These small vendors operate stalls or sell from pushcarts. Gradually they too are being forced into collective organizations, although as of 1957 private commercial activity was enjoying one of its periods of respite from socialization.

Purchases by urban consumers of rice and flour, vegetable oils, and cotton textiles are rationed. Although the list seems small, purchase of these items takes up the major part of the budget

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of the consumer, and the purchase of many other items next in importance is limited by exceedingly high prices and/or chronic shortages. The Ministry of Food, in cooperation with local Party and government officials, administers the food-rationing program, but apparently the maintenance, staffing, and operation of food stores themselves are functions of the Ministry of Commerce.

A further important complication in the organization of the flow of consumer goods to the urban consumer is that many consumer goods, especially food, are distributed through stores attached to factories, commercial enterprises, government offices, and military units. Insofar as is known, these stores are staffed and operated by the trading companies of the Ministry of Commerce.

The control over the flow of consumer goods to the urban consumer is shown in the accompanying chart, Figure 1.* This chart is concerned with the control over the flow, not the flow itself, and does not show, for example, the many different sources of supply from which the commercial organizations obtain their goods.

F. Flow of Consumer Goods and Farm Equipment and Supplies to the Rural Consumer.

In rural areas the trading companies of the Ministry of Commerce normally do not maintain retail outlets. Their main function is to supply goods at the wholesale level to supply and marketing cooperatives.

Supply and marketing cooperatives nominally are voluntary organizations of rural people grouped together under local leadership for more economic buying and selling. In actuality, however, these cooperatives constitute a state administrative system through which the Chinese Communist government exercises close control over the economic resources used in agriculture and for consumption in rural areas. Supply and marketing cooperatives dominate retail trade in the rural areas,** forming the principal channel through which

* Following p. 24.

** The rural population was encouraged to join supply and marketing cooperatives by the fact that these cooperatives received a 2- to 6-percent discount from state trading companies. The discounts were ended in February 1955 by which time more than 160 million people had been enrolled as members of supply and [footnote continued on p. 24]

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rural people buy consumer goods (foodstuffs, textiles, footwear, consumer durables, books, and the like) and farm equipment and supplies (plows, water wheels, pumps, fertilizers, insecticides, fodder, draft animals, and the like). In 1956, for example, 80 percent of the farm equipment and supplies going to the countryside were furnished by supply and marketing cooperatives. 37/ Supply and marketing cooperatives* play a further important role as state purchasing agents for most agricultural and rural handicraft products.

At the end of 1955, there were more than 32,000 supply and marketing cooperatives at the retail level, operating 200,000 retail sales and purchasing centers and employing more than 875,000 people (1 million if higher level cooperatives are included). 38/

Supply and marketing cooperatives were formed before the collectivization of the peasant in agricultural producer cooperatives had taken hold. Consequently, in these early years, compared with the beginning of 1957, the supply and marketing cooperatives were a relatively more important part of the state system of control by which the economic behavior of the peasant was tied to the state plan of political unification and economic development. One Western observer wrote in 1955 that the supply and marketing cooperative (together with the growing state credit cooperative) "overshadows the whole life of the farmer: it lends or sells seeds; prescribes methods of cultivation; determines the time of harvest; buys up the crops; fixes the prices; sells salt, fertilizer, and industrial products; and when funds run short, lends him money." 39/ This author pointed out the manner in which the supply and marketing cooperatives were aiding the agricultural collectivization movement by giving priority to mutual aid teams and to agricultural producer cooperatives in the distribution of scarce farm equipment, fertilizer, and seed.

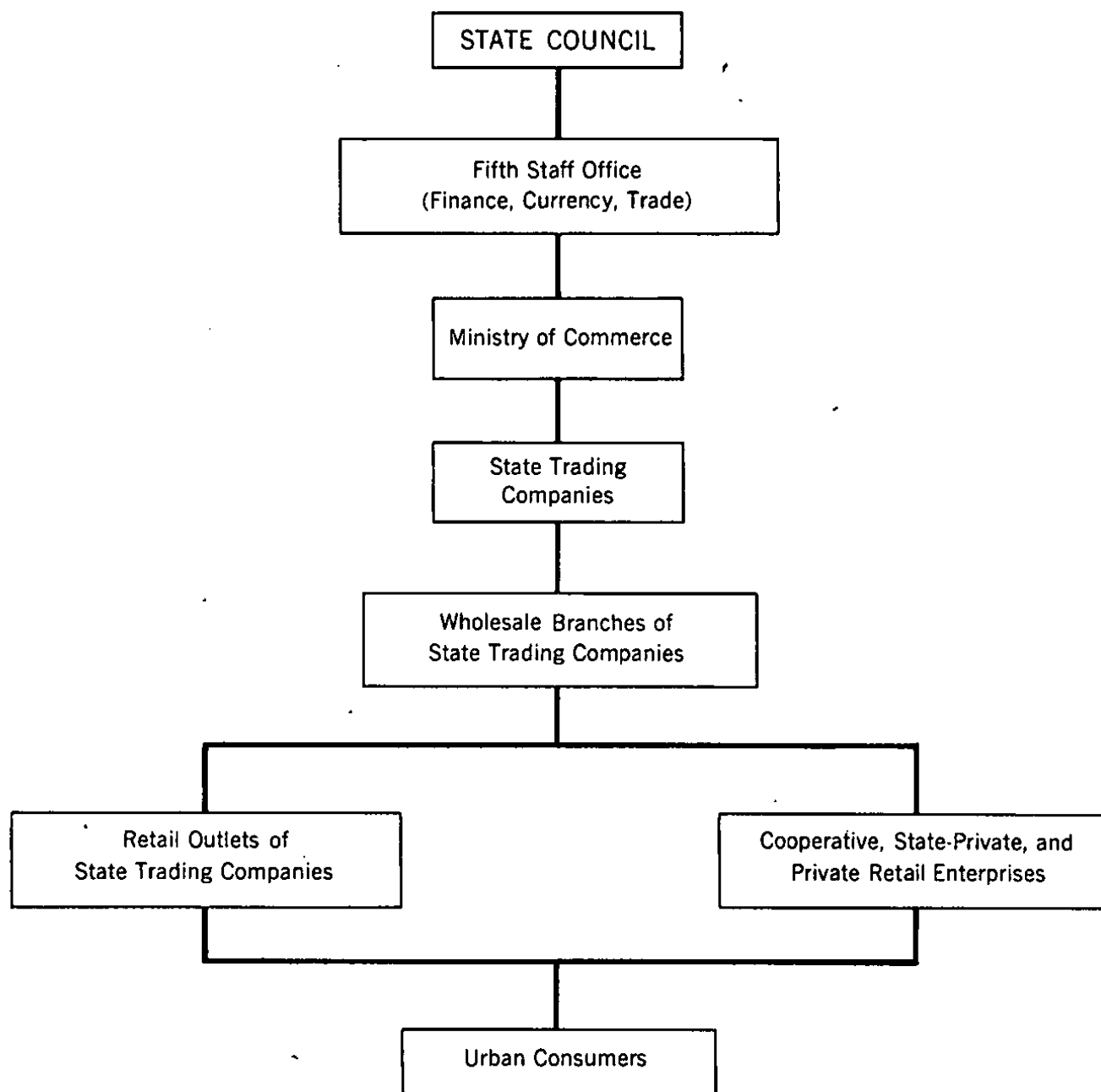
In early 1957 the situation, however, was different because in distributing farm equipment and supplies the supply and marketing marketing cooperatives. Membership in June 1956 was reported at the same level. It is not clear why the Communists, who usually insist on 100-percent enrollment, have stopped short at just 1 in 3 rural people. It is possible that many individual memberships in effect represent family membership.

* See G, p. 28, below.

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Figure 1

COMMUNIST CHINA
CONTROL OVER THE FLOW OF CONSUMER GOODS
TO URBAN CONSUMERS, February 1957



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cooperatives were dealing with agricultural producer cooperatives rather than with individual peasants or mutual aid teams. Of the total number of peasant households in Communist China, 96 percent were in agricultural producer cooperatives, and 83 percent of these were in higher agricultural producer cooperatives.* 40/ From the organizational point of view the collectivization of agriculture means that the supply and marketing cooperatives are dealing increasingly with state organs headed by Party members and possessed of considerably more bargaining power than the cowed individual peasant. The ultimate effect on the individual peasant is unchanged, however, as his economic behavior is still tied to state plans through the agricultural producer cooperative led by Party members.

