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DIRECTORATE OF
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Intelligence Report

*Economic Prospects for Communist China
Through 1970*

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Foreword

This report reviews economic performance in Communist China and prospects for the period through 1970. It is not intended, however, to cover details of the most recent production stoppages or transportation delays. The report assumes that Communist China will not become engaged in a major shooting war through 1970 and that large-scale Soviet economic and technical aid will not be resumed in the period. It makes no specific assumption about whether or not Mao Tse-tung will remain as head of state. However, Chinese economic policy will depend largely on how long Mao remains on the scene and on the identity of his successor or successors.

Economic data on Communist China published by the regime are fragmentary and unreliable. The Soviet-style statistical system which was being developed during the first five-year plan (1953-57) fell victim to the frenetic Great Leap Forward. Since 1960 the damage to the statistical system probably has been repaired, but the publication of annual statistical reports has not been resumed. The student of Chinese economic affairs has had to be content with only snippets of official data. Accordingly, numerical estimates in this report -- which have been developed from a variety of sources -- are to be regarded as approximations. Among the estimates, those covering foreign trade are generally the most reliable. Figures in the report are carried to three or four digits for the purpose of showing the size of year-to-year fluctuations and of facilitating calculations of annual rates of growth. In spite of deficiencies in the quality of the data, trends in the numerical series and the general conclusions of the report are believed to give an internally consistent and reasonably accurate picture of the state of Chinese Communist economic affairs.

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

INTELLIGENCE REPORT

Economic Prospects for Communist China
Through 1970

Summary

Economic prospects for Communist China through 1970 continue to be dominated by the food-population problem, the attempt to move to the next stage in the advanced weapons program, and the ups and downs of the Cultural Revolution. The economic balance between means and ends will remain uncertain, not so much because of a lack of resources but because of China's sweeping military ambitions and the attempts of the aging Mao to stamp his brand of Communism on a recalcitrant nation.

China's huge population -- roughly 790 million at midyear 1967 -- continues to grow at 2 or 2-1/4 percent a year. No precise information is available on the level of food intake, but the following propositions appear to be essentially correct: (1) In 1957, the last year of the first five-year plan, the daily caloric intake was roughly 2,200 per capita -- clearly enough by Chinese standards to maintain productive efficiency. (2) After the collapse of the Great Leap Forward in 1960, the daily caloric intake fell to about 1,700 per capita, and only a complete reversal of economic policy saved the regime from disaster. (3) Today, the daily caloric intake is perhaps 2,000 per capita, still some 10 percent below the 1957

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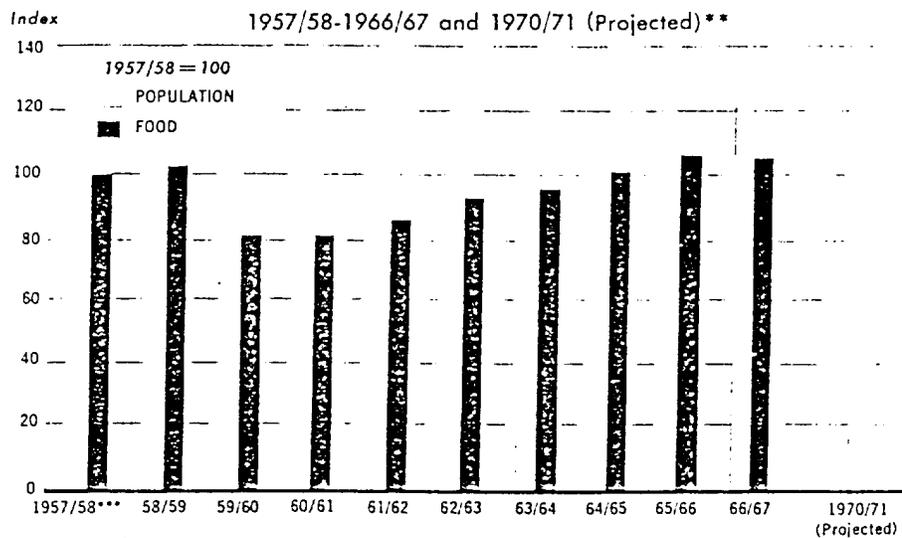
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level in spite of the recovery in agriculture and annual imports of 5 million to 6 million tons* of grain. In the near future, China must raise domestic production of grain by 4 million tons each year just to keep even with the growing population. Such an increase would be a challenge to China's agricultural resources -- to judge by past performance -- yet it would not even permit an improvement in the barely tolerable diet nor would it permit a reduction in grain imports. The food-population pattern is shown in Figure 1.

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Figure 1

COMMUNIST CHINA: Indexes of Estimated Population and Available Food *



*Food includes both grain and nongrain food and also imports of grain.

**The food consumption year runs from 1 July to 30 June. Population estimates are as of 31 December.

***Food supplies were sufficient to maintain productive efficiency by Chinese standards.

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Gains in industrial production in the past four years (see Table 1) have resulted mainly from fuller use of capacity idled by the Great Leap Forward but also partly from investment in priority industries such as chemicals, petroleum, and modern weapons. Future gains in industrial production will have to come more and more from

* Tonnages are given in metric tons.

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new additions to capacity and from successful exploitation of initial progress on advanced weapons programs. China is only beginning to move from the explosion of nuclear devices and the launching of test missiles to serial manufacture and deployment of advanced weapons. This new stage will inevitably entail greater demands on the country's scarce scientific, technical, and managerial resources and will continue to drain these resources from the civilian sector and delay the growth of an industrial base for the broader needs of the economy.

China is determined to push on with research and development (R&D) in advanced weapons. In the period of Soviet support, this R&D had already been accomplished by the USSR and was made available to the Chinese at a fraction of its original cost. Currently, Japan and Western Europe supply key equipment, materials, and technology that support China's advanced weapons program. China thus can maintain a wider and more rapid program than would otherwise be possible but cannot avoid a sharp rise in costs.

As for the Cultural Revolution, its effects on the economy became appreciable only in the last quarter of 1966. Industry, agriculture, transportation, and foreign trade have been subject to sporadic disruptions which have not as yet led to a serious and self-reinforcing decline in economic activity. There has been, however, a decline in efficiency and probably a slow decline in industrial production, starting in the last quarter of 1966 and continuing through the first half of 1967.

Up to now the war in Vietnam has not had a measurable effect on China's economy. Most of the resources supplied North Vietnam - small arms, construction materials, and the services of engineering troops - are not the resources in scarcest supply within China. Furthermore, the transportation of Soviet materiel to North Vietnam by rail creates no special economic problems for

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China. One result of the Vietnamese war has been a speedup in investment in China's domestic transport net, especially in Southwest China.

The economic outlook for Communist China through 1970 will be strongly conditioned by political developments. If the political turmoil continues at about its present level, the economy seems likely to deteriorate further; if the present disruptive conditions were to continue for an extended period or intensify, a sharp decline in industrial production or an acute food shortage might occur.

It is conceivable - although not likely - that the present indeterminate political situation will end soon with Mao reestablishing control and introducing an economic phase of the Cultural Revolution with similarities to the Great Leap Forward. In this case, the substitution of political and ideological motivations for material incentives could be expected as well as the abolition of private plots and free markets in agriculture. Such a pattern of events would ultimately lead to a deterioration in discipline and morale, dislocation in production and transport, and widespread hunger.

It is also conceivable - although again not likely - that Mao will be replaced by a group of sober-minded pragmatists who would adopt less grandiose goals, ascertain what economic tasks were feasible, and set to work on them in a non-doctrinaire fashion. Renewed support from the USSR might possibly be part of the picture. The result could be a serious attack on the population problem and a sustained rise in production and living standards.

Even when these two possibilities are ruled out, no very confident estimate of Communist China's economic future can be made, especially given the present record of political turmoil and the past record of twists and turns in economic

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policy. Some general conclusions may be hazarded, however. The ambitions which have produced China's advanced weapons program will almost certainly remain, and output in the military industries will probably continue to grow at a fairly rapid pace. At the same time, a substantial part of industry will remain in the backwater of outdated equipment and technology. The food-population problem will not be solved, at least over the next few years. Barring spectacularly good weather and spectacularly good luck, agricultural output will have to be supplemented by continued imports of grain if the population is to be fed at even its present low level. Foreign trade will continue to grow and will continue to be oriented toward Japan and Western Europe. To an even greater extent than the USSR, China will remain a nation of extreme economic contrasts -- a hungry nation with a dispirited population, albeit one with a growing arsenal of advanced weapons.

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Table 1
Communist China: Major Economic Indicators
1957-66

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966 ^{a/}
<u>Gross national product</u> (billion 1965 US \$)	68	78	85	77	64	66	69	74	77	78
<u>Population</u> (million persons at midyear)	641	657	673	686	698	707	723	738	755	772
<u>Industry</u>										
Index of industrial production (1957 = 100)	100	131	166	172	114	100	110	123	135	144
Primary energy (million metric tons of coal equivalents) ^{b/}	127.3	217.2	281.0	303.1	202.2	176.6	187.4	204.6	213.9	226.1
Crude steel (million metric tons)	5.3	8.0	13.3	18.4	8	8	9	10	11	11.5 to 12.0
Chemical fertilizer (million metric tons)	0.8	1.4	1.9	2.5	1.4	2.1	2.9	3.5	4.5	5.5
Cement (million metric tons) ^{c/}	6.9	9.3	12.3	11	6	5 to 7	6 to 8	7 to 9	8 to 10	9 to 11
Cotton cloth (billion linear meters)	5.0	5.7	7.5	6	2.9	2.9	3.1	3.4	3.7	4.1
<u>Agriculture</u>										
Grain production (million metric tons)	180	195 to 200	165 to 170	160 to 165	160 to 165	175 to 180	170 to 185	180 to 190	185 to 195	180 to 195
Food consumption (calories per day per capita)	2,200	2,180 to 2,230	1,690 to 1,740	1,660 to 1,710	1,720 to 1,770	1,880 to 1,930	1,840 to 1,990	1,920 to 2,020	1,960 to 2,060	1,870 to 2,030
<u>Foreign trade</u> (million US \$)										
Total trade	3,025	3,740	4,205	3,975	3,015	2,670	2,755	3,200	3,765	4,200
Imports	1,435	1,825	2,665	2,025	1,490	1,150	1,200	1,470	1,860	2,045
Exports	1,590	1,915	2,205	1,945	1,520	1,520	1,555	1,725	1,905	2,155
With Free World countries	1,030	1,385	1,310	1,370	1,335	1,265	1,510	2,100	2,600	3,085
With Communist countries	1,935	2,355	2,960	2,600	1,675	1,405	1,250	1,100	1,165	1,115

a. Preliminary estimates.
b. Data are for coal, crude oil, and hydroelectric power expressed in terms of coal equivalents and exclude minor fuels such as peat, shale, and fuelwood.
c. Output of major plants only.

