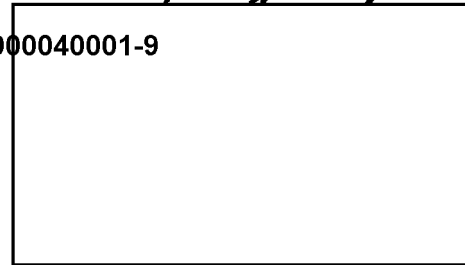


NI/Registry

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9




25X1

*Memoranda in Support of Secretary Vance's  
Trip to the People's Republic of China  
August 1977*

25X1



Copy 

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

NI M 77-022J

25X1

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

CONTENTS

- I. THE INTERNAL SITUATION IN CHINA
- II. THE HUA-TENG RIVALRY
- III. CHINESE FOREIGN POLICY
- IV. SINO-SOVIET RELATIONS
- V. CHINA'S VIEW OF THE US
- VI. THE CHINESE ECONOMY
- VII. THE NATIONAL DEFENSE POSTURE OF THE PRC
- VIII. CHINA'S ADVANCED WEAPONS PROGRAMS
- IX. THE MILITARY BALANCE ON THE SINO-SOVIET  
BORDER
- X. THE PRC-ROC MILITARY BALANCE



## I. THE INTERNAL SITUATION IN CHINA

With the July plenum of the Chinese Communist Party's Central Committee, Peking has moved to set its internal house in order. The plenum marked the end of a period of transition following the death of Mao and the resolution of a number of troubling political problems--a significant advance after a period of considerable behind-the-scenes wrangling. A sense of direction and purpose has been imparted to Chinese political institutions and current problems are almost certainly not as acute as those that have agitated Peking and the provinces in the past several years.

The second "rehabilitation" of Teng Hsiao-ping, perhaps China's most experienced administrator, establishes a triumvirate of leading officials who seem generally agreed on broad policy issues, the other members of this group being Party Chairman Hua Kuo-feng and Defense Minister Yeh Chien-ying. But problems of the distribution of power among China leaders have still not been settled. Some degree of additional contention is likely; it is impossible to remove the consequences of 10 years of bitter political struggle overnight or to adjust to the loss of two such towering leaders as Mao Tse-tung and Chou En-lai easily. Teng seems likely to replace Hua as Premier later this year; he may already be in day-to-day charge of the running of the country. A Teng "administration" will probably be fleshed out at the 11th party congress--which may well take place before Secretary Vance's visit to China--and above all at a National People's Congress, which will endorse a governmental program and economic strategy, probably this autumn.

### Economic and Party Building

The outlines of this program and strategy are already clear. Generally they are those set forth in 1975, when Teng was last in power, and which were discussed in some detail during the leftist-inspired criticism campaign against Teng in 1976. This program has two central features: strengthening the party machinery, and pragmatically building the economic infrastructure

so as to "catch up with the West by the end of the century." Neither of these tasks is easy, and both are obviously long-term undertakings. Much of the preliminary spade-work in setting the parameters of the program has already been undertaken, at a series of "work conferences," even in advance of the recent plenum. None of these meetings appears to have been characterized by the deep political divisiveness that was a hallmark of the period from the end of the Cultural Revolution through the death of Mao, but they have revealed differences of emphasis among China's leaders and interest groups which could contain the seeds of new--although probably controllable--disagreements.

#### Party Problems

Strengthening the party machinery implies a return to the authoritarian methods and values of the early 1960s, or even of the 1950s, when the Soviet "command" style was in vogue. Discipline is being emphasized, and the somewhat ramshackle post-Cultural Revolution party structure tightened. The fact that the upper echelons of the party are now more philosophically and ideologically compatible than was the case when the "gang of four" and their close supporters were on the scene should facilitate this process: factionalism, both in Peking and in the provinces, has been reduced.

In fact, China's 29 provinces are in better shape than at any time since the end of the Cultural Revolution in 1969. All of the provinces have a clearly designated chief, a situation that had not obtained in six years. Nearly all of the provinces have undergone some reshuffling in their leadership groups since the fall of the "gang of four" in order to strengthen the provincial leadership and make it more responsive to direction from Peking. Most of the new officials in the provinces are veteran officials who share Peking's concern for discipline and firm party control and are associated for the most part with Teng or Hua. Teng's supporters are more numerous.

Historically, however, emphasis on discipline and tight control has invariably produced countervailing

pressures and restiveness among those excluded from a direct share of real power. Moreover, as power continues to gravitate into the hands of experienced party bureaucrats, two major fault lines in the structure of power are likely to widen. The first of these cleavages is the perennial left-right dichotomy. Leftists in the upper levels of the party have been largely, although not entirely, removed. At lower levels, however, they still remain relatively numerous, although a distinct minority and largely powerless. In a party of over 30 million members they must number in the hundreds of thousands, if not the millions, and obviously cannot be removed wholesale without massive purges which the Hua regime seems disinclined to employ. They are likely to remain a source of some friction and a focus of discontent.

The second cleavage is a generational one. With a renewed emphasis on "experience," younger party members are finding themselves increasingly excluded from important decision-making posts. This problem is likely to be solved only by the attrition through death of the older, "revolutionary" generation which took part in the Long March--a process already well under way.

#### Economic Construction

Even greater emphasis is being put on economic construction, which in fact seems to be the centerpiece of the new leadership. Here again a return to the methods and priorities of the early 1960s (when China was recovering from the disasters of the Great Leap Forward) seems envisaged. But because Peking is working on relatively narrow margins, as a result both of population pressure on the land and China's comparatively weak economic base relative to its size, economic choices are particularly difficult and allocation problems acute. Li Hsien-nien, the Politburo member who was in charge of day-to-day governmental operations prior to Teng Hsiao-ping's formal rehabilitation last month, has held surprisingly frank discussions with foreigners in recent months, describing wrangling over allocation of budgetary and other resources.

Nevertheless, in a number of areas basic decisions appear to have been made, and in others at least temporary

compromises which may leave no interest group completely satisfied seem to have been reached. Without such decisions it probably would have been impossible to have held last month's plenum. It is, for example, clear that great emphasis will now be placed in development of and training in science and technology--an area which has languished since the onset of the Cultural Revolution over a decade ago, but one which is obviously of central importance in any determined and long-term effort to modernize and develop the Chinese economy.

Emphasis on this area clearly implies a greater willingness to acquire advanced technology and ancillary know-how from abroad, and in fact leading Chinese officials have stressed China's needs and interests in this regard, especially in recent weeks. There are, however, almost certainly residual political constraints on how far Peking can pursue a program of imports from abroad, and these constraints are reinforced by limited absorptive capacity in some technological fields as well as by a relative shortage of hard currency. In 1975 Teng Hsiao-ping seemed prepared to relieve the latter problem through oil sales abroad, but growing industrialization has already begun to sop up a significant portion of surplus Chinese oil supplies.

The outcome of debate over the relative weight to give agricultural development as against industrial development is somewhat less clear. Since the failure of the Great Leap Forward, primary emphasis has been on agriculture, but in 1975 Teng Hsiao-ping appeared to argue for relatively greater attention to industry, especially in such basic fields as steel and coal production. Discussion of this issue in the spring and early summer was somewhat muffled, but Teng, who undoubtedly was influential behind the scenes even before his "rehabilitation," can be presumed to have repeated his earlier arguments. A shift toward a somewhat greater emphasis on industry seems to be taking place, but agriculture almost certainly still remains in first place. The agricultural field is one with which Hua Kue-feng has been closely associated.



Civilian Versus Military

Even more difficult allocation problems almost certainly continue to exist with regard to the civilian and military sectors of the economy. Public debate on this issue was quite sharp throughout the first half of this year, highlighting the third major line of cleavage in the Chinese body politic--that between civilian and military institutional interests. Differences on this issue may well have been exacerbated by the fact that the military establishment played a large part in overthrowing the "gang of four," and therefore felt itself to be in a position to demand a greater portion of the budgetary pie. Some temporary accommodation probably was reached prior to the July Central Committee plenum, although it is unlikely that the issue has been settled permanently. This compromise seems to call for allocations to the military at a rate proportional to current budgetary distributions, although this "current" rate may already reflect a small decrease in the sums allotted to the military,

25X6

This issue has already involved the top leaders of the regime, and is likely to continue to do so. Hua Kuo-feng was an early advocate of maintaining a cap on military spending, particularly in the period immediately following the fall of the leftists last autumn. Prior to the recent plenum, however, Hua was to a considerable degree dependent on military support as a primary source of political strength, and probably not in a good position to press his case. Li Hsien-nien, the regime's chief economic expert, has long been an advocate of balanced economic growth, which requires primary budgetary attention to the civilian sector. The position of Teng Hsiao-ping is somewhat more equivocal. He too is an advocate of balanced growth, but in 1975 he drafted an ambitious program of military modernization which combined a degree of administrative pruning (and consequent savings) with a considerable outlay for conventional weapons. Teng seems to have the confidence of a considerable portion of the military establishment, and thus is in a good position to work out any necessary compromises. Significantly, the recent plenum restored him to the post of PLA chief of staff, thereby placing a civilian in a crucial military slot.