The complexity of the domestic trade system in rural areas of Communist China may be illustrated by an example of the manner in which household utensils produced in Canton move to a rural consumer in Hainan 41/ through the following steps: from the small factory or handicraft cooperative to the purchasing and supply station of the General Merchandise Company, a state trading company under the Ministry of Commerce, in Canton; from Canton to the provincial purchasing and supply station of the same company in Hainan; from the provincial station to a hsien (county) supply depot of the same company**; from the hsien supply depot to a general merchandise store of the local supply and marketing cooperative; and from the store of the supply and marketing cooperative directly to the consumer or indirectly to the consumer through a rural sales agent. Each step involves entering and withdrawing the goods from warehouses or storage rooms, paying interest and handling charges, and keeping detailed accounting records. With more experience the leaders of the domestic trade system may be able to reduce the number of steps through "drop shipments" -- that is, through shipments made in bulk direct from the producer to the lower level store -- but the difficulties of adopting such shortcut methods in the rural areas of China are self-evident.

* In the "higher" form of agricultural producer cooperative, all peasant income is from labor, income from property being eliminated, and the identity of the property which the peasant originally contributed to the cooperative has been obliterated.

** In some cases the supply and marketing cooperatives themselves maintain wholesale warehouses at the county or provincial level.

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In addition to the state trading companies and the supply and marketing cooperatives, private merchants and peddlers are an important part of the domestic trade system in rural areas. There are 2.7 million of these merchants and peddlers, but their private status is rapidly being lost as the government of Communist China extends its control to the most remote areas of the domestic economy. By April 1956, 1,680,000 formerly independent rural merchants and peddlers, more than 60 percent of the total, had been drawn into the various forms of collective organization. ^{42/} Only 2 months later, in June 1956, a high official of the All-China Federation of Supply and Marketing Cooperatives stated that 9 out of 10 private traders in the rural areas had been linked with supply and marketing cooperatives through joint ownership, sales contracts, and commission work or had joined the cooperatives themselves. ^{43/} The great increase in collectivization achieved in 2 months indicates the tremendous pressure put on the administrative structure to bring these private traders into the fold, at least on paper, and makes much less surprising subsequent admissions of "blind haste" in transforming rural domestic trade.

Three of the main types of collective organization are cooperative teams of small rural merchants and peddlers who pool their capital and labor, jointly owned state-private stores in rural towns, and sales commission agents who sell goods and purchase agricultural commodities in outlying rural areas for a fixed fee per unit of commodity. The various forms of collective organization that are used in the socialist transformation of private rural traders have these features in common: (1) units of each type are under the jurisdiction of the supply and marketing cooperatives, which establish prices of goods, types and amounts of goods handled, and level of profit; (2) units of each type depend almost exclusively on the supply and marketing cooperatives for supplies of goods; and (3) units of each type are expected to develop progressively into more fully socialistic forms.

In 1955 an important reorganization of supply and marketing cooperatives in key provinces indicated that the Chinese Communists were trying to rationalize the entire rural distribution system by setting up a series of general and specialized retail outlets which decrease in size and degree of specialization from the large county market centers to the outlying areas. In each market town, there will typically be a general store and half a dozen specialized stores (dealing in cloth, subsidiary foods, drugs, and other consumer goods).

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In large villages, there will be a general store and in small villages sales agents. Farther out in the rural areas will be mobile supply teams and individual commission agents. The number of supply and marketing cooperatives will be reduced by consolidating small cooperatives into larger ones in an effort to reduce the need for skilled administrators and bookkeepers. 44/

The most important channels of control over the flow of consumer goods and farm equipment and supplies to the rural consumer are shown in the accompanying chart, Figure 2.* Except for the All-China Federation of Supply and Marketing Cooperatives, all elements in this chart have been discussed at length above. This federation is the top element in the hierarchical structure of supply and marketing cooperatives, which binds together the more than 32,000 local supply and marketing cooperatives. Its jurisdiction over the local cooperatives is largely limited to administrative and educational tasks, as the functions of supplying and pricing the commodities flowing to rural areas fall under the province of the trading companies of the Ministry of Commerce. An example of the necessity of coordination between the All-China Federation of Supply and Marketing Cooperatives and the Ministry of Commerce is the issuance by these two organizations of a joint directive requiring that all commercial units of the Ministry of Commerce and all supply and marketing cooperatives quickly correct the excessively low handling charges authorized small traders on their commission sales of cigarettes and liquor. 45/

Two other features of the organizational pattern for rural trade are the market fair and the new so-called "free market" discussed above.** The market fair, which had played an important historical role in the development of Chinese commerce in pre-Communist days, had brought together buyers and sellers two or three times a year in provincial market towns for the exchange of commodities not traded in sufficient volume to permit a permanent market. These market fairs grew or declined according to the needs of the rural areas and continued to operate as usual in the first years of Communist control. The Communists renamed them commodity exchange conferences and as rapidly as possible extended control over their operations. State trading companies and supply and marketing cooperatives, for example, gradually replaced independent merchants as suppliers of goods. In

* Following p. 28.

** See II, A, 4, p. 9, above.

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the 2 years, 1955-56, there has been almost no mention of market fairs in Chinese newspapers, and it may be assumed that the complete reorganization of trade in rural areas has greatly contracted the importance of market fairs.

G. Procurement of Agricultural, Industrial, and Handicraft Products.

The movement of consumer goods and production materials to the peasant in Communist China inevitably involves the procurement of foodstuffs, agricultural raw materials, handicraft articles, and industrial consumer goods from rural and urban producers. The supply of goods necessarily involves their procurement. Members of an agricultural producer cooperative which specializes in raising cotton must be supplied with food through domestic trade channels, and this food must be procured from other agricultural producers.

The procurement system is complicated, involving many government ministries whose functions are intertwined and sometimes overlapping. A simplified representation of the system of control over the procurement of agricultural, industrial, and handicraft products is shown in the accompanying chart, Figure 3.* General procurement policy is set by the State Council, and the coordination of the activities of procurement ministries is the responsibility of the Fifth Staff Office of the State Council.

The Ministry of Commerce plays the most important part in the procurement system. Purchasing stations of the trading companies of this ministry cover the whole range of consumer goods, as indicated by the list of trading companies presented above. In regard to agricultural and rural handicraft products, however, the Ministry of Commerce does not operate at the basic procurement level. The most important purchasing offices for the products of light industry are located in Shanghai, which produces 40 to 70 percent of the output of most of the important products of light industry.

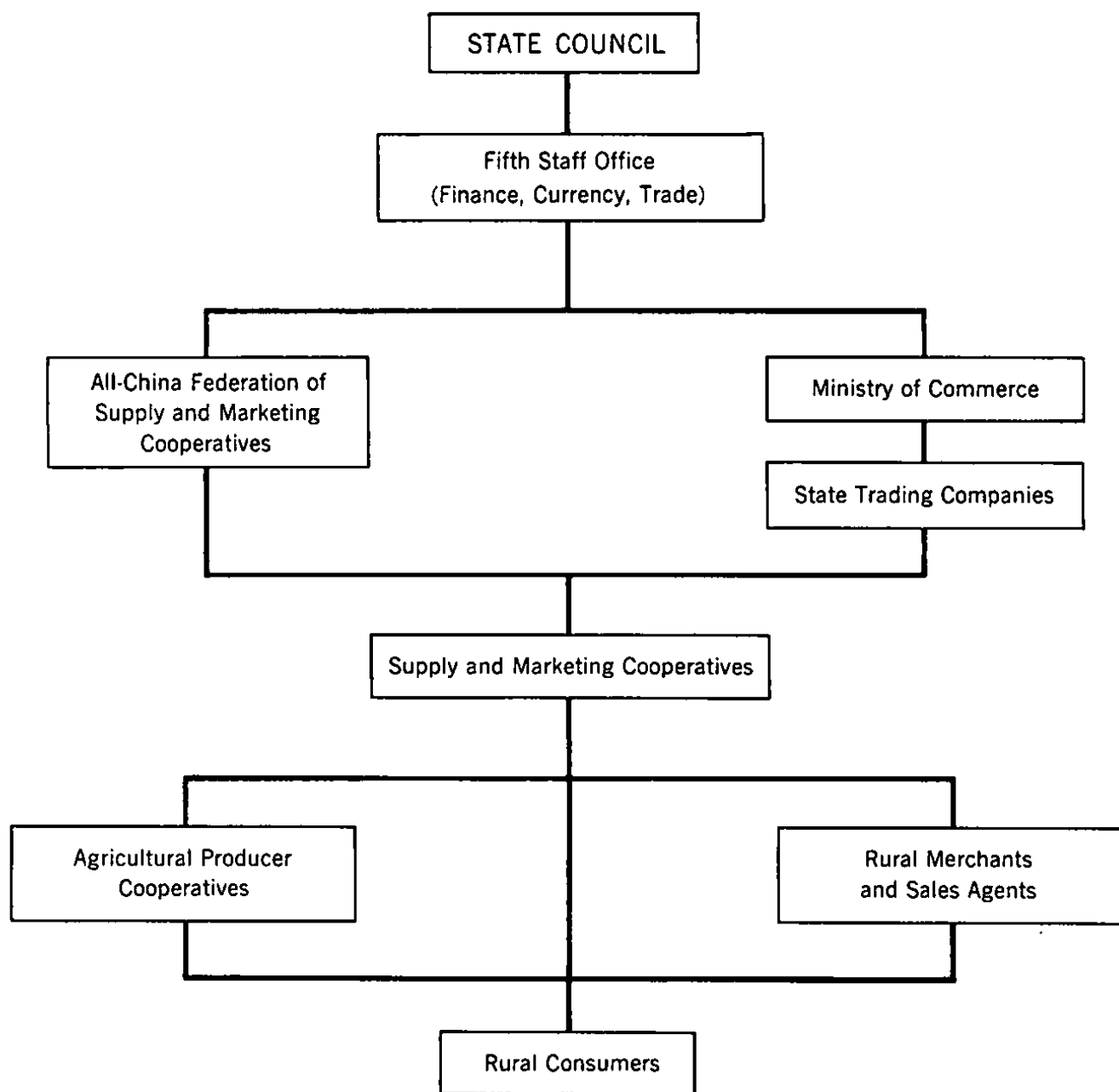
Procurement of grain, vegetable oilseeds, and cotton is carried on by the Ministry of Procurement of Agricultural Products, which took over these purchasing functions from the supply and marketing cooperatives in 1955. This ministry establishes appropriate purchasing stations in rural areas. The purchasing station works