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Introduction

1. Since the establishment of Communist control over Mainland China in 1949, Mao Tse-tung and his lieutenants have tried to catapult China into the company of modern industrial nations. The ultimate objective of Mao's economic policy is political and military power. Industrialization for Communist China, therefore, has meant the building up of basic heavy industry -- steel, coal, electric power, and petroleum -- and the production of modern machinery and armaments.

2. China made substantial strides toward the goal of becoming a modern industrial nation in the first eight years of Communist rule. Since 1957, however, progress has been erratic. During the period of rehabilitation (1949-52) the new government consolidated its control over the economy, restored the small industrial base, and provided a minimum ration of food and clothing for the population. During the first five-year plan (1953-57) the regime made a successful start on forced-draft industrialization in the Soviet style. Production and capacity in important basic industries doubled or even quadrupled.

3. By 1957, Communist China had achieved an enviable momentum in economic development, but progress was not swift enough to satisfy the ambitious ruling group. Thus a second five-year plan (1958-62) was quickly superseded in early 1958 by the Great Leap Forward (1958-60). This complete turnabout in Chinese Communist economic policy was designed to drive the Chinese economy ahead at a manic tempo, almost regardless of the cost in men and equipment. The prosaic Soviet pattern of detailed economic planning and material incentives was discarded in favor of political slogans and "spiritual incentives."

4. The Great Leap Forward proved to be a manmade disaster for Communist China. In agriculture the new communes disrupted proven and efficient production patterns, which, together with unfavorable weather, led to poor harvests; in industry the spurt in production could not be

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maintained because equipment wore out, the labor force was exhausted, and Soviet support was withdrawn. Furthermore, much of the added output was so poor in quality as to be useless.

5. With the adoption of more pragmatic policies in 1961-65 and the advent of more favorable weather, industry and agriculture gradually recovered. Striking successes were achieved in the field of nuclear weapons. By 1966 the economy had completed its comeback from the low point of 1960-61 and was exhibiting a stability that promised steady if slow development over the next few years. The Cultural Revolution has interrupted this trend, however, and now casts a shadow on prospects for the next few years.

6. The material that follows reviews current economic performance in Communist China and prospects for the period through 1970. The discussion of economic performance is organized by sector of the economy -- agriculture, industry and construction, transportation and communications, and foreign economic relations. The analysis of economic prospects is treated under four major headings -- the food-population problem, the ability to support advanced weapons programs, the effect of the Vietnamese war, and the economic implications of the Cultural Revolution.

Economic Performance

Agriculture

7. Chinese agricultural output probably fell slightly in 1966 because of unfavorable weather. Grain production was perhaps 2 million to 5 million tons below the level of 1965, even though the supply of chemical fertilizer went up by 1.6 million tons (see Tables 2 and 3). Cotton production rose by about 200,000 tons, whereas soybean production increased only slightly. In the meantime, population increased by at least 15 million people, and much light industrial capacity remained idle for lack of agricultural raw materials.

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Table 2

Communist China: Estimated Production
of Major Agricultural Commodities
1957-66

Million Metric Tons			
<u>Year</u>	<u>Grain</u>	<u>Soybeans</u>	<u>Ginned Cotton ^{a/}</u>
1957	180	10.2	1.6
1958	195 to 200	9.1	1.8
1959	165 to 170	7.6	1.3
1960	160 to 165	6.7	1.2
1961	160 to 165	7.0	1.0
1962	175 to 180	6.5	0.8
1963	170 to 185	6.9	0.8
1964	180 to 190	6.5	1.0
1965	185 to 195	6.7	1.0
1966	180 to 195	6.8	1.2

a. Lint only.

8. The early grain harvest, which consists of winter wheat, winter miscellaneous grains, and early rice, was below that of 1965. Output of winter wheat was down because of a reduction in yield and acreage caused by persistent and widespread drought during the winter and spring of 1965/66 in North and Northwest China. The output of early rice also fell short of 1965. Heavy and prolonged rainfall in June caused severe flooding in the major producing regions of South China. The resulting reduction in output, however, was offset in part by average to above-average harvests in Central and East China and in parts of Southwest China.

9. The autumn grain harvest, which consists of spring wheat, miscellaneous grains, intermediate and late rice, and tubers, was also below that of 1965. Yields of miscellaneous grains were cut by the summer-fall drought in Central, East, and North China, more than offsetting an estimated increase in acreage. The intermediate and late rice crop was hit by a severe three-month drought in Central and South China beginning in August. Yields fell compared with the previous year.

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Table 3
Communist China: Estimated Availability of Chemical Fertilizer a/
1957-66

Year	Availability			Production			Imports		
	Total	Nitrogen	Phosphorus	Total	Nitrogen	Phosphorus	Total	Nitrogen	Phosphorus
1957	1.9	1.6	0.3	0.8	0.7	0.1	1.1	1.0	0.2
1958	3.0	2.6	0.4	1.4	1.0	0.3	1.6	1.6	Negl.
1959	3.1	2.5	0.5	1.9	1.4	0.5	1.2	1.2	Negl.
1960	3.5	2.6	0.8	2.5	1.7	0.8	1.0	1.0	Negl.
1961	2.4	2.0	0.4	1.4	1.0	0.4	1.0	1.0	Negl.
1962	3.1	2.5	0.6	2.1	1.5	0.6	1.0	1.0	0
1963	4.9	4.0	0.9	2.9	2.0	0.9	2.0	2.0	Negl.
1964	4.7	3.3	1.4	3.5	2.3	1.2	1.2	1.0	0.2
1965	6.8	5.1	1.7	4.5	3.0	1.5	2.3	2.1	0.2
1966	8.4	6.6	1.8	5.5	3.7	1.8	3.0	3.0	Negl.

a. Because of rounding, components may not add to the totals shown.

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10. The output of industrial crops in 1966 did not change greatly compared with 1965. An exception was cotton, which increased 200,000 tons to a total of 1.2 million tons. Cotton, which is grown primarily on irrigated land, fared better than grain because the dry weather in the summer and fall of 1966 encouraged the early development of the bolls. Soybean production for 1966 is estimated at 6.8 million tons, or slightly above the level of 1965. It was claimed in September 1966 that a large soybean harvest was in the making in Northeast China. However, a severe frost struck the area later in the month and reduced yields.

11. Net imports of grain in the 1965/66 consumption year* reached their highest level since 1960/61, when grain imports began. They totaled 5.5 million tons compared with 4.5 million tons in the previous year (see Table 4). Canada, Argentina, and Australia, in that order, supplied the bulk of the imports. Net imports of grain are estimated to have been only about 4.4 million tons in 1966/67 because of a tight world wheat supply early in the crop year. Chinese exports of grain, which reached a high of 2 million tons in 1959/60, were only an estimated 800,000 tons in 1966/67.

12. Although per capita food consumption in 1965/66 (some 2,000 calories per day) was still below the level of 1957/58 (2,200 calories per day), it was well above that of 1960/61 (1,700 calories per day), when the country experienced widespread malnutrition (see Table 5). Much of the improvement since 1960/61 has taken the form of a substantial increase in the production of subsidiary foods such as pork, poultry, fruits, and vegetables. These foods have been produced primarily on the private plots of the peasants which were reestablished following the disastrous Great Leap Forward. The share of nongrain foods in caloric intake is now probably at least 20 percent compared with about 10 percent in the lean year of 1960/61.

13. Most of the reports on the food situation so far in 1967 have alluded to rising food prices

* The consumption year is from 1 July through 30 June.

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Table 4

Communist China: Net Imports of Grain
Selected Consumption Years, 1957/58 - 1965/66 a/

	Million Metric Tons					
	<u>1957/58</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>
<u>Retained imports</u>						
Canada		2.5	1.7	1.3	1.8	2.3
Australia		2.1	2.0	2.7	2.2	1.8
Argentina		0.2	0.3	1.2	0.7	2.2
France		0.5	0.9	0.3	0.1	0
Other		0.7	0.5	0.4	0.5	0
Total	0	6.0	5.4	5.9	5.3	6.3
<u>Exports</u>	0.7	1.1	0.8	0.9	0.8	0.8
<u>Net imports b/</u>	-0.7	+4.9	+4.6	+5.0	+4.5	+5.5

a. 1 July through 30 June.

b. A minus sign (-) indicates a net export; a plus sign (+) indicates a net import.

and reduced rations in many areas of the country. Although higher prices and reduced rations in urban areas may have resulted in part from transportation and distribution breakdowns caused by the Cultural Revolution, poor autumn harvests in many areas of the country appear to have been the major factor. Both the official price of rice and the price on the free market have increased compared with the same period in 1966. A further deterioration in food availabilities in the affected areas will probably take place prior to the early harvest of 1967, but the situation is not expected to become critical. Total caloric intake in 1966/67 seems to have been about 1,900 to 2,000 calories per day, or roughly 10 percent below the 1957/58 benchmark.

14. During 1966 the Cultural Revolution had little effect on agricultural production. In

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Table 5

Communist China: Estimated Daily Availability
of Food Per Capita
Consumption Years, 1957/58 - 1966/67

Consumption Year ^{b/}	Calories Per Day Per Capita ^{a/}		
	Grains and Tubers	Other Foods	Total
1957/58	1,760	440	2,200
1958/59	1,850 to 1,900	330 to 340	2,180 to 2,230
1959/60	1,520 to 1,570	170 to 180	1,690 to 1,740
1960/61	1,480 to 1,520	180 to 190	1,660 to 1,710
1961/62	1,490 to 1,540	220 to 230	1,720 to 1,770
1962/63	1,600 to 1,640	280 to 290	1,880 to 1,930
1963/64	1,520 to 1,660	310 to 340	1,840 to 1,990
1964/65	1,570 to 1,660	340 to 360	1,920 to 2,020
1965/66	1,590 to 1,670	370 to 390	1,960 to 2,060
1966/67	1,500 to 1,620	380 to 410	1,870 to 2,030

a. Data are rounded to the nearest ten. Because of rounding, components may not add to the totals shown.

b. 1 July through 30 June. The population data used are as of 31 December.