### Military Fissures

Although most military leaders can be assumed to desire a relatively large budgetary allotment for the PLA and to jealously guard the prerogatives of the military establishment in general, this pivotal institution is as divided as is the civilian sector. Differences in viewpoint divide severely professional soldiers from those who believe the military has a role to play in politics, and those who stress technical competence and weapons modernization from those who emphasize morale and motivation of the individual soldier. Personal rivalries, some of them exacerbated by the factionalism of the Cultural Revolution--a problem that also obtains in the civilian party--also exist. Of the four active full members of the Politburo from the military, two strongly supported him. One of these, the commander of the Canton Military Region may have played a crucial role in Teng's "rehabilitation."

### Political Legitimacy

None of the problems outlined above is new, and most are the legacy of the long years of political turmoil that began with the Cultural Revolution. In fact, at the recent plenum, the new leadership moved some distance toward solving the new and central problem that was a direct outgrowth of the death of Mao and of the purge of the "gang of four"--that of its own political legitimacy. Hua Kuo-feng has been able to claim that Mao annointed him for the succession before his death, but this claim has in large part rested on a single rather ambiguous remark Mao made in the last year of his life. The party Central Committee--a body elected while Mao was still alive, albeit purged of its leftist membership--has now confirmed him in the post of party Chairman, an act which finally legitimizes the semilegal "coup" of last October. Moreover, Hua has considerable control over the Maoist legacy through his role as editor of the "collected works" of the Great Helmsman. The usefulness of this role can be seen in the recent emphasis which propaganda has placed on statements of the late leader which date from earlier, more constructive phases of his political career, rather than on those dating from his erratic and dogmatic last years.

Much of the baggage of those later years is an embarrassment to the current Chinese leadership, with its relatively pragmatic outlook and its emphasis on economic construction rather than mass agitation. For purposes of unity and continuity--and possibly to avoid charges of de-Maoification--attention is given to certain aspects of the Mao legacy. However, comparatively little was said about the late leader at the recent plenum, a circumstance that is likely to be repeated at the upcoming Party Congress, when erstwhile victims of the Cultural Revolution are likely to be elected in fairly large numbers to the new Central Committee. The plenum did, however, handle the ambiguous Maoist legacy with considerable adroitness in its treatment of Teng Hsiao-ping's "rehabilitation." The meeting chose formally to reinstate Teng to all his former posts, rather than simply declaring the leftist-inspired purge of Teng in 1976 null and void; it thus avoided a direct repudiation of the late leader, who was on record endorsing the purge.

The Power Equation\*

The action of the plenum does not completely dispose of problems connected with the controversial Teng, however. Teng's return to power--for an unprecedented second time, and at a pace faster than that apparently envisaged by Hua Kuo-feng last spring--speaks eloquently of the wide support he enjoys in the middle and upper levels of the party and military bureaucracies. Momentum seems to be running with Teng; his power appears to be growing, while that of Hua has relatively declined. If Teng gains the premiership at the upcoming National People's Congress, he will succeed to a post now held by the Chairman himself. Indeed, Hua is now both Chairman and Premier precisely because Teng, who seemed certain to gain the latter and possibly to succeed to the former post, fell to leftist pressures a year and a half ago--a fact which few in China seem to have forgotten.

25X6

\* A detailed interpretation of the Hua Kuo-feng - Teng Hsiao-ping rivalry follows in Section II.

Of the four Politburo members who comprised the core of opposition to Teng's early return to power, three at least played a part in his downfall in early 1976. They all appeared to fear the consequences of Teng's return for their own positions. Hua himself of course also had ample reason to delay.

Through the first half of 1977, Hua played this difficult situation with considerable adroitness. Despite public and private agitation for Teng's early return, he managed to have the issue postponed at a party "work conference" last spring and subsequently attempted to repeat Mao's classic tactics of balancing between opposing forces by patronizing the Teng oppositionists throughout the late spring. Hua was unable to capitalize on this situation, however. Ministerial and provincial appointments appear to go almost exclusively to individuals with close ties to Teng. The current, abbreviated Politburo Standing Committee consists of Hua, Yeh Chien-ying, and Teng--the latter two both party elders with similar outlooks who have shared similar experiences over many years. The upcoming Party Congress is almost certain to add Li Hsien-nien, a man of similar background, in the fourth position; while other, younger men will probably also be added. There is still a strong likelihood that Hua will be at least partially hemmed in by strong-minded party elders who have closer ties among themselves than with the new Chairman.

The problems inherent in this situation are potential. In the shorter run the results of the recent plenum suggest cohesion rather than division. The fact that a way has been found to bring Teng back into the leadership in a manner that does minimal damage to Hua and perhaps to others who opposed the controversial administrator's return indicates that compromise rather than the confrontations of the recent past has a strong attraction to China's present leaders. Moreover, there are still a number of factors working in Hua's favor.

The actuarial tables are one such factor--Hua is significantly younger than the party leaders who surround him. His political suppleness is also helpful, as is the apparent fact that he has not made strong and implacable

enemies. Above all, the country is weary of incessant political infighting, a sentiment shared by much of the party's leadership. Several of these points were touched on by Yeh Chien-ying in his 1 August Army Day speech. Yeh, who is not only formally the number-two man in the regime but is genuinely respected by nearly all elements in the complicated political equation, has shown special concern for political stability and unity. He appears to have spent much of the past year attempting to heal political wounds both in the military and in the party. Yeh is 79, however, and in uncertain health. There is no replacement for him of similar stature on the horizon.

#### Impact on Foreign Affairs

Neither the uncertainties of the past 10 months regarding the distribution of political power nor the transformation of domestic policy have had significant effect on Chinese foreign policy, although, as noted above, both imports of foreign technology and foreign trade in general are likely to increase. Opposition to the Soviet Union is the strongest and least blemished aspect of the Maoist legacy. From time to time over the past several years there have been hints in Chinese propaganda and elsewhere that at least some Chinese leaders would welcome a less bellicose policy toward Moscow; if such a group exists, it has had no observable effect on Chinese policy in the past ten months. In some respects relations with the Soviets have actually declined since Mao's death. In fact, any change in attitude toward Moscow, which would have considerable internal as well as international repercussions, may be an issue of such divisiveness and volatility that no Chinese leader wishes to address it at this time. China's attitude toward the United States during this period has apparently been almost entirely a function of its perception of US foreign policy, particularly with respect to the USSR and to China itself. There are some indications that the Chinese may have wished to set their domestic house in order the better to deal with any decisions that may have to be made in the wake of Secretary Vance's visit. They may also have wished formally to restore Teng Hsiao-ping, who was the principal Chinese negotiator in the Sino-US talks of

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

1974 and 1975, to power in time to provide some continuity to the discussions. Finally, it is possible that, following the changes and uncertainties of recent months, the new leadership may hope for a foreign policy "success" to bolster its image and sense of legitimacy at home.

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

## II. THE HUA-TENG RIVALRY

The death of Mao Tse-tung in September 1976 has left the Chinese leadership with an unresolved succession problem centering on the distribution of power between Hua and Teng Hsiao-ping.

Hua could not have claimed Mao's mantle had Teng not been ousted from power in January 1976 largely through the efforts of the left. Thus, the purge of the "gang of four" in October 1976 not only challenged the legitimacy of the move against Teng but, by extension, cast doubt on whether Hua rightfully belonged at the top. There were indications that after the purge of the leading leftists, Teng's supporters began to move almost immediately to lay the groundwork for his return. Hua's supporters were equally quick to launch a defensive propaganda effort aimed at separating Hua's rise from Teng's fall by making it appear that Mao had tapped Hua well before Teng's troubles began.

Hua, aware of the threat to his position posed by a rehabilitated Teng, worked adroitly to diminish that threat. In the immediate aftermath of the purge of the "gang of four" Hua appeared to be a captive of the party's right wing, including the military, which had remained loyal to Teng. Since then, however, Hua has worked to develop a centrist position more independent from pro-Teng rightists such as Defense Minister Yeh Chien-ying and Vice Premier Li Hsien-nien and to cultivate the image of a man in the center of the political spectrum who saw beyond personal political rivalries to the major policy questions facing China. At the same time, he did not actively oppose Teng's return but did seek to delay it long enough to consolidate his own position, in part by attempting to build up others in the leadership with centrist credentials who shared his reservations about Teng.

These efforts, however, fell short of achieving the intended results, and Hua still lacks the kind of independent, influential power base enjoyed by Teng. It is Teng's position, not Hua's, that has been

strengthened by recent appointments to posts in the provinces and national government. Moreover, the restoration to Teng of all of his former positions at last month's Central Committee plenum gives Teng a wider array of important posts in the military, party, and government than any other top leader including Hua. The question of the premiership, a post Hua now holds, remains open. But the flow of events suggests that Hua will not be able to retain this position, which had been earmarked for Teng by Chou En-lai as early as 1972.

