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ECONOMIC INTELLIGENCE REPORT

ECONOMIC ORGANIZATION OF COMMUNIST CHINA



CIA/RR 12

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CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

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FOREWORD

This report represents the results of a preliminary investigation of Communist China's economic organization, the effectiveness of this structure as a tool of management, and the degree of Soviet control and influence over the Chinese Communist government. The importance of Soviet influence as a factor in directing the Chinese economy prompted the inclusion of the formal framework of Sino-Soviet joint companies as instruments of Soviet control.

S-E-C-R-E-T

S-E-C-R-E-T**CONTENTS**

	<u>Page</u>
Summary	1
I. Introduction	2
II. Economic Planning in Communist China	7
A. Development of Planning	7
B. Planning Process	8
III. Key Economic Ministries of the Chinese Communist Government	10
A. Ministry of Railways	11
1. Structure	11
2. Administrative Problems	14
3. Personnel	15
B. Ministry of Communications	15
1. Structure	17
2. Administrative Problems	18
3. Personnel	18
C. Ministry of Heavy Industry	19
1. Structure	19
2. Administrative Problems	21
3. Personnel	23
D. Ministry of Agriculture	23
1. Structure	25
2. Administrative Problems	26
3. Personnel	28
IV. Soviet Penetration and Control of the Chinese Communist Economy	28

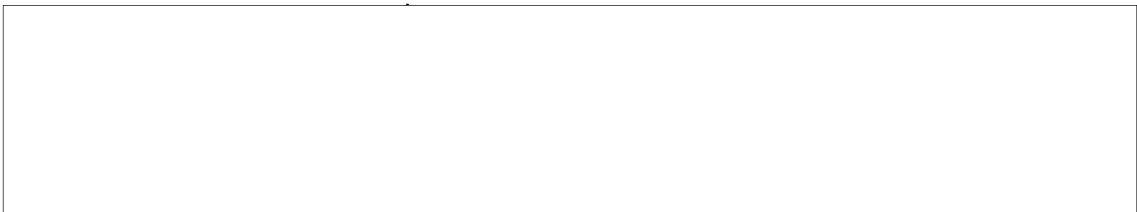
S-E-C-R-E-T

S-E-C-R-E-T

	<u>Page</u>
A. Soviet Technical and Economic Assistance	28
B. Sino-Soviet Joint Companies	29
1. Chinese Changchun Railway	30
2. Sino-Soviet Civil Aviation Company	30
3. Sino-Soviet Companies in Sinkiang Province	31
4. Sino-Polish Shipping Company	32
V. Strengths and Weaknesses	32
A. Elements of Strength	32
B. Elements of Weakness	33

Appendixes

Appendix A. Common Program of the Chinese People's Political Consultative Conference	35
Appendix B. Personnel of the Principal Chinese Communist Ministries	39



50X1-HUM

Illustrations

Figure 1. Central People's Government of the People's Republic of China	6
Figure 2. Ministry of Railways (Tentative)	12
Figure 3. Ministry of Communications (Tentative)	16
Figure 4. Ministry of Heavy Industry (Tentative)	20

S-E-C-R-E-T

S-E-C-R-E-T

	<u>Page</u>
Figure 5. Ministry of Agriculture (Tentative)	24

	<u>Following Page</u>
China: Communist Administrative Areas — 1952 (Map) . .	8

S-E-C-R-E-T

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S-E-C-R-E-T

SECURITY INFORMATION

ECONOMIC ORGANIZATION OF COMMUNIST CHINA*

Summary

The economic organization of Communist China is one superimposed after the ravages of war on a country whose limited industrial and commercial development had been largely the work of foreign capital. The theoretical basis for, and the government framework of, the economic organization of Communist China were established in September 1949. Control is maintained through the customary Communist adherence to "parallelism" and "democratic centralism."

Basic decisions are made by a small group of leaders in the Communist Party's Politburo and the Communist Party's Central Committee and channeled down through the Party and state administrative organs for implementation.

While the Organic Law adopted in 1949 establishes the supreme governmental authority in the All-China People's Congress, no date has yet been set for the election of this body. Original authority was exercised by the Chinese People's Political Consultative Conference (CPPCC) at the 1949 meeting, and subsequent meetings were scheduled for every 3 years. At the original meeting the CPPCC elected the Central People's Government Council (CPGC), which is, in fact, the highest executive agency of the government when it is in session. Otherwise, authority is centered in the Government Administrative Council (GAC), which resembles the Soviet Council of Ministers. Within the GAC is established the important Committee of Finance and Economics (CFE), which supervises, directs, and controls the Chinese economy through 13 economic ministries.

Economic planning in China has been applied unevenly and incompletely, largely because of the mixed economy consisting of state and private enterprise and because of administrative incompetence and inexperience. No Five Year Plan has yet been formulated, although the provision for such a Plan exists in the Common Program.

* This report contains information available to CIA as of 1 July 1952. It does not include certain minor changes in organization reported to have been made since that date.

S-E-C-R-E-T

S-E-C-R-E-T

Soviet influence has penetrated all branches of the Chinese economy through the expanding role played by Soviet technicians and advisers. In addition, through joint Sino-Soviet companies, the USSR has direct control over important segments of the economy, especially in Manchuria and in Sinkiang Province.

The most important element of strength in Communist China's economic organization is the increasing concentration of control. This control has permitted the introduction of uniform methods and procedures, facilitated the adoption of Soviet organizational and management techniques, and provided increased opportunity to apply experiences gained in Manchuria to the less highly developed areas of China.

Elements of weakness exist in Communist China's economic organization which counterbalance the factors of strength to a considerable degree. There is evidence of poor planning, administrative conflicts, and duplication of effort. Tendencies toward overstaffing, corruption, and low performance standards in the state administration have not been overcome. In addition, traditional Chinese dislike of the USSR and all Soviet administrators is a potential limitation to an effective liaison between Communist China and the USSR.

I. Introduction.

The economic organization of Communist China is one superimposed by the regime in Peking (Peiping)* on a country ravaged by war, whose limited industrial and commercial development had been largely the work of foreign capital. The Communist Party of China formulated the theoretical basis and established the governmental framework of the economic organization of Communist China. As is customary in Communist-dominated areas, the Party usually maintains its controls by adherence to the principles of "parallelism" and "democratic centralism." "Parallelism" means that the organizational structure of the Party "parallels" that of the national Government, with the head of a Party agency usually serving as the administrator of a similar agency in the governmental structure. Even at regional and local levels, ranking Party officers occupy comparable administrative posts. For example,

* Communist China has reverted to the ancient spelling, Pei-ching ("Northern Capital"), since the Communists have established the seat of the government there. About 1928 the government of China had changed the name to Pei-p'ing ("Northern Peace"), as Nanking (Nan-ching) was the capital city.

S-E-C-R-E-T

S-E-C-R-E-T

Kao Kang is both chairman of the Manchurian People's Government and secretary of the Manchurian Party bureau.

The theoretical basis for, and the governmental framework of, the economic organization of Communist China were established at a meeting of the Chinese People's Political Consultative Conference (CPPCC) in September 1949. At this meeting, which took place only a few months after the decisive capture of Shanghai by Chinese Communist troops (May 1949), the CPPCC adopted its own Organic Law, its Common Program, and the Organic Law of the Central People's Government of the People's Republic of China.

None of the three basic documents represents the equivalent of a constitution in the accepted meaning of the term, but taken together they constitute a statement of the philosophy of the new rulers, an outline of their program, and a basis for the structure of the new governing body. These documents do not reflect a permanent set of principles, because the Communist point of view is that China is entering a long transitional period on the way to Socialism and eventual Communism.

In its own Organic Law the CPPCC (which has since been named a council instead of a conference) authorized itself to exercise the authority delegated to the All-China People's Congress, the supreme organ of the state, until such time as the membership of the Congress can be duly elected and convened. The CPPCC meets every 3 years. When it is not in session, its National Committee, which meets semiannually, is authorized to act in its stead. After the convening of the All-China People's Congress, for which no date has been set, the CPPCC will act only in an advisory capacity.

The Common Program adopted by the CPPCC consists of a manifesto of 60 articles taken largely from Mao Tse-tung's New Democratic Program and sets forth the Communist program in the fields of government, economic affairs, culture and education, national minorities, and foreign affairs. (See Appendix A.) The Common Program defines the various sectors of the national economy as state-owned, cooperative, and state-capitalist. The last sector represents mergers of private capital with state capital. All three sectors are to be expanded, but the expansion of the state-owned sector is to be emphasized. The sectors comprising the peasantry and the handicraftsmen are also encouraged by the land reform program, but control is exercised through mutual aid teams and cooperatives. The basic objective is to regulate and coordinate all sectors of the economy in accordance with state plans.

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Communist Party discipline is maintained through the principle of "democratic centralism," which requires that the individual must obey the Party directives, that the minority must obey the majority, that the lower echelon must obey the higher echelon, and that the entire Party must obey the directives of the Central Committee. 1/*

Basic decisions originate in the inner core of the Party leadership. These are channeled down through the hierarchy of both Party and government for implementation. Frequently, directives are issued as the joint action of Party and government, especially at the regional and local levels. Copies of governmental directives are frequently distributed through the hierarchy of the Party.

Throughout the economy, in the factories as well as in the villages, leadership is supplied by the Communists. The extent of such leadership varies in different areas. In Manchuria, where Party control over the economy is most firmly established, regional conferences were held in May 1951 which emphasized the need for Party direction and guidance in the interest of increased production. The framework and functions of the Central People's Government of the People's Republic of China are set forth in the Organic Law promulgated by the CPCC in September 1949. At the top of the government is the Central People's Government Council (CPGC), which is elected by the CPCC. The CPGC consists of a chairman (Mao Tse-tung), 6 vice-chairmen, and 56 members. It has legislative, executive, and judicial powers and has the final word on the national budget. 2/ Its closest counterpart in the USSR is the Presidium of the Supreme Soviet of the USSR.

