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## ECONOMIC INTELLIGENCE REPORT

# INDUSTRIAL ORGANIZATION AND PLANNING IN COMMUNIST CHINA



CIA/RR 119

31 December 1957

## CENTRAL INTELLIGENCE AGENCY

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(ORR Project 41.1584)

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FOREWORD

The emphasis of this report is on the central industrial planning process in Communist China, which involves primarily the direction and administration of nationally operated industry. Information on local industry, which constitutes almost half of the industrial output of Communist China, is too sparse to warrant more reporting at this time.

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INDUSTRIAL ORGANIZATION AND PLANNING IN COMMUNIST CHINA\*

Summary and Conclusions

Industrial activity in Communist China is organized and directed through a hierarchical structure closely patterned after that existing in the USSR before 1 July 1957. Some industry is directly managed by 16 industrial ministries acting under the general direction of the State Council, the Chinese equivalent of the Council of Ministers in the USSR. The number of such ministries has increased with the development of the various industries, from 4 in 1950 to the present 16, 7 of them having been created during 1955-56. A substantial part of light industry is under the direct management of the industry departments of the various local governments. Responsibility for over-all industrial planning is centered in four commissions attached to the State Council, as follows: the Commission for National Planning (long-range planning), the National Economic Commission (current planning), the National Technological Commission, and the Commission for National Construction. Planning commissions are also attached to the local governments.

Other forms of business organization, however, exist in Communist China at the present time and reflect the fact that the regime is attempting to implement complete central planning. Those private industrial enterprises which continue to operate are indirectly controlled by the state through purchase contracts and raw materials allocations. Industrial cooperatives have been organized mainly in small handicraft fields. State enterprises control almost all heavy industry and some light industry, and joint state-private enterprises control much light industry. Plan figures indicate that in 1956 state enterprises produced 63.8 percent of all industrial output; joint state-private enterprises, 31.1 percent; industrial cooperatives, 4.7 percent; and private businesses, 0.4 percent.

With respect to organization, management, and planning procedures, the state enterprise in Communist China closely resembles its Soviet counterpart. The annual enterprise plan, for example, which regulates the activities of each state enterprise, is a carbon copy of

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

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the technical-industrial-financial plan under which firms in the USSR operate. Chinese firms or enterprises seem to experience the same kinds of difficulties in plan formulation as do Soviet firms and to react in a similar manner in coping with them.

The joint state-private enterprises represent the use of a method of nationalizing private business which in nature, extent, and duration is unique in the history of Communist takeover of capitalist economies. During 1950-54, private companies were converted to joint ownership firm by firm, but during 1955-56 the conversion program was greatly accelerated by the inauguration of a concerted nationwide drive to form such joint companies industry by industry and city by city. As a result, the share of joint enterprises in total industrial output increased from 5 percent in 1952 to a planned 31.1 percent in 1956 while the share of private industry dropped from 42 percent to 0.4 percent. In spite of some difficulties in completely controlling the activities of the joint companies, the Chinese Communists evidently consider them a satisfactory device for obtaining control of private firms and for utilizing the managerial skills of their owners, for the joint companies are to be continued through 1962.

The establishment of full-scale central planning in Communist China has been fraught with difficulties, many of which seem to arise from the inability to fix realistic production targets and to make feasible investment allocations. The Chinese are continually attempting to improve the efficiency of planning by making organizational changes conducive to the formulation of more realistic plan targets. As the various industrial sectors have developed, new ministries or other organs have been established to manage them. The proliferation of economic agencies, which began with the inception of comprehensive central planning in 1953, culminated in May 1956 in the establishment of 10 new ministries, 2 commissions, and 2 bureaus. At that time, too, long-range planning was separated from short-range planning by the establishment of the National Economic Commission, which was made responsible for current planning, and a separate agency for commodity allocation was created. Likewise the responsibility for planning in the critical field of technological development was centered in a newly established National Technological Commission. By thus promoting organizational specialization in the economic apparatus, the Chinese hope to make the planning process more flexible and more realistic.

Some of the difficulties in planning seem to stem from excessive centralization of administration and lack of clear delineation of

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responsibilities between central and local planning organs. Preliminary steps are being taken to cope with these problems. In June 1956, Chou En-lai announced that a plan for division of planning and managerial authority between central and local government agencies was being drafted and would be implemented to some extent in 1957. In a speech to the Eighth Party Congress in September 1956 the Chairman of the Commission for National Planning severely criticized the existing planning procedures, maintaining that state plans were too rigid, that the plans contained too much minute detail, that procedures for obtaining final approval of enterprise plans were overcentralized, and that the Commission had made no real delegation of planning authority to lower levels. He also made a number of specific recommendations for changes in planning procedures oriented toward more flexibility and less centralization.

The few statements that have been made concerning plans for decentralization of administration in Communist China do not make clear what degree of decentralization is being contemplated. It seems doubtful that the amount of delegation of central planning authority to local levels will be very great, because the government is still in the process of consolidating its control over all economic activities. Effective decentralization cannot be carried out, moreover, unless trained personnel are available at the local levels to carry out state policy, and in China the shortage of such persons is acute. No major change in the administrative structure seems to be contemplated.

In spite of the many difficulties involved in central planning in Communist China, the government has made substantial progress toward achieving its long-range goals of complete nationalization of economic activity and rapid industrialization. Continuation of the attempts to improve the administrative organization and to inject elements of flexibility into central planning procedures should facilitate the attainment of the production and productivity goals set for the period of the Second Five Year Plan (1958-62).

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I. Historical Development.

Over-all national economic planning in Communist China was formally established in 1953, the first year of the First Five Year Plan (1953-57). Before this time, some planning was done on a limited scale by the regional governments, but the planning activities of the central government were limited to the following: (1) the creation of a rudimentary planning organization, (2) the convocation of planning conferences, and (3) the preparation of targets for basic industry. 1/\* The period 1950-52 was considered a "reconstruction phase," and the objective of the government during this period was the restoration of industrial production to the levels attained in the prewar years by the Japanese in Manchuria and by the Nationalist government in China.

In moving toward their goals of comprehensive economic planning and industrialization of a primarily agricultural economy, the Chinese Communists were able to start from the rudimentary industrial base and the few regional plans developed by their predecessors on the mainland of China. During the 1930's the Japanese had established some industry in Manchuria by importing capital equipment and had engaged in comprehensive planning for the area. In certain coastal "treaty ports" of China a small light or consumer goods industry along with some electric power, engineering, and transportation facilities had been developed in response to increasing trade with the West. The National Resources Commission of the Chinese Nationalist government, with the aid of US technicians, had worked out various long-range plans for the development of certain natural resources. Although few of these plans were implemented, they have provided the Chinese Communists with valuable data for use in formulating long-range economic plans.

A. Regional Planning.

During the period of reconstruction, 1950-52, much of the planning undertaken in Communist China was regional in character or was related to specific industries. 2/ There was little national planning as such. The various regional governments exercised considerable autonomy in political and legal affairs. This initial system of regional administration in China was established as the Communist armies were moving south and west from the north and was based more on military than on economic or political considerations. The system consisted, at the end of the period, of seven regions (or districts, or "greater areas"), each of which, in turn, was composed of provinces. At first each region

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was administered by the military commanders who occupied the area. Later a civil government was added. The latter was called the North-east Peoples Government in Northeast China, the Inner Mongolian Autonomous Government in Inner Mongolia, the Ministry of North China Affairs in North China, and the Military and Administrative Committee in the remaining four regions of Central-South China, Southwest China, Northwest China, and East China.\*

Regional production planning, and indeed all planning for economic development, was undertaken first in Northeast China, where the Communists had consolidated their position after the close of World War II. Production goals for existing industries in this area had been formulated as early as 1948. Beginning in 1950, other regions announced annual economic plans and specific production goals for the more important agricultural and industrial products. Beginning in 1952, some long-range plans were also announced: a 4-year plan for economic development of East China, a 5-year plan for irrigation development of Central-South China, and a 5-year agricultural development plan for the Northeast. 3/

In 1952 the regional civil governments were stripped of much of their authority, and in 1954 the regions were abolished as units of government administration. The provinces were made directly subordinate to Peking, and the functions of a number of industry departments of the former regional governments were taken over by the central government. Military regions continue to exist as part of the military administration, but their boundaries have been changed for military and strategic reasons.

B. National Planning.

Shortly after the Communists seized control of the mainland of China in 1949 the Peoples Republic of China was established. The supreme governing body, known as the Government Council, directed the activities of a Peoples Revolutionary Military Council responsible for military administration, a Procurator-General in charge of legal and judicial administration, and a State Administrative Council responsible for the executive administration of civil affairs. The State Administrative Council had 4 coordinating committees, 1 of which, the Finance and Economic Committee, established a planning bureau to compile statistics, accumulate economic reference material, and study the basic principles and techniques of planning with the help of Soviet specialists.

\* The names of geographic areas used here are those of the Chinese Communist Administrative Divisions before November 1954

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In November 1952 a Commission for National Planning was established by the Government Council in Peking for the purposes of "strengthening the centralized nature" of planning and initiating "large-scale economic construction." <sup>4/</sup> The 17 members of the Commission were high-ranking Communists; 3 were known to be members of the Politburo, and 10 others were members of the Central Committee of the Communist Party. Important military and government leaders were also members of the Commission. <sup>5/</sup> The Chinese term used to refer to the Chairman of the Commission for National Planning was Chu Hsi, indicating the highest administrative level. Thus the membership and status of the Commission indicated that it had broad authority for planning in capital construction, industry, trade, military affairs, education, and cultural and legal affairs.