Hua continues to serve in a crucial capacity as a compromise "first among equals" and, as Mao's designated heir, is a bridge between the Maoist past and the legacy of Chou--upon which the current leadership is drawing to legitimize its policies of rapid national development. The question now at hand is whether present political arrangements will prove durable enough to allow Teng and Hua to coexist over an extended period. The manner in which the restoration of all of Teng's former positions last month was carefully balanced with the confirmation of Hua as party chairman attests to the sensitivity of having both in the leadership at once.

Important segments of the leadership apparently were willing to risk any divisiveness Teng's return could cause to gain his needed administrative skills and wide-ranging experience. Teng is already in strong position and this time there is no towering figure like Mao or Chou to keep him in check. Over the longer run, it seems likely that more and more power will end up in Teng's hands and that Hua will have an uphill fight to retain a significant political role.



## III. CHINESE FOREIGN POLICY\*

There has been no major change in Chinese foreign policy since the death of Mao and the overthrow of the 'gang of four' last year. China remains preoccupied with its opposition to the USSR, and this has led Peking to stress state-to-state relations at the expense of revolutionary rhetoric. In fact, Chinese foreign policy has taken on a distinct 'enemy of my enemy is my friend' cast as Peking retains relations with Chile, stresses close ties with Iran, and invites out-of-office anti-Soviet politicians such as Franz-Joseph Strauss and Edward Heath to China for what are state visits in all but name.

From China's point of view, this past year on balance brought a somewhat more favorable outlook to its foreign policy than the year before. In Northeast Asia, relations with North Korea remain close and Peking has not let the lack of progress on the Treaty of Peace and Friendship with Japan affect its important economic ties to Tokyo. In Southeast Asia, China appears more optimistic than a year ago about its relations with Vietnam. The Chinese are also encouraged by trends in South Asia set in motion by the advent of a less Soviet-leaning government in India.

Peking's continued successful cultivation of better state relations with Yugoslavia--to go with its cordial ties to Romania--is a marked gain in Eastern Europe. After two years of reverses in Africa, Peking is exploiting Soviet troubles to restore and expand its influence. The Chinese were encouraged by African regional cooperation in quelling the Shaba invasion and by the assistance some European states extended to Zaire.

Although China's influence in the Middle East is quite limited, Peking is encouraged by Soviet losses in Egypt and the Sudan. Always interested in Western Europe as a counterweight to the USSR, Peking now looks forward to increased trade both to firm up bilateral relationships and to gain industrial imports and technology.

Problems persist in Chinese foreign policy, however. There is continued stagnation in Peking's political relations

\* Sino-Soviet relations and China's view of the United States are handled in separate papers, which follows.

with Japan. China has an abiding suspicion of Vietnamese ambitions in Southeast Asia. The Chinese have lost some influence in Ethiopia and are engaged in an embarrassing ideological quarrel with Albania. They are also worried about the possible effects of Eurocommunism on NATO. Despite these difficulties, the Chinese view the world setting as having moved a bit toward its advantages.

Peking's new leadership continues to put state interests ahead of the demands of ideology. China believes the US is the only nation with adequate resources to meet the Soviet challenge, and it will continue to woo the states of the industrialized "Second World" of Western Europe and Japan and the economically underdeveloped Third World to attempt to contain the expansion of Soviet influence. Nevertheless, ideology will make itself felt in such spheres as continued support--mainly oral--for Communist insurgencies in Southeast Asia and persistent claims to ideological supremacy.

#### East Asia

Fear of opening up avenues for the expansion of Soviet influence and of finding itself on the road to confrontation with the US has led China to prefer stability on the Korean peninsula. China must perforce give strong public support of Kim Il-song's position on reunification and the withdrawal of US forces from South Korea. Privately Peking indicates a desire for stability in East Asia and it apparently counsels restraint to the North Koreans. Chinese-North Korean relations are close, but in large part North Korea's "tilt" toward China is by default. Kim would prefer a more balanced relationship among North Korea, China, and the USSR. The Soviets, although they are Pyongyang's major trade partner and economic aid donor, do not appear in the mood to increase significantly their assistance, despite North Korea's urgent need for it. Peking's attitude to events in Korea, however, will continue to be constrained by fear of Soviet gains there at Peking's expense.

Concern about Soviet intentions also conditions Peking's relations with Japan, but in the case of Tokyo

there is an important economic element. China uses every opportunity to inveigh against the development of closer Japanese-Soviet relations. Peking used the recent difficult Japanese-Soviet negotiations over an interim fishing agreement to propagandize against Soviet 'hegemonism' and constantly attempts to stir the pot by harping on (and supporting) Japan's claim to four northern islands now under Soviet control. Lately the Chinese have supplemented these political maneuvers by initiating contact with the Japanese defense establishment. Former high-ranking and, in some cases, recently retired Japanese military officers have been received by Vice Premier Chen Hsi-lien, a leading member of the party's military commission. Peking tacitly endorses the US-Japan mutual security treaty and the continued US military presence in Japan.

Peking's major device to alter Japan's attempt to balance its stand between the USSR and the PRC is the proposed Sino-Japanese treaty of peace and friendship. China's firm insistence on including an anti-Soviet 'hegemony clause' in the treaty continues to be the main obstacle to its conclusion. The Soviets have pressed the Japanese to reject the clause. Tokyo has temporized on the issue, much to Peking's irritation.

An additional problem in Sino-Japanese relations is Tokyo's recent conclusion of an agreement with South Korea on development of oil resources on the continental shelf. The agreement conflicts with Chinese claims in the area, and Peking denounced it with unexpected vehemence.

The Chinese, however, have not allowed their differences with Japan to affect significantly their overriding interest in fostering good relations. Japan is likely to remain China's number-one trade partner and an important source of industrial imports. Peking is interested in concluding a long-term trade agreement that would exchange Chinese oil and coal for industrial goods. Due primarily to economic considerations, prospects for an early conclusion of such an agreement are slim.

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Peking seems more hopeful about prospects in Southeast Asia than it was a little more than a year ago. Then it feared the Vietnamese might serve as the agency of Soviet influence throughout the region. Events since then seem to have persuaded the Chinese that the Vietnamese are determined to set an independent course between Peking and Moscow. While China would prefer Vietnam to be less involved with the USSR, the new Chinese leadership appears willing to seek good relations and not to focus on the problems between them. Peking also supports improved relations between Washington and Hanoi.

Peking nonetheless does not want to see Hanoi become a rival in its own right for influence in the region. Despite irritation with Thailand for its dealings with Taiwan, the Chinese still prefer stability under the present Thai regime to instability which might be exploited by the Vietnamese. At the same time, Peking maintains links with the Thai Communist insurgents, partly for fear they will be coopted by Vietnam.

China's relations with the Cambodian regime, although occasionally embarrassing, remain close. Peking last year encouraged Phnom Penh to develop links with its ASEAN neighbors, but is now apparently resigned to the Cambodians' policy of isolation.

The emphasis in China's policy toward the ASEAN nations generally is on good state-to-state relations. Indonesia has yet to restore relations with China, but may do so in the coming year. Singapore will await Indonesia's move before opening diplomatic relations. The Chinese remain relaxed on the question of US forces in the Philippines over the past 10 years. Burma has been a special case in China's Southeast Asia policy because of Peking's relatively strong support of Communist insurgency there. Although that support has been cut back, Peking is unwilling to abandon that insurgency, despite highly visible efforts to improve state relations with Rangoon through the recent exchange of high-level visitors.

#### Africa

After two years of retreat before the advance of Soviet influence in southern and eastern Africa, China

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

has recovered from its 'Angola shock' and become more self-confident and assertive. Slight deterioration in Chinese relations with Tanzania and Zambia has been halted and ties with both countries appear firm and cordial. The Chinese have attempted to take advantage of recent Soviet setbacks in Sudan and Somalia and are urging greater anti-Soviet cooperation among wealthy conservative oil states and other Arab and African governments.

China links the recent Soviet setback in the Sudan to that in Egypt as setting an anti-Soviet trend among the Red Sea states; and looks for strengthened regional cooperation. To back this up, the Chinese have provided modest military assistance to Egypt and made promises to the Sudan. But the Chinese position in the Middle East is essentially uninfluential and is keyed to the cultivation of good state relations, most notably with Iran. Peking continues to voice support for the Palestinians and provides some assistance and training, apparently in an effort to avoid leaving the field to the Soviets.

Peking's relations with the less pro-Soviet elements of the Rhodesian liberation movement seem to be improving after a year of confusion. The Chinese, however, are conscious of their limited ability to influence the course of events in Africa. Peking relies mainly on political methods to counter the USSR, supplemented by modest economic and military aid programs. Peking believes that only the US--which they say has not done enough--has the resources effectively to counter the USSR.

#### Europe

Peking considers Western Europe a major element in maintaining a power balance against the USSR. China favors greater European unity against the Soviets, an expanded West European defense effort, and continued US involvement in the region through a strong NATO. China also looks toward Western Europe as a source of industrial imports and technology and is eager to conclude a trade agreement with the European Economic Community. A Chinese banking delegation recently visited major West European financial centers in order to

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

study institutions and practices which might be useful in Peking's drive to increase trade.

