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CENTRAL INTELLIGENCE AGENCY

WASHINGTON 25, D. C.

OFFICE OF THE DIRECTOR

AUG 13 1952

MEMORANDUM FOR: SPECIAL ASSISTANT, INTELLIGENCE, DEPARTMENT
OF STATE
ASSISTANT CHIEF OF STAFF, G-2, DEPARTMENT
OF THE ARMY
DIRECTOR OF NAVAL INTELLIGENCE, DEPARTMENT
OF THE NAVY
DIRECTOR OF INTELLIGENCE, HEADQUARTERS, UNITED
STATES AIR FORCE
DIRECTOR OF INTELLIGENCE, ATOMIC ENERGY
COMMISSION
DEPUTY DIRECTOR FOR INTELLIGENCE, THE JOINT STAFF
ASSISTANT TO THE DIRECTOR, FEDERAL BUREAU OF
INVESTIGATION

SUBJECT: Intelligence Deficiencies Revealed in SE-27

1. The Office of National Estimates has reviewed with the IAC representatives the intelligence deficiencies in SE-27. These have been presented in Enclosure A.

2. Inasmuch as the intelligence deficiencies are primarily in regard to economic matters, I have requested Mr. Amory, as the Chairman of the Economic Intelligence Committee (EIC), to take up with that Committee as an urgent matter:

a. The review of existing guidance in this field to collection agencies;

b. Action required to fill the specific gaps as pointed out on page four of the enclosure relating to seaborne exports from the Communist bloc to Communist China and railroad transportation;

c. Consideration of what additional research facilities within the community should be provided in order to strengthen our research in this field.

3. I am requesting Mr. Amory to make available to me and to the other IAC members a progress report within six weeks.

STATE, USAF reviews completed

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4. The statement of intelligence deficiencies points out needs for coordinating, translating, indexing, and distributing the material already available on Communist China. I have requested Mr. Reber, the Assistant Director for Intelligence Coordination to look into this question with the IAC agencies and similarly to submit a report to me and the IAC within six weeks. In connection with this Mr. Reber will keep in close touch with Mr. Amory and will seek the advice of the EIC Subcommittee on Requirements.



WALTER B. SMITH

Director

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STATEMENT OF INTELLIGENCE DEFICIENCIES REVEALED IN SE-27:

"PROBABLE EFFECTS OF VARIOUS POSSIBLE COURSES OF
ACTION WITH RESPECT TO COMMUNIST CHINA"

1. The first and most basic deficiency is in general coverage of Communist China, particularly on economic matters. US policy with respect to Communist China must lean heavily on analyses of many aspects of the economic situation within that country. Such problems as the extent to which Western trade controls have weakened the Chinese Communist economy and the degree to which additional controls could be expected to weaken it further, the economic ability of Communist China to carry on the war in Korea and to support additional large-scale military operations, the degree to which Communist China can compensate the USSR for Soviet military and economic assistance, the development of the Chinese Communist war potential, and the inflationary pressures existing in Communist China, are key questions in the preparations of National Estimates and the formulation of national policy with respect to Communist China. SE-27 as well as predecessor estimates was hampered by the difficulties in determining the extent and manner in which economic factors affected the intentions and capabilities of the Peiping regime. The absence of such treatment reflected gaps in both collection and research efforts, thus:

a. Collection. There is a serious lack of reliable economic information on Communist China. The following points are pertinent:

- (1) Even when the mainland was under the Nationalists and the US had considerable freedom to obtain information, economic information was generally inadequate and/or unreliable.
- (2) The data and qualitative information that were available with respect to the economy of the Chinese mainland at the time the Nationalists evacuated has been getting rapidly out of date. US officials were recalled in December 1950 and business

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representatives progressively withdrew after that date. Information now available is limited to occasional

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Communist periodicals, Communist propaganda, and speeches made by Communist officials.