The CPGC in turn organized the major subordinate agencies prescribed by the Organic Law, which included the Government Administrative Council (GAC) as the supreme administrative authority; a People's Revolutionary Military Council (PRMC) as the supreme military command; a Supreme People's Court (SPC); and a People's Procurator General (PPG), who was placed in charge of a hierarchy of public prosecutors. 3/ The function of the traditional Chinese censorate was given to the Committee of People's Supervision set up under the immediate jurisdiction of the GAC. The Organic Law states that the Committee of People's Supervision, which is patterned after the Soviet Ministry of State Control, is responsible for supervising the execution of duties by government institutions and functionaries.

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The Central People's Government Council (CPGC) is scheduled to meet only once every 2 months, and executive control of the government is vested in a series of subordinate committees. The executive control of civil administration is in the hands of the GAC, which is the Chinese equivalent of the Soviet Council of Ministers. The GAC is responsible for planning and directing practically all economic activity, through the economic ministries and other subordinate agencies. (See Fig. 1.)

In descending order, the governmental hierarchy which is responsible for economic affairs may be summarized as follows: 4/

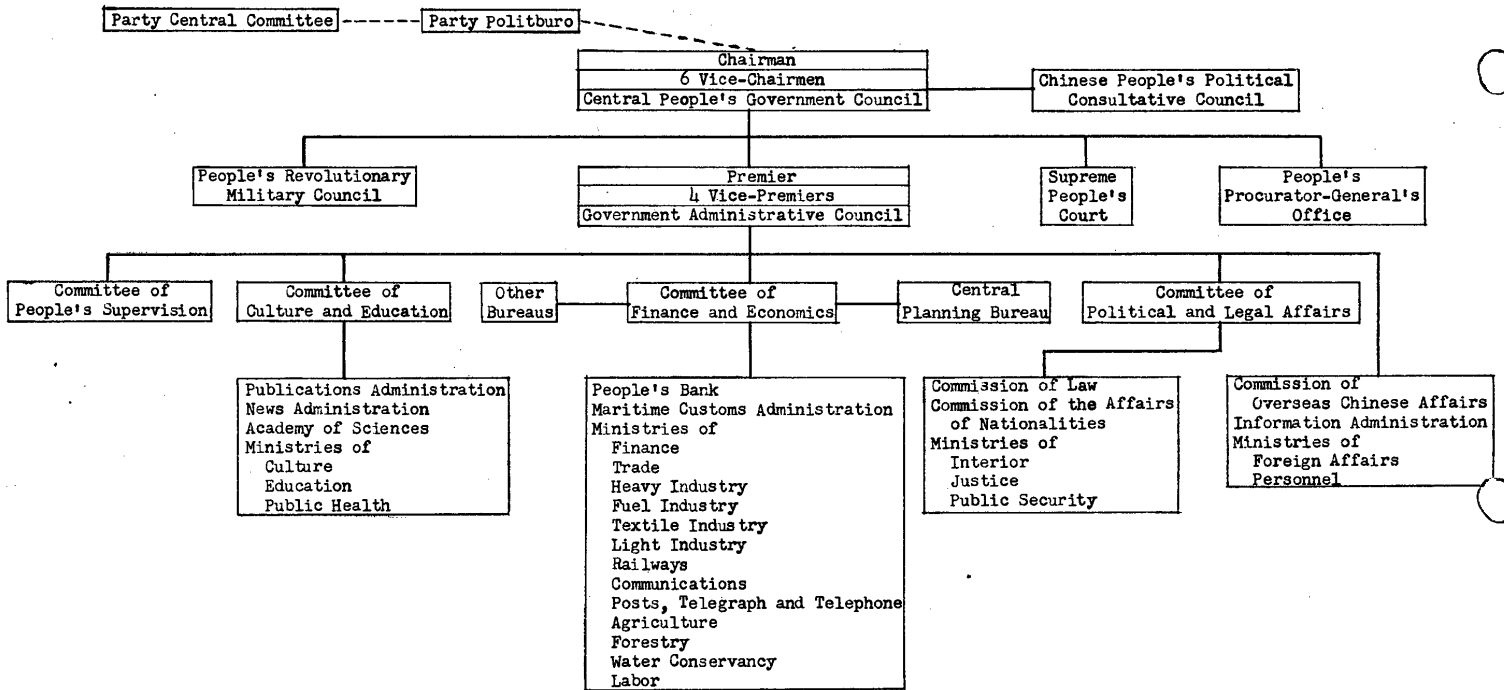
1. China People's Political Consultative Council (CPPCC).
2. Central People's Government Council (CPGC).
3. Government Administrative Council (GAC).
4. Committee of Finance and Economics (CFE).
5. Ministries of the Central People's Government.
6. Military and Administrative Committees (Administrative Regions).
7. Provincial People's Government.
8. Hsien People's Government.
9. Municipal People's Government.

The actual functioning of this hierarchy is determined by the "parallel" activities of the Chinese Communist Party. Although not a part of the government, the Central Committee of the Party and its powerful agency, the Central Political Bureau (Politburo), direct the state's executive organs and are superior to the highest governmental bodies. 5/ In consequence of the Party's policy-making and supervisory role, the activities of the governmental bodies are largely formal and meetings are held mainly to listen to official reports, to sanction decisions already made, and to approve appointments already filled.

Another limitation of the Chinese Communist governmental administrative organization is the power held by the military authorities. Jurisdiction over the Chinese armed forces has been given over to the People's Revolutionary Military Council (PRMC), which is not subject to control by the civilian organs. Of the six regions into which Communist China has been divided, all but two, Manchuria and North China, are still under military rule. Manchuria, generally designated as the Northeast, is the only region which has a People's Government, the prescribed form of regional administration. North China is administered directly from Peking. The other four

S-E-C-R-E-T

Figure 1. Central People's Government of the People's Republic of China 59/



- 6 -
S-E-C-R-E-T

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regions are the Northwest, the East, the Central-South, and the Southwest. (See the accompanying map of China.) According to Communist theory, the relaxation of military rule is unimportant because both military and non-military organs are instruments serving the Party's interests and both are equally subject to Party control.

II. Economic Planning in Communist China.

The Chinese Communist concept of economic planning is expressed in the Common Program. A system of controls over the collection and distribution of raw materials and finished products, as called for in the Common Program, interferes with normal market functions. This system of controls, coupled with the mixture of public and private enterprise, has resulted in uneven and incomplete application of the principles of planning.

A. Development of Planning.

Plans for control of private enterprise were developed in two stages. The first consisted of a complete inventory to be taken of all goods and commodities held by state enterprises, and the second was the requirement that all transactions with state enterprises be made in accordance with the special directives of the Committee of Finance and Economics (CFE).

Under the provisions of a directive of 10 March 1950, state trading companies were authorized to centralize the collection and distribution of most important raw materials and finished products. Domestic state trading companies, nation-wide in scope with branches in local areas, were set up under the Ministry of Trade. 6/ The original companies were the General Grain Trading Company, the General Salt Company, the General Coal Company (including building materials), the General Cotton Cloth Company, the General Merchandise Company, and the General Domestic Products Company. For the purpose of establishing controls over foreign trade, similar companies were established, each to handle foreign trade in such fields as hog bristles, oils and fats, tea, mineral products, native products, and imported products.

All transactions of these state trading companies were conducted on a contractual basis with specifications, among other things, for quantity, quality, price, and the means of transportation. In addition, these contracts were paid, not in currency, but by drafts drawn on the People's Bank, where all state funds were deposited and where all accounts could be scrutinized. In this manner the Communists expected to establish controls

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gradually over the entire economy as the trade of the state trading companies increased. No transaction, whether government or non-government, was possible without the approval of the Ministry of Trade, in whose jurisdiction these trading companies were placed. Thus the Ministry of Trade became one of the key ministries in the development of economic planning. 7/

The influence of the Ministry of Trade was extended by the inclusion of price control in the list of its functions. This function was to be exercised through the state trading companies. In this manner, price leadership was established by the state sectors of the economy, including the cooperatives, and was followed by the private traders. The acceptance of price leadership influenced the pattern of production of private enterprises by discouraging the manufacture of unprofitable items. Thus items on the Communist list of luxury goods were deliberately priced below cost in order to stop their production.