In 1954 the Constitution of the Peoples Republic of China was published, and a number of major changes were made in the central government structure. The Government Council and the State Administrative Council were combined to form a new State Council, the Commission for National Planning was placed directly under the supervision of the State Council along with the ministries, and a new Commission for Capital Construction was established. The Chairman of the Commission for National Planning, Kao Kang, who had been accused of attempting to build and maintain an independent empire, was relieved of all his government positions, was dismissed from the Party, and reportedly committed suicide. A new chairman was appointed, and the membership of the Commission was enlarged. The newly appointed members were relatively minor Party officials. The change in membership may have been either an attempt to strengthen the technical competence of the Commission or a device to prevent its being used as a vehicle of personal power. The work regulations for the Commission for National Planning (issued in October 1955) indicate that the Commission exercises a staff function for the State Council in advising and recommending plans and planning procedures.

The only other major change in planning organization was the creation in May 1956 of a National Technological Commission and a National Economic Commission. The latter was made responsible for annual planning, with the responsibility for long-range planning remaining in the Commission for National Planning. The appointments to membership on the National Economic Commission (not announced until November 1956) included men with experience on the older Planning Commission.

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The Constitution of Communist China sets forth the purpose of economic planning in the following terms (article 15):

The state employs economic planning to direct the development and transformation of the national economy in order constantly to increase productive forces and to improve and strengthen the independence and security of the state.

These principles are exemplified in the First Five Year Plan of Communist China, which covers the period 1953-57. The final draft of the plan was not completed until February 1955 and was not made public until June 1955 at the session of the National Peoples Congress. The plan provides for the gradual industrializing of the economy: more specifically it sets production targets for agriculture and industry; allocates investment funds; establishes capital construction goals for industry, transportation, and telecommunications; defines measures for geological exploration and conservation of natural resources; and fixes targets for domestic trade, foreign trade, labor productivity, and worker training. Finally, the plan provides a program for socializing industry, commerce, and agriculture.

The Chinese Communists have established balanced regional economic development as a major goal of the industrialization program, and initial plans for the geographical redistribution of industry were included in the First Five Year Plan. These plans designate two regions -- "coastal" and "interior" -- for purposes of industrial investment allocation. Any province not on the coast of China is considered to be in the interior. To balance the industrial bases established by foreign capital in the coastal region, the plan specified that two-thirds of all major new industrial construction projects and three-fifths of all new electric power generating capacity were to be located in the interior. Later these proportions were reduced somewhat. The Chinese Communists have stated the intention to create at least 1 facility for each major industry in each of the 2 regions by the end of the Second Five Year Plan (1958-62). Smaller regions for purposes of economic development are to be defined and established during the period of the Second Five Year Plan.\* After the completion of the basic geological

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\* There is already some information available which indicates the possible composition of these regions, [footnote continued on p. 8]

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survey work scheduled for the First and Second Five Year Plan periods, these regions are to be developed as "economic entities," with the objective of promoting both regional self-sufficiency and national economic interests. 7/

II. Industrial Organization.

Industrial activity in Communist China is organized and directed through a hierarchical structure resembling that of the USSR. The Chinese have adopted the Soviet principle of "democratic centralism" and have embodied it in a highly centralized state administration, with strict subordination of lower to higher organs. The task of each unit in the hierarchy is to execute within its area of competence economic plans and directives established by higher levels and ultimately by the Politburo (especially its Standing Committee) of the Communist Party, which in China is the supreme policymaking body.

A. State Council.

The State Council of the Peoples Republic of China -- the counterpart of the Council of Ministers in the USSR -- is the highest executive and administrative authority of the state. The Constitution gives the Council specific responsibility for directing and coordinating the activities of all ministries and commissions of the central government as well as all organs of local government.\* With respect to economic affairs the Council exercises general supervision over both the formulation and implementation of the national economic plan and the state budget.

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10 in number. Basically they are not much different from the old military grouping, for they include the three autonomous regions of Tibet, Inner Mongolia, and Sinkiang; Liaoning, Heilungkiang, and Kirin in the Northeast; Hopei, Shansi, Shantung, and Honan in North China; Kiangsu, Chekiang, and Anhwei in East China; Szechwan, Yunnan, and Kweichow in the Southwest; Shensi, Kansu, and Tsinghai in the Northwest; and a split of old Central-South China into Central China (composed of Kiangsi, Hupei, and Hunan) and South China (composed of Fukien, Kwangsi, and Kwangtung -- and Taiwan). 6/

\* The term local is used here and throughout this report (unless otherwise defined) to mean the governments of the 22 provinces, the autonomous regions, and the 3 centrally controlled municipalities of Communist China.

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The State Council is composed of a premier, 12 vice-premiers, a secretary-general, and the heads of all ministries and commissions. Eight Staff Offices have been established directly under the premier to assist him in directing and coordinating government policy. Three of the Staff Offices are responsible for the administration of industrial affairs 8/: the Third Staff Office directs the activities of ministers administering heavy industry and construction, the Fourth Staff Office directs those in light industry, and the Eighth Staff Office is concerned with the socialization of private industry. In addition to the Staff Offices, which exercise primary responsibility under the State Council for implementing the national economic plan, 41 ministries and 7 commissions are subordinate to the Council. Only 16 of these ministries and 4 of the commissions, however, are directly involved in industrial planning and in the management of specific segments of industry (see Figure 1\*).

B. Industrial Ministries.

The number of industrial ministries\*\* in Communist China has grown with the development of the economy from 5 in 1950 (the Ministries of Heavy Industry, Light Industry, the Food Industry, the Fuel Industry, and the Textile Industry) to the present 16 (the Ministries of the Metallurgical Industry, the Chemical Industry, the Construction and Engineering Industry, the Building Materials Industry, First Machine Building, Second Machine Building, Third Machine Building,\*\*\* Light Industry, the Food Industry, the Textile Industry, the Timber Industry, the Electric Power Industry, the Power Equipment Industry, the Petroleum Industry, the Coal Industry, and City Construction). A similar proliferation of ministries responsible for industrial administration occurred in the USSR during 1939-53.

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\* Following p. 10.

\*\* The Chinese Communists have listed 14 industrial ministries for investment purposes and 11 for purposes of production. This report uses a broader definition of industry to include the manufacture of producer and consumer goods, capital construction, and exploitation of resources.

\*\*\* This ministry, responsible for locally operated joint public-private and private machinery and power equipment industries, was abolished in May 1956. In November 1956, however, a high-ranking Communist was appointed Minister of the Third Ministry of Machine Building, apparently with a new responsibility. 9/

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Each ministry is headed by a minister, several deputy ministers, and a number of assistant ministers (see Figure 2\*). Each ministry is responsible for organizing the production effort of the industry under its control and for directing the capital construction to be undertaken in that industry as prescribed by the national economic plan. Each of the industrial ministries administers and directs the activities of all significant producing enterprises in the industry. The enterprises may be either wholly state enterprises (those owned and operated by the state) or joint enterprises (those jointly owned by the state and private interests and placed under the appropriate ministry for control and administration).

With respect to internal organization the industrial ministries in Communist China closely resemble the economic ministries in the USSR. In China the internal organization of a ministry is not always uniform but depends on the specific administrative needs of the industry concerned. All ministries have established a series of staff offices organized along functional lines. Most ministries have staff offices (the precise responsibilities of some of which are not clear) for design, capital construction, finance, business, planning, personnel, labor-wage, and production techniques. Ministries that are concerned with the exploitation of basic resources also have geology offices. Each ministry supervises a number of control bureaus (the counterparts of the glavki, or main administrations, in the USSR), which may be organized along geographical lines or along product lines. Geographical control bureaus carried a regional designation (such as Northeast, Northwest, East China, and so on) before the abolition of the six regional governments in 1954. After 1954 the names of these bureaus were changed to designate the specific locations or headquarters of the bureaus (such as Sian, Shenyang, or Shanghai), but in many cases each bureau exercised the same authority as before.