- (3) As in the case of all Communist states, much information on the Chinese economy is regarded as a state secret and is strictly guarded.

b. Collation. There is need for coordinating, translating, indexing, and distributing the material already available on Communist China. In particular, it is important to coordinate the various efforts to obtain and exploit material on the economy of China (such as the Air Forces Research Project at Stanford, the State Department's collection and translation projects at Hong Kong and Taipei, and CIA's Foreign Document Divisions). Because of the dearth of translations, it is particularly important to minimize duplication in this field.

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c. Research. The economic research facilities allocated to Communist China in the Washington intelligence community have been inadequate. Although there are a sufficient number of specialists (e.g., mining, transportation, agricultural specialists) who could be transferred from present areas of responsibility to work on Communist China, there are few analysts with good general economic background and an area knowledge of China. Thus, economic research facilities are inadequate to make full use of even the limited amount of economic information readily available on Communist China. OIR, which is the principal contributor to National Estimates dealing with the economy of Communist China, has only [redacted] engaged in this activity. Moreover, with increased emphasis on research and analysis of the Chinese Communist economy, more information, direct or derived, would be made available. (In the roughly analogous situation with respect to the Soviet economy, considerable progress has been made in exploiting through intensive analytical techniques the limited information available.)

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(1) Specifically, a recent survey conducted by the Economic Intelligence Committee reveals that only the equivalent of approximately [] professional analysts* in the US Government (including approximately [] in non-IAC agencies) are engaged in work which can possibly contribute to the production of National Estimates dealing with the economy of Communist China. Of these [] analysts, there are the equivalent of only [] engaged in the preparation of analyses on the Chinese Communist economy as a whole; the remainder are employed on the research of specific segments of the economy, e.g., international trade and finance, transportation, materials, and industry. Since National Estimates are largely devoted to the examination of broad problems, it is apparent that the paucity of analysts who have integrated approach to the economy of China as a whole has directly and seriously affected the quality of intelligence estimates dealing with this aspect of Communist China. It should be further noted that even those analysts whose work is such as to bear on the production of National Estimates probably devote a large proportion of their time to purely departmental problems.

(2) There are the equivalent of approximately [] analysts engaged in economic research which contributes only indirectly or remotely to the National Estimates ([] analysts in the NIS program and []). There is attached as Tab "A" a table summarizing the EIC findings.

* In view of the fact that there are professional analysts in the Government who spend only a fractional part of their time in research on specialized aspects of the Chinese Communist economy, the number of professionals working on this area have been expressed in one-man-full-time equivalents.

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2. In addition, two specific gaps in intelligence were evident in the preparation of this estimate as well as in the preparation of such other estimates as SE-20 and NIE-32:

- a. Intelligence on seaborne exports from the Communist bloc to Communist China is inadequate. Without such data it is difficult, if not impossible, to arrive at a reliable estimate of the effect of a Western-imposed naval blockade on Communist China.
- b. There continues to be a serious gap in information with respect to the capacity and traffic of the Trans-Siberian Railroad as well as with respect to the competing requirements for transportation over this route. Obviously the lack of such intelligence presents a formidable obstacle not only with respect to the preparation of estimates that are primarily economic in nature, but also with respect to those dealing with Chinese Communist and Soviet military capabilities in the Far East. Current estimates on the capacity of the railroad are admittedly probably subject to a 50 percent error in either direction. It has been suggested that additional information on the Trans-Siberian Railroad may be obtainable

[redacted] The IAC representatives suggest that these sources be explored as a specific collection possibility. The representatives believe that it may be possible to obtain a more expert appraisal of existing evidence than has yet been furnished.

- c. Additional analysis is necessary in the capacity and traffic of alternate overland routes from the Soviet Far East to Manchuria.