December, however, the Maoists were let loose in factories and farms, and appreciable, although unquantifiable, damage was done to the rural administrative structure. Fortunately, it was the slack season in agriculture. Subsequently, beginning in February 1967, a flood of appeals from Peking called for an immediate upsurge in spring farmwork. This turnabout suggests that the regime feared that crop production in the spring and summer could be adversely affected by the Cultural Revolution. The regime backed up its appeals by using the Peoples Liberation Army to stiffen the administrative structure in the countryside and by reassuring the peasants that no radical policy changes were in the offing. During March, authorities in two separate provinces reaffirmed that the system of private plots would be retained as well as the policy of relying on private households for pig raising. Given this emphasis on the status quo, the chances are good that spring farmwork went forward without serious interruptions.

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Industry and Construction

15. In 1966, industry in Communist China continued its recovery from the collapse which followed the Great Leap Forward, and industrial production was nearly 50 percent above the 1962 low (see Table 1 and Figure 2). In the last quarter of 1966 and the first half of 1967, however, a slow decline in industrial production is believed to have set in because of the Cultural Revolution. Endless political meetings and "revolutionary travel" by gangs of workers reduced production in some plants. In other cases, the flow of raw materials was interrupted by work stoppages on the railroads and disruptions in the management of supplier plants. In a few instances, these irregularities lasted long enough for workers to be laid off. Furthermore, attacks against the managers and officials in industrial establishments and the replacement of some of them by inexperienced "revolutionary" managers eroded authority and labor discipline.

16. In January 1967, only six weeks after it had urged an extension of the Cultural Revolution to industry, the regime called for moderation. During the late winter and spring, workers appear to have been less involved in political activity, and the Army began to be used to bolster civilian authority in industry. Nevertheless, the disorders continued, and have intensified since late May. It is unlikely that industrial production during the remainder of 1967 will resume the growth patterns of the past four years.

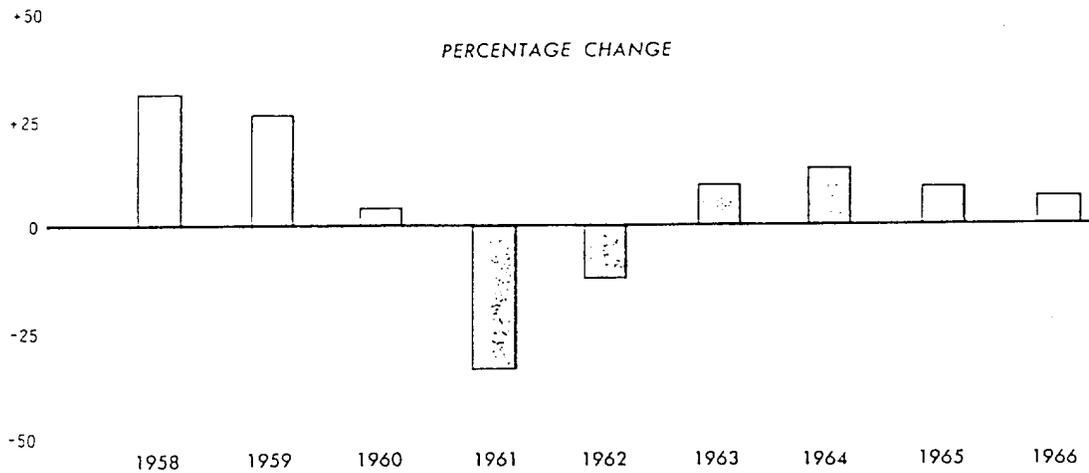
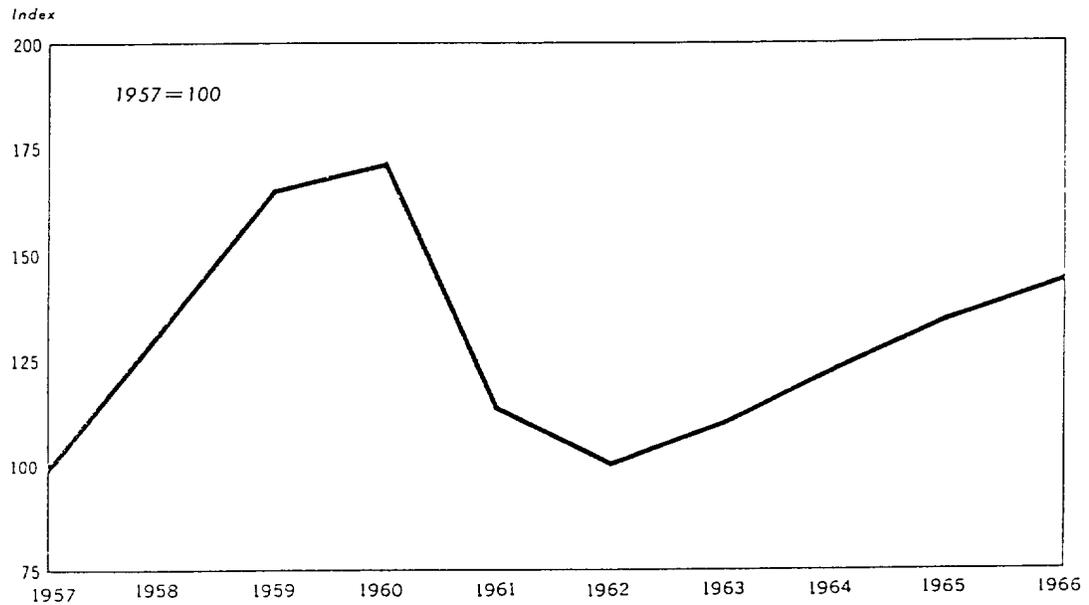
17. The upturn in industrial production in the last four years has been based mainly on a fuller use of existing capacity but also on investment in new capacity, including plants imported from Japan and Western Europe. Excess capacity still exists in many industries, particularly light industries requiring agricultural raw materials. Capacity is insufficient in some industries that produce priority finished products, such as flat and rolled steel products. Spectacular achievements are found mainly in the military industries -- for example, the explosion of six nuclear devices and the start of work on strategic missile systems and other modern weapons programs in the aircraft

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Figure 2

COMMUNIST CHINA: Index of Industrial Production 1957-66



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and naval fields. In addition, crude oil production has doubled since 1962, and the production of such chemical products as urea, vinylon fiber, and Teflon has begun on a trial basis.

18. During the past several years the Chinese have frequently claimed increases in their ability to design complex industrial machinery and in their mastery of advanced techniques of production. In the absence of information on performance characteristics, many of these claims cannot be judged accurately. Those that can be documented often rest on outside aid from either Communist or Free World countries. Less spectacular improvements were made in the quality and variety of basic products, especially in the coal, steel, and non-ferrous industries.

19. Most major commodities are now being produced at levels above those of 1958 (see Table 6), and the production of some priority commodities, such as electronic equipment, petroleum, and chemical fertilizer, has moved well above the peak levels achieved during the Great Leap Forward. Commodities whose production is still below the 1958 level are as follows: nonferrous metals produced primarily for export, some machinery (such as locomotives, freight cars, and irrigation equipment), and cotton cloth.

20. Communist China now is almost self-sufficient in the supply of petroleum products -- in 1966, imports represented only about 1 percent of the country's total supply (see Table 7). Its output of crude oil has roughly doubled since 1962, and future increases in domestic output will probably meet the rising demands of domestic consumers. China now produces jet fuel, the lower grades of aviation gasoline, and most quality lubricants as well as basic products such as motor gasoline, kerosine, and diesel fuels. It must still rely on imports for the chemical additives needed to improve the quality of domestically produced aircraft fuels and lubricants and for some specialty products.*

* Text continued on p. 20.

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Table 6
Communist China: Estimated Production of Selected Industrial Commodities
1957-66

	Unit	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966 a/
<u>Industrial production</u>	Index (1957 = 100)	100	131	166	172	114	100	110	123	135	144
<u>Fuels and power</u>											
Electric power	Billion kilowatt-hours	19	28	42	47	31	30	33	36	40	44
Coal	Million metric tons	131	230	300	330	240	210	215	220	230	240
Petroleum											
Crude oil	Million metric tons	1.5	2.3	3.7	4.6	4.5	5	5.5	6.9	8	10
Petroleum products	Million metric tons	1.7	2.7	4.0	4.7	4.0	4.6	5.0	6.3	7.2	9.0
<u>Industrial materials</u>											
Crude steel	Million metric tons	5.3	8.0	13.3	18.4	8	8	9	10	11	11.5 to 12.0
Aluminum	Thousand metric tons	39	49	70	80	80	80	80	80	100	120
Sulfuric acid	Million metric tons	0.6	0.7	1.0	1.4	N.A.	1.1	1.5	2.0	N.A.	N.A.
Chemical fertilizer	Million metric tons	0.8	1.4	1.9	2.5	1.4	2.1	2.9	3.5	4.5	5.5
Cement b/	Million metric tons	6.9	9.3	12.3	11	6	5 to 7	6 to 8	7 to 9	8 to 10	9 to 11
Timber	Million cubic meters	27.9	35.0	41.2	35.0	26.5	28.6	31.4	34.2	37.3	38.3
<u>Machinery production</u>											
Motor trucks	Thousand units	7.5	16.9	19.4	17.4	2.7	8.0	13.7	17.7	28.0	36.0
Locomotives	Units	167	350	400 to 530	650	100	Under 50	Under 50	Under 50	50 to 60	100+
Freight cars	Thousand units	7.3	9.7	17.3	23.0	2.0	1.0	1.9	2.5	3.4	4.4
Tractors	Thousand units	0	1.0	3.8	11.3	7.6	8.3	10	12.3	15	16.5
Irrigation equipment	Million horsepower	0.5	2.0	2.8	2.3	1.0	1.4	0.7	1.0	1.3	1.4
Electronic equipment	Million US \$	26	82	221	343	432	710	820	930	980	1,050
Military	Million US \$	12	47	136	256	345	540	640	740	780	830
Civilian	Million US \$	14	35	85	87	87	170	180	190	200	220
<u>Consumer goods</u>											
Cotton cloth	Billion linear meters	5.0	5.7	7.5	6	2.9	2.9	3.1	3.4	3.7	4.1
Paper	Million metric tons	1.2	1.6	2.1	2.2	1.0	1.0	1.1	1.6	1.8	2.0
Sugar	Thousand metric tons	864	900	1,130	920	700	480	540	1,100	1,500	1,500

a. Preliminary estimates.
b. Output of major plants only.