Peking's response to Eurocommunism has been somewhat ambivalent. China derives satisfaction from the nationalist element in Eurocommunism which puts the West European parties at odds with the USSR. Nevertheless, Peking remains suspicious of the Eurocommunist parties' continuing ties to the USSR, and apprehensive that their participation in governments in France and Italy would weaken NATO. In Chinese ideological terms the Eurocommunist parties are definitely revisionist and Peking has spurned all overtures to enter into party-to-party contact. Such contact would be particularly embarrassing to Peking now when a burgeoning quarrel with Albania is undermining Chinese pretensions to ideological leadership.

In Eastern Europe the Chinese preoccupation with the Soviet Union has led to some remarkable developments. In its eagerness to seek allies among those whose relations with Moscow are cool, Peking has made extra efforts to continue and further develop good relations with Belgrade, and Tito himself will visit Peking at the end of August. The irony of Tito's visit is that he was made China's whipping boy for Soviet revisionism in the early 1960s when Peking and Moscow first split. Having decided that Tito makes a better partner than a bete noir, China has complicated its already strained relations with Yugoslavia's long-time enemy, Albania. China would not like its ideological dispute with Albania to grow, but because Albania is unlikely to drift toward the Soviets in a fit of anti-Chinese pique there is no pressing need for Peking to attempt to make up to Tirana.

China's policy toward Romania remains one of vigorously encouraging Ceausecu's independent foreign policy. The cordial Sino-Romanian relationship, however, stands in marked contrast to China's frigid relations with the rest of the Warsaw Pact members.

#### South Asia

The Chinese view of South Asia grew significantly brighter in the past year. The defeat of Indira Gandhi,

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

whom the Chinese considered pro-Soviet, raised Chinese hopes that India might move further toward a truly nonaligned foreign policy. The Chinese have since privately expressed their pleasure with Prime Minister Desai's refusal to lean toward the USSR as his predecessor did. They are not so happy, however, with his view that the longstanding Sino-Indian border dispute must be resolved by Chinese initiatives because the Chinese were the "aggressors" in the 1962 border war. Peking sees Desai as blinded by an historical Indian desire to seek hegemony in the region. But this is an improvement, in the Chinese world view, seeing India as a tool of Soviet hegemonism.

The change of government in Pakistan did not stir a ripple in Sino-Pakistani relations. Both sides were quick to signal their intentions to continue close cooperation. And in Bangladesh, the Chinese have in the past year gradually moved to solidify their special position through military and economic assistance. Relations with Nepal and Sri Lanka remain cordial, and in Afghanistan the Chinese seem resigned to wielding little influence.

#### Latin America

China pays relatively little attention to Latin America. Peking concentrates primarily on cementing and expanding its state relations in the area, hoping to make gains at the expense of the Soviets and Nationalist Chinese. Relations with Cuba remain strained.

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

IV. SINO-SOVIET RELATIONS

Just as it was with Mao, hostility toward the USSR is the driving force of his successors' foreign policy.

--The Chinese still sense that they are confronted with a long-term Soviet effort to "encircle" China, in the first place politically but to some extent militarily.

--They recognize that unlike the US--the receding threat--the USSR has a permanent territorial presence in the area, in Siberia and most notably the Soviet Far East. Thus the political tensions generated by Chinese self-interest in resistance to Soviet containment efforts will not be easily or quickly reduced.

Peking's strategy for dealing with the USSR as China's "main enemy" is to apply Mao's dictum "to organize all the forces that can be organized" internationally to oppose Soviet foreign policy actions.

--Peking asserts that it will maintain friendly relations with practically any government which opposes the USSR, regardless of its political system. This pragmatic principle has been the central factor in Peking's turn toward the US and other shifts:

-In Europe, toward NATO countries;

-In the Middle East, toward Iran and Sudan and even farther toward Egypt;

-In the Far East, toward Japan; and

-In Latin America, toward Chile after the Soviets were expelled by the post-Allende government.

--The turn toward the US was perceived necessary to keep China from being sandwiched between both superpowers and to exploit contradictions between them.



Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Thus the main purpose of the rapprochement with Washington continues to be to use as much as possible the international influence and military potential of the US as a counterweight to the USSR globally.

--Mao's successors require such a counterweight primarily to offset the strategic threat the USSR poses to China's national security.

--They believe that the US role in NATO, by sustaining a strong force on the USSR's western front, worries Moscow sufficiently to act as a deterrent to Soviet pressure on the eastern front against China.

--Primarily because the Soviet threat is perceived to be a long-term matter, the successors view the turn toward the US as a matter of basic strategy rather than as a temporary, tactical expedient to speed Washington's disengagement from Taiwan.

For Moscow, the most sensitive aspect of Peking's hostility is the possibility that it will lead to some form of cooperation with Washington in threatening or thwarting Soviet interests.

--The Soviets would interpret normalization as an effort by Washington to firm up a Sino-US entente against the USSR.

--In addition, the Soviets would be concerned that full normalization might downgrade Taiwan as a contentious issue between the US and the PRC.

--However, the Soviet leaders probably would avoid responding to normalization by any intemperate action which might intensify US-USSR frictions and facilitate a US decision to provide Peking with military-related technology and equipment.

The fundamental issues in dispute between Moscow and Peking remain as far from resolution as ever. These are Chinese fear of Soviet encirclement coupled with a sense of military inferiority, historical disputes centering on territory, and the ideological struggle. As

for the specific border issue where protracted negotiations have been underway:

- Mao's successors continue to insist that a precondition for serious, substantive discussions on the border issue is the withdrawal of Soviet troops from all areas designated as "disputed" by Peking. Moscow rejects this demand, and it is unlikely that any Soviet leader would be willing to comply with it.
- For their part, the Chinese reject as insufficient the Soviet offer to return to Chinese control only certain border-river islands.
- Recently, there has been some progress on minor matters:
  - An agreement to resume the river navigation talks, which had been suspended for three years;
  - A possible agreement to permit Chinese vessels to transit northward from the Amur to the Ussuri, around a major island opposite Khabarovsk; and
  - Assignment of a Chinese ambassador to Moscow after more than one year without one.
- However, there has been no breakthrough in the stalemated border talks, which have been held in Peking since 1969 and are stalled over larger issues.

Following Mao's death in September 1976, Moscow probed for any sign that his successors might be willing to ameliorate the dispute, but it has been rebuffed.

- Peking refused to re-establish party-to-party relations, which were severed in 1966.
- Soviet officials complained, following Deputy Foreign Minister Ilichev's return to Moscow in late February after three months of unproductive border negotiations in Peking, that the post-Mao leaders desire a continuation of the

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Sino-Soviet dispute for "political" reasons and that it could be resolved fairly quickly if the Chinese so desired.

--After a nine-month standdown in anti-Chinese polemics in open media, Moscow resumed public attacks on Peking in mid-May. The resumption reflects the view of the Kremlin leaders that Mao's successors, particularly Party Chairman Hua Kuo-feng, are as anti-Soviet as Mao had been.

There is no evidence of pro-Soviet sentiment among the innermost circle of Mao's successors (the seven or eight ranking Politburo members). It is reasonable to assume however, that the larger the circle of successors is drawn, the more chance there is for advocates of some form of improvement of relations with Moscow to be found.

--Thus much may depend on the stability of the top leadership.

--The return of rehabilitated Teng Hsiao-ping to the innermost circles indicates continuation of China's anti-Soviet tilt.

The Chinese have not tried to use any hint of an improvement in relations with the USSR to create pressure on Washington to speed up the normalization of Sino-US relations on Peking's terms.

--In fact, Mao's successors have refused to play this game. They seem to have feared that the Soviets would take comfort from it and that the US itself might be impelled to move closer to the USSR.

--Far from taking actions with the intention of worrying Washington about a shift in the balance of the Sino-Soviet US triangle, they have made a special effort to refute Moscow's claim of improvement in Sino-Soviet relations.

--By indicating to Washington that they in fact, have not moved closer to the USSR, they indirectly have suggested that there is no reason for the US to do so.

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

The Chinese hope the US and NATO will conduct an active policy of containment against the USSR.

- They have opposed not only US "retreats" (e.g., Angola), but also the SALT and MFBR negotiations and the provision of the USSR with grain and advanced scientific technology.
- They view Washington's statements on the issue of human rights as a desirable source of US-USSR friction, but they would respond with vehemence if US officials were publicly to criticize China's policy on the matter.
- They particularly have welcomed Washington's reduced emphasis on the dominant importance of Soviet-American relations and the increased degree of competitiveness in American policy toward Moscow.
- However, they prefer even stronger medicine--i.e., an escalation to a cold war atmosphere and a virtual economic blockade of the USSR.

The Chinese are less concerned about the possibility of an imminent Soviet attack than they were in 1969 and 1970.

- Armed clashes up to company-level in size such as those which took place in 1969 have not recurred.
- They say that they will settle the border issue with the USSR "through negotiations" and will not resort to the use of force--an indication that they fear provoking the Soviets into military retaliation.

The prospect is for a continuation of high-profile polemics, stalemate in the border talks, but possible resolution of some border-river shipping problems.

- On the last point, both sides already have indicated that resolution of "technical matters" concerning shipping does not mean agreement on ownership of disputed river islands or a change in the overall hostile relationship.