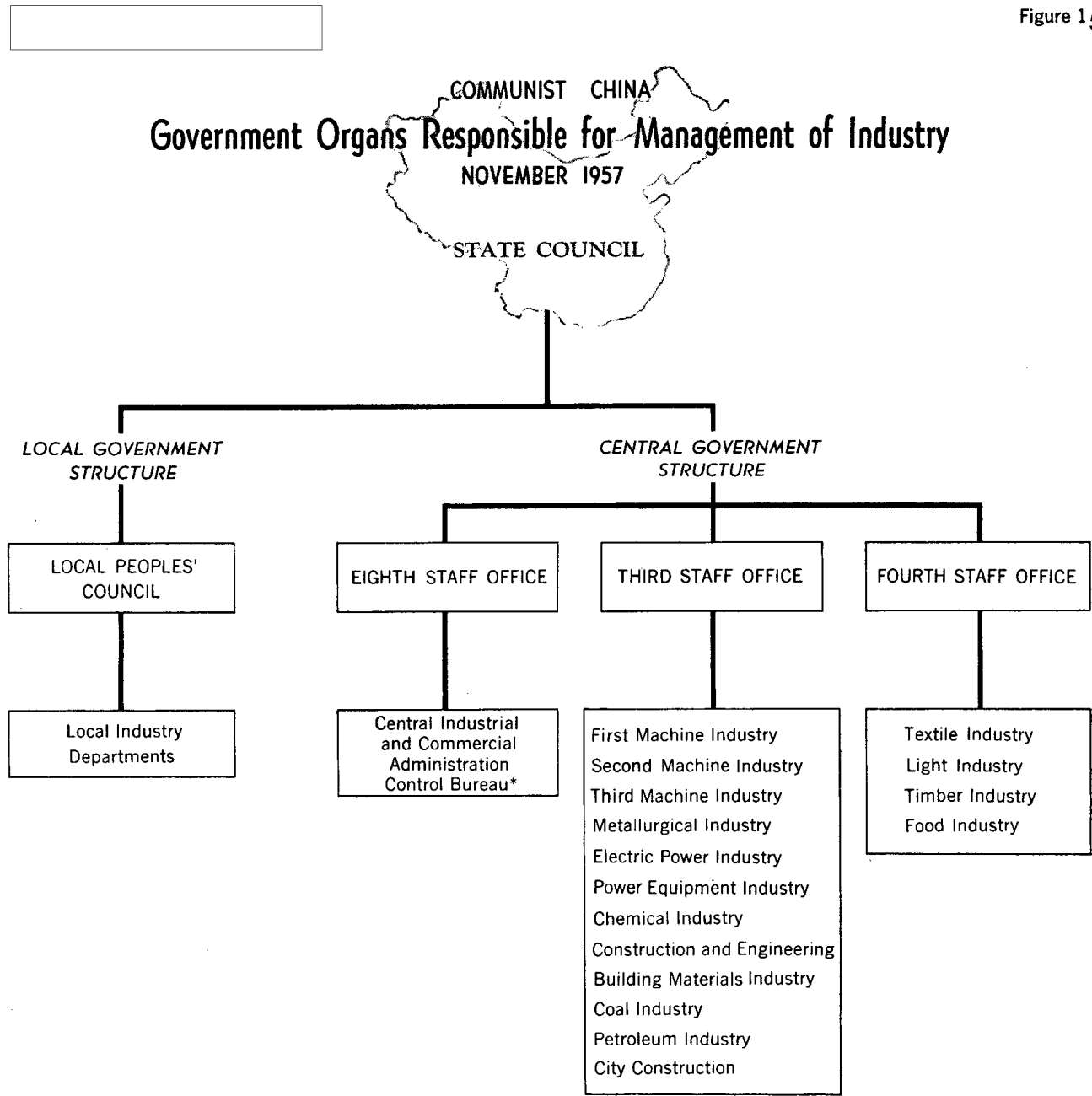
Each product control bureau in a ministry directly supervises all enterprises producing a given product or group of products. The Ministry of Light Industry, for example, has control bureaus for the drug, salt, paper, rubber, pharmaceutical, and tobacco and wine industries. In the machine building ministries, control bureaus are referred to by number rather than by product. When the industry segment under the supervision of a given control bureau expands sufficiently, the bureau may be elevated to the status of a ministry. Thus all the industrial ministries created within the past 2 years (the Ministries of Building Materials, the Power Equipment Industry,

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\* Following p. 10.

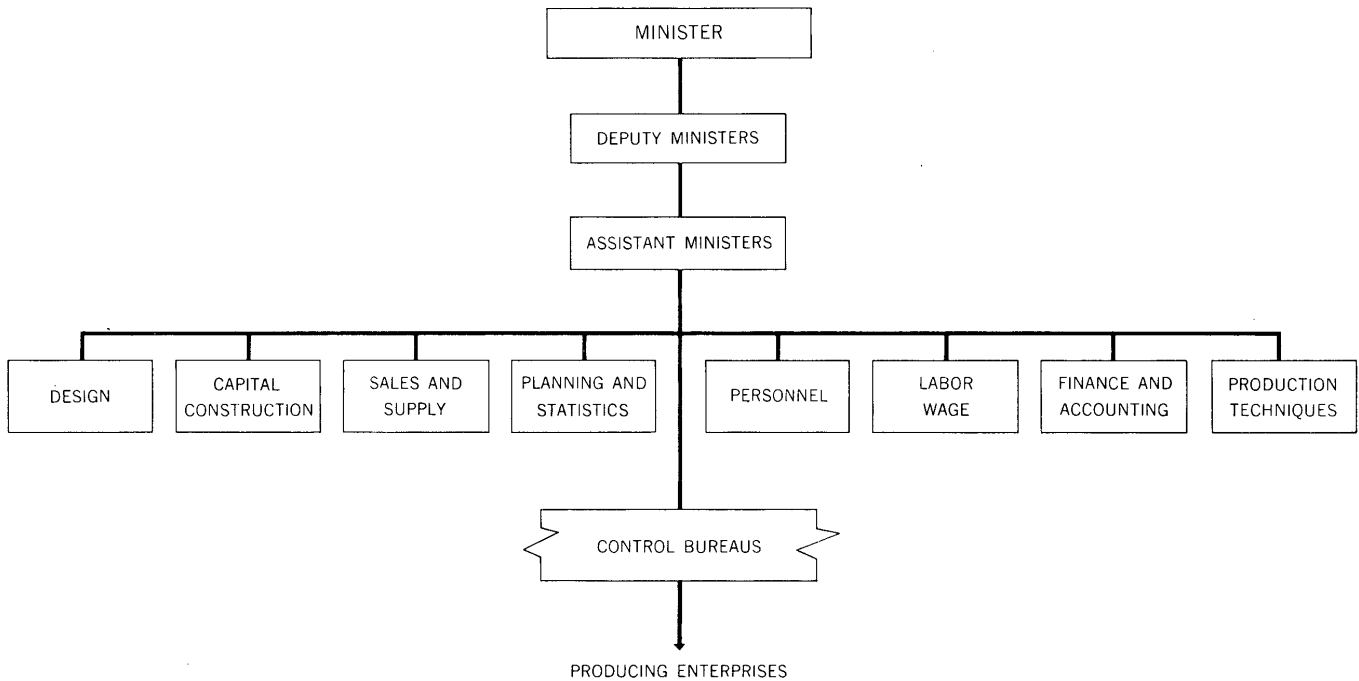


Figure 150X1



\*The Central Industrial and Commercial Administration Control Bureau is responsible for directing the socialization of private industry and commerce under the direction of the eighth Staff Office.

COMMUNIST CHINA  
**A Typical Industrial Ministry\***



*\*This chart represents a simplified presentation of the basic internal organization which is common to most industrial ministries. The internal organizations of the various ministries differ in detail to a considerable degree, and no attempt is made here to include either detail or variation.*

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the Metallurgical Industry, the Coal Industry, the Electric Power Industry, the Petroleum Industry, and the Chemical Industry) formerly existed as control bureaus in various ministries.

C. Industrial Enterprises.

The forms of business organization existing in Communist China at the present time reflect the fact that the regime is attempting to implement complete central planning in the economy. The private industry which still exists is indirectly controlled by the state through government contracts and raw materials allocations. In addition to private firms, there are in China three other forms of business organization, as follows: (1) state enterprises, (2) joint state-private enterprises, and (3) cooperatives.\*

The change in the relative significance of the different types of enterprises during 1952-56 is shown in the table.

Table

Percentage Distribution of Total Industrial Output  
in Communist China, by Type of Enterprise Ownership a/  
1952-56

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	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	1956 (Planned)
State enterprises	50	54	59	63	63.8
Cooperatives	3	3.5	3.8	5	4.7
Joint state-private enterprises	5	5.7	12.3	16	31.1
Private enterprises	42	36.8	24.9	16	0.4
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

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a. 10/. Excluding handicrafts.

\* Industrial cooperatives exist mainly in handicraft industries. Little is known about their organization and methods of operation.

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In addition to a breakdown of total industrial output by type of enterprise organization, it is also possible to distinguish between the two kinds of state control, national and local. [redacted] [redacted] industrial enterprises under local administration (which would include both local and joint enterprises) account for 45.9 percent of the total industrial output. 11/

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50X1

1. State Enterprises.

State-owned enterprises in Communist China fall into two categories: "national enterprises," controlled directly through the industrial ministries of the central government in Peking, and "local enterprises," controlled through various industrial departments of the local governments. National enterprises comprise that part of the industrial economy whose production activities, sources of supply, and market are significant to the national economy, whereas local industrial enterprises engage in the manufacture and processing of indigenous resources intended largely for local consumption. The latter include textile and timber mills, small mines, tool factories, and agricultural processing facilities. In 1956, local industry represented about 45.9 percent of total industrial output. 12/ The term local industry as used here includes all industry under local administration (both local state-operated and joint state-private). Local state-operated enterprises contributed 14.5 percent of total industrial output in 1952 and, according to the First Five Year Plan, will be expected to contribute 20.3 percent in 1957. The figure of 45.9 percent, therefore, would seem to include the production value of nearly all private industrial enterprises converted either to joint state-private or local state-operated enterprises since 1954 and would represent an expansion of the role of local industry as envisaged by the First Five Year Plan. According to the organic law setting up local peoples congresses, the industry departments of the local governments perform the same type of planning and administrative functions for local enterprises that industrial ministries perform for national enterprises. 13/

a. Nature of the Enterprise.

As in the USSR, the state-owned enterprise in Communist China operates under a predetermined production plan which sets output targets and fixes input limits. 14/ Within the limits of this plan and the regulations of supervising organs, an enterprise is a legal and independent entity. It is responsible for all its operations, for fulfillment of its plan within the designated time

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period, for prompt payment of its obligations, and for timely completion of all its contracts. The enterprise is allocated materials by the ministry or other state supply organs in accordance with the limits established by the plan. Its product is sold through state trading organs or in accordance with prearranged contracts with customers at prices determined by the ministry.

An industrial enterprise is described by the Chinese Communists as an independent economic accounting unit engaged in the production of industrial products. An enterprise is required to minimize production cost, fulfill a prescribed production plan, remit the profit (if any) from its activities to the state, and economize in the use of scarce raw materials.

Overfulfillment of the production plan and reduction of product costs are the marks of a successful enterprise. "Encouragement funds" (similar to the "enterprise funds" in the USSR) are established in those enterprises which have realized their production quotas. <sup>15/</sup> From 2.5 to 5 percent of the planned profits of an enterprise can go into this fund. Enterprises in mining and nonferrous metallurgy which achieve above-plan profits are permitted to retain up to 20 percent of such profits; plants in the electrical and machine building industries, up to 15 percent; and those in light industry and public utilities, up to 12 percent. The encouragement funds may be used only for designated purposes: welfare measures for workers, cash awards to individuals, and investment for the improvement of expansion of production.