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Table 7

Communist China: Estimated Availability of Petroleum Products
1962-66

	Million Metric Tons ^{a/}				
	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
<u>Aviation gasoline</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Production	0	0	0	0.1	0.1
Imports	0.1	0.1	0.1	Negl.	Negl.
<u>Jet fuel</u>	<u>0.4</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.4</u>
Production	0	0	0	0.3	0.4
Imports	0.4	0.3	0.3	Negl.	0
<u>Motor gasoline</u>	<u>1.6</u>	<u>1.6</u>	<u>1.8</u>	<u>1.8</u>	<u>2.3</u>
Production	1.3	1.4	1.8	1.8	2.3
Imports	0.3	0.2	Negl.	Negl.	Negl.
<u>Kerosene</u>	<u>1.0</u>	<u>1.1</u>	<u>1.0</u>	<u>1.0</u>	<u>1.3</u>
Production	0.5	0.6	0.9	1.0	1.3
Imports	0.5	0.5	0.1	Negl.	Negl.
<u>Diesel fuel</u>	<u>1.1</u>	<u>1.1</u>	<u>1.1</u>	<u>1.3</u>	<u>1.6</u>
Production	0.7	0.8	1.0	1.2	1.5
Imports	0.4	0.3	0.1	0.1	0.1
<u>Lubricating oil</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.6</u>
Production	0.2	0.2	0.4	0.4	0.6
Imports	0.2	0.2	Negl.	Negl.	Negl.
<u>Residuals</u>	<u>1.9</u>	<u>2.0</u>	<u>2.2</u>	<u>2.4</u>	<u>2.9</u>
<u>Total availability</u>	<u>6.5</u>	<u>6.6</u>	<u>7.0</u>	<u>7.3</u>	<u>9.1</u>
Production	4.6	5.0	6.3	7.2	9.0
Imports	1.9	1.6	0.7	0.1	0.1

a. Because of rounding, components may not add to the totals shown.

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21. China's steel industry is at present receiving higher priority than at any time since the collapse of the Great Leap Forward. The current annual production of 12 million tons is close to the record level of steel produced in 1960 by China's large and medium-size plants. Continued expansion of these plants probably can meet any foreseeable needs for ordinary steel products. Deficiencies exist, however, in the capacity to produce and fabricate refractory metals, high-quality alloy steels, and other finished steel products needed to supply the growing defense, petroleum, and chemical industries. Negotiations with Japan and Western Europe for plant and equipment have been stepped up in the past two years to fill these gaps.

22. In 1966 the chemical fertilizer industry had an estimated capacity of 6 million to 7 million tons per year, an increase of about 1 million tons over 1965. About two-thirds of this capacity was for the production of nitrogen fertilizer and most of the remainder for the production of phosphorous fertilizer. Although approximately two-thirds of the capacity is in large fertilizer plants, recent emphasis appears to be on the construction of small and medium-size plants. By the end of 1967, installed capacity will increase by an estimated 0.5 million tons, largely through the construction of small plants.

23. Communist China has relied heavily on imports of Western plants and technology to accelerate the development of a chemical fiber industry. Total Free World purchases since 1963 amount to nearly \$40 million and include plants for the production of vinylon, nylon, polypropylene, and acrylic fibers. In addition, several Chinese-built rayon plants and a Chinese-built virylon fiber plant are in operation. Output from these plants will help restore the per capita production of cloth to the levels attained in the late 1950's.

24. In light industry the output of products dependent on agricultural raw materials such as cotton cloth, foodstuffs, and sugar has expanded moderately because of the recovery of agriculture since 1960. The output of cotton and major foodstuffs, however, is still below the levels of

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the late 1950's. The production of paper has probably recovered to about the level of 1959.

25. Capital construction in both the military and the civilian sectors of the economy expanded considerably during 1965-66. The upturn, which started in late 1964, apparently was intended to lay the groundwork for the third five-year plan (1966-70) and to speed up the integration of Southwest China into the national transport network. To date, there is no evidence that construction activity has been disrupted by the Cultural Revolution, although Red Guard activity caused some brief delays at plants being constructed with the aid of Western technicians.

26. Major construction activity is under way on large projects such as railroads in the Southwest, advanced weapons facilities in Inner Mongolia and Kansu, and airfields throughout the country. Construction activity also has been featuring military R&D facilities, electric power-plants, chemical plants, petroleum extraction and storage, and other mining facilities. In addition, the Chinese have started constructing sites for many of the complete plants recently purchased from the West.

27. In 1966, for the first time since the collapse of the Great Leap Forward, all major cement plants in Communist China were in operation. Production from these 35 major plants was between 9 million and 11 million tons, about equal to the level of 1960. Installed capacity has increased by about 25 percent since 1960. The Chinese thus can increase output further without straining capacity. They also are continuing to construct small vertical kilns which produce a lower quality cement used in local small-scale projects. Because these plants are numerous and widely scattered, their production is difficult to estimate, but they probably produce an additional 2 million tons.

28. China has relied on imports of heavy equipment and timber to support its expanded construction program. It can manufacture only

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small amounts of heavy construction equipment such as bulldozers, scrapers, graders, excavators, and road rollers. Since late 1964 the Chinese have signed contracts to import more than 2,500 pieces of heavy equipment worth about \$41 million, compared with equipment worth \$25 million imported during the Great Leap Forward and equipment worth only \$2.5 million imported in 1961-63.

29. The sharp increase in the purchase of construction equipment has been paralleled by a sharp increase in the purchase of timber. Following the collapse of the Great Leap Forward, the Chinese began to import sawn logs from the USSR to supplement their meager domestic production. Since 1960, Chinese purchases have gradually increased in quantity to 478,000 cubic meters in 1964. In 1965, however, they suddenly trebled their purchases, to more than 1.5 million cubic meters. The volume of imports in 1966 was about the same as in 1965. In addition, investment in the major timber regions of Northeast China and Inner Mongolia has been stepped up -- for example, the network of forest roads and railroads is being extended in order to open up less accessible areas.

Transportation and Communications

30. Recent trends in the development of the Chinese railroad, highway, and inland waterway systems reflect both the impact of the Vietnamese war and the continued efforts of the central government to implement long-term plans for economic development of outlying regions.

31. During 1965-66 the development of the Chinese railroad system was concentrated in the Southwest and Northeast sections of the country. In the Southwest the Chinese completed the railroad lines from Chungking to Kuei-yang and from Kuei-yang to K'un-ming, and construction is presently underway on the line from Ch'eng-tu to K'un-ming. The second of these lines gives Communist China its first internal rail link with Yunnan Province and makes it unnecessary for Chinese rail traffic to transit North Vietnam in order to reach Yunnan Province. It provides internal access to an area which the

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Chinese wish to develop for its latent mineral and agricultural wealth. This construction also improves the capability of the Chinese to re-supply their major military supply depots located along the southern border of Yunnan Province and provides an alternate rail route into North Vietnam.

32. In the industrialized Northeast, expansion of the petroleum and forestry industries has set the pattern of railroad development. In 1966 a new rail line was completed from Sa-erh-t'u, near the Ta-ch'ing oil field, to T'ung-liao. This new line bypasses the railroad center at Harbin and relieves the flow of traffic on the heavily traveled route between the Ta-ch'ing oil field and Harbin. The Chinese have also expanded the railroad network in the forested regions near the borders of North Korea and the USSR in order to get access to more timber.

33. The road construction program in 1965-66 was primarily in support of agriculture and the military. The improvement of access to the agricultural areas serves the dual purpose of facilitating the flow of goods between rural and urban areas and of consolidating the control of the central government over isolated regions of the country. Military considerations have sometimes dominated, especially in South and Southwest China, where highway construction contributes to the strengthening of border defenses.

34. For the past several years, construction activity on the Chinese waterways has been concentrated on the maintenance, expansion, and improvement of existing facilities. For example, a great deal of effort has been expended on improving navigation along the Yangtze River, especially between I-chang and Chungking. This section of the river is now open to shipping during the entire year. In addition, some improvements in port facilities, especially in South China, have also been undertaken. Harbor channels and port facilities have been expanded and improved to accommodate the increased volume of trade with Japan and other maritime nations.

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35. The performance of the Chinese transportation system improved in 1966, but numerical estimates are made in this report only for the railroads because of the lack of data. Even these estimates are suspect because they are based on the general level of industrial and other activity, which in turn has been estimated crudely. With these qualifications, it can be estimated that the railroads in 1966 carried about 460 million tons of freight, or approximately 7 percent more than the 430 million tons carried in 1965. This level of operation is above that of 1958 but is still about 15 percent below the peak year of 1959.

36. During the past two years, there have been no indications of any serious shortages of rolling stock in Communist China; there were, however, sporadic disruptions of rail transport attributable to the Cultural Revolution in late 1966 and the first half of 1967. These disruptions, which have occurred on every major line, have been reported with increasing frequency since May, but neither track nor rolling stock appear to have been damaged. Passenger service is running only haphazardly, but freight appears to be moving well enough to prevent serious backlogs from accumulating.

37. The railroad freight car inventory, estimated at about 130,000 cars at the end of 1964, had increased little if at all by the end of 1966. Only 4,400 freight cars were produced in 1966, and the types of cars reflect the basic economic objectives of the government. For example, in line with the priority given to the petroleum industry, the number of railroad tank cars has been increased. The box car fleet has also been expanded and a new type of open car made from a low-alloy steel has been introduced. Imports of rolling stock during 1965-66 amounted only to an estimated 200 units and exports to 450 units.