V. CHINA'S VIEW OF THE US

In Peking's calculations, four motivational factors are probably at work in its relation with the United States. First, the US provides a strategic counterbalance to the USSR and, in a general sense, a connection with Washington tends to relieve Soviet pressures on China. Second, through negotiations with the US, China hopes to position itself so that an eventual resolution of the Taiwan problem on terms favorable to Peking can be achieved. Third, trade with the US and the importation of certain items of high technology from US sources are of economic benefit to China. Fourth, the connection with Washington tends to make China a "respectable" member of the international community and makes it easier for Peking to play a significant role on the international stage.

The first of these elements is clearly the most important. For Peking, the problem of Soviet intentions toward, and of Soviet pressure on, China involves basic considerations of the security of the state. Peking believes that Moscow is attempting to "surround" China and to choke it into submission; the US connection makes this effort much more difficult for the Soviets and, to the degree that Moscow must factor in a possible US response in its strategic calculations regarding China, direct pressures on the Chinese are reduced. Moreover, China recognizes that, because the Sino-US connection tends to disturb Moscow, certain aspects of Moscow's relationship with the US in consequence become more difficult and complicated and, to the extent that Moscow must therefore focus its attention on Washington rather than Peking, China is a net gainer. The Chinese assume that the US, viewing the triangular relationship from its own perspective, attempts to exacerbate Sino-Soviet relations. As Chinese Foreign Minister Huang Hua recently remarked, it remains to be seen who can play the game better.

The second motivational factor--Taiwan--is of lesser importance but still a major consideration for China. For nearly two decades Peking has been unwilling to incur the costs and risks of an attempt at military "liberation" of Taiwan. It has, however, shown a

continuing--and perhaps growing--measure of concern that continuation of the present situation will eventually result in legal as well as physical separation. It may view the generational changes and economic development of Taiwan as gradually "drifting" the island away from the mainland. It is momentum along these lines that Peking seeks to arrest, through an agreement with the US, to strengthen its legal position with respect to Taiwan and to weaken Taiwan's long-run viability. This should not suggest that the Chinese do not hope ultimately to acquire control over Taiwan--they do. But this is a matter for the longer term; the primary Chinese objective (relative to Taiwan) in maintaining and if possible advancing the relationship with Washington is to ensure that this longer term aim remains valid.

In entering into the relationship with the US, moreover, the Chinese appear to have assumed a certain flexibility with respect to the Taiwan issue on the part of Washington. This seems to have been an important element in the calculations China made in 1971-72, when the US connection was first being established. It did not motivate the Chinese decision to pursue the relationship with Washington in the same sense that strategic considerations did, but it did make decisions based on those strategic considerations easier. This assumption has also colored the Chinese assessment of the state of the relationship with Washington. Peking has appeared to consider US "adherence to the principals of the Shanghai communique"--a code phrase for movement on the Taiwan issue--to be an indicator of the relative interest Washington places in its relationship with China.

The third motivational factor--economic benefit--does not appear to have been a central element in Chinese thinking, but its importance may well be growing. From the early stages of the relationship, Peking has seen the US as a potential source of advanced technology, some of which is not readily available from other suppliers, such as Western Europe or Japan. Given the recent movement of China's internal policies toward greater emphasis on economic construction, this factor is likely to become more

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

important in Chinese thinking over time. But economic considerations do not seem to drive Chinese policy to nearly the extent that strategic and political considerations do. In its attitude toward Washington, Peking has fairly consistently permitted political considerations to govern purely economic considerations.

The final motivational factor--gains in international "respectability" resulting from a closer connection with the US--is probably of declining importance to China. Most gains in this area have already been achieved. This factor may still be a consideration, however, as China looks at Southeast Asia. Peking wants to increase its influence there, and it doubtless believes that local governments in the region will find its efforts to gain influence less threatening if China can at the same time maintain relatively warm relations with Washington.

In the context of these general considerations, China views US policy in three ways. The first focuses on US international policy and strategic posture in general, particularly as these affect the US competition with the USSR. As Peking defines this issue, US will-power in international affairs seems to be of paramount importance. The Chinese tend to see this problem in stark, rather simplistic, terms: is the US prepared to stand up to Soviet pressures anywhere and everywhere? The second focuses on the bilateral relationship between China and the US. Here Taiwan is the issue, important but secondary to the PRC's strategic view. In this area Peking attempts to judge how important a factor Washington considers China to be in international affairs. Finally, Peking also views Washington through an ideological lens. Viewed from this angle, the US is a capitalist power whose interests are basically inimical to China's.

The first two of these viewpoints have been dominant as China has looked at the US since the Carter administration came to office. There is a wealth of evidence indicating that for the past six months Peking has been attempting to assess with precision US foreign policy objectives and priorities on international issues

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

in general and as they apply to the Soviet Union and China in particular. It is clear that this effort has not been easy for the Chinese, and that they have had trouble sorting out what they seem to consider to be a set of mixed signals. In general, the Chinese appear to be heartened by indications that Washington is prepared to allow the dialogue with Moscow deteriorate rather than reach a series of quick (and as the Chinese would view it, deleterious) agreements with the USSR. They seem mildly impressed with new US arms procurement efforts, although they remain skeptical about some aspects of US efforts in this area, and they have quietly applauded some aspects of US policy in the Middle East as well as the US approach to the problem of the Horn of Africa.

Against these "positive" indicators, the Chinese have appeared to array a number of what they consider to be more negative aspects of US policy. They continue to be skeptical about US willingness to "stand up" to what they believe to be Soviet expansionist activities, citing in particular the US attitude toward the recent invasion of Zaire. They are equally skeptical about the human rights campaign, which they feel fritters away US attention which should be devoted to "more serious" problems, masks US unwillingness to come to grips with the "realities" of Soviet power, and complicates US relations with a number of other countries. They consider the US position on the Indian Ocean and US policy toward southern Africa also to be unrealistic. Moreover, they have noted that firmer US public attitudes toward the USSR have not resulted in corresponding public pressures to pursue rapprochement with China, and they may suspect that there may have been a growth of undifferentiated anti-Communism among the US public.

In the area of bilateral Sino-US relations, the Chinese also consider the signals to be mixed. In particular, they seemed to consider most of the indicators of US China policy in the early days of the administration to be negative. Peking was almost certainly distressed that Washington set machinery for recognition of Cuba and Vietnam in motion while saying and doing little about Sino-US normalization.

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9



They were unquestionably concerned and upset about frequent references to US interest in the security of Taiwan on the part of leading US officials. Against these early "negative" signals the Chinese have obviously placed more positive indicators, such as US reiteration of its continued adherence to the Shanghai communique and, more recently, Secretary Vance's speech of late June and the President's subsequent press conference. The fact that Chinese officials immediately noted in private conversation each of the early administration references to the Shanghai communique underlines the careful attention Peking has been giving to the signals emanating from Washington.

None of the negative readings of US policy seem to have caused Peking to alter its basic and well-established judgments regarding Washington:

- That the US was a declining power slowly withdrawing from forward positions in Asia, and therefore no immediate threat to China.
- That US strength was still considerable, but because Washington was on the "defensive" internationally it had many interests in common with China, particularly in opposing Soviet expansionism.

There are some indications that this assessment was reviewed and endorsed at a leadership meeting last spring, when a decision may have been made to continue to adhere to Peking's "three principles" regarding Taiwan. Further review may have taken place immediately before and during the recent plenum of the party Central Committee, at which time a further decision may have been taken to downplay Peking's previous insistence that it would be "necessary" eventually to use force to resolve the Taiwan issue. Such decisions, while important, are essentially tactical; a fundamental decision reassessing the entire basis of Chinese policy toward the US is likely to be undertaken only if Peking were to conclude that relations had turned distinctly sour and that they were proving to be unproductive.

In this general framework, the Chinese response to the Carter administration has gone through three fairly distinct phases. The first was a matter of "getting a fix" on the new administration; in this period the attitude of the Chinese was generally one of some bemusement, but they did watch carefully for signs of how the administration would handle the Soviets. The second phase focused primarily on "setting the record straight" and responding to US expressions of concern about the security of Taiwan. Chinese statements, public and private, in this period were quite rancorous, and frequently stressed the idea that only through force could Taiwan be "liberated." The central Chinese aim in this period appeared to be to disabuse Washington of any idea that Peking might subscribe to a non-use-of-force statement regarding Taiwan. Chinese remarks during this period were notable not only for their vigor and relative bellicosity, but also for an apparent disregard of their possible effect on US public opinion in general and on Congressional opinion in particular.

The third phase was a much more positive one, in which references to the "necessity" to use force faded away. This phase began shortly before Secretary Vance's speech on Asian policy, but became much more apparent following that speech. In this latest phase Chinese propaganda has frequently, and positively, highlighted statements or actions by leading members of the US administration.

This last, positive phase has rapidly shaded off into a scene-setting exercise designed to provide a context for Secretary Vance's visit. Chinese officials

\_\_\_\_\_ have commented at length on the visit. Much of this discussion has been clearly meant to "position" China for a variety of outcomes to the visit. Thus, most officials have stressed that Peking does not expect major and immediate results from the Secretary's trip; this permits easy adjustment if the visit proves, from the Chinese point of view, to be relatively unproductive. Moreover, Chinese officials both at home and abroad have frequently referred to the future prospects of Sino-US trade, generally taking a positive

25X1

line on this subject. This has been particularly true of officials in China.