All financial transactions of the enterprise must clear through the local offices of the Peoples Bank of China.\* State enterprises must deposit all cash receipts, with the exception of small petty cash funds, in the appropriate branch of the Peoples Bank at the close of each business day. Once deposited, the money can be withdrawn only for designated purposes such as payment of salaries and

\* The Peoples Bank of China exerts a large measure of control over enterprise activities through supervision of the enterprise's financial transactions and audits of enterprise accounts. The Bank is authorized to refuse to pay any item which it judges not to be in accord with the terms of business contracts and enterprise plans. In granting loans the Bank is required to insure that the loan proceeds are used for the purposes designated and that the loan is repaid promptly. The Bank may refuse credit to an enterprise whose financial status it deems unsatisfactory. <sup>16/</sup>

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travel expenses. All commercial transactions within the state sector must take place through immediate interaccount transfers 17/ because the enterprises are forbidden to extend credit to one another. 18/ The enterprise may obtain budgetary allocations and state loans for working capital or capital investment only for the purposes and in the amounts specified by its financial plan, and only through the banking system.

The enterprise uses cost accounting methods, independent auditing procedures, and periodic statistical reporting systems governed by nationally prescribed forms. The enterprise is required to submit periodic reports on production and sales, wages and working hours, production cost, consumption of raw materials, and equipment utilization. 19/ Monthly and quarterly reports must be submitted on the 10th day of the following month and annual reports by 15 February of the succeeding year.

b. Enterprise Organization.

An enterprise in Communist China is administered by a director and a number of assistant directors who must adhere to the enterprise plan and the regulations of superior organs.\* The director of the plant is responsible for all phases of plant operations. The director's deputy or first assistant, the chief engineer, supervises the detailed implementation of all production plans. No consistent pattern is characteristic of the internal organization of industrial enterprises at present. The staff departments which seem to be relatively common, however, are as follows: planning (to coordinate enterprise planning and prepare drafts of plans for submission to higher organs); technical planning (to work out norms and quotas for labor, materials, and equipment); production techniques (to institute and popularize new production methods); personnel; accounting; finance; business; capital construction; security; and labor-wage. The line organization in the plant necessarily differs with the nature of the

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\* According to Chinese Communist doctrine, managerial responsibility and authority in state enterprises are supposed to be fixed in accordance with the principles of "the responsibility system of industrial management" -- a concept identical to the doctrine of "one-man management" used in the USSR. 20/ This doctrine merely asserts that each level in the chain of command is held responsible for all actions within its competence and that each is supposed to be given authority commensurate with such responsibility. How well the Chinese are able to apply this doctrine in actual practice is not known.

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production process, and wide diversities therefore prevail. For purposes of illustration, the internal organization of a petroleum refinery is shown in Figure 3.\* 21/

In the early days of Communist takeover of private firms the enterprise director was advised by a plant control committee consisting of the assistant directors, the chief engineer, the chiefs of the workshops, the secretary of the plant Communist Party committee, the chief of the enterprise labor union, and the head of its Youth League. These committees at that time exercised genuine responsibility in policy matters ranging from production planning to general administration. 22/ As the authority of the Communists was consolidated in the individual industrial enterprises, however, Party members were appointed to administrative positions, thus stripping the control committees of any real managerial power. If they were continued at all, they performed only an advisory function by coordinating workers' suggestions for increasing production and promoting plant efficiency. At the present time, such committees are used to assist in the transformation of private enterprises into joint state-private enterprises.

Perhaps the most candid admission of Party control over the management and administration of state enterprises was made by Li Hsueh-feng, the Director of the Department of Industrial and Communications Work of the Central Committee of the Party, in a speech at the Eighth National Party Congress in September 1956 calling for increased Party supervision over industrial management activity. Several subsequent press items have reflected the same theme. The terminology used in the current campaign is "assuming responsibility under Party leadership" in order to combine the "individual responsibility" of the manager with "collective leadership" of the local Party committee. The local Party committee controlled state enterprises during the restoration period (1949-52), according to Li Hsueh-feng, in order to effect management reform. During 1953-56, however, the doctrine of one-man management was instituted to increase production and to establish a system of responsibility. By September 1956, in many cases the factory managers had assumed all management responsibility, and the Party role had degenerated to "general supervision" and "propagandizing." The present drive to increase Party authority in state enterprises counterbalances the one-man management principle by requiring that "all major questions of enterprises, including management" should be decided under the leadership of the Party committee. In effect this confines the manager's responsibility to implementing those joint decisions. 23/

\* Following p. 16.

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Another indication of recent decisions to weaken the power of factory managers is the experiments in "worker management" being conducted in five locally operated state enterprises. A "management committee" elected by the workers and consisting of laborers, Party, Youth League, and labor union representatives was established in each enterprise, with authority to elect the manager and assistant manager of the enterprise and to review his decisions, plans, and reports. These committees have been instituted only on a trial basis 24/ and to lead the mass labor organizations and undoubtedly will be closely controlled by Party authorities.\*

The role of the trade union in industrial enterprise management is limited to planning welfare activities for its members and assisting the director in disposition of the plant's welfare fund. Quarterly or annual collective agreements between the trade union and the state enterprises make the union coresponsible with management for fulfillment of the tasks fixed in the enterprise plan. In addition, the union agrees to popularize all "advanced experiences," (that is, new production techniques) to strengthen labor discipline, to train and educate workers, and to implement safety measures. 26/ Again at the Eighth Party Congress the Chairman of the All-China Federation of Trade Unions urged the increased participation of workers and trade unions in management functions, such as fixing wage scales and working norms, "taking charge of labor insurance and supervising safety," and holding workers' conferences to hear management reports. 27/

2. Joint State-Private Enterprises.

The Chinese Communists have adopted a method of socializing private capital -- the establishment of joint state-private enterprises -- which is unique in the history of Communist takeover of private enterprise. This form of business organization represents an intermediary step between private ownership and state ownership and is referred to as "state capitalism" by the Chinese.

The formation of joint enterprises has been used since 1950 as a device to secure control of industrial, transportation, and commercial interests of private businessmen. The Party has announced its intention to continue these enterprises through the period of the Second Five Year Plan. 28/

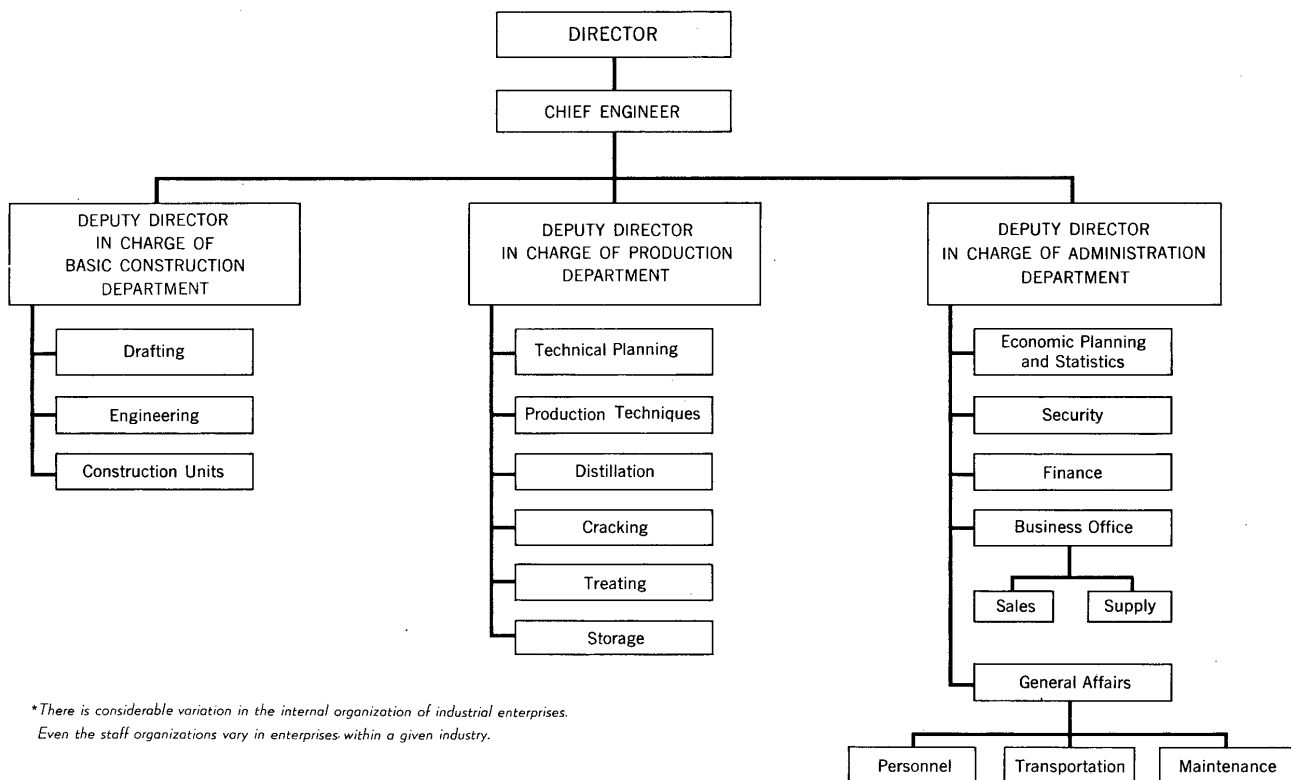
\* These management committees, although closely controlled by the Party, resemble the workers councils established in Poland in recent months. 25/ Comparable organizations do not exist in the USSR, although they have been used as a managerial device in Yugoslavia since 1950.



Figure 3

50X1

COMMUNIST CHINA  
Organization of a Petroleum Refinery\*



\*There is considerable variation in the internal organization of industrial enterprises. Even the staff organizations vary in enterprises within a given industry.