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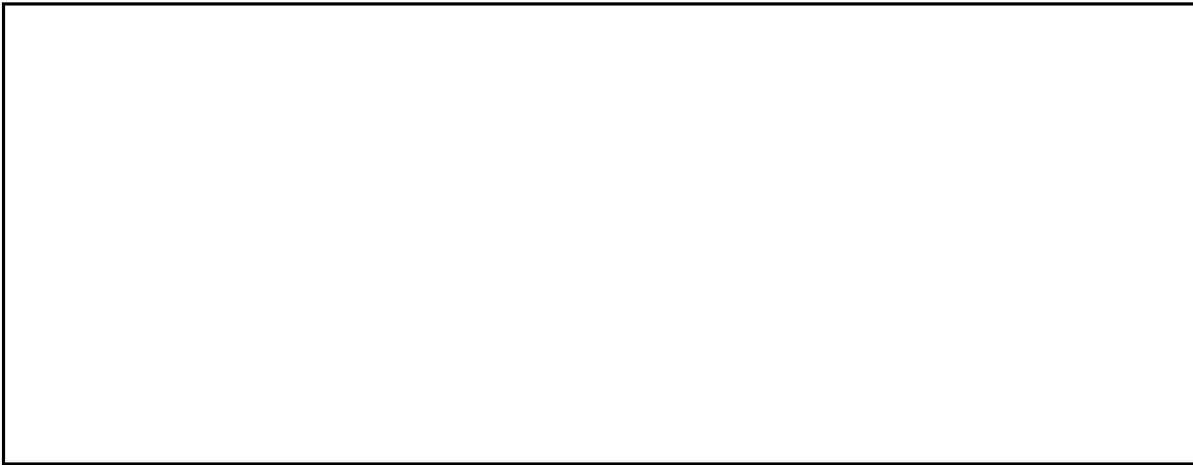
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MEASURES WHICH CIA OFFICES HAVE TAKEN OR WILL TAKE TO CORRECT THE INTELLIGENCE DEFICIENCIES REVEALED IN SE-27

1. The CIA offices have reported the following actions to improve intelligence coverage in Communist China, particularly with respect to economics:

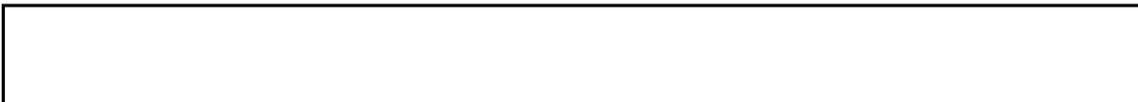
a. The Office of Training is planning to establish a course designed to develop competence in the reading of Chinese newspapers. It is also taking the initiative to discuss with production offices in the Agency additional Chinese language training programs as they may require.



e. The Foreign Documents Division is issuing economic reports, resulting from exploitation, at the rate of about ten per month. The source materials consist of 32 Communist Chinese newspapers and a substantial volume of periodicals, monographs, pamphlets, and other documents irregularly received. [redacted] analysts are currently assigned to exploitation for economic information. The T/O requested for next year would add [redacted] positions.



The IAC agencies are being requested to submit new comprehensive requirements which will define the existing intelligence gaps.



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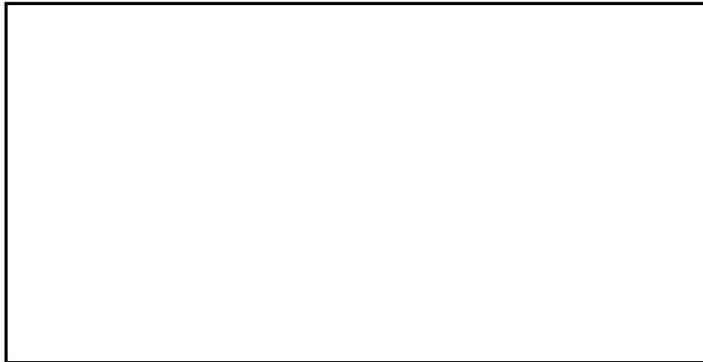
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h. ORR is shown in SE-27 post-mortem as having only the equivalent of [] full-time analysts at work on the economy of China. The new T/O submitted by AD/RR calls for [] analysts to work exclusively on this area as follows:

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Because of the functional organization of RR the foregoing only gives a partial picture. The new research program for 1953 now being drafted will focus attention on all important sectors of the Chinese economy and bring to bear the talents of industrial and technical specialists to an extent equivalent to another [] full-time analysts' time.

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