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38. Communist China probably had between 250,000 and 300,000 motor trucks at the end of 1966, about half under military control. The truck inventory has increased rapidly during the past three years, largely because of increases in domestic production. An estimated 17,700 units were produced in 1964, 28,000 in 1965, and 36,000 in 1966. Imports, primarily from the USSR, were also an important addition to the inventory. About 15,900 trucks were imported during 1964-66, whereas exports during this same period, primarily to North Vietnam, are estimated to have been only about 3,500 units. About 85 percent of the trucks produced during the past three years were 4-ton Liberation trucks turned out at the Ch'angch'un No. 1 Motor Vehicle Manufacturing Plant. The remainder were mostly 2-1/2-ton Leap Forward trucks produced at the Nanking Motor Vehicle Manufacturing Plant. A few 8-ton Yellow River trucks were produced at the Tsinan Motor Vehicle Manufacturing Plant.

39. It makes sense for China, which relies primarily on railroads for long-haul transport, to concentrate as it does on the production of the 4-ton Liberation truck. This truck is useful for short-haul support activities connected with industry, commerce, and agriculture and also for military supply operations.

40. The rudimentary telecommunications system of Communist China has been little improved in recent years. National communications needs still are served largely by open wirelines and high-frequency, point-to-point radio networks, both of low capacity and poor reliability. The poor operational effectiveness of these networks restricts their ability to satisfy both civil and military traffic requirements even during periods of normal operation. The telecommunications system cannot compete effectively with the military for equipment. The electronics industry stresses the production of military end items rather than of equipment for the common carrier communications system.

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41. Communist China has tried for at least the last three years to procure modern telecommunications equipment from Free World sources of supply. Japan has been the principal target of these efforts, but China has also directed inquiries to the United Kingdom, France, West Germany, and Sweden. Even though negotiations have covered a wide range of equipment, they have not resulted in significant purchases, because of COCOM embargo restrictions. The Chinese Communists will persist in their efforts to obtain telecommunications systems from the technologically advanced electronics industries of Japan and Western Europe, with success depending largely on the relaxation of COCOM restrictions.

Foreign Economic Relations

42. Communist China's foreign trade increased by 18 percent in 1965 to \$3.8 billion and by about 12 percent in 1966 to \$4.2 billion. The total for 1966 was the second highest since the Communist takeover and close to the peak level of \$4.3 billion in 1959. China's internal political turmoil did not have significant repercussions on foreign trade in 1966, as near-normal trade relations continued through December (see Table 8).

43. In 1950, Communist China's trade was primarily with non-Communist countries, a carryover of pre-Communist trade patterns. By 1952, close economic ties with other Communist countries had brought the Communist share to more than two-thirds. Since the open break with the Soviet Union in 1960, however, there has been a rapid shift back to the Free World (see Figure 3). The increases in China's trade in 1965-66 were wholly attributable to the continued growth of trade with the Free World. Paced by Japan, West Germany, and France, the Free World accounted for about three-fourths of Communist China's trade in 1966. Sino-Soviet trade dropped substantially.

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Table 8
Communist China: Imports and Exports, by Area ^{a/}
1959-66

	Million US \$							
	1952	1960	1961	1962	1963	1964	1965	1966 ^{b/}
Imports	<u>2,065</u>	<u>2,025</u>	<u>1,490</u>	<u>1,150</u>	<u>1,200</u>	<u>1,470</u>	<u>1,860</u>	<u>2,045</u>
Free World	695	745	775	660	770	1,080	1,345	1,530
Communist countries	<u>1,370</u>	<u>1,280</u>	<u>715</u>	<u>490</u>	<u>430</u>	<u>390</u>	<u>515</u>	<u>515</u>
USSR	955	815	365	235	185	135	190	175
Eastern Europe ^{c/}	325	335	160	65	50	60	105	130
Far East	80	90	90	85	90	90	90	95
Other Communist countries ^{d/}	5	40	100	105	100	105	125	115
Exports	<u>2,205</u>	<u>1,245</u>	<u>1,520</u>	<u>1,520</u>	<u>1,555</u>	<u>1,725</u>	<u>1,305</u>	<u>2,155</u>
Free World	615	625	560	605	740	1,015	1,255	1,555
Communist countries	<u>1,590</u>	<u>1,220</u>	<u>960</u>	<u>915</u>	<u>820</u>	<u>710</u>	<u>650</u>	<u>600</u>
USSR	1,100	850	550	515	415	315	225	145
Eastern Europe ^{c/}	320	295	145	105	115	100	95	125
Far East	140	135	150	160	155	130	140	170
Other Communist countries ^{d/}	25	40	120	135	135	165	190	160

a. Data are rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown.
 b. Preliminary estimates, based on incomplete data.
 c. Excluding Yugoslavia and Albania.
 d. For 1959, China's trade with Albania, Yugoslavia, and Mongolia is included. After 1959, Cuban trade with China is also included.

Figure 3

COMMUNIST CHINA: Distribution of Trade with Communist and Non-Communist Countries

1950, 1952, and 1959-66



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44. The increased Free World share of China's trade in 1965 and 1966 was the result of China's growing purchases of fertilizer, machinery, and industrial materials from Japan and Western Europe. Chinese exports to these countries, particularly agricultural products, increased, but somewhat less rapidly than imports. As a result, China's trade with Japan and Western Europe, after an unusual surplus in 1964, again registered moderate deficits in 1965 and 1966.

45. Japan supplanted the USSR as China's leading trade partner in 1965. Sino-Japanese trade increased 52 percent in 1965 and 32 percent in 1966. Although Japan's share of China's trade reached 15 percent in 1966, Chinese trade remained less than 4 percent of Japan's total trade. China's trade with Western Europe increased by 52 percent in 1965 and by an estimated 40 percent in 1966, with imports rising more than exports for the second consecutive year (see Table 9).

46. China's total exports to Hong Kong in 1965 were \$406 million, including an estimated \$98 million worth of goods for reexport to other Free World countries. In 1966, total exports to Hong Kong reached \$485 million, including perhaps \$110 million for reexport. In addition, China received nontrade earnings (chiefly overseas remittances) from and through Hong Kong, estimated at \$90 million in 1965 and \$75 million in 1966. Reports from Hong Kong indicate that the flow of remittances during the last four months of 1966 was affected by the political turmoil within China; total remittances for the year reached only an estimated \$48 million compared with \$60 million for 1965.

47. The rate of growth in China's trade with the less developed countries of the Free World declined sharply in 1965 and remained about the same in 1966. Chinese exports to these countries grew faster than imports in 1965 and again in 1966, probably eliminating China's deficit with this area.

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Table 9

Communist China: Trade with Areas of the Free World ^{a/}
1963-66

	Million US \$			
	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u> ^{b/}
<u>Total Free World</u>	<u>1,510</u>	<u>2,100</u>	<u>2,605</u>	<u>3,085</u>
<u>Exports</u>	<u>740</u>	<u>1,015</u>	<u>1,255</u>	<u>1,555</u>
Western Europe	172	229	300	390
Japan	71	150	213	290
Canada, Australia, and New Zealand	22	35	46	55
South and Southeast Asia	226	247	233	265
Hong Kong ^{c/}	170	253	308	375
Middle East	42	45	65	95
Africa	34	54	88	85
Latin America	1	2	2	2
<u>Imports</u>	<u>770</u>	<u>1,080</u>	<u>1,345</u>	<u>1,530</u>
Western Europe	184	196	348	510
Japan	66	160	257	330
Canada, Australia, and New Zealand	332	327	315	285
South and Southeast Asia	94	131	155	170
Hong Kong	2	2	3	3
Middle East	34	54	81	75
Africa	54	54	73	50
Latin America	7	155	115	105

a. Data are based on the official statistics of Free World countries, adjusted to approximate Chinese foreign trade on an export f.o.b. and an import c.i.f. basis. Adjustments also have been made for undercounting and for double counting, such as Chinese grain purchases sent to other countries. Totals are rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown.

b. Preliminary estimates.

c. Net of entrepot trade with third countries.

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48. To judge from preliminary data, China's trade with the Communist countries declined slightly in 1966. Increased trade with North Vietnam, Albania, and the countries of Eastern Europe was offset by the estimated reduction in trade with the Soviet Union and Cuba. Sino-Soviet trade declined 23 percent in 1966 to only \$320 million, the lowest level since 1950.

49. The commodity composition of Communist China's trade in 1965 reflected further recovery in domestic industry and also gave some indication of improvement in the agricultural trade balance (see Table 10). Although the importation of foodstuffs remained at a high level, food exports were greater in value than food imports for the first time since 1960. As in the past, China exported large quantities of textiles, raw materials, and semimanufactures in return for increasing amounts of finished industrial goods, fertilizer, machinery, and equipment.

50. The most significant developments in exports were the growth in sales of agricultural products and the continued decline in sales of textiles. Food sales increased 31 percent to \$545 million in 1965, and sales of oils, fats, and oilseeds increased by 25 percent to \$100 million. Textiles remained the second largest export category but declined absolutely as well as relatively for the third straight year. At \$425 million, textile exports were at their lowest level in six years. Sales of industrial materials showed little change.

51. China's imports in 1965 included increased quantities of machinery and equipment, chemicals, and other industrial materials, whereas food imports declined 14 percent in value. China imported 6.2 million tons of grain in 1965, compared with 6.8 million tons in 1964. The value of fertilizer imports increased 123 percent to a new high of \$145 million. Minerals and metals rose 81 percent to \$290 million, with greatly increased purchases from Western Europe of both ferrous and nonferrous metals. Machinery and equipment imports in 1965

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Table 10

Communist China: Estimated Commodity Composition of Trade a/
1963-66

	Million US \$			
	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u> ^{b/}
<u>Imports</u>	<u>1,200</u>	<u>1,470</u>	<u>1,860</u>	<u>2,045</u>
<u>Agricultural products</u>	<u>620</u>	<u>800</u>	<u>760</u>	<u>730</u>
Of which				
Grains	375	475	400	390
Other foods	85	115	105	100
<u>Industrial materials</u>	<u>370</u>	<u>360</u>	<u>590</u>	<u>685</u>
Of which				
Fertilizers	85	65	145	180
<u>Manufactures and miscellaneous</u>	<u>215</u>	<u>310</u>	<u>515</u>	<u>630</u>
Of which				
Machinery and equipment	135	195	355	450
<u>Exports</u>	<u>1,555</u>	<u>1,725</u>	<u>1,905</u>	<u>2,155</u>
<u>Agricultural products</u>	<u>535</u>	<u>655</u>	<u>835</u>	<u>1,010</u>
Of which				
Foods	310	415	545	630
<u>Industrial materials</u>	<u>245</u>	<u>295</u>	<u>290</u>	<u>330</u>
<u>Manufactures and miscellaneous</u>	<u>780</u>	<u>775</u>	<u>780</u>	<u>815</u>
Of which				
Textiles	500	440	425	400

a. Estimates are rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown.

b. Preliminary estimates.