B. Planning Process.

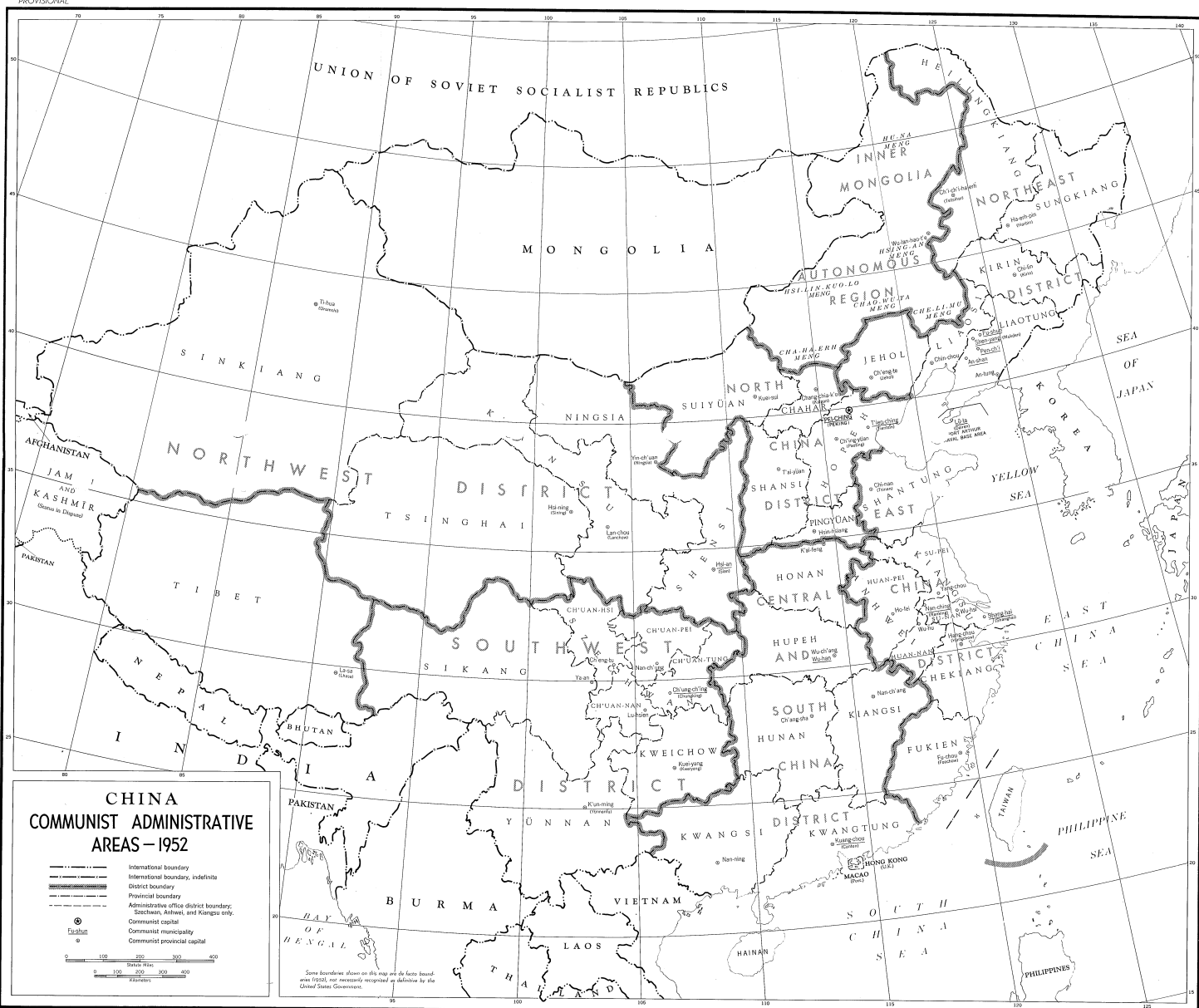
Plans are prepared in two phases, each on the basis of annual, seasonal, and monthly periods. One phase deals with projected expenditures of the state trading companies; the other phase determines the allocation of materials in quantitative terms. The planned expenditures are prepared and reported by the local subsidiaries of the state trading companies and forwarded to the state trading companies for approval and submission to the Ministry of Trade for final acceptance and implementation. This financial planning includes expenditures for materials, for labor and managerial supervision, and for plant expansion. Limits are set to the funds which can be transferred to private business firms. 8/

Plans for the allocation of materials are drafted by the Ministry of Trade after convening all high-level government agencies interested in the over-all distribution of resources controlled by the state. In this conference the share of state resources to be turned over to the Ministry of Trade for allocation is determined. The Ministry then distributes its allotment to the state trading companies, which perform the final allocations to the local subsidiary companies in accordance with policy prescribed at the time by the Ministry.

- 8 -

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Obviously, conflicts arise between the financial plan and the allocation of materials plan. Control over the availability of goods, however, sets the limits to the amounts which can be purchased by the state trading companies. Thus the financial plan is subject to adjustment in order to conform to the materials plan. The financial plan is aimed at the internal policy of the state trading companies, while the allocation of materials is aimed at directing the over-all pattern of operation of the companies.

In addition, there were indications in 1950 that the Central Planning Bureau of the CFE was drafting a Five Year Plan as well as an annual plan. 9/ Delay in announcing such a long-range plan may reflect Chinese Communist administrative difficulties, technical limitations, and the impact of the Korean conflict.

The planning process has been applied to regional plans, the most important of which has been developed in Manchuria. There the local Communist regime, apparently with Soviet assistance, launched a reconstruction plan in 1947, 2 years before the establishment of the Central Government. 10/ Manchuria's industrial potential, the predominance of state enterprises, and other factors have facilitated Manchuria's planning. There are indications that the pattern of planning in Manchuria is being gradually extended to all of Communist China.

In some instances, increased production targets have been adopted at top levels in the absence of any specific program for the attainment of such goals. Official and press statements are frequently issued extolling the general principles of cost reduction, increased labor productivity, and better techniques for plan fulfillment. Responsibility for increasing production appears to fall in large measure on regional and local administrators. Special campaigns are projected from time to time in order to stimulate production and to augment state resources. Although these campaigns are not formally identified with planning, their objectives are closely associated with plan fulfillment and with the upward revision of production targets. Examples for such campaigns are the "increased production and austerity" drive of 1951 and the 1952 movement against waste, corruption, and kindred hindrances.

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III. Key Economic Ministries of the Chinese Communist Government.

The principal economic agencies of the Chinese Communist Government are 13 economic ministries, the People's Bank, and the Maritime Customs Administration, under the Committee of Finance and Economics. The industrial ministries include those for Heavy Industry, Fuel Industry, Textile Industry, and Light Industry. The Ministry of Food Industry, established after the original 13, was abolished in 1950.

The chief function of the economic ministries, according to the Organic Law, is to "direct their respective departments of state administration." 11/ They are empowered to announce decisions, issue orders, and supervise implementation of those orders. Legally and practically, they are subject to direction and supervision by higher bodies. The ministries may make suggestions which, if approved, become the basis for action. Their appointive power apparently is limited to the appointing of chiefs and deputy chiefs of sections and of other units below the bureau level. These appointments must be reported to the GAC. 12/

The general internal structure of ministries was established by the Government Administrative Council (GAC) in December 1949. According to these regulations, a ministry may establish a general office. 13/ In practice, this office is usually a staff office or secretariat, occupying a unique position directly under the minister and vice-ministers. It is concerned largely with assisting the minister in matters of internal administration.

On the level below the minister are three possible types of units: (1) units in charge of specific functions; (2) semi-independent units sometimes called central bureaus; and (3) special-purpose units such as accounting, legal, and administrative units. These three types represent the equivalent of staff, line, and housekeeping units. They are usually subdivided into other units, which also may include subordinate units. Unfortunately, Chinese terminology authorizes the use of certain of the same words to apply to these second- and third-level units.

There are two types of economic ministries concerned with matters of local administration. Some ministries, such as the Ministry of Railways, have district bureaus operating directly under the main office in Peking and subject to very little guidance from the regional governments. Most ministries, however, manage their enterprises indirectly through the regional governments, which have departments and bureaus patterned after the state and municipal government structure. 14/ Consequently, there is a considerable

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hierarchy of administrative organs from Central Government levels to the local enterprise. Whether exercised directly or indirectly, the Central Government's authority is manifested at all levels, and individual state enterprises generally are under strict centralized control. Private enterprises necessarily are controlled through other means.

Communists generally head the most important economic ministries. (See Appendix B.) In some instances non-Communists are in charge, but they are controlled by Communist vice-ministers. In others, non-Communists outnumber the Communists at top levels, but they are nevertheless under strict Communist control. Although the particular Communists in control cannot always be identified, such internal control exists, supplemented by further controls exercised through higher governmental organs and the Communist Party.

A. Ministry of Railways.

The Ministry of Railways (see Fig. 2) administers the state-owned railway system, Communist China's most important transportation network. Since its establishment in October 1949 the Ministry has been assigned high priority tasks with regard to restoration of the main railways and construction of new lines in accordance with a 5-year railway plan. 15/ This plan* provides, in part, for establishment or completion of railways from Peking to points on the Northwest China-USSR border and from Northwest China to the Indo-China frontier. Parts of this program have been incorporated in the annual plans and have already been carried out.

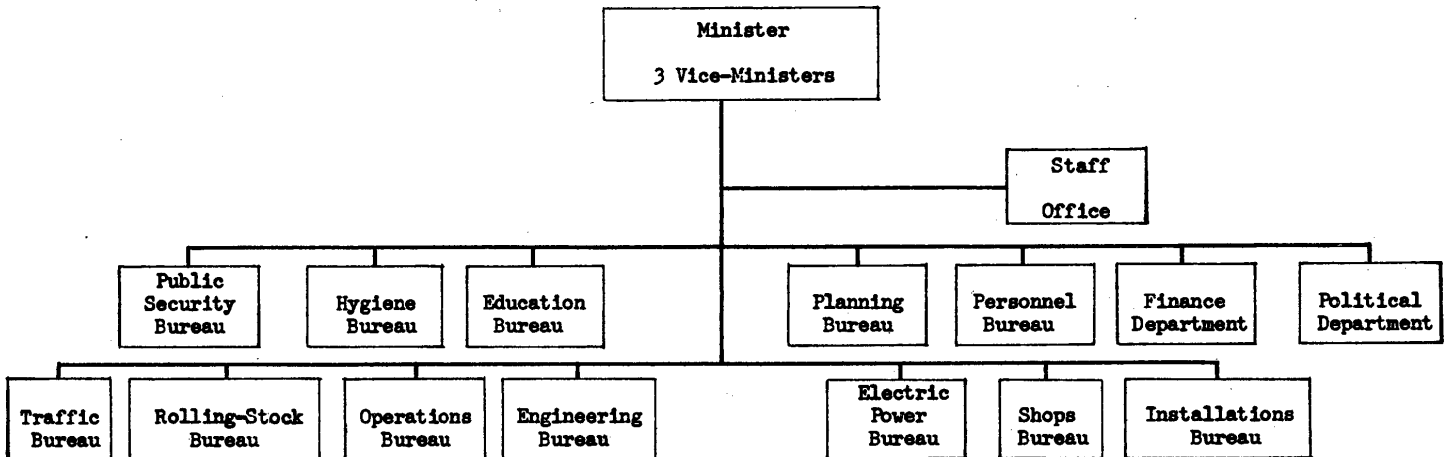
1. Structure.