25X1  
25X1

[redacted] Officials abroad [redacted] have taken a somewhat different tack, noting that if the Secretary merely addressed issues such as trade without tackling the central issue of Taiwan little improvement in trading patterns could be expected.

On this central issue all Chinese have been consistent in that they have stressed that China will adhere to its "three principles"--breaking of diplomatic relations with Taipei, withdrawal of all US forces from Taiwan, and abrogation of the mutual defense treaty with the Nationalists. These officials, however, have also been consistent in noting that Peking would have no objection to continuing trade and other unofficial relations with Taiwan, and most have suggested that Peking would be receptive to US proposals that might help to improve bilateral relations. Significantly, none has ruled out the possibility of continuing arms sales to Taiwan. One in fact suggested that Peking might see the maintenance of Taiwan's military strength "as an element in the deterrent forces countering expansion of Soviet influence in the area." Several have also suggested that the PRC could show considerable flexibility in countenancing the method in which the US makes the treaty a dead letter. These hints and assurances, of course, are designed to induce the US to approach the negotiations in Peking in a positive frame of mind. Indeed, Chinese officials in China and abroad have expressed the hope that the Secretary will bring "concrete proposals" for improving relations, implying that the next move is up to Washington.

[redacted] the Chinese have made two public statements of significance in recent weeks. The first, by then senior vice premier Li Hsien-nien, was clearly a response to the Secretary's speech on Asian policy; this statement was notable because it stated Peking's "three principles" publicly for the first time; it also carefully eschewed any reference to the use of force in "liberating" Taiwan. The second statement was contained in a recent speech by Defense Minister Yeh Chien-ying,

25X1

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

the second-ranking member of the Chinese hierarchy. Following routine remarks on Peking's determination to "liberate" Taiwan, Yeh noted that Peking hoped to work with "compatriots on Taiwan" to this end.

This hint--it is no more than that--at the desirability of negotiations with Taipei has been echoed by other less authoritative Chinese sources, and in fact as the theme that force was "necessary" to resolve the Taiwan question has faded, the notion of the desirability of direct negotiations with the Nationalists seems to have begun to appear. The pattern has only just begun to develop, but if it continues it would resurrect a theme that was particularly prominent in the 1971-73 period, when the Sino-US relationship was first developing.

However "reasonable" the Chinese wish to appear prior to the Secretary's trip, they are likely in the event to prove difficult and stubborn negotiators. It is significant, however, that they chose to hold their party plenum, which restored the veteran Teng Hsiao-ping to prominence, prior to the Secretary's visit. Several officials abroad have suggested that Peking wished Teng to lead the Chinese negotiating team; this seems a plausible ancillary reason for an event which took place primarily as a result of domestic considerations. Nevertheless, the Chinese may well have thought it important to have their domestic house in order prior to deliberations on important foreign affairs issues.

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

VI. THE CHINESE ECONOMY

The political upheavals and natural disasters in 1976 contributed to poor economic performance and further delayed drafting an already overdue Fifth Five-Year Plan for 1976-80. Both Mao Tse-tung and Chou En-lai died and Teng Hsiao-ping was disgraced. Mao's widow and her colleagues (the so-called "gang of four") were arrested and charged with economic disruption and attempting a coup. In addition, massive earthquakes caused enormous loss of life (possibly half a million dead) and great damage to industrial capacity.

Official reporting for 1976 is particularly difficult to interpret because of a lack of hard data and the tendency by the new regime to dramatize the difficulties caused by the "gang of four". Nevertheless, our estimates for 1976 indicate a slight gain in agricultural output and a small decline in industrial production. The net result was no growth in GNP.

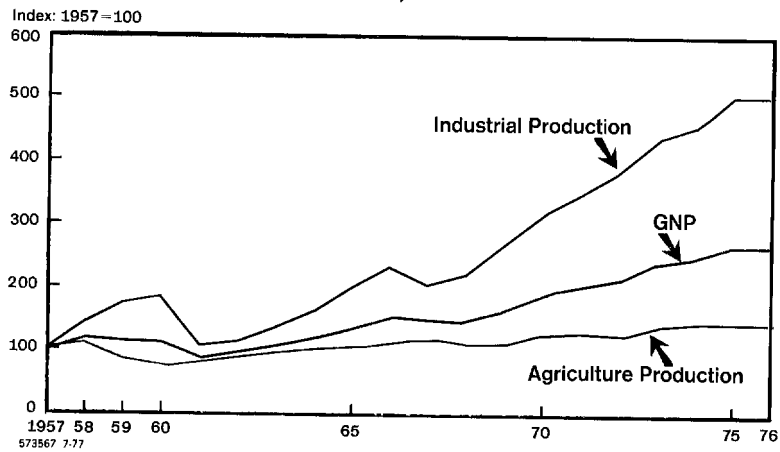
Last year's performance contrasts sharply with the estimated average rates of growth achieved during the preceding decade--6 percent for GNP, 10 percent for industry, and 2 percent for agriculture.

Industry and Transportation

After a good start in the first quarter of the year, industrial output dropped as a result of political unrest and later of earthquakes. The earthquakes in the Peking-Tientsin-Tang-shan area in late July were particularly devastating. Some 20 to 30 percent of the industrial output in this area--which accounts for about 10 percent of the national total--may have been lost. The greatest impact probably was on the coal industry. China's largest coal mining complex--which produced some 6 percent of national coal output and up to a third of China's coking coal--was seriously damaged.

Steel output declined by several million tons in 1976, in part because of the effect of earthquakes and in part because of labor problems associated with political infighting and demands for higher wages.

**CHINA: GNP, Industrial Production, and  
Agriculture Production, 1957-76**



The earthquakes in the Tang-shan area, together with several major earthquakes in Southwest China, also had a significant impact on transportation through temporary disruption of rail lines and the heavy demands on the transport system to carry goods to the devastated areas. Political factionalism was also rampant in the transport sector, and overall performance was probably down in 1976.

Output of crude oil increased by 13 percent in 1976, the second year of relatively slow growth. In contrast, the 10-year average was some 20 percent. The decline in 1976 was probably in part due to production problems and in part related to failure to get commitments from Japan for increased imports and to smaller than expected domestic demand.

#### Agriculture

Agriculture performance in 1976 was a disappointment to China's new leadership. Total output of grain probably was 280 to 285 million metric tons, about the same as in 1975. Per capita output has increased only marginally in the last 10 years.

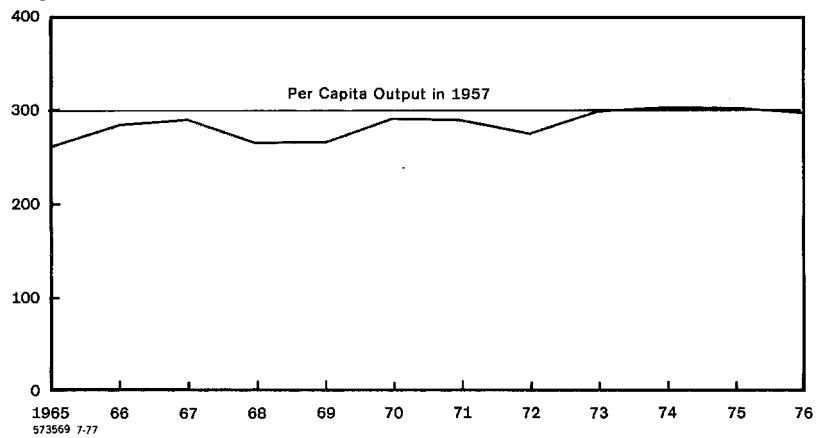
Until late 1976, China drew down grain reserves to avoid spending hard currency for new grain imports. As the extent of the damage to fall-harvested crops became known, however, purchases of wheat were accelerated. Between November 1976 and June 1977, 11.5 million tons were ordered for delivery through July 1978. Thus, after dropping off in 1975-76, grain imports in 1977 will move back up to 6.7 million tons.

#### Foreign Trade

China's foreign trade fell by about 10 percent to \$12.9 billion in 1976, the first decline since 1968. Imports fell by almost 20 percent due in part to Peking's efforts to redress previous large trade deficits; exports held roughly the same, although oil exports were lower than in 1975. As a result, China's hard currency trade balance moved into surplus, easing pressure on its balance of payments.

### CHINA: Per Capita Production of Grain 1965-76

Kilograms/Person





US trade with China continues its sharp decline from the 1973-74 peak when agricultural sales made the US China's number-two trading partner. Last year, US exports fell more than 50 percent. There were no US agricultural exports and there was a sharp drop in exports of metals and machinery. US imports increased by 27 percent. For the first time since trade reopened, the balance was in favor of China. US exports may fall another 25 percent in 1977 while imports will rise by about the same percentage.