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National government control over private enterprises and plans for their conversion to "state capitalism" emanate from the Eighth Staff Office of the State Council and from the Central Industrial and Commercial Administrative Control Bureau, a specialized agency of the State Council. A mass organization, the All-China Federation of Industry and Commerce Association, is responsible for "educating" private capitalists in the values of socialist transformation.

As noted previously, the share of private industry in total industrial output has declined sharply (from 42 percent in 1952 to 0.4 percent planned in 1956), and the share of joint enterprises has increased concomitantly (from 5 percent in 1952 to a planned 31 percent in 1956). During 1950-54, private businesses were converted to joint state-private ownership firm by firm, the plants selected being those which the government wished to control directly, either because of their size or the nature of their products. In the second half of 1955 a drive to socialize private industry and commerce by whole industries and trades was inaugurated, and in January 1956 the drive was intensified by launching the conversion program city by city. 29/

The formation of a joint company is governed by the "Provisional Regulations Governing Public-Private Jointly Operated Industrial Enterprises." 30/ According to these regulations, the property of a private business applying for joint ownership is assigned a value which is arrived at by agreement between the public authorities, the private owners, and the trade unions. This assessed value represents the private investment in the new joint company. The state also invests in the new company, but in a proportion which is not clearly defined and which apparently depends on the financial circumstances of the enterprise when it was taken over and on the state's intent with respect to its future. In the language of Li Wei-han, Chairman of the Eighth Staff Office of the State Council, the portion which the state invests in a joint state-private company is "that which is necessary to form a certain ratio between public and private shares," or again, in equally vague terminology, "the amount is determined according to the plans of the state and concrete conditions of the enterprise." 31/  "the Bank of Communications and the industrial departments in the various provinces and local governments issue capital funds and working capital to the joint enterprises in accordance with quotas set by the Commission for National Planning." Such actions would serve to increase the state's share in the capital assets of the joint company. Thus the state's control over the newly formed joint company is exercised not by virtue

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of "the amount of the state's investment, but by the character of state power." 32/ The state government (national or local) appoints the management of the new company and places that company under the administrative jurisdiction of the appropriate organ of the peoples government (local industry departments or central industrial ministries, depending on the nature or importance of the firm's activities). The private capitalist then becomes merely a shareholder in a joint enterprise which is operated by the government.

The Chinese Communists have announced that newly converted joint enterprises will be administered by "special companies." Although comparatively little is known about either the function or the authority of these special companies, a recent article has described their development in Shanghai. 33/ The author states that there is no official regulation governing the operation or the function of such companies, which are still in the experimental stage. The special companies in China are similar to the Soviet trusts used in industrial administration as intermediary control units between the enterprise and the ministry. The special companies in China have been established to carry out the "socialist transformation" of private industry and are used for the administration of industries under local control (in the USSR, trusts often are used to manage groups of national enterprises). In China the special companies are described as an intermediate link between the local industry bureaus and the newly converted joint enterprises. The special companies organize the production of one trade or industry and are in this sense "specialized." They act as the executive arm of the local industry bureaus in carrying out policy directives and are empowered to process orders, provide raw materials, arrange production tasks, set plan targets, and audit the accounts of the factories under their administration. The local industry bureaus fix prices and set targets for all local industry. The special companies, using the targets established by the industry departments, direct the factories to draw up annual plans, and, from these, plans for the specific industry are drawn up by the special companies. The article describes the special companies as "business units with administrative powers" and recommends that in due course the industrial bureaus transfer part of their policymaking power to the special companies.

Before the national drive to socialize all industry and commerce in 1955 the profits of joint enterprises (after taxes) were divided among reserve funds, bonuses, and dividends. One-fourth of the annual profits could be used for dividends and for bonuses to managerial personnel. Reserve funds were used under the direction of

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the government organ administering the enterprise and in accordance with state investment plans. The rate of dividend allowed private investors in joint enterprises has steadily declined. In 1954 the rate was as high as 15 percent in the Northeast. During 1955 the government limited the dividend rates of the private shareholders to fixed percentages of their original investment in the joint companies, these rates ranging from 6 to 8 percent and varying with the industry, the area, and the rate of return earned by the former private company. In 1956 the dividend rate was fixed by State Council decree at 5 percent for most native investors. An 8-percent return is permitted overseas Chinese who invest in state-operated trust companies. 34/

When converted to joint ownership (and therefore government operation), the enterprise becomes an integral part of the planned economy. If the enterprise is made subordinate to one of the industrial ministries of the central government, its plan becomes a part of the plan of the responsible ministry. If the enterprise is placed under the control of the industrial department of a local government unit,\* its plan becomes a part of the local unit's plan. The regulations governing the establishment of joint companies provide that the "competent organs of government ... shall direct the production, operation, finance, labor, capital construction, safety, and health" activities of these enterprises. 35/

A large joint enterprise may establish a board of directors as a "consultative and deliberating organ" representing both public and private interests. The personnel representing the government are appointed by the organ administering the enterprise, and the private representatives are elected by the shareholders. The board may concern itself with establishing and revising the internal regulations of the enterprise, reviewing annual reports on production operations and financial accounts, and recommending investment and capital construction programs. All decisions of this board, however, must be approved by the government organ administering the enterprise. 36/ Otherwise the methods of management and operation of joint enterprises do not differ greatly from those applied to state-owned enterprises. The joint enterprises, however, are continually urged to strive to achieve the standards maintained in state-owned plants with respect to management, production operations and techniques, wages, and employee benefits.

\* The term local in this connection can refer to all local units: provinces, municipalities, hsiens (villages), and chus (city wards).

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### III. Planning Organization.

#### A. Policymaking Machinery.

The supreme policymaking authority in Communist China is the Central Committee of the Communist Party and within it the standing committee of the Politburo. These organs determine the over-all strategic and economic objectives which are to be used as the basis for economic planning. More specifically, the determination of investment emphasis to be given to the various sectors of the economy, the division of the national income between investment and consumption, and the target rates for the increase in production are reflections of Party decisions. The public announcements of both the First and the Second Five Year Plans indicate clearly that long-range plan formulation in China, as in the USSR, proceeds as follows: the Party Central Committee originates the broad outlines of the plan, the State Council through its subordinate planning commissions and ministerial planning departments draws up the plan in detail, and a Party conference or congress approves it for submission to the State Council for formal acceptance and to the National Peoples Congress for formal ratification. <sup>37/</sup> Annual plans follow this procedure in general but may be approved by the Central Committee of the Party and by the State Council.

The leading role of the Party hierarchy is reflected in the staffing of the central government organs concerned both with planning and with administration. Four state commissions have over-all responsibility for industrial planning, and members of the Party Politburo are chairmen of the two bodies with the most comprehensive authority, the Commission for National Planning and the National Economic Commission. The chairmen of the two other planning bodies (the Commission for National Construction and the National Technological Commission) are members of the Central Committee of the Party. The heads of 6 of the 16 industrial ministries are members of the Central Committee of the Party,\* 4 other industrial ministers are members of the Party, and 4 are not Party members. The four ministers without Party

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\* The heads of the First, Second, and Third Ministries of Machine Building and the Ministries of Coal, Electric Power, and the Power Equipment Industry are all members of the Central Committee of the Chinese Communist Party.

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affiliation are responsible for the administration of light industry.\* All industrial ministries, however, work through the staff offices of the State Council. All staff office directors are Central Committee members, as are almost all of their deputies.

B. Executive-Administrative Machinery.

1. Central Government.

The State Council of Communist China has established four commissions to direct and supervise the economic planning process, as follows: the Commission for National Planning, the National Economic Commission, the National Technological Commission, and the Commission for National Construction. With respect to industrial planning, the work regulations of the Commission for National Planning stipulate that the State Council has final authority to settle disputes between ministries, commissions, and staff offices. The planning commissions formulate over-all plans but have no direct control over implementation. The Commission for National Planning is responsible for directing and coordinating two separate planning processes -- one carried out by the industrial ministries of the central government and their subordinate enterprises and the other operating through the industry departments of local governments and their subordinate enterprises. 38/

a. Commission for National Planning and National Economic Commission.

The Commission for National Planning of Communist China is responsible for preparing comprehensive long-range plans (5 years or longer) for the development of the economy. The membership of the Commission is composed of a director, 7 deputy directors, and 12 members. The National Economic Commission is responsible for formulating annual plans and has a director, 9 deputy directors, and 10 members. The separation of responsibility for long-range planning and short-range planning was made in May 1956, but the membership of the National Economic Commission was not announced until 6 months

\* The Ministers of the Textile Industry, the Food Industry, the Timber Industry, and Light Industry are not members of the Party. The Party status of the Minister of City Construction is unknown.

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later.\* Very little is known, therefore, about the internal organization of the new Commission. The members appointed to the Commission were, however, some of the most experienced personnel of the Commission for National Planning. The internal structure of the Commission for National Planning consisted of some 20 departments before 1956. Six of these departments were responsible for various industrial sectors of the economy: heavy industry, light industry, machine industry, defense industry, and fuel industry. There were also separate departments for agriculture, forestry, and water conservancy; communications and transportation; commerce; foreign trade; and culture, education, and health. Staff departments existed for labor and wages, costs and price, finance and currency, and commodity distribution. A Technical Cooperation Bureau, which was responsible for planning the program of technical aid from the USSR and the European Satellites, was identified within the Commission for National Planning as late as 1954, but it may now have been transferred to the Ministry of Foreign Trade. How the internal structure of the Commission for National Planning was affected by the creation of the National Economic Commission and the increase in the number of industrial ministries in May 1956 is not known.

The provisional work regulations for the Commission for National Planning provide for both plan formulation and plan review. 39/ According to these regulations (announced in October 1955), the Commission was assigned responsibility for drafting comprehensive 5-year and annual plans based on the plans submitted by the ministries and commissions of the State Council and by local governments. The Commission was also made responsible for the examination of the detailed 5-year and annual plans for individual central ministries and local governments, the annual state budget drafted by the Ministry of Finance, the credit and cash plans prepared by the state banks, and for submission of recommendations on these plans to the State Council for final action. Presumably those functions which relate to annual planning are now the province of the National Economic Commission.