The Minister of Railways is assisted by three vice-ministers. The first and second vice-ministers serve concurrently as Director of the Engineering Bureau and Director of the Rolling-Stock Bureau, respectively. The second vice-minister heads the Staff Office. 50X1
50X1 the third vice-minister had charge of railway operations, rolling stock, and maintenance in 1950. 16/ If so, such an extensive responsibility may indicate a paucity of capable railway administrators, at least during the first year of the existence of the Central Government.

* Indications are that the plan was announced in July 1949 prior to establishment of the Central Government.

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Figure 2. Ministry of Railways (Tentative) 60/



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In addition to the various bureaus concerned with railway operations and servicing, there are the usual coordinating and staff units for finance, planning, and personnel. There are also two units which have police and political functions. The Public Security Bureau supervises the railway guards charged with protecting the railways. The Political Department, assuming that it is similar to other such units in Chinese Communist administration, is engaged in political, intelligence, and control activities, with special reference to railway personnel.

At local levels the railways generally are administered directly by the Ministry through Railway Control Bureaus or Railway Administrations located in important railway centers. These bureaus, in turn, have authority over sub-bureaus or branch offices located in areas subject to the bureau's jurisdiction. In April 1950 the Ministry established a Special Commissioner's office in Manchuria. 17/ This office* has jurisdiction over railway control bureaus managing the Chinese-owned railways in Manchuria.

Apparently, in connection with efforts at increased centralization and more effective control, there have been several consolidations and administrative changes in railway control bureaus and branch offices since 1949. Although the Minister of Railways stated in October 1951 that a unified control system was established when the various railways were taken over, recent indications of consolidations and other changes in control offices in North China indicate that the local administrative structure is still being altered to meet demands for more effective management. 18/

Although local railway administration is handled primarily by the Ministry of Railways' own offices, local governments and local communications departments are also utilized, especially in connection with railway construction and maintenance. Through these channels such local resources as labor and supplies are made available to the Ministry. Although these processes involve indirect controls and more complex administrative relationships, there is evidence that the hierarchy of governmental and party organs generally assures adequate local support for the Ministry's projects.

* Established about the same time as the joint Sino-Soviet Chinese Changchun Railway offices, this office probably has represented the Ministry in matters relating to that railway.

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S-E-C-R-E-T2. Administrative Problems.

In China the Soviet pattern of railway administration was first established in Manchuria. It is being introduced gradually throughout China, and many administrative problems exist. With regard to management techniques, for example, the Ministry of Railways initiated the cost accounting system for its area control bureaus in July 1951 and planned to introduce it at lower levels during 1952. If the result is similar to Chinese Communist experience with other Soviet techniques, the Ministry will be trying for several years to put this system into effective operation throughout Communist China. Communist realization of this possibility is indicated by a high official's statement of October 1951 stressing the need for the Chinese to exert themselves to learn from Soviet technicians. 19/

In October 1951 the Minister of Railways stated that poor planning and faulty construction work had characterized operations. Apparently this unsatisfactory record, among others, was responsible for the special directive of 10 August 1951 issued by the Committee of Finance and Economics (CFE) wherein it was noted that only 60 to 70 percent of the funds allotted for construction purposes during 1950 and the first half of 1951 had been accounted for by the various ministries. Plans often were not made or approved in advance of work, planning and work were undertaken simultaneously or in inverse order, and planning generally fell short of requirements. Much waste resulted. The directive required the ministries to make reports on their projects, to improve procedures, and to submit to increased centralized control. 20/

Further evidence of the shortcomings of the Ministry of Railways is found in the October 1951 statement regarding 1952 plans. The Minister promised construction planning would get under way with renewed efforts to obtain qualified technicians for making the necessary investigations and surveys, preparing the designs, and planning the budgets. He also promised to eliminate the system of merchant contracting and to establish state design and construction enterprises to carry out construction projects. It appears that these efforts will not resolve the problems involved.

A Communist article on the Northwest Railway Administration Engineering Department's bad planning of early 1951 reported that "an extremely chaotic and confusing situation existed. Funds were available but the Department did not know what kind of materials to buy. Materials were available but the Department did not know whether they were the

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proper engineering materials. There was work to be done but the Department could not find enough manpower. There was manpower available but no work scheduled. In such cases as these, the errors had to be corrected." 21/

Although these administrative weaknesses relate chiefly to planning and construction, they probably reflect a general condition in the Ministry. In some degree these difficulties may arise from efforts to impose a Soviet administrative pattern on Communist Chinese personnel.

3. Personnel.

The Ministry of Railways is headed by prominent Communists who formerly headed the railway department of the Communist Party's Revolutionary Military Council. Minister T'eng Tai-yuan, a former military commander, reportedly studied in the USSR during the 1930's. Vice-Minister Lu Cheng-ts'ao, also a former commander, served as Director of Communications in the regional Manchurian government. 22/ Vice-Minister Wu Ching-t'ien similarly headed the North China regional government's Communications Department in 1948-49. As previously noted, these Vice-Ministers concurrently direct important units in the Ministry. Their background indicates that these men personally, as well as officially, may be strong advocates of Soviet administrative patterns.

However, Vice-Minister Shih Chih-jen, a US-educated engineer, is a former Nationalist China railway administrator. [REDACTED]

[REDACTED] Shih was then free from interference in his direction of important technical operations. 23/ His responsibilities may since have been curtailed. In any case, he evidently has little influence in top-level councils. Moreover, his usefulness will probably diminish with the further adoption of Soviet railway techniques.

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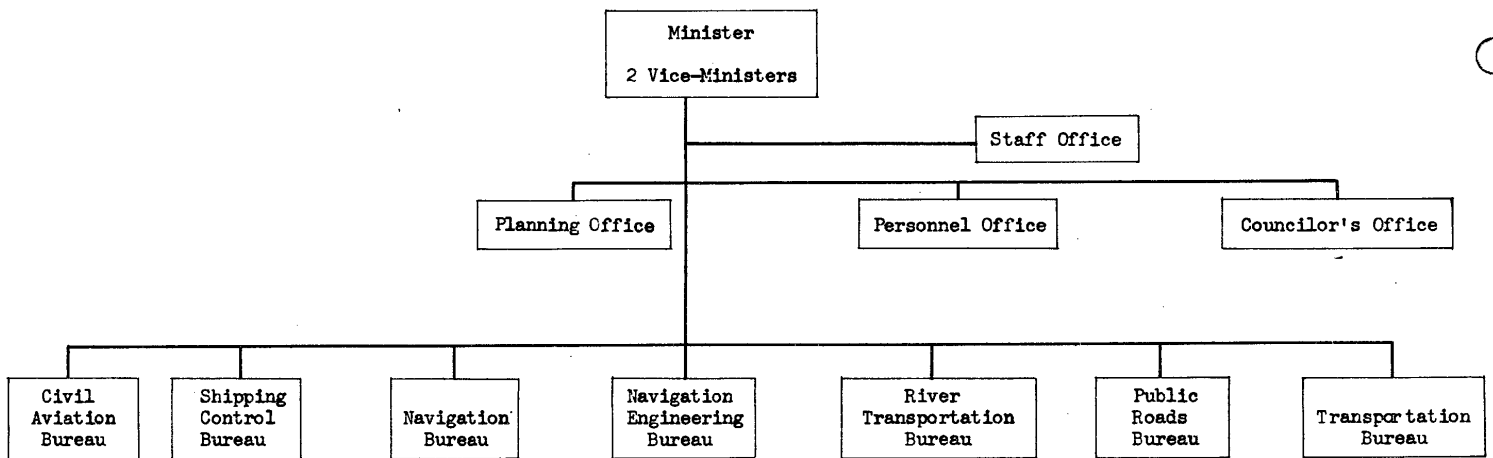
There is little evidence of important changes in personnel in the Ministry's central offices, although a new director of the Public Security Bureau was appointed in December. Many shifts have occurred in the area and local offices, reflecting organizational changes. In view of the Ministry's shortcomings and the presence of ex-Nationalist officials, the turnover of personnel is likely to be considerably increased during the next 2 years.

B. Ministry of Communications.

The Ministry of Communications (see Fig. 3) has jurisdiction over civil transport, with the important exception of railways. It has authority

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Figure 3. Ministry of Communications (Tentative) 61/



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over ocean and inland navigation, merchant shipping, highways, and civil aviation. Its area of responsibility includes not only the basic transport facilities, such as waterways and roads, but also the transport enterprises which utilize these facilities. In addition, the Ministry is concerned with manufacturing and servicing activities in certain transport fields such as merchant shipping.

1. Structure.

The Minister of Communications is assisted by two vice-ministers. In addition to the Planning Office and other staff offices, it has functional bureaus of civil aviation, shipping control, navigation, navigation engineering, river transportation, public roads, and transportation. Each of these presumably is subdivided into additional units.

Local administration is carried out in part through the communications departments and bureaus of the governments of the administrative regions, provinces, and municipalities. Civil aviation, however, is administered from Peking through the Ministry's district bureaus. Likewise these are indications that the local bureaus of shipping controls, navigation, and inland navigation are administrative units belonging to the Ministry.

Whether administration is carried out directly by the local units of the Ministry of Communications or indirectly through the regional governments, there appears to exist a hierarchy of organs with both authority and initiative emanating from top levels of the administration. Within the framework of established programs the Ministry's central bureaus and, to a lesser extent, its local branches and the local government units may work out details of implementation and offer specific suggestions on either local or national matters. In order to enlist support for its programs and to offer some appearance of consultation with local officials and others concerned, the Ministry has convened national conferences such as that of December 1949 on shipping and highways. 24/ The Planning Office may be assumed to be responsible for technical preparation of planning programs, although it appears likely that the functional bureaus have the main voice in deciding planning details within their particular fields of responsibility.