* Following p. 28.

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Figure 2

COMMUNIST CHINA
CONTROL OVER THE FLOW OF CONSUMER GOODS
AND FARM EQUIPMENT AND SUPPLIES TO RURAL CONSUMERS
February 1957

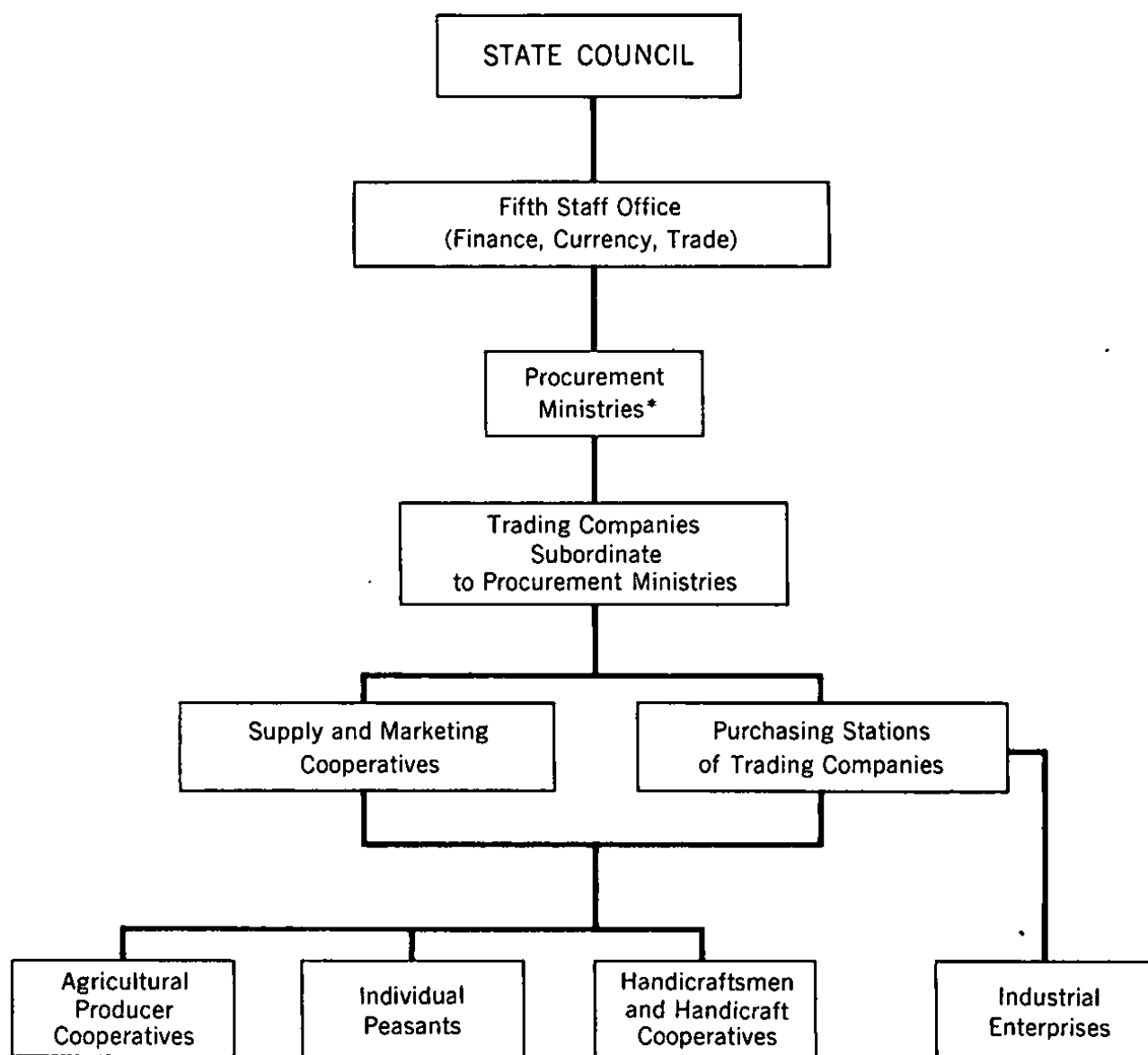


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Figure 3

COMMUNIST CHINA
CONTROL OVER THE PROCUREMENT OF AGRICULTURAL,
INDUSTRIAL, AND HANDICRAFT PRODUCTS
February 1957



**Ministry of Commerce, Ministry of Procurement of Agricultural Products,
Ministry of Foreign Trade, and Ministry of Food.*

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according to quotas set by higher level offices and establishes prices for different kinds and grades of product within narrow limits authorized by higher level offices. Agricultural producer cooperatives, in turn, have production and delivery quotas which they are expected to honor in their dealings with procurement agencies. The branch purchasing stations of the Ministry of Procurement of Agricultural Products are gradually taking over the work of purchasing tea, now performed by the supply and marketing cooperatives. It is possible that the ministry will extend its purchasing activity to additional products whose purchase is monopolized by the state.

Procurement of secondary foodstuffs, agricultural raw materials, and rural handicraft products is carried on by the supply and marketing cooperatives. Important products flowing through these channels are tobacco, tea, hemp, meats, animal byproducts, fish, fruits, salt, woodworking products, mats and other reed products, and native medicines. Some of these products, like tobacco and salt, may be purchased only by the state commercial organizations, but others on the "free market" may be dealt in by private traders.

The Ministry of Foreign Trade has about 15 subordinate purchasing companies, each specializing in a group of related commodities such as foodstuffs, vegetable oils, animal byproducts, machinery, and ores. These purchasing companies, together with their local stations, constitute an important separate procurement network within Communist China. According to a directive of the Ministry of Foreign Trade, foreign trade administrative organs at all levels must "penetrate the producing areas, supervise and assist relevant supply organs in purchases and delivery, and unearth and organize latent productive power." ^{46/} Neither delivery organs nor foreign trade departments are permitted to violate plans and agreements for the supply of goods. The foreign trade departments are directed to send inspectors to processing plants to supervise and inspect the quality and specifications of goods produced.

The operations of the Ministry of Foreign Trade and its subordinate trading companies complicate the structure of domestic trade. Although the relationships are not clearly defined in public announcements, in some cases the foreign trade representatives negotiate contracts directly with industrial or agricultural producing agencies such as handicraft producer cooperatives and agricultural producer cooperatives and in other cases deal with state procurement organizations such as the supply and marketing cooperatives, the trading

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companies of the Ministry of Commerce, and the local units of the Ministry of Procurement of Agricultural Products.

The Ministry of Food manages the grain supply of Communist China but does not directly procure grain. This ministry supervises the stockpiling, warehousing, transporting, and rationing of grain. The immediate source of the marketable grain is the Ministry of Procurement of Agricultural Products. Although formerly a share of the grain consumed by rice and wheat farmers was procured by the state, stored, and sold back to the farmers, this inefficient practice has been greatly reduced. The Ministry of Food, more than most economic ministries, must work closely with local Party and government officials in carrying out its functions.