\* In the USSR in 1955 the responsibility for annual planning was taken from the State Planning Commission (Gosplan) and vested in a new State Economic Commission. In April 1957, however, it was announced that the State Economic Commission was to be abolished; that its functions were to be transferred to regional economic councils soon to be established; and that the coordination of all plans, both annual and long range, was to be once again the responsibility of the State Planning Commission.

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Responsibility for planning commodity allocation and stockpiling of state commodity reserves was also assigned to a special internal department of the Commission for National Planning. In 1956, however, a special agency, the Commodity Distribution Bureau, was established directly under the State Council and was staffed by former members of the Commission for National Planning. Whether this new Bureau has taken over all responsibility for planning commodity allocation and stockpiling or whether it merely allocates materials according to a predetermined pattern is unknown.

b. National Technological Commission.

The National Technological Commission in Communist China, established in May 1956, is responsible for long-range planning for the improvement of industrial technology and for promoting technological improvement consistently throughout all industries. The Second Five Year Plan established the following objectives for technological development: (1) with respect to the modernization of equipment and production techniques, priority is to be given to the machine building, metallurgical, chemical, electric power, petroleum, coal, and radio industries; (2) construction is to be mechanized gradually; (3) in the field of transport and postal and telecommunications services the Commission is to introduce technological improvements only as the "industrial development, financial capacity, and natural resources" of the nation permit; and (4) technical improvement in agriculture is given the lowest priority and is to consist of expanding water conservancy and irrigation work, trial production of farming implements, increased production of fertilizers, and advanced farming techniques (tractors are to be introduced only on state-owned farms). 40/

c. Commission for National Construction.

The Commission for National Construction in Communist China was established in 1954 presumably to coordinate the construction plans and activities of all industrial ministries and of the Ministry of Construction and Engineering. The industrial ministries themselves are responsible for the planning and construction of a large proportion of the new plants that are to come under their control as producing enterprises. The Ministry of Construction and Engineering, originally established to engage in civil construction (installations and buildings not used to house manufacturing facilities), has subsequently taken on additional assignments for industrial construction. Forty percent of



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the Ministry's 1956 construction plan was devoted to factory building, and more than one-half of the 156 Soviet aid projects are being constructed by the Ministry of Construction and Engineering. 41/ Each industrial ministry still implements a large part of its own capital investment program.

The membership of the Commission includes a chairman, 5 vice-chairmen, and 5 additional members. Po I-po, Chairman of the Commission for National Construction until May 1956, is now Chairman of the new National Economic Commission and is concurrently Director of the Third Staff Office of the State Council (responsible for heavy industry). The new Chairman of the Commission for National Construction, Wang Hao-shou, is also Minister of the Metallurgical Industry. The concurrent responsibilities of these two individuals indicate the close integration of planning, construction, and production activities in the field of heavy industry.

2. Local Government.

Acting under the direction of the State Council, local governments (including provincial municipalities and hsiens) in Communist China are responsible in the industrial field for drafting and executing their own economic plans and budgets, administering local industry and commerce, and directing the socialization of privately owned enterprises in their respective areas. 42/ The planning function is carried out by local planning commissions attached to the local peoples councils, and these commissions are subject to direct administrative control of the local peoples councils, but the final plans of local organs must conform to the provisions of the national economic plan. 43/

The functions of local planning commissions as defined by the organic law which establishes them are as follows: to formulate over-all plans for long-range and annual submission to the local peoples councils, to examine the draft plans of departments under the jurisdiction of the local peoples councils, to oversee the execution of local plans, to conduct long-range studies of local economic problems, and to "assist in the fulfillment or execution of the plans of national enterprises located in their respective areas." 44/ Local planning commissions are authorized to propose the following kinds of plans for all industrial enterprises under the direct control of local governments: culture, education, and health; labor, wages, and cadre training; production; capital construction; and financial plans.

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The planning commission of a local government is headed by a director and several deputies. The membership of the commission may range from 5 to 9, and the following internal departments may be established if needed, each for its own type of plan: consolidated; long-range; industrial (production); agricultural (including water conservancy, forestry, and marine products); capital construction; labor-wage; culture-education-health; financial (including monetary costs and prices); materials allocation; and transportation. In addition, the local planning commission may establish a commercial division with responsibility for examining the commercial plans of the following organizations: marketing cooperatives, agricultural departments, retail and wholesale trade departments, local food departments, and local industrial departments.

Almost all local governments now engage in annual planning, and some are also working on long-range plans. All provinces and major cities have 5-year plans which run concurrently with the national 5-year plan.

Lack of a clear division of authority between the central government and the local governments has often confused the Western observer and created problems for the Chinese Communist regime itself. In June 1956, Chou En-lai announced the intention to devise a plan for division of authority between central and local organs in specific fields, two of which were planning and "business enterprise." <sup>45/</sup> This plan is currently being drafted and is to be implemented provisionally in 1957. The few public statements made on the subject since the original June 1956 announcement do not indicate that the Chinese envisage any major change in the present industrial administrative structure or contemplate any general decentralization of decision-making authority in this area. Rather, they seem to seek merely a clarification of existing principles of organization and a transfer of some minor details of administration and decision-making from the central government to local government organs.

IV. Planning Process.

In a free market economy, coordination of production and consumption is achieved through the mechanism of the market. In centrally planned economies this coordination is accomplished through a comprehensive national economic plan, which fixes production goals for a given period, allocates resources, and distributes the national product in accordance with the objectives of the planners. Communist

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China applies these principles to that part of the economy under direct government control and administration. Although a self-styled "free market" covering one-fourth of the total retail trade continues to operate as a coordinating mechanism, the government retains strong indirect controls.

The process of plan formulation in Communist China at each level of the planning hierarchy is based largely on the planning procedures used in the USSR before July 1957. In establishing central planning the Chinese have leaned heavily on the Soviet example and more specifically on the advice and assistance of Soviet technicians sent to China. Special Soviet advisers are attached to the Commission for National Planning, and a special Office of Foreign Experts has been established under the State Council with the responsibility for assisting the various industrial ministries in the formulation and implementation of economic plans. Likewise, many Soviet technicians have been assigned to individual industrial enterprises to familiarize Chinese managers and workers with Soviet methods. 46/

A. National Government Commissions.

The Commission for National Planning and the National Economic Commission in Communist China compile an aggregate plan for the plan period, which is based on the plans submitted by government ministries and local governments. As the central planning authority, the Commissions through their directives to lower organs engage in what the Communists call "planning from above." This planning necessarily is based on the plans submitted by the lower levels ("planning from below"), for the Commissions must devise plans which will give formal expression to the policies of the regime in terms susceptible of practical realization.

The national economic plan of the Peoples Republic of China consists of the following components: (1) a plan for industrial production\*; (2) a plan for agricultural production\*\*; (3) a plan for transportation and communications; (4) a plan for capital construction\*\*\*;

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\* The First Five Year Plan includes targets for some 50 industrial products in 15 major industries. 47/

\*\* The First Five Year Plan establishes goals for 5 grain crops and 6 industrial crops. 48/

\*\*\* The First Five Year Plan allocates approximately 41 percent of total investment for capital construction [Footnote continued on p. 27]

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(5) a plan for the supply of "technological materials"; (6) a wage plan; (7) a commodity distribution plan; (8) a cultural, educational, and health plan; (9) a plan for public utilities; (10) a production cost plan; (11) a price plan; and (12) a financial plan. 50/

The national economic plan is drawn up by the national planning commissions under the close direction of the Central Committee of the Communist Party. The process has been described by one source as consisting of three stages. 51/ During the first stage the planning commissions submit to the Central Committee preliminary estimates of production possibilities based on present Chinese Communist capabilities and on comparisons with Soviet experience, and the Party then establishes production targets for the major industries, such as steel and coal. During the second stage these targets are sent to the ministries concerned for comment and subsequent forwarding to the national planning commissions. In the third stage the planning commissions "balance" the production targets (called control figures) for the various industries, the balancing process being an attempt to draw up an over-all economic plan which is internally consistent.

After commodity balances are worked out for the major production targets, the various parts of the national economic plan (as drafted by the local planning commissions and the central ministries) are coordinated with one another through a system of over-all "balances." The 10 balances reportedly considered most important by Chinese Communist planners are as follows: (1) production and consumption, (2) consumption and accumulation, (3) investment and utilization of capital equipment, (4) supply and stockpiling of materials, (5) supply and requirements for manpower, (6) production versus requirements in industry and agriculture, (7) transport capacity and the output of industry and agriculture, (8) commodity output and the capacity of commercial channels to distribute the output, (9) commodity output and consumer purchasing power, and (10) the "balance between the areas." 52/

In annual planning the first stage is usually completed in October, the second stage in November, and the third stage by December 15. When the draft national economic plan as formulated by this process is approved by the Central Committee of the Party, the draft plan becomes the final plan and is sent through government channels to the

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to industry; 12 percent to transportation and communications; 8 percent to agriculture, conservation, and forestry; 3 percent to commerce, banking, and commodity stockpiling; and 18 percent to culture, education, and health. 49/

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State Council for approval and implementation. The final annual plan becomes a government order. Long-range plans (5- and 15-year), on the other hand, are looked upon as guides rather than rigid targets and as such are continually revised in the light of annual accomplishments and changes in conditions.

B. Ministries.

Each industrial ministry in Communist China is responsible for preparing annual and long-range plans for the development of the industry for which it is responsible. The ministerial plan is the composite of the plans of all enterprises under the ministry's control and is based on production targets established by the Party and coordinated through the planning commissions. The ministry, in turn, distributes the tasks among its subordinate enterprises in the form of directives to guide their preparation of detailed plans. In the assignment of production tasks and investment funds to an individual enterprise the ministry is aided by information concerning enterprise capacity and previous performance made available to it in periodic reports submitted by the enterprises.