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S-E-C-R-E-T

2. Administrative Problems.

Administrative weaknesses and Communist efforts to remedy them are reflected in the handling of the Tangku Harbor project, intended to provide Tientsin with a deep port capable of accommodating large ships. This project has been the responsibility of the Ministry of Communications since 1949. In August 1951 the Government Administrative Council (GAC) took action on the matter. According to the GAC's resolution, the Tangku Engineering Bureau lacked sufficient equipment, ships, cadres, and technical resources to carry out the work. 25/ In order to mobilize more effectively both central and local governmental resources, the GAC then created a Tangku Harbor Commission directly under the Ministry of Communications and gave it full responsibility for supervision of the project. High officials of the Ministry and Tientsin Municipal Government were included in the Commission's membership. Moreover, the Tangku Engineering Bureau, placed directly under the new Commission, was given new leadership. The GAC's resolution called for completion of the work by the winter of 1952 so that ships up to 10,000 gross registered tons could utilize the new harbor. This resolution indicates belated high-level recognition of poor management on the parts of the Ministry and the local bureau in their efforts to carry out an important undertaking. Moreover, responsibility for ineffective planning and administration in this instance is not entirely the Ministry's failure -- the blame belongs partly to the GAC.

3. Personnel.

The Ministry of Communications apparently lacks competent direction at the ministerial level. Presumably, this deficiency is counterbalanced by reliance on control exercised by Communists occupying nominally secondary positions and by dependence on administrators in the various offices and bureaus. A further possibility is that top-level direction is actually accomplished through some other ministry, perhaps the Ministry of Railways.

Of the top officials, Minister Chang Po-chun and Vice-Minister Chi Fang are minor Party leaders whose influence on policy is necessarily slight. 26/ Chang's lack of prior administrative experience is a further indication that he is a mere figurehead. Vice-Minister Li Yun-ch'ang,

S-E-C-R-E-T

a Communist general, lacks party stature as well as nonmilitary administrative experience. His presence may indicate a close relationship between the Ministry of Communications and the offices of the People's Revolutionary Military Council (PRMC). Chang Wen-ang, director of the Staff Office, may be a key Communist official, especially since he previously served as Deputy Minister of Communications in the North China People's Government.

It may be assumed that many experienced officials, including former executives and managers in transport enterprises, are in the functional bureaus, and that a large proportion of the technical staffs are former Nationalist China employees. The considerable number of personnel shifts announced in October 1951 may indicate Communist efforts to expand or otherwise strengthen certain bureaus, notably the Bureau of Shipping Control, the Bureau of Navigation Engineering, and the Bureau of Transportation. ^{27/} Although no dismissals or resignations were then publicized, it is likely that a significant turnover in personnel may have occurred. Moreover, such shifts and changes are likely to be accentuated during the next 2 years as the Communists attempt to increase their control over transportation, to eliminate political unreliaables, and to install men indoctrinated and trained in Communist techniques.

C. Ministry of Heavy Industry.

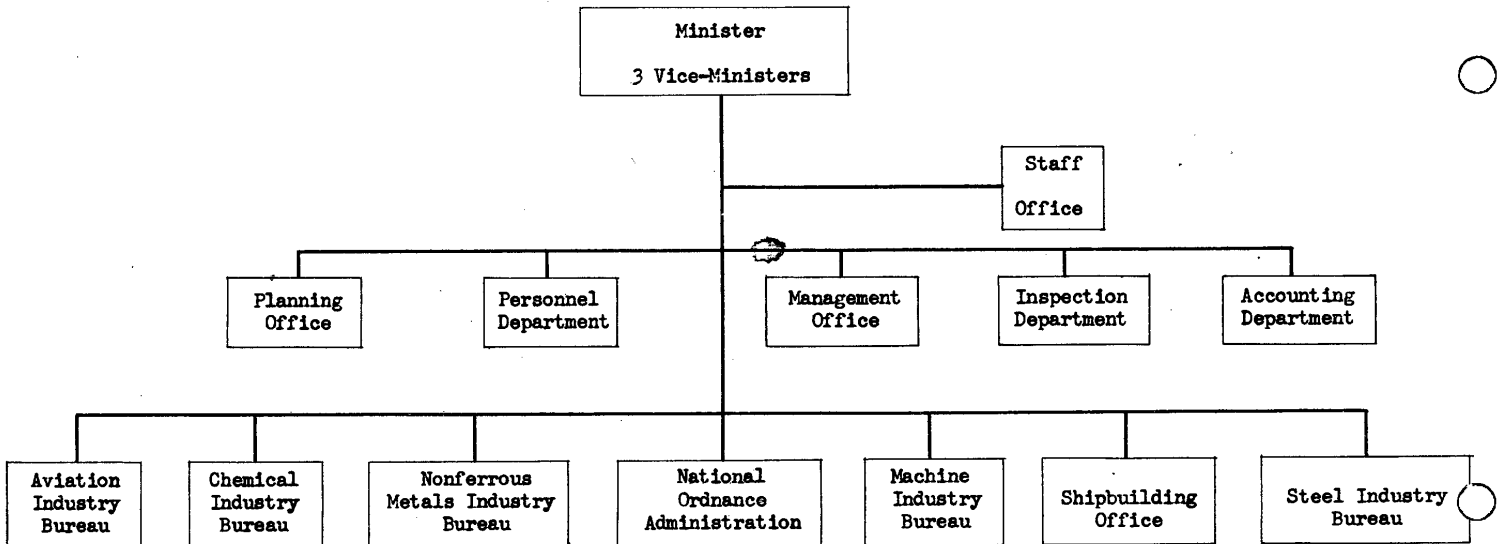
The Ministry of Heavy Industry (see Fig. 4) is the most important of the four industrial ministries. The Ministry has jurisdiction not only over heavy industries such as steel and chemicals but also over mining enterprises in all fields except coal, petroleum, and allied fuels, which are under the Ministry of Fuel Industry. ^{28/} Apparently the Ministry, at least until 1951, was also concerned with certain segments of the shipbuilding industry, although shipbuilding is also of concern to the Ministry of Communications.

1. Structure.

Three vice-ministers assist the Minister of Heavy Industry. The ranking vice-minister has served as Director of the Aviation Industry Bureau since October 1951, while the third vice-minister has also served as head of the National Ordnance Administration since May 1951. Otherwise there are no indications that vice-ministers have directed particular bureaus or offices.

~~S-E-C-R-E-T~~

Figure 4. Ministry of Heavy Industry (Tentative) 62/



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S-E-C-R-E-T

The Ministry's units include the usual Staff Office, as well as offices or departments for planning, personnel, accounting, inspection, and management. There are functional bureaus for the aviation, chemical, nonferrous metals, steel, machine, ordnance, and shipbuilding industries. It may be assumed that these bureaus and offices are divided into appropriate functional and staff subunits. The aviation and ordnance units may have been established during 1951. If so, their functions probably were performed previously by less publicized organs, possibly under the direction of the People's Revolutionary Military Council (PRMC).

At local levels the work of the Ministry of Heavy Industry is accomplished mainly through the regional and local industry departments, which also serve the other industrial ministries. These industry departments vary from region to region, but generally their administrative structure resembles that of the national Ministry. In Manchuria, for example, the industry department has 13 functional units, including machine manufacturing and chemical industry bureaus and large enterprises such as the Anshan Iron and Steel Company. 29/ Not all of the 13 are concerned with heavy industry. In North China, a region controlled directly by the Central Government, the Ministry apparently exercises closer supervision over heavy industry enterprises. 30/

2. Administrative Problems.

Efforts at investigation and control of industrial enterprises are reflected in recent evidence regarding a unit called the Industrial Inspection Mission, said to have been organized in late 1951 for the purpose of visiting enterprises in the various regions. 31/ The Mission had broad authority in checking on production capacity and methods, technical problems, labor matters, and general conditions. The group reportedly assigned to East China included a deputy minister, the Director of the Planning Department, officials from various functional bureaus, and Soviet technicians. In addition there were officials and Soviet technicians from the other industrial ministries and representatives of the Committee of Finance and Economics (CFE) and the All-China Federation of Labor. Although information is lacking on the Mission's activities and findings, the maneuver probably reflects an attempt on the part of the Chinese Communist Government to deal with administrative weaknesses at the local or plant levels.

S-E-C-R-E-T

The importance and wide scope of these weaknesses are indicated by official and press statements. In December 1951, for example, a leading paper enumerated many defects in heavy industry enterprises administered by the East China Department of Industry. The reported faults included such items as poor organization of production facilities, ineffective planning, waste of labor and materials, poor organization of functional administrative units, and undue delays in executing orders for shipment of products. 32/ The public admission of such basic faults indicates that, with due allowance for Communist self-criticism, administration and management of East China heavy industries are at a low level of efficiency and that numerous problems remain to be solved.

In July 1951 the Ministry of Heavy Industry itself, responding to a directive from the CFE, investigated the handling of construction projects during 1950 and the first half of 1951. The Ministry reported that in building new plants there were, among other difficulties, poor and hasty planning, waste because of changes in plans or operations and lack of systematic organization and control. 33/ More specifically, the planners failed to develop in advance a precise plan with proper estimates on finance, equipment, labor, techniques, technical assistance, and the types of materials to be imported. Apparently plans were made involving use of Western machinery or, in other cases, Soviet Bloc machinery, with little regard for their respective availability. In regard to restoration and expansion of existing plants, similar faults existed, including persistence in hasty and wasteful expansion despite disapproval, in certain cases, by the CFE. Much of this trouble was attributed to overzealous leaders who tried to build or expand local enterprises in disregard of general plans and of higher authorities. The Ministry asserted that unless competent plans could be worked out by Chinese technicians, complete reliance should be placed on foreign (presumably Soviet) experts.

Still further weaknesses were discovered. Within the Ministry of Heavy Industry the work was not well organized, the division of labor was not clearly defined, and efficiency was not high. At lower levels, many projects were below standard in both quality and quantity. Moreover, corruption was reported in regard to purchase and construction contracts.