H. Other Organizations That Share in the Control Over Domestic Trade.

Party and government organizations at all levels are responsible for investigating and for seeing that solutions are found for major failures in the domestic trade system. In December 1956, for example, when some enterprises of light industry, conspicuously failed to fulfill production plans and to improve the quality of their product, Party and government organizations were urged in an editorial in Ta Kung Pao to pay attention to the problem of helping procurement agencies increase the flow of raw materials to light industry. 47/ Party and government organizations of the provincial, county, and municipal level have organized bureaus of commerce and industry to inspect and supervise domestic trade (and industrial) affairs in their local area. Besides these horizontal links with state commercial organizations, coordination is obtained by the fact that leading Party officials simultaneously hold office in the local Party, government, and commercial organizations. In some instances the commercial and industrial bureaus of Party and government organizations have grown so large that they are publicly criticized as wasteful duplications of the regular commercial and industrial organizations. Some idea of the complexity of the system and the potential confusion resulting from a multiplicity of "bosses" may be gained from the following example: the bureau of commerce and industry, organized by a hsien government, receives guidance from (1) the hsien government, (2) the provincial bureau of commerce and industry, and (3) the bureau of commerce and industry of the hsien Party organization.

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The state short-term banking system constitutes a further control over domestic trade organizations at all levels. Banks draw up quarterly credit plans on the basis of the industrial, agricultural, and commercial plans of the various economic ministries. Since 1953, when the state began the unified purchase of grain, vegetable oilseeds, and cotton, the banks have incorporated in their plans funds sufficient to support the purchase of these commodities. As of January 1956, other kinds of commodities for which the banks provide large sums for state use in purchasing are tobacco, tea, hemp and allied fibers, silk cocoons, animal byproducts (wool, hides, and the like) and scrap copper and iron. Of all types of loans by the short-term banking system -- agricultural loans, loans for advanced purchase of agricultural commodities, loans for handicraft industry, loans to industrial departments to provide short-term capital, loans to "commodity turnover departments" (the Ministry of Commerce, the Ministry of Food, and supply and marketing cooperatives) -- loans to "commodity turnover departments" made up about 85 percent of the total in 1954-56. Loans to the Ministry of Commerce and to supply and marketing cooperatives alone accounted for 56 percent of total loans in this period. The greatest part of this latter group of loans is reported to have been used for "livelihood materials and agricultural production materials." 48/

The statistical and investigating work of the banks is now so detailed that it can reveal such deficiencies as the overstocking of goods by trade organizations. The banks are to use their power over loans to encourage rapid commodity turnover and integration of commercial plans with general state plans. "Control by the yuan" is increasingly taking hold in Communist China.

State-private organizations in the domestic trade system are affected by the operations of the All-China Federation of Industry and Commerce. In carrying out its basic task, which is to induce industrial and commercial capitalists to cooperate in the socialist transformation of their businesses, this federation publicizes state plans, persuades businessmen to participate in economy and emulation drives, recommends the shifting and amalgamation of state-private industrial and commercial units, recommends wage and price policy for state-private units, and sponsors ideological study courses. The federation and its affiliated organizations at various levels have a full-time staff of about 40,000 people, 49/ an illustration of the size of the administrative structure of the government.

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Industrial ministries and sometimes individual factories have marketing bureaus. Under the more liberal provisions for domestic trade adopted by the government in the second half of 1956, goods not under programs of unified purchase and supply may be sold directly by factories or marketed on a consignment basis through commercial departments, provided that the goods first have been offered on a priority basis to the regular state procurement agencies. Industrial and commercial ministries have been warned not to promote these more liberal types of sales to the extent that specialization of economic functions between industrial and commercial units is impaired. 50/

IV. Growth in Volume of Domestic Trade, 1949-57.

Data on the volume of domestic trade in Communist China during 1950-57 and the distribution of this trade among different types of commercial and noncommercial* trade are shown in Tables 1 through 5.** During the Communist Chinese First Five Year Plan (1953-57) the volume of retail trade was scheduled to rise 80 percent, from 27.7 billion yuan to 49.8 billion yuan. It is estimated that this goal will be reached. If advance plans for the Second Five Year Plan (1958-62) are fulfilled, a rise of 50 or 55 percent compared with the 1957 level is anticipated.

In 1955, retail sales were only 3 percent above the 1954 level, fulfilling the 1955 Plan by only 94 percent. The reason for this poor showing was a decline in production by light industry of 3 percent. This decline in turn is explained by the drastic effects the 1954 floods had on the supply of agricultural raw materials to light industry. Planned retail sales for 1956 were 46 billion yuan, a figure 15 percent above 1955 and close to the planned 1957 level of 49.8 billion yuan. Although detailed figures are not yet available, comment in the official Communist press implies that actual 1956 retail sales were equal to those planned. Retail sales in 1957 should roughly equal the goal of the First Five Year Plan, but the distribution among the various types of outlets will not follow the plan. For example, the new liberal "free market" policy of 1956-57 should result in private rural traders having a larger share of rural trade than planned and in the supply and marketing cooperatives having a lesser share.***

* Noncommercial trade is trade undertaken by economic units which have as their primary function production rather than trade: for example, sales by peasants whose basic occupation is farming, not trade.

** Tables 1 through 5 follow on pp. 33, 34, 35, 36, and 37, respectively, below.

*** Continued on p. 38.

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Table 1

Communist China: Estimated Volume of Retail Sales in Commercial and Noncommercial a/ Trade b/
1950-57, 1957 Plan, and 1962 Plan

Type of Outlet	Billion Yuan <u>¢</u>									
	1950	1951	1952	1953	1954	1955	1956	1957 Plan	1957 Estimate	1962 Plan
State	1.33	2.39	4.38	5.94	7.61	10.79	12.00	10.22	13.00	N.A.
Supply and marketing cooperatives d/	0.82	2.36 2.36	5.05	8.52	14.90	12.21	13.00	17.15	14.00	N.A.
State-private e/	0.03	0.05	0.08	0.15	1.83	5.06	11.00	11.95	11.00	N.A.
Private (including peasant trading)	14.61	17.00 17.00	18.15	20.43	14.62	11.94	10.00	10.51	12.00	N.A.
Total	16.79	21.80	27.66	35.04	38.96	40.00	46.00	49.83	50.00	75.00

a. Noncommercial trade is trade undertaken by economic units which have as their primary function production rather than trade: for example, sales by peasants whose basic occupation is farming, not trade.

b. For methodology, see Appendix A.

c. In current prices. No correction for changes in the retail price level has been made. The official rate of exchange of the Chinese Communist yuan to the US dollar is 2.46 to 1. This rate overstates the value of the Chinese yuan in terms of purchasing power.

d. Figures for supply and marketing cooperatives include a negligible amount (about 2 percent of the total) of the retail sales by other kinds of cooperatives.

e. Including such enterprises as transformed urban stores and private traders now serving as state commission agents.

C-O-N-F-I-D-E-N-T-I-A-L

Table 2

Communist China: Estimated Percentage Distribution of Retail Sales
in Commercial and Noncommercial a/ Trade b/
1950-57, 1957 Plan, and 1962 Plan

Type of Outlet	Percent									
	1950	1951	1952	1953	1954	1955	1956	1957 Plan	1957 Estimate	1962 Plan
State	7.9	11.0	15.8	17.0	19.5	27.0	26	20.5	26	N.A.
Supply and marketing cooperatives c/	4.9	10.8 10.8	18.3	24.3	38.3	30.5	28	34.4	28	N.A.
State-private d/	0.2	0.2	0.3	0.4	4.7	12.7	24	24.0	22	N.A.
Private (including peasant trading)	87.0	69.0 78.0	65.6	58.3	37.5	29.8	22	21.1	24	N.A.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- a. Noncommercial trade is trade undertaken by economic units which have as their primary function production rather than trade: for example, sales by peasants whose basic occupation is farming, not trade.
- b. Table 2 is derived from Table 1, p. 33, above. Retail sales as defined in Table 1 include sales of noncommercial agencies.
- c. Figures for supply and marketing cooperatives include a negligible amount (about 2 percent of the total) of the retail sales by other kinds of cooperatives.
- d. Including such enterprises as transformed urban stores and private traders now serving as state commission agents.

C-O-N-F-I-D-E-N-T-I-A-L

Table 3

Communist China: Estimated Volume of Retail Sales in Commercial Trade a/
1950-57

Type of Outlet	Billion Yuan <u>b/</u>							
	1950	1951	1952	1953	1954	1955	1956	1957 Estimate
State	1.17	2.15	3.84	5.45	7.02	10.20	11.20	12.10
Supply and marketing cooperatives	0.81	2.35	5.00	8.37	14.44	11.55	12.50	13.40
State-private <u>c/</u>	0.01	0.02	0.04	0.08	1.77	4.92	10.70	10.70
Private	10.09	13.26	12.15	14.08	8.36	5.65	4.10	4.90
Total	<u>12.08</u>	<u>17.78</u>	<u>21.03</u>	<u>27.98</u>	<u>31.59</u>	<u>32.32</u>	<u>38.50</u>	<u>41.10</u>

a. For methodology, see Appendix A.

b. In current prices. No correction for changes in the retail price level has been made. The official rate of exchange of the Chinese Communist yuan to the US dollar is 2.46 to 1. This rate overstates the value of the Chinese yuan in terms of purchasing power.

c. Including such enterprises as transformed urban stores and private traders now serving as state commission agents.