The decline in trade reflects both economic and political factors. Balance of payments considerations and domestic economic and political disruption led to cutbacks in China's overall imports last year. Moreover, until diplomatic relations are established, Peking will likely continue its policy of limiting purchases from the United States when alternate suppliers are available. Ample world supplies have limited the US share of China's large agricultural purchases this year to some small sales of cotton. Interest in US technology, however, remains high. An American firm will supply the technical process in a recent contract for a West German petrochemical plant sale. Oilfield equipment sales continue and Peking has inquired about additional US fertilizer plants.

#### Economic Prospects for 1977

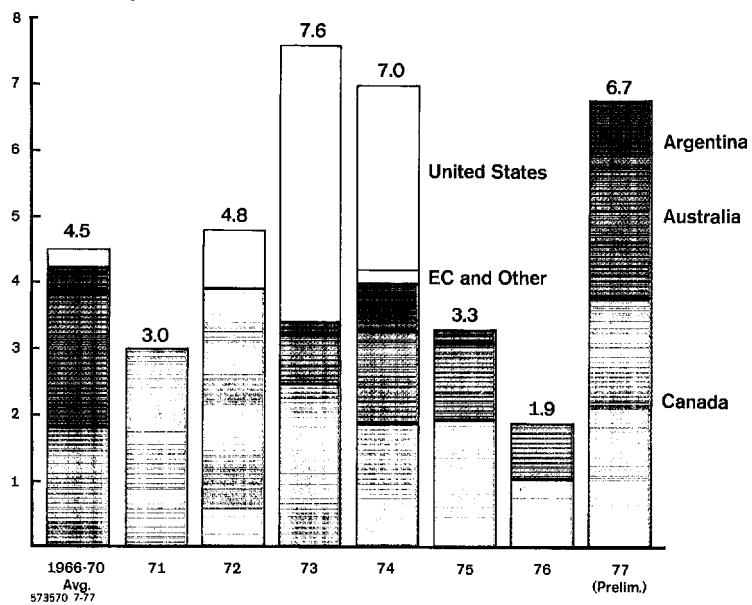
Economic prospects for 1977 are mixed. Chinese officials regard 1977 as a year of readjustment to restore economic order and complete a draft of the long-delayed Fifth Five-Year Plan (1976-80).

In industry, official claims have emphasized month-to-month gains. With continued recovery, sizable gains over 1976's poor performance can be expected. At the same time, Peking has moved rapidly to restore order in the railway sector, and performance in the first quarter was the highest on record.

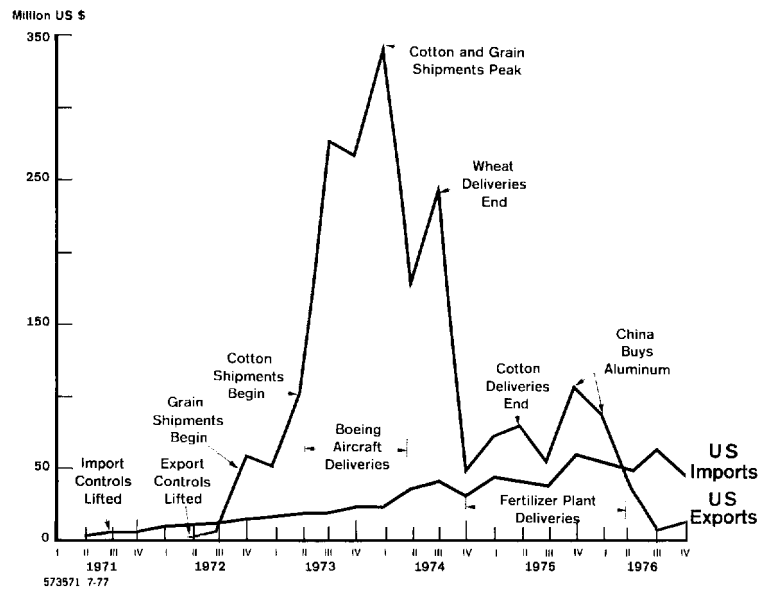
In agriculture, prospects are not good. Dry weather in the North China Plain reduced winter wheat output--perhaps by 10 percent or more below the 1976 crop. This is not a major catastrophe--it could be made up by a

### CHINA: Imports of Grain, by Source

Million Metric Tons



### Highlights of US-China Trade



good fall harvest--but it has aggravated the current tight supply situation.

In foreign trade, 1977 will be a year of adjustment with only moderate growth. Imports of grain, oil-seeds, fertilizer, and steel will be higher. Exports will probably make modest gains even though lack of demand for China's heavy crude continues to hamper petroleum sales. A new round of industrial plant purchases will not begin before late this year and may be delayed if additional agricultural imports become necessary.

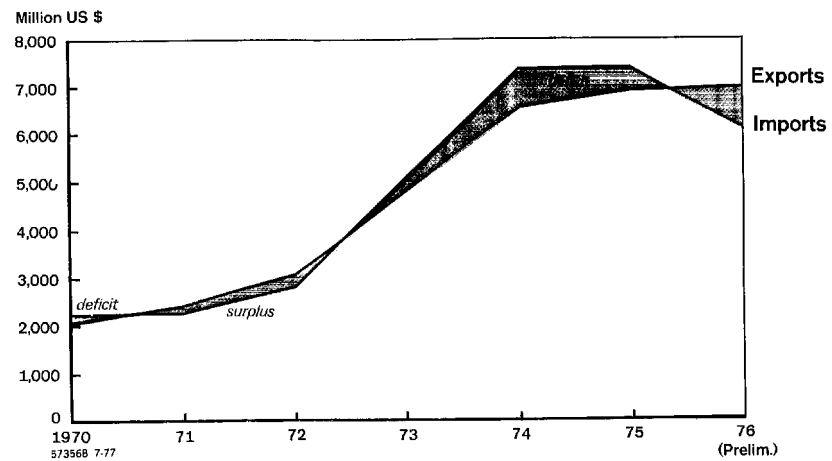
#### A Broad Consensus on Economic Policy

China's new leadership began its term in October with economic issues high on the agenda. The present leaders, including the recently rehabilitated Teng Hsiao-ping, have revived the long-term modernization program announced by the late Premier Chou En-lai in January 1975 as the basic blueprint. Agricultural modernization will continue to be given top billing in the allocation of resources. With a limited amount of cultivable land, China must increase yields by developing more productive seed strains and by increasing the use of modern inputs such as chemical fertilizer and insecticides.

In industry, Peking will devote more resources to raising the level of technology and restoring balance, particularly in heavy industry. The leadership has focused on improving industrial management and resolving such long-term problems as structural imbalances in the steel industry and inadequate investment in mining. Elimination of these imbalances and capacity shortages will require some continuing imports of Western industrial plants and other equipment.

The new leadership is aware of the importance of scientific and technical work to its plans for modernization. It views most Cultural Revolution reforms in education and research--which centered on worker, peasant, and soldier participation--as hindering rapid economic progress. These reforms will be carefully modified, and qualified nonparty intellectuals will

### CHINA: Trends in Foreign Trade, 1970-76



probably be placed in responsible leadership positions in the universities and research institutes. There will be renewed stress on raising academic standards, and the importance of political studies will probably diminish.

Peking will look more closely at the modernization of its national defenses. The pace of military modernization has been the subject of considerable debate over the past several months. The civilian leaders would prefer, at a minimum, a period of military belt-tightening until problems in industry can be solved. A meeting of the minds on these important issues has been and will continue to be difficult to achieve, however.

#### Major Obstacles to Economic Development

Two major problems stand out as obstacles to successful completion of the Fifth Five-Year Plan: the inability of the central government to exert effective control over provincial and county resource allocation, and labor unrest caused by worker dissatisfaction with wages.

A report prepared by the State Council by Teng Hsiao-ping in 1975 sharply criticized the inability of lower level officials to carry out industrial planning; widespread violation of state plans was cited as evidence of the need for greater control over local resource allocation. Reaching a consensus on the proper degree of increased central control will require long and difficult bargaining with local officials who will resist surrendering any of their authority.

Dissatisfaction among industrial workers has been brewing for more than a decade over the lack of a significant wage increase. Government promises of wage reform have never been fulfilled. Since 1974, strikes, slowdowns, and absenteeism have occurred with growing frequency.

The new government apparently has decided to take some action on the wage issue. In recent weeks, a bonus system tied to worker productivity has been tried in selected factories, and a wage increase for certain groups of workers is said to be scheduled for later this

year. Peking, however, cannot afford to raise wages by much. At the same time, government refusal to act on the wage problem could seriously endanger planned increases in productivity and dim growth prospects.

VII. THE NATIONAL DEFENSE POSTURE OF THE PRC

China has the largest conventional armed forces in the world--over 4 million men--and a small, but growing strategic nuclear force.

China presently has no capability to pose a direct military threat to the US, but could attack US interests and bases in the Far East. Peking identifies the Soviet Union as its most dangerous adversary, and has arrayed about half of its armed forces in a defensive posture to meet the Soviet threat. Another third of China's forces is located along the coast where Peking continues to perceive a threat. Most of the remainder is located in central China as a reserve force.

China's conventional forces are best situated and prepared to fight a nonnuclear, defensive war against the Soviets.