Although this official review of problems dealt specifically with construction activities, apparently similar weaknesses and faults generally beset the Ministry and the local organs through which the heavy

S-E-C-R-E-T

S-E-C-R-E-T

industries are administered. Shortcomings with regard to planning, control of plans, and general lack of efficient organization and management at various levels are particularly significant of weakness, as is the Ministry's dependence on Soviet advisers and technicians.

3. Personnel.

With one exception, the top officials of the Ministry of Heavy Industry are prominent Communists. 34/ Ch'en Yun, Minister until April 1950, still a Vice-Premier and chairman of the powerful CFE, apparently was the only Politburo member to head an economic ministry. Minister Li Fu-ch'un, his successor, is a member of the party's Central Committee and a vice-chairman of the CFE. Previously he was the second ranking man in both Party and government in Manchuria. Both Ch'en and Li spent several years in the USSR and both had contact with the USSR in Manchuria after 1946. The first Vice-Minister, Ho Ch'ang-kung, likewise was prominent in Manchurian government as head of the Communist Army's War Industries Department there. Vice-Minister Liu Ting, who is Soviet-educated, previously served prominently in North China's regional government. Vice-Minister Chung Lin, though not identified as a Communist, is a member of the CFE and also director of its Technical Skills Control Bureau. Characterized as an economic specialist, he may be useful chiefly for his technical knowledge of heavy industry.

There is little evidence of key personnel shifts in the Ministry of Heavy Industry, although they may be more extensive than is indicated. The Director of the Aviation Industry Bureau was demoted in 1951 and the post assigned to the ranking vice-minister. 35/ Moreover, the Steel Industry Bureau underwent a shakeup in late 1951. In August a new director, formerly in Manchuria, was appointed. 36/ Later a deputy director of the Steel Industry Bureau was dismissed for allegedly falsifying the accounts of a large steel plant. At lower ministerial levels and in regional and local administration the turnover probably has been considerable, especially in the last year. It probably will be intensified during the next 2 years as the Communists attempt to deal further with corruption, inefficiency, and other weaknesses in the administration of heavy industry, and an effort will probably be made to eliminate politically unreliable employees, including those who formerly served Nationalist China.

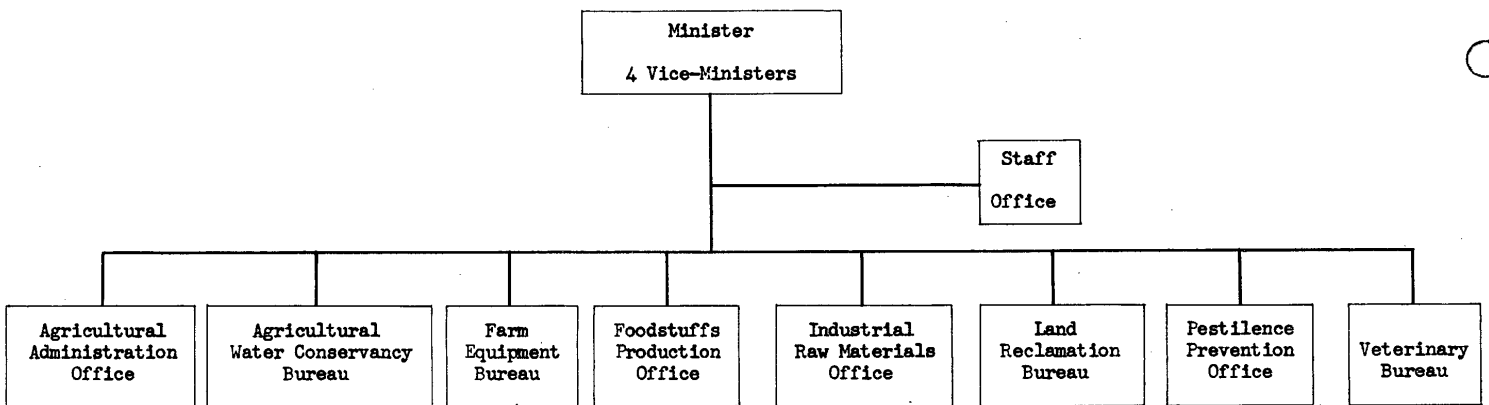
D. Ministry of Agriculture.

The Ministry of Agriculture (see Fig. 5) is responsible for administering Communist China's most basic economic activity, involving directly or

S-E-C-R-E-T

S-E-C-R-E-T

Figure 5. Ministry of Agriculture (Tentative)* 63/



* Other ministries have certain administrative offices, such as planning, personnel, and accounting, and it would appear logical to assume that the Ministry of Agriculture also has offices of such administrative nature in addition to those shown on this chart. However, no actual evidence of the existence of such offices has been found, and they are therefore omitted.

S-E-C-R-E-T

S-E-C-R-E-T

indirectly about four-fifths of the population. Because agriculture is the chief foundation of the economy, and because industrialization depends in large part on increased agricultural production in order to provide the necessary capital for investments, the Communist regime is greatly concerned with agricultural policies. Agriculture is subject to far less direct control than are industry, transportation, or finance. The establishment of individually owned small farms is the first step of the "land reform" movement. In Manchuria and North China, attempts have been made to organize the peasants into mutual aid teams, but it appears likely that private farming will remain the dominant type of agriculture for several years. 37/ Meanwhile, mutual aid teams, cooperatives, and state farms will continue to be emphasized and to assume increasing importance. In October 1951 the Minister of Agriculture stated that 60 percent of the peasants in North China and 70 percent of those in Manchuria had joined mutual aid teams.

The Ministry of Agriculture apparently has four vice-ministers. The top officials are largely non-Communist figureheads and technicians whose lack of prominence gives the appearance of belying the Ministry's actual importance.

The Ministry's functions include, in addition to the direct or indirect administration of agricultural production programs, certain manufacturing enterprises such as agricultural drugs. 38/ In December 1950, part of the functions of the former Ministry of Food Industry, presumably the ministry dealing with food production, was assigned to the Ministry of Agriculture. 39/ Likewise, in November 1951, jurisdiction over land reclamation was transferred to the Ministry of Agriculture from the former Ministry of Forestry and Land Reclamation, which became the Ministry of Forestry. 40/ The Ministry of Agriculture is also responsible for the fishing and marine products enterprises. 41/

1. Structure.

The Minister of Agriculture is assisted by four vice-ministers, the fourth having been added in July 1951. There is no evidence that any of the vice-ministers have responsibility for particular bureaus or offices, each of which is headed by a director. The only one of the staff and coordinating units which has been identified is the Staff Office, which presumably is concerned with internal administration. Exact information is

S-E-C-R-E-T

lacking on the planning, personnel, and other staff bureaus usually found in Chinese Communist economic ministries. There are at least eight functional bureaus or offices for agricultural administration, foodstuffs production, industrial raw materials, veterinary services, pestilence prevention, farm equipment, water conservancy, and land reclamation. Presumably these bureaus have subordinate functional and staff units, although these have not been identified.

Local administration of the Ministry of Agriculture is conducted by regional and local governments and especially by either the agriculture or the agriculture and forestry departments at various levels. General plans and programs of prime importance are formally enacted by the General Administrative Council (GAC) and directed to the regional governments for elaboration and dissemination to lower governmental levels. The Ministry itself issues numerous directives, sometimes jointly with other ministries or organs. These provide instructions and general guidance to the local agricultural departments. Although indirect control is usually exercised through local administrations, certain enterprises including insect drug factories, apparently are managed directly by the Ministry. 42/

2. Administrative Problems.

Various directives issued in early 1952 reflected Communist efforts to implement the current year's production plan as adopted by the GAC. General instructions to agricultural offices, cooperatives, farm tool stations, and banks regarding increased utilization of farm tools were set forth in a directive issued jointly by the Ministry and the All-China Federation of Cooperatives. 43/ In January 1952 the East China Military and Administrative Committee directed each province to establish promptly both a manufacturing plant and an experimental plant for farm equipment and instructed smaller administrative districts to set up a repair plant. It became the responsibility of the local governments to carry out this program. 44/ It seems doubtful that local governments could provide for the stipulated manufacture and repair of farm machinery in time for effective use in 1952 production. The same may be said of directives on better disease prevention, the use of fertilizer, and the propagation of better seed.

In seeking to reach planned production goals, the regional governments rely heavily on local forms of authority, such as the Party, cooperatives, and mutual aid teams, to exhort the peasants to increase their efforts. An East China directive on spring planting, for example, required

S-E-C-R-E-T

that all levels of government submit periodic reports on such organizational efforts aiming toward increased production. ^{45/} In Manchuria the top regional official gave general instructions regarding mobilization for spring production to local government, Party, and mass organizations. ^{46/} Provincial governments were to report every 5 days on the development of this program. Inspection teams headed by high-ranking officials of the Manchurian regional government were instructed to visit the various provinces.

Despite all these efforts to achieve increased production, there are indications of serious weaknesses in the administration of the Ministry of Agriculture. Repeated emphasis in directives on particular problems of coordination, on the lack of compliance with instructions, on the desirability of utilizing cooperatives and other organizations for performing assigned tasks, on the existence of inadequate leadership, on unsatisfactory performance in providing for loans and tools, and on frequent failure to achieve effective mobilization of peasants for greater production are indications of unsatisfactory administration. In Manchuria, where agriculture is under stricter control than in other regions, a recent directive set forth a temporizing policy regarding inefficient or corrupt local officials. ^{47/} The directive also reminded overzealous Communists of the present moderate policy in such matters as hired labor, private loans, and the formation of cooperatives on a "voluntary" basis.