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Table 4

Communist China: Estimated Volume of Wholesale Sales in Commercial Trade a/
1950-57

Type of Outlet	Billion Yuan <u>b/</u>							
	1950	1951	1952	1953	1954	1955	1956	1957 Estimate
State	2.45	5.44	11.47	17.54	23.35	22.88	26.93	29.50
Supply and marketing cooperative	0.06	0.29	0.52	0.77	1.53	3.52	4.13	4.52
State-private <u>c/</u>	0.01	0.05	0.10	0.12	0.13	0.23	0.53	0.68
Private	8.03	10.87	6.88	8.02	2.83	1.22	0.61	0.30
Total	<u>10.55</u>	<u>16.65</u>	<u>18.97</u>	<u>26.45</u>	<u>27.84</u>	<u>27.85</u>	<u>32.20</u>	<u>35.00</u>

a. For methodology, see Appendix A.

b. In current prices. No correction for changes in the retail price level has been made. The official rate of exchange of the Chinese Communist yuan to the US dollar is 2.46 to 1. This rate overstates the value of the Chinese yuan in terms of purchasing power.

c. State-private units are former private wholesale businesses which now operate as jointly controlled state-private businesses.

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Table 5

Communist China: Estimated Percentage Distribution of Wholesale Sales in Commercial Trade a/
1950-57

<u>Type of Outlet</u>								Percent
	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u> Estimate
State	23.2	32.7	60.5	66.3	83.8	82.2	83.6	84.3
Supply and marketing cooperative	0.6	1.7	2.7	2.9	5.5	12.6	12.8	12.9
State-private <u>b/</u>	0.1	0.3	0.5	0.5	0.5	0.8	1.7	1.9
Private	76.1	65.3	36.3	30.3	10.2	4.4	1.9	0.9
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

a. Table 5 is derived from Table 4, p. 36, above.

b. State-private units are former private wholesale businesses which now operate as jointly controlled state-private businesses.

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Increases in the volume of wholesale and retail trade may not necessarily be equated to gains in the livelihood of the population. Even if the questions of growth in population, rise in prices, and deterioration of quality are laid aside, the problem remains of ascertaining how much of the gains reported in the volume of wholesale and retail trade are real gains and how much represent transfers from the nonmarket sector of the economy to the market sector. One important example may be cited: the extensive purchase of farm products by the state and their subsequent sale back to the peasants increase the volume of domestic trade but do not represent an increase in the supplies of consumer goods. Finally, in seeking to compare increases in retail sales with increases in levels of living, it must be remembered that rural retail sales include a large proportion of farm equipment and supplies which add to consumer welfare only indirectly.

Production, in absolute terms, of 12 important commodities that move through domestic trade channels is shown in Table 6.* From this table the index numbers of output for the commodities for the years 1950-57 and 1962 were prepared and then combined into a combined index for the 12 commodities.

Index numbers for the volume of wholesale and retail trade during 1950-57 and 1962 are shown in Table 7,** together with index numbers for GNP and the combined index of the 12 commodities. A comparison of these series indicates the extent to which increases in the volume of domestic trade do not represent real economic gains. Domestic trade is increasing faster than the production of the 12 important commodities in domestic trade channels. GNP is increasing slightly more than the production of the same 12 items. Both comparisons indicate that increases of domestic trade and of GNP overstate the increases in real economic gains to the consumer.

Tables 2*** and 5**** show the increase in socialization of domestic trade in the retail and wholesale markets. Table 2 shows the rapid increase in growth of the state-private sector in 1955 and 1956 compared with its growth in earlier years. This quick increase is the result of the government drive in the latter half of 1955 and early 1956 to bring private merchants into the state-capitalist orbit. The private trade sector in retail trade, although showing a steady decline as a percentage of the total retail market, does not have the

* Table 6 follows on p. 39.

** Table 7 follows on p. 40.

*** P. 34, above.

**** P. 37, above.

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Table 6

Communist China: Estimated Production of Twelve Important Commodities
That Move Through Domestic Trade Channels a/
1950-57 and 1962

Commodity	Unit	1950	1951	1952	1953	1954	1955	1956	1957	1962
Grain	Million metric tons	149	153	164	166	164	180	180	187	217
Meat	Thousand metric tons b/	5,207	5,359	5,513	5,665	5,819	5,533	5,922	6,120	7,225
Edible vegetable oils	Thousand metric tons	847	981	1,133	1,070	1,078	1,263	1,364	1,434	1,625
Fish	Thousand metric tons	911	1,252	1,710	1,741	2,000	2,400	3,000	3,450	6,939
Salt	Thousand metric tons	4,300	4,600	5,000	5,300	5,600	6,000	6,700	7,500	11,200
Sugar	Thousand metric tons c/	376	408	630	640	810	840	950	1,060	2,000
Cotton cloth d/	Million linear meters	1,602	2,175	3,265	3,943	4,474	3,770	4,860	4,800	6,890
Rubber footwear	Million pairs	45.1	67.6	61.7	69.1	76.7	88.2	99.0	108.0	200.0
Coal	Thousand metric tons	41	51	64	67	80	93	108	120	200
Kerosine	Thousand metric tons	12	18	43	65	78	101	130	180	700
Machine-made paper	Thousand metric tons	140	241	372	427	556	589	724	800	1,500
Cigarettes	Thousand cases e/	1,185	2,030	2,650	3,552	3,728	3,567	4,133	4,700	6,000

- a. For methodology, see Appendix A.
b. Carcass weight.
c. Raw value.
d. Factory production.
e. 50,000 cigarettes per case.

Table 7

Communist China: Estimated Index Numbers of Production of Twelve Important Commodities That Move Through Domestic Trade Channels a/ 1950-57 and 1962

Commodity	1952 = 100								
	1950	1951	1952	1953	1954	1955	1956	1957	1962
Grain	86	94	100	101	100	110	110	114	132
Meat	94	97	100	103	106	100	107	111	131
Edible vegetable oils	75	87	100	94	95	111	120	127	143
Fish	53	73	100	102	115	140	175	202	406
Salt	86	92	100	106	112	120	134	150	224
Sugar	60	65	100	102	129	133	151	168	318
Cotton cloth	49	67	100	121	137	115	149	147	211
Rubber footwear	73	110	100	102	124	143	161	175	324
Coal	64	80	100	105	125	145	169	188	312
Kerosine	28	42	100	151	181	234	302	419	1,628
Machine-made paper	38	65	100	115	149	158	196	215	403
Cigarettes	45	77	100	134	141	135	156	177	226
Production of twelve commodities combined	72	84	100	109	117	115	133	142	210
Wholesale price index	84.7	99.8	100	98.7	99.2	99.7	100.7 <u>a/</u>	100.7	100.7
Value of production of twelve commodities in current prices <u>b/</u>	61	84	100	108	116	115	134	143	218
Wholesale sales index in current prices	56	88	100	139	147	147	170	185	277 <u>c/</u>
Retail sales index in current prices	61	79	100	127	141	145	166	181	271
Gross national product <u>d/</u>	76	86	100	111	119	128	139	149	222

- a. Assumed rise of one point because of greater freedom in the private market; assumed to be unchanged in 1957 and 1962.
- b. Assumed that prices of the 12 commodities move the same as all prices.
- c. Growth assumed to be proportional to retail trade during the Chinese Communist Second Five Year Plan (1958-62).
- d. In 1952 prices at market cost.

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decided decrease that the private sector of wholesale trade does. In 1956, there appears to be a leveling off resulting from the introduction of the "free market." In the case of private wholesale trade, however, its control of the wholesale market decreased rapidly from 76.1 percent of the market in 1950 to 1.9 percent in 1956. Control of the wholesale market was the first major drive in government control of domestic trade, and the government now has essentially absolute control of the wholesale market.

V. Problems in Administering Domestic Trade Policy.

A. Quality of Products.

The problem of the low quality of consumer goods in domestic trade channels in Communist China is the result of production factors and of commercial policies as follows 51/:

1. Managers and workers in light industry are forced to meet ever-increasing production quotas. These quotas are met by having workers attend more machines and by the adoption of slipshod methods of production.
2. The chronic shortage of agricultural raw materials has led to intense efforts to increase the amount of finished product per unit of input. In the case of cotton yarns, the attempts by various factories to extract higher yields from raw cotton have resulted in yarns weakened by the presence of short fibers and impurities. In the case of newsprint, the use of a variety of substitutes for wood pulp has led to a weakening of the final product.
3. The resentment felt by private producers at the low prices set for their output and the resulting squeeze of their manufacturing margins is expressed in the use of inferior raw materials and the adulteration of the product. Even after private producers are brought under state-private forms of organization, they reportedly do not cooperate energetically in raising standards.
4. The policy of reserving the best grades of consumer goods for foreign markets results in domestic consumers receiving low-grade products.
5. The absence of self-corrective competitive forces in the economic system itself provides the consumer fewer and fewer

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alternative sources of supply, except for occasional temporary concessions made to the private sector. The government sets prices, specifications for goods, and ration quotas, with the result that even in the limited area of private trading enterprise there is little scope for individual decision.