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registered an 82-percent increase over 1964 to \$355 million, still less than half the 1959 level. Complete plant orders from the Free World in 1965 totaled over \$75 million, slightly above 1963 and 1964. There was a switch from emphasis on chemical plants to emphasis on steel plants.

52. The commodity composition of China's trade in 1966 followed the pattern and trends of 1965. China continued to import increasing amounts of machinery, finished metals, and chemical fertilizers in 1966, while grain contracts indicate a further decline of imports to about 5.8 million tons. Agricultural products probably again provided the major growth in China's 1966 exports; the value of food exports once again exceeded the value of food imports. Plant and equipment orders reported in 1966 were noticeably lower than during the previous two years, primarily because negotiations for the DEMAG steel complex -- valued at \$150 million -- have not been concluded. Textile sales may have declined again because of reduced sales to the USSR.

53. New Chinese Communist economic aid commitments to less developed countries of the Free World declined from about \$310 million in 1964 to about \$120 million annually in 1965 and in 1966. The largest Chinese commitment in 1966 was a credit of \$43 million to Cambodia, followed by \$31 million in credits to Guinea and a \$20 million grant to Nepal (see Table 11). China also agreed to supply Yemen with \$14 million worth of commodity assistance and Mali with \$3 million in hard currency. Grant assistance was provided to Somalia and Tanzania. Actual drawings remained well below extensions, averaging about \$75 million a year over the last three years.

54. China's economic aid deliveries to Communist countries are estimated to have increased in 1965 and 1966. Deliveries to North Vietnam in 1966 were estimated at \$75 million, an increase of \$25 million over 1965. This increase is roughly the same as the reduction in shipments on credit to Cuba; Cuban credit drawings were negligible in

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Table 11

Communist China: Extensions and Drawings for Economic Assistance: a/
Cumulative Total, 1954-66, and 1966

Million US \$

Recipient Country	1954-66		1966	
	Extensions	Drawings	Extensions	Drawings
<u>Total</u>	<u>2,305</u> <u>b/</u>	<u>1,455</u>	<u>N.A.</u> <u>b/</u>	<u>N.A.</u>
<u>Communist countries</u> <u>c/</u>	<u>1,308</u> <u>b/</u>	<u>1,118</u>	<u>N.A.</u> <u>b/</u>	<u>N.A.</u>
Albania	263 <u>b/</u>	164	N.A. <u>b/</u>	N.A.
Cuba	100	63	0	Negl.
Hungary	58	58	0	0
Mongolia	100	100	0	Negl.
North Korea	330	330	0	Negl.
North Vietnam	457 <u>b/</u>	403	N.A. <u>b/</u>	75
<u>Free World</u>	<u>997</u>	<u>337</u>	<u>120</u>	<u>81</u>
Afghanistan	28	0	0	0
Algeria	52	22	0	0
Burma	84	21	0	?
Cambodia	92	46	43	6
Central African Republic	4	2	0	0
Ceylon	41	31	0	5
Congo (Brazzaville)	25	4	0	<u>d/</u>
Egypt	85	12	0	7
Ghana	42	4	0	<u>d/</u>
Guinea	58	30	31	16
Indonesia	123	49	0	0
Kenya	18	3	0	0
Laos	4	0	0	0
Mali	53	32	3	11
Nepal	63	17	20	4
Pakistan	60	8	0	6
Somalia	22	3	<u>d/</u>	<u>d/</u>
Syria	16	8	0	6
Tanzania	55	14	9	6
Uganda	15	2	0	?
Yemen	56	28	14	9

- a. Because of rounding, components may not add to the totals shown.
- b. New extensions to North Vietnam and Albania were announced during 1965 and 1966, but no amounts were specified.
- c. Through 1959, Chinese budget reports included data on annual drawings under the foreign aid program. Annual drawings under China's aid program since 1959 have been estimated separately for each country in the absence of data on annual expenditures from China's budget.
- d. \$500,000 or less.

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1966, and trade was closely balanced. There probably was a slight rise in Chinese credits to Albania in 1966. In contrast with earlier practice, China did not publicly announce the amounts of aid extended to Communist countries in 1965 and 1966.

55. Communist China improved its overall financial position notably in 1965-66. Foreign exchange and gold holdings increased by about \$50 million in 1966, reaching a level of from \$450 million to \$550 million. China continued to purchase gold from the West in 1966, but at a much reduced level -- about \$40 million compared with \$135 million in 1965. China's indebtedness to the Free World totaled about \$265 million at the end of 1965 and was probably little changed in 1966. The export surplus of China in trade with Communist countries declined slightly in 1966 as debt repayments to the USSR ceased in 1965, allowing for a more balanced trade in 1966. Also, total Chinese deliveries on credit to other Communist countries increased only slightly in 1966.

56. Credit has played an important role in financing China's imports from the Free World, but, because of China's conservative policies and reluctance to depend on foreign assistance, all of the credits thus far have been short- and medium-term. As a result, China has been faced with a large volume of repayments each year, and in 1966, when a large repayment on grain credits fell due, payments probably exceeded drawings. Even if China decided to expand medium-term industrial credits sharply, this policy would postpone for only a few years the time when repayments would surpass new drawings, and then payments would rise sharply.

57. Long-term credits which would defer repayments for 10 or more years would have many advantages for Communist China. However, China has not sought long-term credits from the Free World, in large part because the leadership wants to depend as little as possible on foreign capital for economic development. Furthermore, the

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leadership has a practical concern for China's long-run payments position and especially for the possibility that requirements for Western grain may rise in the near future. This conservative financial policy contrasts strongly with the willingness of other major less developed countries -- for example, Indonesia, India, and Egypt -- to incur heavy indebtedness. Should China reverse its position and seek long-term credits, Western European countries and Japan probably would make such credits available.

58. Scattered returns for the first half of 1967 indicate that the steady growth of China's foreign trade during the last four years has been halted. First-quarter trade returns from Western European countries show a continued rise in Chinese imports over the first quarter of 1966 but virtually no growth in exports to these countries. In China's trade with Japan, however, returns for the first half of the year show a 19 percent decline in Chinese imports and a 7 percent decline in Chinese exports, compared with the same period in 1966.

59. The disturbances in Hong Kong, which began in May 1967, have had a marked effect on China's trade with the colony. China's exports, which averaged \$43 million a month during the first quarter of 1967, dropped to an average of \$34 million during the second quarter, and to only \$21 million in July. Chinese imports from Hong Kong are negligible. In addition to their direct effect, the disturbances in Hong Kong may also have a disruptive effect on Sino-British trade.

60. Thus, unless the trend is reversed, China's trade in 1967 will decline somewhat. However, the Free World share of China's trade will probably change little because of an expected further decline in Sino-Soviet trade. Sino-Japanese trade will not continue the rapid growth of the past few years, because Japanese markets cannot readily absorb additional Chinese goods. In fact, the Japanese have reported that trade with China in the first five months of 1967 was 14 percent below the comparable period in 1966.

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61. The composition of China's trade in 1967 is not expected to show substantial changes over 1966. Grain contracts for the first six months are down slightly, compared with the same period in 1966. The volume of fertilizer contracted for in 1967 is more than 50 percent higher than 1966 purchases; however, as a result of shrewd Chinese bargaining with Western European and Japanese producers, the value of these fertilizer contracts is up only slightly. Orders placed during 1966 for whole plants and other capital equipment to be delivered in 1967 and later were substantially lower than during the previous two years. Negotiations for the DEMAG steel complex were suspended during the last half of 1966, resumed briefly in April 1967, but have been suspended again. Machinery and equipment imports in 1967, however, are expected to increase over 1966 on the strength of orders placed during 1965. Early contracts with Japan and early trade returns from a few Western European countries indicate a slowdown in the growth of China's agricultural exports during 1967.

62. The current political turmoil has had an increasing effect on foreign trade in recent months. If this turmoil continues at its present level or intensifies, and if the disturbances in Hong Kong continue to interfere with normal trade and earnings with and through the colony, China's trade and payments position could decline seriously.

Economic Problems and Prospects

The Food-Population Problem

63. The food-population problem continues to be Communist China's most serious economic problem. Production of grain in 1966 probably was only slightly above the 180 million tons produced in 1957, but the population had grown by an estimated 130 million persons. As a result, the Chinese people are not eating today as well as

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they did a decade ago, even though the output of subsidiary foods has increased substantially since 1960 and imports of grain have continued at 5 million to 6 million tons a year.

64. Production of grain in 1966 is believed to have been some 20 million to 35 million tons short of the 216 million tons required to provide a per capita domestic supply equal to that of 1957/58. If the population of Communist China continues to expand at the estimated present rate of approximately 2-1/4 percent per year, 236 million tons would have to be produced in 1970 to restore per capita domestic availability in the consumption year 1970/71 to the level of 1957/58. Merely to keep pace with the increase in population, grain production would have to increase somewhat more than 4 million tons each year, but to regain by 1970/71 the ground lost since 1957/58 would require an increase in production of 10 million to 14 million tons each year.

65. A compulsory program of birth control in Communist China conducted over the next several decades could ease the pressure of population on food supplies. A birth control campaign that relies on economic as well as social pressures to limit the size of families was started in mid-1963 in large urban centers. Over the country as a whole, the regime has attempted to indoctrinate people by encouraging late marriage, the spacing of births three years apart through the use of contraceptives or abortion, and sterilization after the birth of three children.