Further evidence of weakness of the administration of the Ministry of Agriculture is given by an official Northwest China report of May 1951. In claiming certain progress in coordination between agriculture agencies and related organs, the report indicated that such coordination should be strengthened. ^{48/} The report criticized local leaders for their ignorance or misunderstanding of the plans, for using wrong methods, for the failure to coordinate their varied efforts, for overzealousness, and for indifference. It noted that certain local positions were left unfilled for months. In various areas, production activities were neglected. Training of staff workers was generally inadequate. The report also noted inadequate organization of facilities for the manufacture and repair of farm tools.

A further aspect of the administration of agriculture is the problem of effective coordination at ministerial levels. The Ministry of Agriculture is necessarily dependent in important matters on certain industrial ministries, such as the People's Bank, the Ministry of Finance, the Federation of Cooperatives, and other national organs. This problem involves not only these agencies but also the GAC as the directing organ of administration. From the evidence available and by inference from indications of poor coordination

S-E-C-R-E-T

S-E-C-R-E-T

at regional and local levels, it may be inferred that unsatisfactory coordination also exist between the ministries.

3. Personnel.

The Ministry of Agriculture is headed by a group of undistinguished officials, of whom only the ranking vice-minister is identified as a Communist. 49/ Minister Li Shu-ch'eng is regarded as a figurehead, since he is a retired general nearly 80 years old. He had not held an important office since 1936 until appointed Minister in October 1949. Vice-Minister Lo Yu-ch'uan, a Communist, probably controls the Ministry. He previously served in secondary administrative offices of the local Communist governments in North China areas. The next two vice-ministers are agricultural experts who studied in non-Communist countries. Wu Chueh-nung, a Shanghai tea expert and merchant, once served as technical adviser in Nationalist China. Yang Hsien-tung, a US-educated expert, previously held both teaching and middle-level administrative posts in Nationalist China. The fourth vice-minister, Chang Lin-ch'ih, appointed in July 1951, previously directed the Ministry's Staff Office.

It may be assumed that many former Nationalist officials are in the Ministry of Agriculture. Although there are few indications of change in the Ministry's personnel at top and bureau levels, some dismissals have occurred, especially during the past year. Attempts to eradicate administrative weaknesses, to get rid of politically unreliable personnel, and to reward Communist devotees of the agrarian program probably will bring about a considerable turnover during the next 2 years.

IV. Soviet Penetration and Control of the Chinese Communist Economy.

Soviet influence in Chinese affairs antedated Mao Tse-Tung's rise to leadership within the Chinese Communist movement. Moscow's formal recognition of Mao and a subsequent increase in Soviet influence came after the leadership within the Chinese Communist Party had been decided. This took the form of technical and economic assistance, Sino-Soviet joint companies, and Sino-Soviet trade and credit agreements. 50/

A. Soviet Technical and Economic Assistance.

Since 1948 an increasing number of Soviet technical advisers have appeared in Communist China, and their services have received frequent recognition in official statements in the Chinese press. The total number

S-E-C-R-E-T

S-E-C-R-E-T

of Soviet advisers cannot be estimated accurately. They are in virtually every branch of the economy although they appear to be most prominent in railway transport, heavy industry, and mining. They were first recognized in Manchuria, the most important area in which the USSR acquired special rights by virtue of the Sino-Soviet treaty and agreements of 1945. Soviet experts have also been concentrated in North China and Northwest China and have been reported to be in other parts of the country.

The importance of the Soviet technical advisers varies in different areas and in different enterprises, but their influence on the Chinese economy is probably considerable and in some cases may amount to direct control. The influential role of the Soviet technical advisers is indicated by frequent Chinese praise of Soviet technicians, dependence on them because of the increasing use of Soviet machinery and techniques, the establishment by the Peking regime of Soviet economic patterns, and the nature of Sino-Soviet economic obligations. These advisers are expected by the USSR to help safeguard Soviet interests regarding the production of materials for export to the Soviet Bloc. Whether they participate directly in the policy-making processes cannot be established, but their recommendations on important projects appear to receive careful consideration and may often be decisive. Despite the influx of Soviet technical advisers and their increasing influence, [redacted] they have taken over the general direction and control of the Chinese Communist economy or that such complete control may be an early probability. 50X1

B. Sino-Soviet Joint Companies.

Sino-Soviet joint companies, nominally organized on a parity basis, afford the USSR direct control over important segments of the Chinese Communist economy, especially in Manchuria and Sinkiang. Officially announced Sino-Soviet agreements provide the legal basis for the Chinese Changchun Railway in Manchuria, for a joint civil aviation company operating lines between North China and Soviet Asia, and for two companies concerned with production of petroleum and nonferrous metals in Sinkiang Province. [redacted]

[redacted] other Sino-Soviet joint companies may have been formed to undertake specific industrial and commercial activities. Soviet control is also exercised indirectly through at least one joint company involving an Eastern European Satellite. An officially announced Sino-Polish agreement provides for a joint shipping company to operate vessels engaged in trade between Poland and Communist China. 50X1

S-E-C-R-E-T

S-E-C-R-E-T

1. Chinese Changchun Railway.

The Chinese Changchun Railway, the most important railway network in Manchuria, was given legal sanction as a jointly owned and jointly managed enterprise by the agreement of 14 August 1945 between the USSR and Nationalist China. 51/ According to this agreement, the new railway was to be formed by uniting designated trunk lines and certain auxiliary lines of the former Chinese Eastern and South Manchurian Railways. The USSR thus regained with respect to Manchurian railways substantially the position held by Russia before her defeat by Japan in 1905.

The subsequent agreement of 14 February 1950 between the USSR and Communist China sanctioned this position with minor modifications but also stipulated that the USSR should transfer its rights in the Chinese Changchun Railway to Communist China by the end of 1952. 52/*

The main lines of the Chinese Changchun Railway extend from Manchouli, on the northwest frontier, eastward to the border town of Suifenho, and from Harbin, in north Manchuria, to Dairen and Port Arthur. The railway thus affords the USSR a direct route across Manchuria toward Vladivostok and also to the Port Arthur naval base and to Dairen, Manchuria's principal port, in south Manchuria. The railway reaches cities from which major lines extend to Korea as well as to North China. Consequently, it is of vital importance not only as a network linking Manchuria with the USSR but also in connection with shipments to and from North China and North Korea.

The railway also owns certain nonmilitary properties, although they are of slight importance in the Manchurian economy. Among them are timber concessions, electric power plants, and two coal mines.

2. Sino-Soviet Civil Aviation Company.

The Sino-Soviet Civil Aviation Company was established in accordance with a 10-year agreement of 27 March 1950. This agreement authorized creation of a joint company to operate air lines linking Peking with the Soviet Asian cities of Chita, Irkutsk, and Alma-Ata, and with intervening points in China. 53/ Thereby the USSR obtained legal sanction for greatly extending the scope of jointly operated air lines in China. Previously, under the 10-year

* In September 1952 a Sino-Soviet communiqué announced that steps had been initiated to complete the transfer by 31 December 1952. The USSR, however, is expected to continue to influence the operation of the railway through Soviet technicians, continued control of the Port Arthur naval base, and other methods.

S-E-C-R-E-T

agreement of 1939, extended in 1949 by an unwilling Nationalist China, a joint Sino-Soviet company operated air transport facilities only between Alma-Ata and Hami, in eastern Sinkiang. The original agreement was concluded at a time when Sinkiang Province was under Soviet domination.

The new civil aviation company's organizational pattern is similar to that of the other joint companies with regard to nominal parity, equal sharing of expenses and profits by the two parties, and alternating of top administrative posts between Soviets and Chinese. However, key operational and management personnel are Russian, and the Soviets apparently have complete domination over the company's activities. 54/

Through this company the USSR has direct control over important air transport facilities which not only monopolize air traffic between Peking and major points in Soviet Asia but also serve Chinese border provinces from Manchuria to Sinkiang, areas in which the USSR has a primary concern. Establishment of such a far-flung and vital air transport network indicates the USSR's intention to continue to control and exploit these facilities on a long-term basis. It is unlikely that this control will be weakened or curtailed during the next several years despite popular Chinese distrust of the exercise or such privileges by the Soviets.

3. Sino-Soviet Companies in Sinkiang Province.

Authorized by two agreements of 27 March 1950 valid for 30 years, the Sino-Soviet Petroleum Company and the Sino-Soviet Nonferrous and Rare Metals Company were organized to exploit mineral resources in Sinkiang Province. 55/ According to Communist press statements, the first company is concerned with discovering, producing, and refining oil and gas in Sinkiang, while the second company, concerned primarily with nonferrous metals, also has both exploratory and production responsibilities.

These companies are organized on a nominal parity basis, both parties ostensibly sharing in expenses, profits, production, and personnel. Top administrative posts are to be alternated between Soviet and Chinese citizens every 3 years. During the first 3 years a Soviet manager is to be assisted by a Chinese deputy, while the Central Boards are to be headed by Chinese, with Soviets as vice-chairmen. However, these formal arrangements have little effect on the management of the companies, which are under strict Soviet control. It has been reported that they are being utilized exclusively for Soviet advantage. 56/

Establishment of these joint companies indicates the USSR's intention to develop, exploit, and control on a long-term basis the considerable mineral resources of Sinkiang, especially strategic metals. These resources have been little utilized hitherto, although the USSR attempted to develop

S-E-C-R-E-T

some of them during the decade of Soviet domination of Sinkiang before 1944. The Chinese Communist potential with regard to supplying equipment, facilities, technical skills, and top management needed by the joint enterprises is very slight. Moreover, Chinese Communist economic and administrative influence in Sinkiang as a whole is weak. It is likely that Soviet control over important parts of the Sinkiang economy will be maintained at least for a considerable time, and this control will become more extensive as the joint companies increase their scope of operations. Over the longer term, growing resentment of the Chinese and the indigenous population over Soviet exploitation may become a source of vulnerability in the position of the USSR.