Government leaders have taken countermeasures to improve quality. Industrial plants which have bettered the quality of their product are singled out for public praise. Commercial bodies are urged to reject goods of poor quality. The problem will continue, however, as long as the background conditions are unfavorable for the maintenance of quality standards. "Free marketing,"* introduced in October 1956, has had the effect on the local level of improving the quality of vegetables on the market. 52/

B. Problems of Organization and Control.

In a general sense the problems of organization and control of domestic trade in Communist China are inherent in the dictatorial system itself and in the bureaucracy needed to run it. Some shortcomings stem from lack of experience.

As state trading companies grew into gigantic organizations, difficulties in matters of administration and management developed. In 1953, there were a number of state organizations which recognized too many grades of products, practiced complicated procedures, and had excess staff members. 53/ In 1956, in the Dairen - Port Arthur area, there were many government organizations which were established improperly and without a definite assignment. A purchase organization for agricultural products was established a few years ago to handle the purchase of cotton, hemp, furs, tobacco, and tea leaves in the Dairen - Port Arthur area. There has never been much work for the organization, because the only agricultural crop in the area is cotton. 54/

An overstaffed industrial bureau in Chekiang Province has many departments, some of which are concerned with trade, light industry, and consumer goods. In February 1955 it took 46 days for a document on supply and marketing to go through all the departments in the bureau before reaching the correct one. Recommendations were made to reduce the size of the bureau from 667 to 467: it had grown from a staff of 151 members.

* See II, A, 4, p. 9, above.

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In 1953 the most widespread evil in the Chinese Communist state trading system was bureaucracy. Bureaucracy and the related "commandism," "formalism," and the "simple task fulfillment point of view" are mainly the result of the policy of the Communists in forcing the members of trading organizations to achieve even higher norms. Because of the slogan "the task must be fulfilled," crop-collecting agents have been compelled to use "compulsory orders" in their collection of crops. For the purpose of clearing unsalable stock, unwanted articles are sometimes forced on a consumer together with the article which he wants. 55/

The commercial departments, in accordance with purchasing and distribution plans approved by the state, originally carried out the planned distribution and unified supply of goods from the top down. There was a decrease in quality and a loss in variety of consumer goods produced in the factories. There were shortcomings in the quantity and quality of raw materials for processing in the factories. A lack of flexibility in planning became evident, and plans did not keep up with changing needs. Measures taken in allocation of supplies from the top down, within the commercial departments themselves, often made it impossible for units at the bottom to organize supplies in accordance with the needs of the local residents, thus restricting the range of operation of these units. In connection with the allocation of supplies to the units at the basic level, there are instances of rigid control of the market such as enforced monopolies and restrictions. In one hsien, although many articles were out of stock and the local department store had no supply itself, the commercial department of the hsien forbade private merchants and peddlers to make purchases from other districts.

Some of these problems result from the inexperience of the commercial personnel. In 1953 the majority of the personnel in the commercial departments were so ignorant of normal business practices that an enormous number of commodities and man-hours were wasted through poor planning, mismanagement, and improper handling of goods. It was the lack of understanding of production and marketing by the commercial departments that caused shortcomings in the quality and quantity of raw materials for processing in factories. 56/

The institution of the "free market"* operating within the limits of the unified socialist market may solve these problems.

* See II, A, 4, p. 9, above.

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As of 30 January 1957, about one-third of all Chinese Communist agricultural commodities, representing about one-eighth of the total value of all retail sales in 1956, were bought and sold on the "free market." More variety and better quality in perishable consumer items were achieved. In the distribution of many commodities the number of stages between the grower and the user has been reduced. In Shanghai, up to four processes were cut out in the handling of vegetables and dried fruits. 57/

A more recent proposal (in March 1957) that will tend to improve the situation and increase flexibility of control was made at the national commercial conference in Peking. The basic aim of the proposal is to decentralize control in matters of domestic trade and to give more power to the local authorities. It was urged that national over-all leadership by the Ministry of Commerce remain unchanged but that the ministry concentrate its direct guidance only on the big trading enterprises which come immediately under central control. Under this plan, local enterprises were to be allowed to come under the control of provincial and county governments. 58/

C. Inflation.

The Chinese Communist government has claimed that wholesale prices have been stabilized for the period 1950-55. Their wholesale price index is shown in the tabulation below with the base shifted to 1952. Comparison of announced money wages with announced real wages 59/ permits the construction of a derived cost of living index for 1950-55 as follows:

	1952 = 100	
<u>Year</u>	<u>Official Wholesale Price Index</u>	<u>Derived Cost of Living Index</u>
1950	84.7	86.3
1951	99.8	96.0
1952	100.0	100.0
1953	98.7	105.6
1954	99.2	106.9
1955	99.7	107.3

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A similar series is not available for retail prices except for an official index based on retail prices in eight large cities for the period 1953-55. With 1953 as 100, this index is as follows: 1954, 100.4; 1955, 101.1.

The two indexes in the tabulation above show a rapid rise from 1950 to 1952. The derived cost-of-living index rises through 1955, whereas the wholesale index takes a slight dip after 1952 with a smaller rise to 1955 but never goes up to the 1952 level.

The early part of these indexes to 1953 can be explained by the government of Communist China's being in the process of gaining control of domestic trade during this period. Speculative commerce was restricted and controlled, wholesale merchants were edged out, and private retail merchants were restricted and regulated. In the second half of 1953, state commercial organizations began to take an increasing part in the wholesale and retail business: for example, state commercial organizations occupied the absolutely predominant position in the wholesale business. The control of the wholesale business explains the stability of the wholesale price index after 1953. The control of the retail business was not so great as that over wholesale business in 1953, but such control grew in the ensuing years. 60/ This difference in degree of control is reflected in the fact that the cost-of-living index takes a sudden jump in 1953 rather than a dip as does the wholesale price index. As control over the retail business increases, the rate of inflation decreases in the cost-of-living index.

It is possible that the cost-of-living index understates the rise in the cost of living. There are continual complaints of shortages, poor quality of goods, and standing in line for consumer items. There also have been explanations for not reducing the prices of consumer goods. In spite of these complaints, during 1953-55 the increase in the Chinese Communist derived cost-of-living index is only 0.5 percent more than that of the US consumer price index during the same period.

Sometimes shortages actually bring about a government "planned" price rise. This happened in April 1957, when a small price rise of 2 to 3 percent was announced on certain items. A few weeks later it was claimed that these prices had remained unchanged since the increase. 61/ These price increases were used as incentives for producers to increase production.

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D. Incentives.

Shortages of goods, insufficient variety of items, and the poor quality of products are defects of domestic trade in Communist China. Incentive in the form of an appeal to self-interest has been used to overcome these defects.

The peasant as a producer of food and agricultural raw materials has been the one most benefited by incentive programs. Peasants have been offered higher prices to cause them to increase production. The latest example is the increase of hog procurement prices in the spring of 1957.* Some procurement policies such as the original planned purchase and supply program adversely affected the incentive of the peasant. That program failed to let the peasant know how much would be taken from him. The more the peasant produced, the more the government took, and he never knew how much he could keep for himself. Incentive was restored with the "three fix" policy, not only permitting the peasant to know how much the government would take but also permitting him to sell his surplus.**

The state-operated "free market" introduced in the latter part of 1956 had as its purpose the correcting of shortcomings both in the manufacture and processing of goods and in the state purchasing and selling policy. Factories would be forced by controlled competition to produce better products and a wider variety of these products, and retail shops would be forced by competition to buy goods more suited to the needs of their customers. Peasants again were to be encouraged to produce more by being permitted to sell their surplus. Abuses cropped up in the "free market," and although the system will be continued, it will not be permitted to grow to the planned size of 25 percent of the total national trade.*** The "free market," however, has yielded the state good results in increasing the amount and variety of goods.

Sales personnel have been prodded into selling more by the slogan of the "task must be fulfilled." This increase in sales has not always benefited the consumer. Sometimes, to get an item which he wants, the consumer has been forced to take something which he does not want so that sales personnel can fulfill the quota.****

* See II, A, 2, p. 7, above.