66. The effectiveness of the current birth control measures is difficult to judge. It appears, however, that at least in some urban areas, traditional attitudes have begun to change, especially among young people. The peasants, numbering more than 80 percent of the total population, remain the key element in any birth control campaign. Even if the Chinese could mount a highly successful rural birth control program, it would secure only a small reduction in fertility over the next 10 years, and this would tend

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to be offset by rising life expectancies. Thus a sharp change in China's demographic patterns is not now in view, and certainly not by 1970.

67. Three elements, however, could produce a more drastic alteration of present patterns and trends. None is likely, but all are within the realm of possibility, as follows:

(a) A disastrous dip in the food supply might bring on a situation equal to or worse than that of 1960/61 and could cause an appreciable change in mortality rates.

(b) Rapidly evolving Western technology might produce a method of contraception enabling the Chinese government to reduce birth rates in an unexpectedly rapid manner. The use of such a development would hinge on the priority that the regime gives to birth control and on the costs of applying it.

(c) The Chinese Communist government might choose to use its administrative muscle to prevent all males from marrying before age 30 and all females before age 25; even if there were no change in the number of children per marriage, this policy would have an appreciable effect. The short-run effect would be the loss in births during the transition from present ages of marriage to the older ages. The long-term effect would be the reduction in the annual rate of growth of population as a result of the increased length of time between generations.

68. The Chinese Communist leadership realizes that increases in agricultural output will have to come mainly from improved yields rather than from an expansion of acreage. Large increases in output from private plots are possible, but only if the government liberalizes its policy toward private activity and enlarges the acreage devoted to private plots, which now represents no more than 5 percent of total cultivated land. Present production from private plots cannot be measured precisely, but the plots supply most of China's

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nongrain foods, which currently constitute about 20 percent of the available food, including as much as 80 percent of its hogs and poultry and most of its fruits and vegetables.

69. Since the regime is not likely to increase the amount of land devoted to private production, any effort to expand food supplies will have to be concentrated on increasing the production of grain grown on collective land. Through 1970, such increases will depend mainly on the increased use of chemical fertilizer. Although China needs more of the complementary factors that make fertilizer more effective, the country now applies so little fertilizer, as shown below, that additional applications alone would increase output significantly.

<u>Country</u>	<u>Kilograms of Chemical Fertilizer Applied per Hectare of Sown Area (in Terms of Nutrient Content)</u>
Communist China (1966)	13
Japan (1965)	250
Taiwan (1965)	116

70. By 1970 the total supply of fertilizer is expected to be 11 million to 15 million tons. The amounts expected to be produced domestically and imported are as follows:

<u>Type of Fertilizer</u>	<u>Million Tons</u>		
	<u>Availability</u>	<u>Production</u>	<u>Imports</u>
Total	11 to 15	7 to 9	4 to 6
Nitrogen	8.5 to 12	4.5 to 6	4 to 6
Phosphorus	2.5 to 3	2.5 to 3	0

71. If 75 percent of the fertilizer available were used on grain crops and if weather were average, the output of grain in 1970 could be as high as 200 million to 210 million tons. This amount at best would equal the 230 to 250 kilograms per capita produced in 1966. On this basis, it is

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estimated that the present low level of per capita consumption will not improve, and imports of grain will continue at least at their current level. The prospects through 1970 are that the food supply will continue to be tight and critically dependent on weather conditions. Food per capita will probably not increase appreciably unless the country experiences above-average weather or unless the private plots are considerably expanded.

Burden of the Advanced Weapons Programs

72. Communist China has made rapid progress in the development of modern weapons systems in spite of the disruptions of the Great Leap Forward and the withdrawal of Soviet support. The Chinese have been able to explode six nuclear devices, undertake a surprisingly diversified weapons program, and embark on other military research and development activities. Their programs up to now have relied to a large extent on outdated technology supplied by the USSR before 1960. Research clearly has been under way to push beyond the technology provided by the USSR. Chinese work on strategic missile systems almost certainly will continue under the highest priority. Fighter aircraft are probably next in priority, and a follow-on to the MIG-19, such as the MIG-21, could soon make an appearance.

73. Communist China lags far behind the major industrial nations of the world in industrial production and technology. Nonetheless, the country has steadily progressed in the development of high-priority military hardware by concentrating industrial, scientific, and technical resources on weapons development and by importing key equipment and materials. This progress has been achieved by withholding resources from the civilian economy and by delaying the growth of a general industrial base for the broader needs of the economy. Delays in the development of a modern industrial base will in turn influence the future pace, scope, and effectiveness of weapons programs.

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74. During the period of Soviet support, emphasis was placed on the growth of basic industries. Since 1960, however, efforts have focused on the expansion of facilities to produce complex commodities such as certain electronics items, special metals, plastics, synthetic fibers, and other chemical products, in large part because of the requirements of weapons programs. Expansion of the key machine-building sector has also had high priority. Since the withdrawal of Soviet support, China has been turning to Free World countries for advanced machinery, scientific equipment, critical raw materials, and technical data.

75. A continuing key weakness in China's industrial technology is the shortage of well-trained engineers and technicians at the middle and upper levels. The Chinese leadership has had to choose which types of technical work are to be supported and which neglected. At present, Chinese scientific and technical research work is concerned largely with urgent practical problems, as opposed to general scientific research, and is concentrated to an important degree in the military area. The regime can assemble teams of researchers and engineers to focus on a small number of high-priority problems, but its efforts on military programs are at the expense of basic industrial programs. One ameliorating factor is the appearance of appreciable numbers of domestically trained researchers with five or ten years' experience who are now reaching upper levels of competence.

76. Communist China's military programs may take about 10 percent of its GNP. This is a somewhat larger share of GNP and a much larger share of industrial production than in France and the United Kingdom. Of greater importance, China's weapons program uses manpower, equipment, and materials of the highest quality -- scarce resources that otherwise could be used to build up the civilian sector of the economy.

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77. The experience of other countries indicates that military costs will become even greater in the years ahead, as Communist China moves various weapons systems into production and deployment. Moreover, the regime faces rapidly rising R&D costs. Weapons systems now being developed are based on Soviet designs, and hence the bulk of the basic research has already been done. The Chinese could, of course, minimize further increases in R&D costs if they were willing to settle for proven Soviet systems and thus the technology of the 1950's. But China has for several years been going ahead with its own R&D efforts, such as those needed for an ICBM program.

78. Costs will mount as Communist China attempts to place various weapons systems in series production and to deploy them in the field. Even if in the next few years it produces only improved copies of Soviet systems, serious problems will be faced in mastering the production techniques and reproducing specialized parts or components. Production costs relative to R&D costs are likely to be higher for China than for the United States or France, because those countries already possess the industrial machinery, processes, and skills needed to back up their production programs. In addition, China will have to meet the heavy annual operating and maintenance expenses of the deployed units.

79. In the absence of extensive foreign assistance, China's supply of skilled manpower almost certainly will prove inadequate both to pursue a high-priority modern weapons program and to provide the R&D support needed for a steady buildup of the civilian economy. Over the next several years, China will continue to be faced with serious shortages of scientific, managerial, and engineering personnel and will be forced to concentrate its efforts on a narrow range of high-priority industries. Most of the country's top-drawer technical talent continues to consist of Chinese who were educated abroad, both in the

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Free World and in the USSR. Domestic training to the doctorate level is now well under way, with a few hundred already graduated. The closing of China's universities because of the Cultural Revolution is delaying this program.

Japanese and Western European Assistance for Weapons Programs*

80. A major factor in Communist China's military production potential is its ability to import equipment and technical data from the Free World. Since 1961, China has purchased more than half a billion dollars worth of machinery, equipment, and scientific instruments from Japan and Western Europe. This figure does not include purchases of transportation equipment, technical data. The following tabulation shows the sharp rise since 1963 in imports from Japan and Western Europe of machinery, equipment, and scientific instruments:

Year	Million US \$		
	Total	Machinery and Equipment a/	Scientific Instruments
1961	20.6	18.6	2.0
1962	13.4	12.6	0.8
1963	16.6	14.3	2.3
1964	54.4	46.7	7.7
1965	156.9	138.2	18.7
1966 b/195		170	25

- a. Excluding imports of transportation equipment.
- b. Annual estimate based on data for the first six months.

* For additional information, see CIA/RR IM 67-21, The Contribution of Imports to Communist China's Advanced Weapons Program, May 1967, ~~SECRET/NO FOREIGN DISSEM.~~

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81. Communist China's shopping list for imports is lengthening. The list includes an increasing proportion of items related either directly or indirectly to the advanced weapons program. China has been increasing its purchases of such items as rolling mills, special-purpose lathes and other machine tools, scientific instruments, computers, and other electronic equipment.

82. Many items of strategic equipment on China's shopping list fall within COCOM regulations, and the regime has had difficulty in purchasing the types and quantities of machinery required.



1.5(c)(d)
3.4(b)(1)(6)

The COCOM list does not include many items of importance to China's military programs.

83. Since mid-1963, China's purchases of complete plants from Japan and Western Europe have expanded considerably. The value of these plants totals about \$200 million. The bulk of the purchases have been in support of the civilian economy -- for example, chemical fibers, fertilizer, and plastics plants. However, some of these installations, notably steel and other metallurgical plants, will supply important inputs for the build-up of China's military-industrial base. Furthermore, the purchase of advanced Western technology and equipment for priority sectors of the civilian economy, such as chemicals and petroleum, releases scarce R&D manpower for use in weapons programs.

84. The acquisition of foreign technical data at little or no cost makes a distinct contribution to Communist China's weapons production. China systematically gathers technical documentary information through open sources in Japan and the

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West, such as libraries, bookstores, universities, and scientific publishing houses. Chinese scientific and technical delegations obtain technical data from visits to Free World factories, laboratories, and universities as well as through other direct personal contacts. Scientists and engineers visiting China often undergo intensive questioning about technical matters.

85. Some technical information also is purchased directly by the Chinese or is transmitted in connection with negotiations or sales of equipment. When purchasing modern plants or equipment, the Chinese usually obtain agreement from the manufacturer to supervise installation of the equipment in China, to train Chinese technicians in its use, and to guarantee continued operation and repair. In some cases the Chinese purchase technical knowhow rather than equipment. For example, in late 1965 the Chinese made a contract for this purpose with a large Swiss producer of diesel engines.