4. Sino-Polish Shipping Company.

In accordance with the Sino-Polish shipping agreement of January 1951, a joint company has been organized on a parity basis to engage in the shipping trade between Poland and Communist China. [redacted] each signatory agreed to furnish an equal number of vessels, variously stated as from 10 to 16. 57/ [redacted] Poland agreed to provide officers and technicians for the Chinese ships and also to train Chinese deck officers. During 1951, various delays and difficulties reportedly were experienced in implementing the agreement. In particular, the Peking regime is said to have failed to provide promptly the stipulated number of ships. The company, when fully in operation, may contribute much needed shipping facilities for the expanding trade between Communist China and the European Satellites.

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The weak position of Communist China with regard to shipping resources and trained crews suggests that the Chinese will have a subordinate role in the management and control of the company. Moreover, ultimate control presumably is held by the USSR.

V. Strengths and Weaknesses.A. Elements of Strength.

Probably the most important and far-reaching element of strength in the economic organization of Communist China is the concentration of control. This control is becoming more firmly established and centralized as greater administrative skill and experience are attained. Development of control has provided an opportunity to introduce uniformity in methods and procedures, both in the operational aspects of economic enterprises, as well as in the information-gathering processes so essential for a planned economy.

S-E-C-R-E-T

The consolidation of control has also facilitated the adoption of Soviet organizational methods and management techniques. This factor most probably must be regarded as an element of strength for a predominantly agricultural country such as China. Mao Tse-tung has succeeded in practically isolating his new China so that a condition of dependency upon the USSR exists, and the consolidation of control under these circumstances probably represents a gain rather than a loss for China. In addition, the facility of exercising greater control has broadened the opportunities to apply the experience gained in the more highly developed Manchurian area to the remaining areas of China.

B. Elements of Weakness.

Elements of weakness exist in the economic organization of Communist China, however, which counterbalance the factors of strength to a considerable degree. These elements of weakness are associated largely with the initial phases of development in a Communist-controlled state, the customary faults of Soviet-controlled organizations, as well as the traditional administrative habits peculiar to China.

In the first instance, there is evidence of poor planning, administrative conflicts, and duplication of effort. Much of this difficulty stems from the failure to follow directives or to understand the purpose and objectives of these directives.

Communist China has possibly attempted too ambitious a program for the administrative and management skills available. As a result, Mao has been forced to use former Nationalist administrators in his government at a time when political reliability is of paramount importance.

With reference to purely administrative problems, other elements of weakness are the traditional tendencies of overstaffing, nepotism, corruption, and low performance standards in the civil service. Only limited progress apparently has been achieved in correcting these weaknesses. Consequently, there exists in Communist China an excessive hierarchy of administrative organs which encourages bureaucracy, restricts initiative, and slows up administrative action.

Another important weakness, although not directly related to organizational features of the economy, is the traditional dislike in China of the USSR and all Russian administrators. This attitude reflects a deep-seated Chinese anti-foreign sentiment. Although this attitude has not yet reflected itself in the lack of cooperation, nevertheless it is a significant and potential limitation on effective liaison between Communist China and the USSR.

S-E-C-R-E-T

APPENDIX A

COMMON PROGRAM OF THE CHINESE PEOPLE'S POLITICAL CONSULTATIVE CONFERENCE

The following articles of the Common Program of the Chinese People's Political Consultative Conference are those concerned chiefly with economic policy. 58/

Article 26. The basic principle for economic construction of the People's Republic of China is to attain the goal of developing production and bringing about a prosperous economy through the policy of taking into account both public and private interests, benefits to both labor and capital, mutual aid between the city and the countryside, and the inter-flow of goods at home and between China and countries abroad.

The state shall coordinate and regulate the state-owned economy, cooperative economy, individual economy of the peasants and handicraftsmen, private capitalist economy and state capitalist economy in the spheres of operation, supply of raw materials, and trade, so that all components of the social economy can play their part and effect division of work and cooperate under the leadership of the state-owned economy to promote the development of the entire social economy.

Article 27. The agrarian reform is the essential condition for the development of the productive power and the industrialization of the country. In all areas where the agrarian reform has been carried out, the rights of ownership to the land obtained by the peasants shall be protected.

In areas where the agrarian reform has not yet been carried out, the peasant masses must be set in motion to organize peasant organizations and to realize the slogan "Land to the tiller" through such measures as the elimination of local bandits and despots, the reduction of rents and interest, and the distribution of land.

Article 28. The state-owned economy is of a Socialist nature. All enterprises vital to the economic life of the country and to the people's livelihood shall come under the unified operation of the property of all the people. They are the main material basis of the People's Republic for the development of production and the creation of a prosperous economy and are the leading forces of the entire social economy.

S-E-C-R-E-T

Article 29. Cooperative economy is of a semi-Socialist nature and is an important component of the entire people's economy. The People's Government shall foster its development and accord it preferential treatment.

Article 30. The People's Government shall encourage the active operation of all private economic enterprises beneficial to the national welfare and the people's livelihood and long-term development.

Article 31. The economy based on cooperation between state and private capital is of a state capitalist nature. Whenever necessary and possible, private capital shall be encouraged to develop in the direction of state capitalism -- for example, toward joint operations with the state or operation of state-owned enterprises and exploitation of the state-owned resources through the form of concessions.

Article 32. The system of workers taking part in the administration of production shall at present be put into practice in state-owned enterprises. That is, Factory Administrative Committees shall be set up under the leadership of the factory director.

In privately owned enterprises, collective contracts should be signed by the employer and the trade union representing the workers and employees in order to carry out the principle of benefits to both labor and capital. At present an 8- to 10-hour day shall in general be enforced in publicly and privately operated enterprises, but this may be dealt with at discretion under special circumstances. The People's Government shall fix the minimum wage according to the conditions of various places and trades. Labor insurance shall be gradually instituted. The special interests of juvenile and women workers shall be protected. Inspection of industries and mines shall be carried out to improve safety devices and the sanitary facilities of the industries and mines.

Article 35. Industry: To lay down the foundations for the industrialization of the country, work shall be centered on the planned, systematic rehabilitation and development of heavy industry, such as the mining and steel and iron industries; light industry; the machine-building industry; the electrical industry; and the main chemical industries. At the same time the production of the textile industry and other industries beneficial to the national welfare and the people's livelihood shall be restored and increased to meet the daily consumption needs of the people.

S-E-C-R-E-T

Article 36. Communications: Railways and roads must be restored and transport facilities increased. Rivers must be dredged and waterway transportation expanded; postal and telegraphic services must be improved and developed; various communication facilities must be built up and civil aviation inaugurated step by step, according to plan.

Article 37. Commerce: All legitimate public and private trading shall be protected. Control of foreign trade shall be enforced, and the policy of protecting trade shall be adopted. Domestic free trade shall be adopted under the general economic plan of the state, but commercial transactions disturbing the market are strictly prohibited.

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APPENDIX B

PERSONNEL OF THE PRINCIPAL CHINESE COMMUNIST MINISTRIES

As of May 1952, personnel assigned to posts of importance in the four most important ministries were believed to be as follows:

1. Ministry of Railways.

Minister	T'eng Tai-yuan
Vice-Minister	Lu Cheng-ts'ao
Vice-Minister	Wu Ching-t'ien
Vice-Minister	Shih Chih-jen
Staff Office, Director	Wu Ching-t'ien
General Engineering Bureau, Director	Lu Cheng-ts'ao
General Rolling-Stock Bureau, Director	Shih Chih-jen
Electric Power Bureau, Director	Ching Ch'en-ch'ang
Shops Bureau, Director	Liang Chung-lai
Finance Department, Director	Chu Shao-t'ien
Materials Bureau, Director	Lai P'ing
Personnel Bureau, Director	Ma Chien
Planning Bureau, Director	Ch'ien Ying-lin
Public Security Bureau, Director	Li Chen
Installations Bureau, Director	Lin Shih-po
Political Department, Director	Lu P'ing
Hygiene Bureau, Director	Sung Chieh

2. Ministry of Communications.

Minister	Chang Po-chun
Vice-Minister	Li Yun-Ch'ang
Vice-Minister	Chi Fang
Vice-Minister	Wang Shou-tao
Staff Office, Director	Chang Wen-ang
Councilors Office, Chairman	Hsiao Ping-chun
Civil Aviation Bureau, Director	Chung Chih-ping
Navigation Bureau, Director	Chang Wen-ang
Public Roads Bureau, Director	Hsu Peng-ju

S-E-C-R-E-T3. Ministry of Heavy Industry.

Minister	Li Fu-ch'un
Vice-Minister	Ho Ch'ang-kung
Vice-Minister	Chung Lin
Vice-Minister	Liu Ting
Staff Office, Director	Lai Chi-fa
Planning Office, Director	Hsu Ch'ih
Personnel Department, Director	Yang T'ien-fang
Management Office, Director	Wang Wen
Accounting Department, Deputy Director	T'an Wei
Aviation Industry Bureau, Director	Ho Ch'ang-kung
Chemical Industry Bureau, Director	Li Su
Nonferrous Metals Industry Bureau, Director	Wang I-ch'un
Machine Industry Bureau, Director	Ha Ch'en-chi
National Ordnance Administration, Director	Liu Ting
Shipbuilding Office, Director	Ch'en Wang
Steel Industry Bureau, Director	Liu Pin

4. Ministry of Agriculture.

Minister	Id Shu-ch'eng
Vice-Minister	Lo Yu-ch'uan
Vice-Minister	Wu Chueh-nung
Vice-Minister	Yang Hsien-tung
Vice-Minister	Chang Lin-ch'ih
Staff Office, Director	Wang Fa-wu
Agricultural Administration Office, Director	Liu Ting-an
Agricultural Water Conservancy Bureau, Director	Chang Tzu-lin
Farm Equipment Bureau, Director	Wang Ch'eng-chou
Foodstuffs Production Office, Director	Wang Shou
Industrial Raw Materials Office, Director	Sun En-lin
Land Reclamation Bureau, Director	Chang Hsing-san
Veterinary Bureau, Director	Ch'eng Shao-ch'ui

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