** See II, A, 6, p. 12, above.

*** See II, A, 4, p. 9, above.

**** See B, p. 42, above.

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Some commercial departments have put their sales force on a piece-work wage system of reward for above-quota sales to give the sales force an incentive. 62/

An experiment, which is to be carried out in some hsiens in 1957, to establish commercial enterprises in conformity with local needs will give incentive to personnel in lower levels of the trade system. More power is to be delegated to the lower levels. 63/

E. Traffic Congestion.

One of the problems of administering domestic trade policy in many areas of Communist China is an inability to achieve a smooth flow of supplies. This problem arises not only from an inadequate transportation system but also from increased transportation requirements resulting from the growth of the national economy. The shortcomings in the transportation system of China became markedly evident during July and August 1956, when signs of acute congestion were observed in certain areas of the country.

There is only one single-track railroad line to haul a large amount of construction materials from North China to new industrial projects in the northwest. Increased traffic on this section of the railroad system causes congestion at the points where other systems feed into it.

Highways in the western and northwestern areas are unable to contribute to clearing the congestion. New roads are poorly constructed. There are not enough trucks and drivers available, and full use is not made of those trucks that are available.

The Yangtze River system moves materials toward the west and southwest, but insufficient craft are available for operation on the river, especially through the Yangtze gorges. There is also a shortage of mechanical equipment generally and of manpower at the ports.

In addition to the problems of the individual systems, there is the absence of an over-all system linking rail, highway, and inland river traffic. Such a system might minimize traffic congestion.

It would appear from freight plan fulfillment that the movement of consumer items is of low priority compared with the movement of goods for the buildup of industry. During the first three quarters

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of 1956, freight plans for crude oil, metallic ores, steel, salt, and minerals for construction materials were exceeded, but plans for lumber, grain, cotton, vegetable oils, cotton textiles, and cotton yarn were not fulfilled. There was no indication during the transportation congestion of 1956, however, that consumer goods had any less priority than other materials. In September 1956, winter garments, piece goods, and cotton were given priority during a period of traffic congestion on the western section of the Lunghai Railroad from Pao-chi to Lan-chou. These latter facts would tend to indicate that there is no set priority on the movement of traffic and that the needs of the moment create the priority. 64/

The transportation congestion of July and August 1956 served to point up the inadequacy of the transportation system. To overcome this inadequacy, which still exists, it is planned that the volume of hauling on the railroad system will be increased at least 70 percent in the Second Five Year Plan (1958-62). Immediate emphasis for 1957 is to be on the strengthening and technical improvement of existing lines. About three-fifths of the entire state investment in railroads in 1957 will be used to achieve technical improvement, to build double tracks, to enlarge railroad yards and stations, and to increase locomotives and rolling stock for the existing railroad lines. The transportation congestion of 1956 indicated that most of the volume of rail transport still had to be handled by the existing lines. In the case of highway transportation, a shortage of motor vehicles is still felt. In May 1957 the State Council admitted that the state was unable to augment the number of motor vehicles at that time. To solve the critical situation in highway transportation, the proposal was made for full exploitation of existing transport vehicles. 65/

F. Control of Costs.

The Chinese Communists have adopted many Western business practices which serve as means of control as well as means of increasing the exchange of commodities. These practices include establishment of firm and widely publicized prices, more general use of double-entry bookkeeping, expansion of banking facilities, standardization of grades and measures, and use of statistics. In their explanation of the use of trade statistics the Communists show the importance they attach to cost control.

Trade statistics are an important tool of cost control in Communist China. The scope of trade statistics covers purchases,

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sales, inventories, transportation, prices, circulating expenses, labor, and the trade network (the sum total, the structure, the geographical distribution, and the capacity of trade organs).

The purposes of trade statistics are as follows: (1) to furnish data for preparing trade plans and determining trade policies, (2) to inspect and control execution of trade plans, (3) to reveal and explore the unutilized potential of trade establishments, and (4) to indicate business trends.

Reports are prepared by basic and consolidating organizations. A basic organization is an enterprise on the hsien level which either maintains a separate accounting system or is an agency of such an enterprise. A consolidating organization is on a level above the basic reporting organ, and it is responsible for combining the statistical data submitted by the several basic organs.

Trade statistics are kept on the following commodity circulation expenses: freight charges, loading and unloading expenses, storage fees, expenses for storing and crating, insurance expenses, salaries and allowances of personnel in the circulation system, natural losses (losses resulting from causes beyond human control such as shrinkage or loss of weight of a commodity), interest and remittance fees, depreciation on fixed assets, commissions paid to agents, telegrams and stamps, administrative expenses, and expenses not elsewhere classified. Taxes, processing expenses of the manufacturer, and losses resulting from negligence or from accidents are not considered to be circulation expenses. Reducing these commodity circulation expenses to a minimum is a task of those engaged in domestic trade. Successful completion of this task will increase capital accumulation for the state and lighten the burden on the consumer. 66/

The Chinese Communists have problems with their cost control. In early 1956 the Fifth National Conference on Statistical Work pointed out that the greatest deficit existing in statistical work was the delay in issuing figures. The timely production of statistics and their completeness are inadequate to meet the demands of key Party and government organizations. During 1956 and 1957, statistical work was to have achieved goals of quantity, speed, quality, and economy. 67/

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Vice Premier Ch'en Yun launched a "production-increase and economy campaign" in March 1957. In his speech he made certain proposals for commercial departments which indicate weaknesses in cost control other than those found in statistics. Apparently some plans are not realistic, for Ch'en Yun urged that practical nationwide plans for major commodities should be made. He also proposed that overlapping between commercial agencies be adjusted; that statistical, fiscal, and accounting systems be simplified; and that the staffs of administrative organizations be reduced. 68/

The Chinese Communists are very conscious of the importance of controlling costs, but apparently they are running into problems of developing appropriate methods and applying these methods effectively in the commercial system.

G. Shortages and Queues.

One of the difficulties involving domestic trade in Communist China has been an inability to bring about a smooth distribution of commodities in rural areas. Although 70 percent of the total industrial output of China was said to consist of supplies to rural areas, stocks of many kinds of consumer goods and daily necessities were exhausted in the fall seasons of both 1954 and 1955. In 1954, such articles as sweaters, matches, woolen yarn, and cigarettes were out of stock in many areas. On the other hand, unmarketable goods piled up in various state companies in the cities. 69/ The phenomenon of shortages of industrial goods in rural areas occurred again in the fall of 1955. The reason given for this shortage was that personnel in the state trading organizations and in supply and marketing cooperatives had insufficient knowledge about rural markets. As the purchasing power of the peasants increased, the demand for industrial goods in rural areas also increased, but the commercial authorities did not provide additional goods. In the spring of 1956, shortages in the rural areas again appeared. The same basic reason for these shortages was given -- increased purchasing power brings increased demand. In addition, it was also admitted that a drastic reduction in subsidiary and handicraft production had contributed to the shortages. Remedies for the stagnancy of the rural market include adjusting the work of the state trading organizations and supply and marketing cooperatives to take into account the new developments in rural markets, enlarging the commercial network, and restoring and developing subsidiary and handicraft production in the rural areas. 70/

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For several years the queueing up of city customers for supplementary food items has been a normal thing, but in 1956 the situation became worse. In metropolitan centers such as Peking and Shanghai the following reasons are given for food queues. First, the merchandising network was not able to meet the requirements which resulted from new developments. The buying power of factory workers had increased. City populations, which had grown because of new government organizations and expanding industry with its need for workers, had not been matched by an increase in the number of shops and stalls. Some merchandising stores had been set up, but in inconvenient locations. Second, operational methods had not been satisfactory. Market controls had been too stringent to allow extended distribution of vegetables and to provide an incentive to vegetable dealers. Third, the selling of merchandise was slow because of the inefficiency of salesmen and the poor packaging of goods. 71/

Shortages continue to plague the Chinese Communists. Ch'en Yun admitted that the shortage of pork and of egg products was more widespread in 1956 than in 1955. During the second half of 1956 the supply of woolen cloth, leather shoes, and knitting wool could not meet the demand in medium and large cities. The shortage of capital goods resulted in a shortage of hardware supplies. In northern cities, stoves were in short supply during the winter of 1956. Except for pork, production of the vast majority of goods in 1956 had increased. The excuse again was given that shortages had occurred because purchasing power had increased at a greater rate than the increase of goods. 72/

In the spring of 1957 the Chinese Communists still admitted shortages. As noted earlier, cotton cloth and grain are still rationed.* The shortage of pork and edible oils necessitated the price rise in April.** The shortage of sugar was reported in Kiangsu Province in April. Although the old excuse of increased purchasing power was used, in this case the primary cause of the shortage was given as decreased production. 73/

* See II, A, 6, p. 12, above.

** See II, A, 2, p. 7, above.

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VI. Capabilities, Limitations, and Intentions.

A. Capabilities.

Firm state control over domestic trade gives the rulers of Communist China the power to use, restrict, and transform any aspects of private trade as they wish. Their power is so well established that they can allow a "free market" to develop with the assurance that the "free market" can be restricted or abolished if it fails to promote their ultimate objectives.

Domestic trade can be and is being used to further the industrialization program of the state. Control over the market is used to channel real and monetary resources into construction and heavy industry.