--To counter the Soviets' superior firepower and mobility, the Chinese intend to employ distance and terrain favorable to their defense. They do not intend to give up territory easily, but hope to wear down the Soviets as they attempt to drive through successive lines of increasingly stronger forces.

--They have a reasonable chance of stalemating any Soviet conventional offensive before it reaches Peking and the North China Plain.

--Chinese forces deployed along the coast could repel any amphibious invasion that the Soviets could presently mount.

If China's strategic forces failed to deter a Soviet nuclear attack, China's nuclear warfighting capability would be no match for that of the Soviets. Even so, with sufficient warning, Chinese nuclear forces could destroy enough of the Soviet urban support base in the Far East to make it difficult for surviving Soviet forces to sustain military operations.



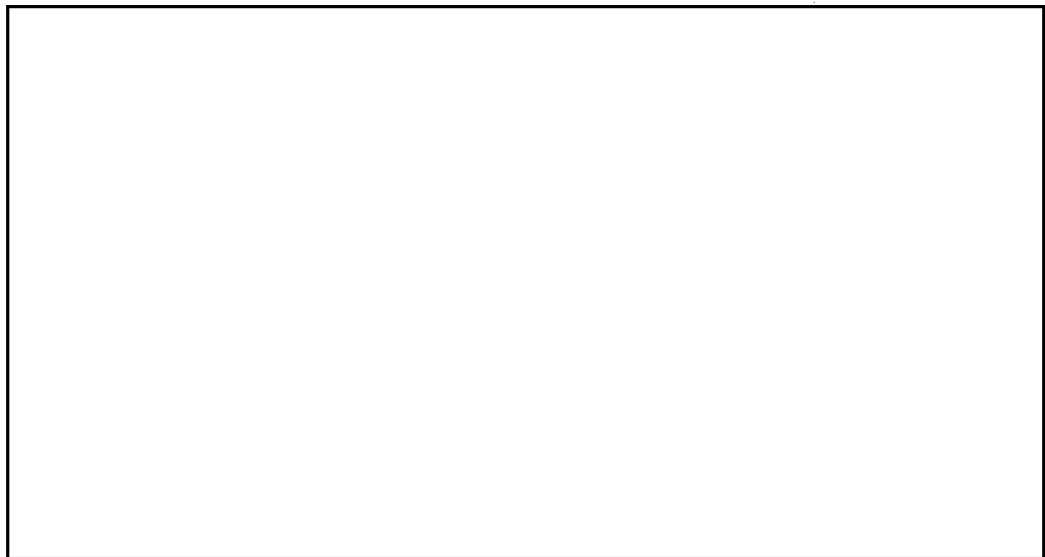
25X1

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

--They are seeking to acquire additional advanced technology from foreign sources without becoming dependent on those sources.

The sheer size of China's standing armed forces compensates to some degree for their inadequacies. Moreover, the vast mobilization potential of China also would provide considerable resources during a war.

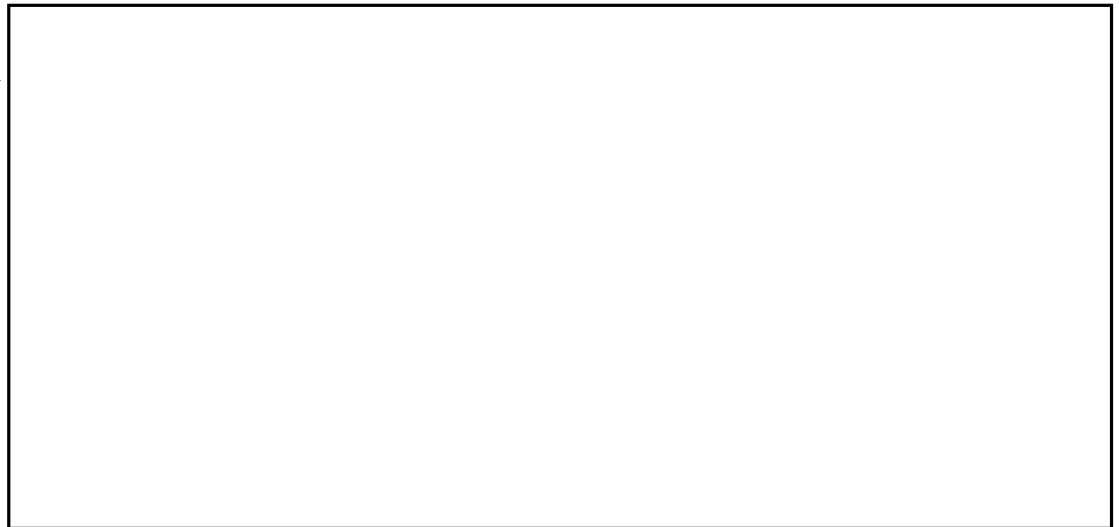


25X1

Ground Forces

The Chinese army consists of approximately 3.5 million men organized into main, regional, and support forces.

25X1



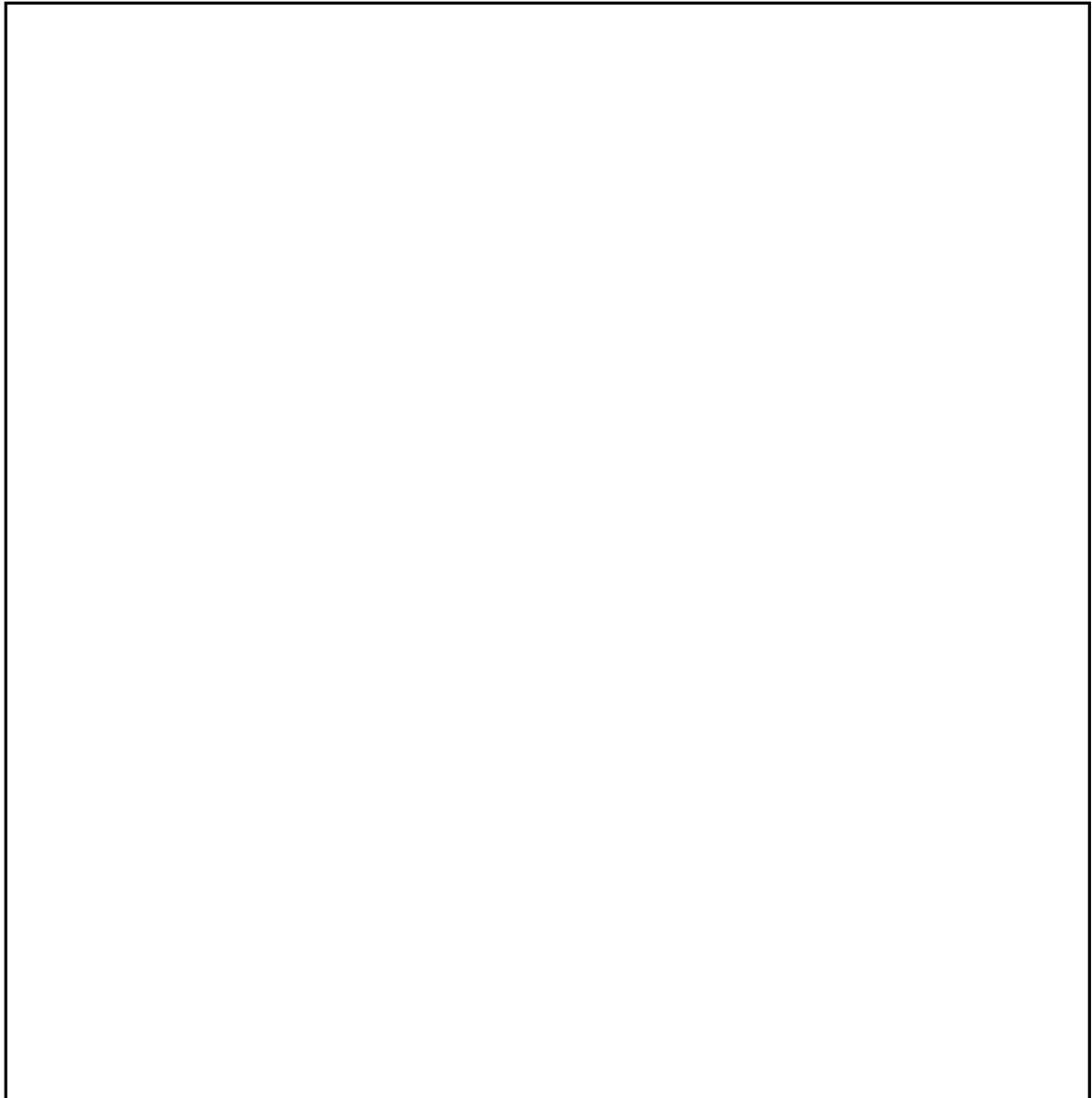
25X1

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9



Most of the ground forces' equipment is based on older Soviet designs, but produced by China's arms industry. Though unsophisticated by US and Soviet standards, Chinese small arms, tanks, and artillery are rugged, reliable, and generally adequate for their intended use.



25X1

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9

Next 30 Page(s) In Document Exempt

Approved For Release 2005/02/14 : CIA-RDP79R00603A002900040001-9