86. Over the next few years, China will depend even more heavily on Japan and Western Europe to help in its industrialization. As the production of modern weapons increases and as China is forced to rely more and more on its own R&D and engineering resources to support the development of new weapons programs, additional types and quantities of special materials, advanced equipment, and modern technology will have to be acquired from the Free World. Imports of modern equipment and technology will serve not only to support weapons programs but also to relieve the pressure on supplies of skilled manpower and equipment in industry as a whole. Thus substantial increases in imports of this type and continued negotiations for additional kinds of equipment and materials are likely.

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Effects of the Vietnamese War

87. Chinese aid to North Vietnam has grown steadily over the past year. Under the aid program, small arms and ammunition, trucks, industrial raw materials, semimanufactures, food, and other consumer goods have been furnished.

 and some fighter aircraft may have been supplied. The Chinese have increased the shipment of a broad range of items to replace bombing losses, including rails, construction materials, spare parts, and drugs and medicine.

1.5(c)(d)
3.4(b)(1)(6)

88. Chinese Communist capabilities for providing the above materials and manpower far exceed commitments made so far. The level of assistance would have to rise sharply before shortages would begin to develop in such commodities as steel products (including rails), drugs and medicines, and trucks. Chinese aid to North Vietnam, together with Soviet aid transiting China, has increased the burden on the rail net, but aid shipments still preempt only a small fraction of Chinese rail capacity. To the best of present knowledge, this flow of aid has been maintained with only minor interruptions in spite of internal political turmoil.

89. Perhaps the most significant step taken by the regime as the result of the situation in Vietnam has been the assignment of a high priority to defense and defense-related construction in South and Southwest China, particularly on airfields and main-line railroads. In 1965 and 1966, two rail lines (Chungking to Kuei-yang and Kuei-yang to K'un-ming) were opened to traffic, and work continues on a third (Ch'eng-tu to K'un-ming). The buildup of the South and Southwest China area is in part a speedup of the regime's long-range policy of developing the human and natural resources of the hinterland of China, but the situation in Vietnam is the primary immediate stimulus. Substantial quantities of heavy equipment and high-quality materials and engineering skills are being used in these areas at the expense of construction in the civilian industrial sector.

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Economic Implications of the Cultural Revolution

90. The present Cultural Revolution in Communist China is spiritually akin to the ill-fated Great Leap Forward of 1958-60. The revolution is an attempt by the aging Mao to rekindle the spirit of "permanent revolution" -- and permanent sacrifice. It has proceeded in stages. Prior to December 1966 the militant teenage Red Guards adhered fairly well to Premier Chou En-lai's admonition to stay out of factories and farms. But in December the Cultural Revolution was officially extended to industrial and agricultural enterprises. Within six weeks the resulting disturbances in agriculture, industry, and transportation were serious enough to give the regime pause.

91. In January 1967 the government issued orders aimed at restricting the economic impact of the Cultural Revolution and restoring order to the economy while at the same time maintaining the political objective of rooting out "bourgeois" and "revisionist" tendencies. From February through late May the regime gradually remedied the excesses of December and January that had threatened to produce serious economic dislocations. Since late May, however, sporadic disruptions have flared up again and caused new dislocations in industry, agriculture, and transportation. If these new revolutionary tremors continue, they may become even more serious than those at the turn of the year.

92. Although the damage to the economy caused by the Cultural Revolution since late 1966 cannot be quantified, it has been appreciable. Fear of potential losses was clearly responsible for the regime's decision in January 1967 to moderate its policies. Transportation and communications, food and distribution, and foreign trade seem to have been affected for only short periods of time. Industry and agriculture, however, may have been more seriously affected. As a result of interference with industrial operations, output in the last quarter of 1966 probably began to decline

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gradually, and this decline appears to have continued through the first half of 1967. In agriculture, disruptions during the winter and early spring may have affected planning and preparations for spring farm work, although a concentrated campaign of spring work could have compensated for any delays in preparation for spring planting.

93. The current lack of economic momentum is in part the result of the failure of industrial workers and peasants to respond satisfactorily to orders transmitted through the now-discredited Chinese Communist Party organization. Therefore, Mao Tse-tung has increasingly relied on the Peoples Liberation Army as the primary instrument for relaying and enforcing economic directives. The capabilities of the Army for preventing disorder and disruptions in production have, however, been hampered by conflicting directives from the central leadership. The Army has not succeeded in obtaining steady increases in production from workers and peasants.

Status of the Third Five-Year Plan (1966-70)

94. The first five-year plan for the economic development of Communist China covered the period 1953-57. The second five-year plan was to have covered 1958-62 but was almost immediately superseded by the Great Leap Forward (1958-60). After the collapse of the Leap Forward, economic planning was carried out on an ad hoc basis.

95. In December 1964, at the 1st Session of the Third National People's Congress, Chou En-lai announced that, after one more year of recovery and rehabilitation, a third five-year plan (1966-70) would be launched. Subsequently, little was heard about a plan. The 2d Session of the Third National People's Congress, which should have been held in 1965, would have been the normal occasion for announcing the specific goals and guidelines for a plan. But the session was not held. Bits and pieces of information gathered in 1966 and

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early 1967 suggest that there never has been a fully detailed five-year plan. Instead, ministries, bureaus, and individual economic units have continued to work on an ad hoc basis as in 1961-65.

96. The uncertain status of the third five-year plan must be attributed in large measure to the Cultural Revolution, which surfaced in November 1965. The period when the plan should have been announced and put into operation was the time in which the Cultural Revolution was brewing and absorbing the attention of Mao and many of his chief lieutenants. In 1967, there still is no concrete evidence that a detailed third five-year plan exists. The Cultural Revolution continues to number economic planners and administrators among its victims. At the same time, there is no evidence that the Cultural Revolution has superseded technical economic planning and administration in the same sweeping way that the Great Leap Forward superseded the second five-year plan.

Prospects

97. Communist China has been in existence almost 18 years, long enough to have experienced five distinct phases of economic development -- rehabilitation, a Soviet-style five-year plan, the Great Leap Forward, recovery, and now the Cultural Revolution. These eventful years may be characterized by the following general propositions:

(a) The Communist regime has created a single national economic unit that is welded together not only by nationwide systems of transportation and communication but also by modern means of economic, political, and military administration. Perhaps the most significant aspect of the present Cultural Revolution is that this unity, which has been to a large extent created and preserved by the apparatus of the Communist Party, is being placed in jeopardy.

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(b) Taken as a whole, the economy is at a considerably higher level in industry and technology than when the Communists came to power. It has important industrial and military production capacity built up since 1949 and a greater variety of industrial output.

(c) It is not the lack of resources that prevents orderly economic development but the military ambitions and ideological biases of the leadership. Mao and his associates disown, on ideological and political grounds, many policies that would assist economic growth and improve living standards, such as more extensive reliance on foreign assistance, the greater use of material incentives for workers and peasants, firm birth control measures, and stretching out the development of modern weapons.

98. The economic outlook for Communist China will be strongly conditioned by political developments. At present the Communist Party is in disorder and the government bureaucracy under attack. As a result, control over the economy has been enfeebled and the efficiency of the economy has declined. If the political turmoil continues at its present level, the economy seems likely to deteriorate further. If turmoil were to continue for an extended period or were to intensify so that central authority was further eroded, decisions as to the allocation of resources would become more difficult, and a sharp decline in industrial production or an acute food shortage might occur.

99. It is possible that the present indeterminate political situation will end soon, with Mao reestablishing control and introducing an economic phase of the Cultural Revolution with similarities to the Great Leap Forward. As with the Leap Forward, one would expect to see the substitution of political and ideological for material incentives, an attempt to move ahead rapidly on a broad front, and perhaps the abolition of private plots and

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free markets in agriculture. Such a pattern of events, if continued, would almost certainly lead to a deterioration in discipline and morale, dislocation in production and transport, and widespread hunger. Although such a sequence cannot be ruled out, it appears unlikely, since it is not believed that Mao will achieve a clear-cut resolution of the political struggle or that he can implement radical economic policies of the kind postulated without resistance from some of those who have thus far supported him.

100. It is also possible that Mao will be replaced by a group of sober-minded pragmatists who will adopt less grandiose goals, ascertain what economic tasks are feasible, and set to work on them in nondoctrinaire fashion. Renewed support from the USSR might even be part of the picture. The result could be a serious attack on the population problem and a sustained rise in production and living standards. But such an outcome does not appear probable. The period after the disappearance of Mao is likely to be characterized by a confused contest for power. It is also likely that the leadership will continue to assign considerable weight to political and ideological considerations and that it will inherit some of the political goals of its predecessor. Economic considerations will almost certainly from time to time be sacrificed to political objectives. A high priority will probably continue to be given to advanced weapons, although perhaps with some stretching out, and it is likely that China's hostility toward the United States will continue.

101. Even when these two possibilities are ruled out, no very confident estimate of Communist China's economic future can be made, especially given the present political turmoil and the past record of twists and turns in economic policy. Some general conclusions may be hazarded, however. The ambitions which have produced the advanced weapons program will almost certainly remain in some degree, as will the competition with the USSR in the Communist world. These will strongly affect the allocation of resources, probably at

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the expense of the measures required to achieve sustained economic growth. At the same time, China will have to continue to cope with such basic problems as the unfavorable food-population ratio, the costs and imbalances produced by its advanced weapons program, and the shortcomings of its educational system.

102. It is likely that in the period through 1970 the Chinese economy will continue to be characterized by differing rates of growth in the various economic sectors, reflecting the disparity between ambitions and resources. Output in the military industries will probably continue to grow at a fairly rapid pace, as will output in other priority industries. At the same time, a substantial part of industry will remain in the backwater of outdated equipment and technology. The overall rate of growth in industrial production is likely to be less than in 1961-66 because the capacity idled by the Leap Forward has now largely been taken up. The food-population problem will remain unsolved over the next few years at least. Barring spectacularly good weather and spectacularly good luck, agricultural output will have to be supplemented by continued grain imports if the food intake of the population is to be maintained at even its present low level. China will remain a hungry nation with a dispirited population, albeit a nation with a growing arsenal of advanced weapons. Foreign trade will probably increase and will remain oriented toward Japan and Western Europe.

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