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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

27 July 1961

MEMORANDUM FOR THE DIRECTOR

SUBJECT: The Situation in Mainland China

SUMMARY

1. Communist China is in serious internal trouble. Food is in short supply -- in some areas critically so -- as the result of poor crop years in 1959 and 1960, and of faulty planning and administration. The regime's program of rapid industrialization has been seriously interrupted and its economic plans must be modified in major ways as the result of the withdrawal of Soviet technicians and of economic mismanagement. The much publicized commune experiment has been suspended, although the organizational framework has been retained. The regime's foreign exchange holdings have been severely drawn down.

2. A prolonged period of privation, regimentation, and overwork, capped by the food shortage of the past two years, has resulted in widespread physical exhaustion, malnutrition, disillusionment, and apathy. Public morale is at its lowest point since 1949.

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There has also been a sag in discipline and dedication among cadres and local officials, and there have been scattered instances of public defiance of local authority.

3. However, the available evidence indicates that the prevailing public mood is one of despair and resignation. The mainland Chinese are nowhere near the point of revolt or of widespread defiance of the regime. There is no evidence of widespread famine conditions, such as China has experienced periodically throughout its history. The mid-summer crops now being harvested, will alleviate, temporarily, the food situation. The regime has prudently eased its psychological pressures and physical demands on the public. Most importantly, we have seen no evidence that Communist China's difficulties have weakened seriously the loyalty or the capabilities of the regime's control apparatus -- the armed forces and the party. It is highly unlikely that there would be widespread public rallying to a Chinese Nationalist liberation effort.

4. The short-term prospects are nevertheless bleak. Natural calamities have again been present in 1961 and this year's harvests may yet fall short -- for a third poor crop year in a row. Should this occur, by next spring there would be increasing disregard of authority and sporadic outbreaks of active resistance. If 1961 is

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a normal crop year considerable pressure will be taken off the internal situation. However, at least two consecutive years of average or better harvests would be required to overcome the present agricultural crisis, resume industrial expansion, and give the Communist regime a greater security against internal disaffection than it is likely to enjoy in the coming year.

DISCUSSION

5. The Food Crisis. Communist China's agricultural product, which had barely kept abreast of the population growth, dropped sharply in 1959 and 1960 as the result of adverse weather conditions, of severe dislocation resulting from the effort to reorganize completely rural China into vast communes, and of mismanagement of labor and resources. During late 1958 the regime laid the groundwork for a major food crisis when, in a burst of new confidence resulting from that year's bumper crop, it allowed food to be consumed through free supply in commune messhalls at a rate it could not sustain. Even before the poor crop years of 1959 and 1960 food reserves were low and local shortages had appeared in many parts of the country.

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6. In 1959 production of food grains, which make up 85-90 percent of the Chinese diet, was about 190 million tons, a drop of 22 million tons from the previous year. The 1960 harvest was about 180-190 million tons. The greatest loss was from drought in the wheat growing areas of north China, although typhoons and floods caused severe local rice shortages in parts of south China. The first wheat harvest of 1961 has been below normal; the early rice harvest has been about average. Since mid-1958, about 50 million people have been added to the population.

7. Despite widespread food shortages, the Chinese Communist regime continued a net export of grain into 1960, to pay for the imports necessary for its industrialization program. For 1961, however, Communist China has already scheduled the import of five million tons of grain, mostly wheat purchased from Australia and Canada. These purchases have sharply reduced China's limited foreign exchange holdings. Although the scheduled grain imports are small in comparison with China's annual needs of approximately 200 million tons, they will enable the regime to relieve suffering at certain hard-hit localities and to meet the needs of the military and other key groups.

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8. The Industrial Program. The "Leap Forward" program initiated in 1958 to expand and develop industry at the highest possible rate has run into serious difficulties. Men and machines, driven at an exhausting pace with only secondary concern for cost, quality of output, maintenance of equipment, and morale, have begun to give out. The situation was complicated in mid-1960 when the USSR, probably for reasons associated with the Sino-Soviet dispute, suddenly withdrew all of the two to three thousand Soviet engineers, designers, production specialists, and other technicians who were helping to build and put into operation modern industrial plants in Communist China. The developing food shortage further aggravated the situation, causing worker production to fall off and curtailing Chinese Communist ability to export foodgrains to finance industrial imports. The result has been an accumulation of problems: rapid wearing out and breakdown of machinery; growing labor, raw material and spare part shortages; disruption of planning and programming for industry; over production of many materials and items which cannot be used; and a sharp reduction in new industrial construction and imports of machinery.

9. The regime released only fragmentary data on economic performance in 1960 and has maintained an official silence on the

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subject during 1961. The outlook is for total industrial output in 1961 to fall below that of 1960, with light industry particularly hard hit. The regime probably is making a major reappraisal of its entire economic program, taking stock of its problems in agriculture and industry, and seeking to adjust to its changed economic relationship with the USSR.