The ministry is also responsible for reviewing the plans drafted by the enterprises on the basis of the planning directives sent to them and may, if necessary, make changes in these draft plans. The process of preparing the annual production plan for the ministry begins in August of the preceding year, after receipt of the semi-annual production reports from the enterprises. A rough draft of the plan is supposed to be completed by October for submission to higher organs. 53/

The ministry is responsible for planning the procurement of equipment and supplies necessary to accomplish assigned production tasks. It prepares all orders (due by the end of July) for the procurement of needed equipment which must be imported from abroad. Orders for the purchase of domestically produced equipment are supposed to be placed by mid-October. 54/

Each ministry usually holds annual conferences on capital construction with plant and ministry officials in order to prepare the annual capital construction plan for the ministry. As part of the preparation of the plan the ministry allocates investment funds to specific enterprises, determines the organizations which will design the projects, and sets dates for the delivery of blueprints and for the beginning of the actual construction. 55/

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Each ministry involved in the exploitation of natural resources also has its own geology plan. Responsibility for geological prospecting work is divided between the Ministry of Geology and the industrial ministries. The Ministry of Geology is responsible for those geological surveys which are general in nature, cover large areas of virgin territory, and require from 10 to 20 years for completion. All prospecting which is expected to result in production within the current Five Year Plan is conducted by the industrial ministries. These ministries prepare geological plans and implement them with their own teams and equipment. The Ministry of Geology extends facilities and services to the industrial ministries and requires weekly, monthly, and survey summary reports of the geological activity of these ministries. 56/

C. Local Governments.

The planning procedure on the local level in Communist China is similar to the planning process on the national level. Local Party authorities, in implementing the control figures which the state sets for local areas, issue general directives to the planning commissions and industrial departments attached to the local peoples councils. Detailed draft plans are prepared by the industrial departments, are "balanced" by the planning commission, and are submitted to the local peoples council for approval. Local draft plans are then submitted to the State Council for approval and to the Commission for National Planning for incorporation in the national economic plan. Beginning in 1957 and in certain areas of planning (such as grain, livestock, and silk production), aggregate control figures are established at the central government level, and the local governments establish specific production targets within that framework. 57/ Once approved, the plan constitutes a central government order, and changes are made only with prior approval of the State Council. The local plans which have been published thus far do not seem to follow any prescribed format. They usually include the following: production targets for agriculture and local industry; capital investment allocations to local industry, agriculture, water conservancy, transportation, communications, culture, education, and health; plans for the development of local communications and transportation facilities; plans for domestic commerce; and measures for the development of culture, education, and health. Specific goals for the socialization of that part of agriculture, industry, and commerce remaining in private hands are also set.

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D. Enterprises.

As indicated above, the information available concerning enterprise planning procedures in Communist China pertains to nationally owned and operated industrial enterprises -- that is, those enterprises subordinate to the industrial ministries. The extent to which the same procedures are applied also in locally operated enterprises and joint state-private enterprises is unknown. It is clear, however, that the methods of administering national enterprises are intended to be the model for all other types of industrial undertakings. The application of these methods in any given instance probably depends on the availability of reliable and trained personnel.

1. Composition of the Plan.

The annual enterprise plan in Communist China is known as the "technical, engineering, financial plan" and is patterned after the enterprise tekhpromfinplan used in Soviet industrial enterprises. The number of components of the enterprise plan depends on the complexity of the production operation and the nature of the industry. All enterprise plans, however, contain subplans for production, labor, materials, and finance. 58/

The principal components of an enterprise plan are as follows 59/:

a. The production plan, which sets production targets, indicates how the firm's products are to be marketed, and sets standards for quality of products. Production tasks are itemized in considerable detail by major product category and are expressed both in physical units and in monetary values.\* The marketing plan designates how much of the firm's output is to be delivered to the government on contract or through state trading organizations and how much is to be sold on the open market. The plan determines prices and sets monthly and quarterly delivery dates, violation of which may entail payment of fines.

b. The labor plan, which fixes the total number of workers, the total wage fund, the planned rate of increase in labor productivity. and the tasks for worker training.

\* The current year's production plan does not include the output expected from expanded plant capacity unless such capacity becomes available during the first 6 months of the year, nor does it include such output if the new facilities involve production techniques with which the plant is unfamiliar.

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c. The equipment plan, which includes data concerning the planned rates of utilization of existing plant capacities and also the planned addition of new equipment and sets tasks for repair of capital equipment.

d. The materials supply plan, which indicates requirements for new materials and other goods needed to accomplish planned production tasks and sets forth material consumption norms for each unit of product. It shows the amount of reserves on hand and the amount of goods that must be purchased. With respect to the latter it gives the name of the supplier, the means of transportation, the methods of inspection for quality, and the provision for storage.

e. The technical plan, which sets forth planned improvements in technology and work methods and may also include plans for the manufacture of new products and for research projects to be conducted at the enterprise.

f. The cost plan, which estimates production costs for each unit of product and sets tasks for cost reduction.

g. The financial plan, which is a summation in monetary terms of the entire planned activities of the enterprise. It sets forth total income (from sales) and expenditures for each month and quarter and indicates the amount of credit (to be obtained through short-term bank loans) needed to provide working capital when outgo is expected to exceed income. The financial plan also indicates depreciation rates and funds and the amounts of planned profit or loss.

In addition to the regular enterprise plan a detailed "capital construction plan" must be prepared for each major construction project which the enterprise is to undertake during the plan period. Such plans are required for the following kinds of projects: (a) all industrial installations, (b) workers' quarters not designed by the ministry, (c) nonproductive units with more than 1,000 square meters of floor space, (d) permanent bridges 15 meters long, (e) power transmission lines or major repair to existing plants, (f) any project costing more than 15 billion yuan,\* (g) any project costing more than 1 billion yuan\* built by private contracting firms, and (h) all changes in construction plans which will increase total construction costs by 10 percent or more. 60/

\* These figures represent old yuan values before the currency reform of 1955. The new currency issued at that time would reduce these values to 150,000 yuan and 10,000 yuan, respectively.



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The plan for capital construction (whether undertaken by units of the enterprise itself or contracted to outside firms) must provide standards for durability and safety of the structures in conformity with the building codes of the ministry and the local government of the area. Details with respect to the kind, cost, and sources of supply of requisite materials are also included in the plan. 61/

2. Formulation of the Plan.

Based on Party directives with regard to production targets and resource allocations for the industry concerned, the appropriate ministry prepares in August or September initial plan proposals for each subordinate enterprise in Communist China. These proposals are based on the past performance of the plant and on information available to the ministry concerning enterprise production capacities. In determining planned assignments for a given enterprise the ministry also uses standard norms (for material consumption, machine utilization, fuel and electricity consumption, and output of workers on given jobs).\*

Upon receipt of the plan proposals from the ministry, the enterprise prepares its own draft of the plan in detail. In its draft plan the enterprise attempts to establish production targets that it thinks can be readily met. [redacted]

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[redacted] enterprise planners recommend output quotas that are 2 to 3 percent below those that could be fulfilled. 63/ These tactics are used deliberately to insure that the plan can be fulfilled, for persistent failures in this respect would have serious repercussions on the reputations of all managerial personnel of the enterprise.

The enterprise draft plan need not necessarily conform to the ministry proposals, for the enterprise has the right to submit counterproposals, and indeed it must do so for its own self-interest if it believes it cannot fulfill the commitments outlined in the ministry proposals. When the draft plan is received by the ministry, it is examined for conformance with the ministry's original proposals and for consistency with the plans submitted by other enterprises in the industry.

\* Norms are determined for an entire industry by the ministry and are supposed to be based on the most advanced techniques available. At the enterprise level, [redacted] work norms are set so that the average worker can exceed them by at least 15 percent. 62/ A change in a norm cannot be scheduled into production until the previous norm has been in effect for 1 year.

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Disagreements between the enterprise and the ministry with respect to plan targets have to be resolved at this stage. The resolution of such disagreements may be accomplished in one of several ways. The ministry may call a conference of plant managers for a discussion of the plans for the industry and individual enterprises and for an agreement on final assignments. The ministry may simply return the draft plan to the enterprise and extend additional time for reconsideration, or the ministry may send its own investigators to the plant to appraise the feasibility of the ministry's planned assignments. <sup>64/</sup> An instance of the use of the latter method occurred in 1955 in connection with the attempts to formulate the basic construction plan of the Mukden Machine Tool Plant, subordinate to the First Ministry of Machine Building. The enterprise plan as submitted to the Ministry contained targets approximately 50 percent below those originally requested by the Ministry. The assistant plant director and the director of the planning section were sent to Peking to request a lowering of the Ministry quota on the grounds that delivery of equipment was behind schedule, that planning and designing difficulties had been encountered, and that personnel were not available for installation. The Ministry promptly sent investigators to the plant, with the result that the request was denied. The plant management was criticized for "conservatism," and the quota proposed by the Ministry was fixed as a legal requirement on the enterprise.

When the draft enterprise plan has been agreed upon (or the ministry's will imposed on the enterprise), the plans of all the enterprises are compiled in a composite plan for the ministry as a whole. This plan is forwarded to the planning commissions of the central government for examination and balancing with other ministerial plans. Any disagreement between the ministries or with the Commission for National Planning at this point must be submitted to the State Council for decision. Such approval makes the plans of all enterprises, as incorporated into the ministerial plans, legally binding on the enterprises.

The annual enterprise plan is broken down into quarterly and monthly plans. The plan for the first quarter is fixed at the time that the annual plan is approved. The remaining quarterly and monthly plans are fixed later to make allowance for unexpected developments and to insure the fulfillment of the annual plan. <sup>65/</sup> When approved by the ministry, the enterprise plan is used by the technical planning department of the enterprise to prepare a detailed operational plan. This plan establishes weekly and daily production tasks for each shop, each shift, each worker, and each piece of equipment in the plant.