Control of domestic trade is so well developed that aid can be given to any distressed area of the country. Disaster areas such as famine or flood areas now can have all the forces of the domestic trade network brought to their relief, and, in general, even though real consumption per capita may be little higher than in the pre-Communist era, the available consumer goods are distributed in such a manner that mass starvation is avoided.

There is a high degree of flexibility on a national scale in the trade network of Communist China. Policies are quickly changed and the changes quickly implemented to cope with new developments. The shifts in policy on the "free market" are an indication of the flexibility of the system.

Thousands of commercial workers are being trained in merchandising, banking problems, rationing, procurement, statistical procedures, and other aspects of domestic trade. This training insures a constantly rising capability of the trade system for meeting emergencies such as floods, droughts, and war.

B. Limitations.

Shortages of raw materials and commodities constantly hamper the operation of the domestic trade system of Communist China. Incentives have been offered to get the peasants to produce more food products and more raw materials for light industry. Cotton textiles and grain are being rationed.

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Pressures on prices in the domestic trade system have increased in the last year. Urban workers reportedly received an average wage increase of 13 percent, and the majority of peasants received higher incomes in 1956 than in 1955. The increase in the supply of consumer goods, however, was not commensurate. The leaders cannot go much further in yielding to pressures for higher money incomes unless they are willing either to relax efforts to maintain price stability or to allocate more resources to the consumption sector of the economy.

A limitation exists in the centralized control over domestic trade. Although this tight control allows policy changes to be enforced quickly throughout the nation, it creates difficulties for those on the lower levels in their daily tasks of trying to cope with local situations. Probably, as the leaders of the domestic trade system finish their apprenticeship, they will learn how to decentralize powers of decision-making to regional and local centers.

C. Intentions.

The Chinese Communists will continue to use their control of domestic trade to utilize, restrict, and transform capitalistic commerce and to channel real and monetary resources to the industrialization program of Communist China. There are the basic goals of state control. Other goals include the stabilization of prices and the improvement of the quality and the variety of goods. Private trade will be curtailed or allowed to expand as it fits the needs of the state.

The Chinese Communists intend to increase the volume of domestic trade approximately 50 percent during the Second Five Year Plan (1958-62), and their past economic successes suggest that they have the resolution and the capability to do so. Part of the increase will be in the form of a greater flow of tools, feeds, and fertilizers to rural users. Another part of the increase will represent basic consumer goods to meet the needs of a population growing at the rate of approximately 2 percent per year. A third part will represent the amount available for improving the average living standards of a population whose patience has worn thin during these present years of austerity and administrative ineptness. The overriding policy of the Chinese government, however, remains the distribution to consumers of that minimum of consumer goods necessary to maintain productive efficiency and social stability.

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APPENDIX A

METHODOLOGY

Tables 1 through 7 are based on official announcements of the Chinese Communist Five Year Plans.

Table 1.*

The figures for 1950 and 1952-55 are taken from a report of 14 June 1956 of the Chinese Communist National Statistical Bureau. 74/

1951.

State trade in 1952 was 183 percent of 1951, and cooperative trade was 288 percent of 1951. 75/ State-private trade was assumed to be halfway between 1950 and 1952. Total trade was 130 percent of 1950. 76/ Private trade was found as the residual.

1956.

In September 1956 it was announced that retail trade for the year would total 46 billion yuan. 77/ In June 1956 the expected proportion of state and cooperative trade had been given as 60.5 percent, state-private trade as 25.5 percent, and private trade as 14.0 percent. 78/ If these figures had held for the year, state and cooperative trade would have been 27.83 billion yuan, state-private trade would have been 11.73 billion yuan, and private trade would have been 6.44 billion yuan. A reversal of government policy in the second half of 1956, however, brought about a revival of the private market, with the expectation that the rate of private sales would ultimately rise to 12 billion yuan, or about 25 percent of the total. 79/ At the beginning of 1957 it was claimed that total retail sales in 1956 had fulfilled or exceeded plans. 80/ Figures for 1956 have been estimated, taking into account the claimed fulfillment of the over-all plan for trade and the change in trade policy. The decline in private trade, which was to have fallen to 6.44 billion yuan, has been arrested and for the year 1956 is taken to be 10 billion yuan. State and cooperative trade, instead of rising from a total of 23 billion yuan in 1955 to a total of 27.83 billion yuan in 1956, is assumed to have risen only to 25 billion

* P. 33, above.

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yuan, with the larger increase going to state outlets. The intensive drive to bring private merchants into the state-private orbit is assumed to have fallen somewhat short of the 11.73-billion-yuan total implied in the mid-1956 announcements.

1957 Plan.

Figures are taken from the basic plan document. 81/

1957 Estimate.

These estimates take into account actual sales in 1950-56 and the announcement that under the new "free market" policy private sales will be 12 billion yuan per year.

1962 Plan.

The first announcement of the 1962 Plan indicates that its goal for retail trade represents an increase of about 50 percent above the goal of the 1957 Plan. 82/

Table 2.*

Table 2 is derived from Table 1.**

Table 3.***

1950 and 1952-55.

The figures for 1950 and 1952-55 are those released by the National Statistical Bureau on 14 June 1956. 83/

1951.

Private trade of exclusively commercial agencies was 131.4 percent of 1950. 84/ State-private trade was found by interpolation between 1950 and 1952. Total trade was computed from the statement that private and state-private trade together were 74.7 percent of total trade. 85/ The residual of 4.5 billion yuan is the total of

* P. 34, above.

** P. 33, above.

*** P. 35, above.

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state and cooperative trade and represents a combined increase of 2.52 billion yuan over 1950 for these two categories. Of this increase, 39 percent has been assigned to state trade and 61 percent to cooperative trade on the basis that the total increase in these two categories between 1950 and 1952 was divided in this way.

1956 and 1957.

During 1954-55, state, cooperative, and state-private sales of commercial agencies averaged, respectively, 93, 96, and 97 percent of the total sales of commercial and noncommercial agencies. These percentages were applied to the sales for 1956 and 1957, as shown in Table 1,* in order to obtain the figures for exclusively commercial agencies for these years. In 1953-55 the volume of private trade handled by exclusively commercial agencies fell off from 69 to between 57 and 47 percent of total private trade. In 1956, private trade by exclusively commercial agencies was expected to be 8.9 percent of all trade (including noncommercial agencies) or 4.1 billion yuan. 86/ This sum is 41 percent of total private sales, and it is assumed in obtaining the figure for 1957 that private sales by commercial agencies will again amount to 41 percent of total private sales of both commercial and noncommercial agencies.

Table 4.**

1950 and 1952-55.

These figures are those released by the National Statistical Bureau on 14 June 1956. 87/

1951.

State-private trade is assumed to lie halfway between the 1950 and 1952 volume. Private trade is calculated from information that private and state-private together declined in 1952 to 63.9 percent of their 1951 volume. 88/ Total trade is calculated from information that state-private and private trade together amounted to 65.6 percent of the total in 1951, 89/ and the remaining 34.4 percent of the total was divided between state and cooperative trade by assuming that cooperative trade lay halfway between the 1950 and 1952 volume.

* P. 33, above.

** P. 36, above.

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1956-57.

The ratio between the volume of wholesale sales and the volume of retail sales (including sales by noncommercial agencies) has been approximately 0.7 in the period 1952-55. In the absence of direct information about the volume of wholesale trade for 1956 and 1957 it has been assumed that the volume will continue to equal 70 percent of the volume of retail sales. Private wholesale trade, the remnants of which were greatly curtailed during the last quarter of 1955 and the first quarter of 1956, is assumed on the basis of official accounts of the magnitude of the changes to have declined by half in 1956 and by half of that reduced volume in 1957. In each year, state-private trade is expected to gain half the volume lost by private trade, the rest of the loss being absorbed in the state and cooperative sectors. The wholesale sales of supply and marketing cooperatives and the sales by state-operated units are assumed to be divided in the same proportions as in 1955.

Table 5.*

Table 5 is derived from Table 4.**

Table 6.***

The information in Table 6 is based on official Chinese Communist statistics.

Table 7.****

The index numbers for the individual commodities are derived from Table 6.*** The index for the 12 commodities combined was constructed by multiplying the individual indexes by weights based on estimated value of consumer sales for 1952 and dividing the totals for the years by the total of the weights. The index of wholesale prices for 1950-55 was taken from official Chinese Communist sources.† 90/ The 12 commodities in the index of current prices was constructed by multiplying the combined index of 12 commodities by the index of wholesale prices. The index of wholesale sales was derived from Table 4,** and the index of retail sales from Table 1.†† GNP is in 1952 factor prices.

* P. 37, above.

** P. 36, above.

*** P. 39, above.

**** P. 40, above.

† See V, C, p. 44, above.

†† P. 33, above.

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