10. The Chinese Communist regime has in the past demonstrated great flexibility in readjusting its programs and meeting its problems. Its longer run prospects for a six or seven percent rate of growth in industry are good, if it manages to surmount present economic difficulties and restore order to the present chaotic situation. There is a high rate of investment as a proportion of GNP (at present about 30 percent); the numbers of trained managers, scientists, and technicians are increasing; and the regime has the determination and the control to concentrate all available resources on forced-draft economic development. Agricultural production, however, will continue to present major problems, and the regime will find it difficult to sustain increases in output commensurate with the rate of population growth.

11. Economic Relations with the USSR. The USSR has contributed heavily to Communist China's industrial progress. However,

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the Soviet have not furnished major long-term economic credits or grants; China has paid for Soviet industrial goods on an essentially pay-as-you-go basis through the export of agricultural products and raw materials. Under agreements which were to run through 1967 the USSR had undertaken to furnish 291 industrial plants to China; at the time of the withdrawal of the Soviet technicians about half of that number had been completed.

12. Since the technicians were withdrawn, Soviet exports of capital equipment to Communist China have dropped sharply. In 1961 such exports will probably be no more than 50 percent of the 1959 level. The explanation for this drop is probably a combination of Chinese Communist inability to absorb a higher level of capital equipment, Chinese Communist inability to meet the payments, and a Soviet desire to put pressure on the Chinese Communists in hopes of bringing them into line in the Sino-Soviet dispute.

13. A new economic and technical agreement between the USSR and Communist China has recently been concluded after prolonged (February to June) negotiations in Moscow. We have no information as to its details, but the extended period of negotiation and the low-key manner in which both parties announced its conclusion, strongly suggest that there is a continuing coolness in Sino-Soviet

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relations and that the USSR is not likely to bail Communist China out of its present difficulties unless the situation becomes much worse.

14. Political Effects of the Economic Situation. A three-year period of high exaltation during which the regime claimed achievements unprecedented in economic history has been followed by two years of hardship and hunger among the peasant and proletarian masses and of confusion and chaos in the economic program. This reversal has undoubtedly created profound political and psychological effects. Privation and suffering has increased disaffection with the regime among the peasants and workers whose mood at present is one of apathy and despair, or as put by the Chinese Communist press, there is a "loss of activism on the part of the masses." The population generally has become bolder in voicing its grievances, and this boldness has resulted in several local anti-regime displays. However, the peasant and proletarian masses in China cannot transmute dissatisfactions into effective revolt without at least the passive support of the regime's key instruments of control -- the party and the army.

15. Intelligence on the attitudes of party cadres and army personnel is sketchy. The evidence does suggest growing

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disillusionment and a general erosion of discipline and morale, particularly among lower level party cadres who are suffering some of the deprivations of the masses. Moreover, the lower level cadres are serving as scapegoats for failures resulting from decisions made at higher party echelons. The armed forces have received cuts in food rations, but they still enjoy a considerable margin over civilian allowances. The emerging picture among the rank and file of the military is one of growing sympathy with the problems of the civilians. However, at present the evidence does not support a finding that party cadres, even those at the lower level, would lead or join the masses in opposition to the regime. The armed forces continue loyal to the regime.

16. The authorities have been sufficiently sobered by their problems to do a good deal of thinking and rethinking and also to take some remedial action. The purchase of 5 million tons of grain abroad for delivery this year, for example, is testimony to Peiping's appreciation of its serious straits. The authorities are also taking a number of steps -- in the form of a relaxation of radical pressures -- to alleviate the situation. For example, the proportion of the national product allocated to investment is decreasing, to the benefit of personal consumption; agriculture

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and light industry are receiving higher priorities in relation to heavy industry; some of the forced-draft aspects of industrialization are being dropped; and work pressure is being reduced. Several recent articles in the mainland press indicate that Peiping is deeply concerned over the need to increase peasant incentive and there is evidence that at least in some areas peasants are being allowed to cultivate private gardens.

17. Peiping has also retreated on the ideological front. The official word to the party no longer bears down on Mao Tse-tung's principle that man can create his own environment. Today's emphasis is rather upon the need to study the objective situation before setting goals and programs. Premier Liu Shao-ch'i has publicly admitted the regime's "mistakes" in planning. The "Let a Hundred Flowers Bloom" campaign for somewhat freer discussion has been officially resurrected. Although confined to technical and artistic subject, it is obviously an effort to elicit greater support for the regime and its goals from among mainland China's intellectuals and technicians. All-in-all, a more moderate pace of Communist pressures has been set.

18. The Contingency of Poor Weather in 1961. Events so far have not been auspicious for this year's crops. A poor crop year

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in 1961, the third consecutive such year, would raise extremely grave problems for the regime; the structure and direction of its long-range economic planning would probably have to be radically recast. Unless there were substantial food imports, malnutrition and disease would become widespread and a considerable amount of starvation would probably result. Party cohesion, effectiveness, and morale would drop. Public disaffection would probably become a major problem for the regime, and active resistance probably would occur. If open resistance became widespread, the leadership would almost certainly undertake a massive campaign of repression. While the responsiveness and effectiveness of its control apparatus would probably decline still further, it is unlikely that public disaffection would threaten the regime's control of China. Hunger and widescale passive resistance, however, would constitute acute economic and political problems for the Chinese Communist Party and China's development programs.

FOR THE BOARD OF NATIONAL ESTIMATES

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SHERMAN KEMP
Chairman

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