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V. Some Problems of Industrial Organization and Planning and Attempted Solutions.

The process of establishing a mechanism for economic control and for over-all central planning in Communist China has been carried out within an institutional framework that is unique in Communist take-overs of economies which formerly were essentially capitalistic. Before 1955, Chinese leaders elected to establish central planning while still permitting a substantial sector of private industry to exist. In view of the underdeveloped state of the Chinese economy, these decisions undoubtedly were dictated more by necessity than by desire. Nevertheless, the leaders determined simultaneously to proceed full speed with a program for rapid industrialization of the economy. The implementation of these decisions has presented difficult problems which are still in process of solution.

One of the major problems in establishing effective central planning for industry as a whole has stemmed from the existence up to 1955 of a substantial private sector accounting for one-fourth of total industrial output. The government found it increasingly difficult to implement centrally determined plans through a miscellany of indirect controls such as government purchase contracts, taxation, and credit extension. In order to establish more direct control, the government in late 1955 ordered a rapid acceleration of its program to eliminate the private sector in industry. Whereas the First Five Year Plan aimed at reducing private industry's share of total industrial output to 12 percent by the end of 1957, the private share is estimated to have fallen to 0.4 percent by 1956.

As noted previously, the Chinese Communists have chosen to achieve complete state ownership of the means of production through the intermediary step of the formation of joint state-private companies rather than through outright nationalization. To insure strict control over such joint enterprises, the government has formulated uniform rules for their formation and operation and has standardized the methods of compensating the former private owners. The Chinese Communists evidently consider the joint company a satisfactory means for controlling the activities of former private enterprises and utilizing the managerial skills of the former owners, for the joint companies are to be continued through 1967. In ordering the speeding up of the conversion program in 1955-56, however, the government evidently overestimated its ability to carry out a program of such magnitude and to integrate the thousands of new enterprises into the state sector, and in February 1956 the State

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Council was forced to issue a moratorium on the consolidation and reorganization of the newly formed joint enterprises. 66/ Furthermore, although joint enterprises should operate within the purview of state plans, it was announced in September 1956 that enterprises producing consumer goods (presumably including consumer goods which are to be traded on the free market) could formulate their own production plans and market some of their own products. 67/ Problems in the administration of these thousands of newly converted enterprises are still being worked out. Most of them have been placed under "special companies" organized by industry under local government control.

Some of the most serious difficulties in the conduct of central planning in Communist China are attributable to lack of experience, an acute shortage of trained personnel, and the paucity of accurate statistical data on which to base plan targets. Shortcomings in the planning process stemming from these conditions are reflected in the necessity for frequent changes in production targets and in investment allocations. The Chairman of the Commission for National Planning admitted that the 1956 construction plan was ill conceived and was based on "inaccurate estimates of the availability of building materials" (particularly steel, cement, and timber). 68/ Chou En-lai, at the Eighth Party Congress, emphasized the need to "perfect the system of material reserves" and cited the error made during 1955 of exporting certain construction materials thought at the time to be surplus but whose export contributed to the shortage of such materials in 1956. 69/

Mistakes in production planning were made which resulted in serious waste of scarce economic resources. The most publicized example of inefficient production planning during 1956 was the celebrated case of the "hanging" plows, so called because they were usually to be found hanging on the walls of the farm buildings instead of in use in the fields. 70/ As a result of a government priority directive, plants were converted and materials allocated to produce 3 million double-bladed, two-wheeled plows during 1956 (5 times the number produced in 1955). Although 1.5 million plows had been produced by mid-1956, only half of them could be sold, and only three-fourths of these sold were usable. In July the government suspended production of the plows, ordered the plants reconverted, and redistributed the allocated raw materials.

Besides changes in the production goals for individual commodities, the Chinese Communists have also made a number of alterations in the allocation of investment funds. 71/ Thus investment allocations between

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the coastal and interior regions have been revised in favor of the coastal region; the investment ratio between heavy and light industry has been changed from 8 to 1 to 7 to 1; and greater emphasis has been given to the construction of small and medium-size plants, at the expense of large plants, in the metallurgical and machine industries. These changes probably reflect mistakes in setting the original investment goals and an inability to predict and plan economic progress accurately. The Chinese are attempting to overcome the difficulties attributable to lack of experienced planners and administrators through the use of Soviet advisers and through the adoption of a program for training economists and other technicians.

The current drive to "increase production and practice economy" announced in the fall of 1956 was attributed to inadequate balancing of economic plans by the officials of the National Economic Commission. Chairman Po I-po in February 1957 stated that although industrial construction projects were completed on time, the inadequacy of auxiliary service functions such as transportation had prevented the industrial units from starting production; that the 1956 investment plan for basic construction had caused serious shortages of material resources and state enterprises had overstocked raw materials; and that the wage increases and agricultural loans granted in 1956 72/ had so increased the total purchasing power that consumer goods became scarce and a tense market situation developed.

The Chinese Communists have attempted to improve the efficiency of planning by making organizational changes conducive to promoting the formulation of more realistic plan targets. As the various industrial sectors have developed, new ministries or specialized bureaus have been established to administer them. The proliferation of economic agencies, which began with the inception of over-all planning in 1953, culminated in May 1956 with the creation of 10 new ministries, 2 commissions, and 2 bureaus. At that time, too, long-range planning was divorced from short-range planning through the establishment of the National Economic Commission, which was assigned the responsibility for current planning. In an attempt to ameliorate the problem of commodity supply and distribution, experienced men from the Commission for National Planning were assigned in November 1956 to a newly organized agency of the State Council, a Commodity Supplies Bureau, and even more recently the National Economic Commission has ordered local governments to establish organs responsible for storing "surplus supplies." Likewise, the responsibility for planning in the critical field of technological development was centered in a newly established

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National Technological Commission. By thus promoting organizational specialization in the economic apparatus the Chinese hope to make the planning process more flexible and more realistic. By freeing the Commission for National Planning from current planning responsibilities they also intend that the Commission shall engage in basic economic studies of the resources and production potential of various sectors of the economy. In a speech to the Eighth Party Congress in September 1956 the Chairman of the Commission, Li Fu-ch'un, maintained that the lack of such studies acted as a serious deterrent to effective planning. 73/

In spite of the comparative youth of central planning in Communist China, some of the difficulties in planning seem to stem from excessive centralization of decision-making. In the speech noted above, Li Fu-ch'un stated that experience had shown that state plans had been too rigid, that specific targets had been spelled out in minute detail, that the procedure for giving final approval to annual plans was "too much centralized," and that no real delegation of authority in matters of planning had been made to local organs. Such a high degree of centralized control allegedly has curtailed the "creative initiative" of individual enterprises and local governments and has prevented their exercise of necessary flexibility in adjusting plans to changes in conditions. To alleviate these shortcomings, Li Fu-ch'un called for a "modification in the system and methods of planning" oriented toward less centralization. He stated that the Commission for National Planning and the National Economic Commission should establish all "important targets" (undefined) as determined by the State Council, which targets would be incorporated in the state economic plan, approved by the State Council, and passed on to the appropriate subordinate agencies. Targets that are "local or departmental" (in this context departmental probably refers to ministerial) in nature should be set by local planning commissions and/or "departments" and reported to the State Council "for record" and for incorporation into over-all national plans. Examples of this type of target under local control may be the recent announcements that local governments may adjust over-all targets for grain and livestock according to local conditions. All other targets should be formulated by the various "primary levels" (presumably the producing enterprises or local governments). Li Fu-ch'un also called for a relaxation in the rigidity of state targets by permitting some targets to be set within prescribed limits rather than as specific goals\* and by revising the procedure through which subordinate organs (both local

\* In long-range planning, many of the proposed targets for the Second Five Year Plan have been given as a range /footnote continued on p. 38/

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and national) can change certain other targets set by the State Council. He would have still a third category of state targets for "reference use" by those industrial enterprises (producing certain consumer goods) which fix their own production plans.

In view of the vague terms in which these recommendations are couched, it is difficult to determine the degree of flexibility contemplated for planning procedures, but it seems doubtful that the extent of delegation of central planning authority to local levels will be very great. The number of products listed in the product register of the national economic plan\* has actually increased by 110 in 1957. Effective decentralization cannot be carried out unless trained personnel are available at the local levels to carry out state policy, the shortage of such personnel being acute. The recommendations made by Li Fu-ch'un are specifically designed to cut back on the workload of statistical accounting and to concentrate personnel on the more "significant" targets. In any event, there is as yet no evidence that Li Fu-ch'un's recommendations are being implemented.

In spite of the many difficulties in establishing central planning in Communist China, the government has made substantial progress toward its long-range goals of complete nationalization of economic activity and of rapid industrialization. In 1952, private enterprise accounted for nearly all of agricultural production, one-third of industrial output, and one-half of total domestic trade. 75/ By 1956, 90 percent of all farm households had been collectivized, 95 percent of industrial output came from state enterprises or joint enterprises, and the state controlled all of wholesale trade and about three-fourths of all retail trade. 76/ Although gross national product is increasing at an average annual rate of about 8 percent during the First Five Year Plan, the corresponding rate for industrial production is 18 percent, and the rate for heavy industry is more than 20 percent. 77/ The Chinese have set ambitious production and productivity goals for the period of the Second Five Year Plan. Continuation of their attempts to improve the administrative organization and to inject elements of flexibility into central planning procedures should facilitate the attainment of these goals.

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rather than a specific figure. This practice was instituted earlier, in 1956, in some of the European Satellites (Poland, Czechoslovakia, and East Germany).

\* A listing of "major products having an important bearing on national construction and the people's livelihood." 74/

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