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# CHINESE COMMUNIST CAPABILITIES AND PROBABLE COURSES OF ACTION THROUGH 1960

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**INTELLIGENCE ADVISORY COMMITTEE**

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# CHINESE COMMUNIST CAPABILITIES AND PROBABLE COURSES OF ACTION THROUGH 1960

## THE PROBLEM

To estimate: (a) the political, economic, and military strengths and weaknesses of Communist China; (b) Sino-Soviet relations; and (c) Chinese Communist courses of action through 1960.

## CONCLUSIONS

1. The Chinese Communists have firmly established their control throughout mainland China, and are energetically attempting to reorganize economic and social institutions and build military power along the lines of the Soviet model. With Soviet help, the armed forces have been greatly strengthened and to a large extent modernized, and economic output has for the most part reached or surpassed previous peaks. As a result of its achievements and growing power, Communist China's prestige and influence in Asia have greatly increased. (Paras. 10-12)

2. The Chinese Communist regime is determined to convert its primarily agricultural economy into an industrialized Soviet-style state. To this end it has scheduled large investments over the next few years and, to mobilize resources for the program, has taken measures to restrain consumption and to step up its program for socializing agriculture. In pursuit of its goals, the government will

encounter serious problems in the lack of trained personnel, in peasant resistance to government control, and in growing apathy or opposition among the people to the regime's austerity measures. Moreover, as Peiping confronts these problems and attempts to deal with the difficulties of socialization, shifts in the influence of leaders may occur and purges may be expected, especially at lower levels. However, we believe that Peiping's control apparatus will be adequate to maintain the stability of the regime. (Paras. 29-30, 33-34, 45, 94)

3. We estimate that by 1957 the Chinese Communists will attain many of the goals of their first Five Year Plan, which emphasizes heavy industry, though there will be shortfalls in steel, pig iron, trucks, petroleum products, and food crops. (See table and note on page 12.) They will probably not be able to develop certain of their planned capacities. The gross value of industrial output will probably increase about 75 percent during the

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Plan period as against the goal of 98 percent. By 1960 the Chinese Communist industrial base, which in 1952 was less than one-third that of Japan and produced only a limited range of manufactured goods, will have greatly expanded, though production in key industries will still be well below that of Japan in 1954. Communist China will still require considerable Bloc assistance to meet its economic needs. We believe that agricultural output will increase by about 10 percent instead of the 23 percent planned by the Chinese Communists but that this will not necessarily affect their industrial goals. However, should agricultural output fail to make this limited increase, industrial goals will almost certainly be adversely affected. (*Paras. 42, 59, 92, and Chart II, page 9.*)

4. Communist China, with extensive Soviet aid, will have further strengthened and modernized its armed forces by 1960. In the absence of extensive US counteraction, Peiping will retain the capability to overrun South Korea, Taiwan, and mainland Southeast Asia. However, Communist China will still suffer from military weaknesses, particularly air defense deficiencies and lack of an adequate indigenous armaments base. We have no evidence that Communist China possesses any nuclear weapons, and it has only a primitive nuclear research capability. However, if the USSR were to provide the necessary equipment and technicians, the Chinese Communists could in a short time achieve the capability to use nuclear weapons. (*Paras. 91, 93*)

5. The relationship between Communist China and the USSR has become one of an alliance bound together not only by

ideological ties, but by common hostility to the US, military interdependence, and the mutual advantages of concerted diplomatic and "revolutionary" activities. Peiping's military and economic dependence on the USSR will cause it to continue to give Moscow's views great weight on major questions of global policy. However, Peiping's tactical position in many areas gives it considerable potential for influencing Moscow. Although potential conflicts of interest exist, we believe that common objectives and mutual advantage, and Peiping's continuing dependence on Moscow, will serve to prevent any significant weakening of Sino-Soviet ties at least through 1960. (*Paras. 95, 98-100, 102-103*)

6. Chinese Communist foreign policy will continue to be focused on gaining control of Taiwan, reducing Western (and especially US) influence in Asia, and extending their own in the area. Peiping will continue to pursue policies emphasizing political rather than military action as long as its objectives are acceptably served by this means. The major factor in this consideration will be their estimate of the risk of US military counteraction; thus Communist China will probably emphasize political action over the next two or three years. The Communists may again resort to military action at any time they estimate that the benefits to be obtained will outweigh the military consequences of such action. In behalf of the joint Sino-Soviet policy of "competitive coexistence with the capitalist bloc," Peiping is likely to play up to neutralist and nationalist sentiment in Asia, manipulate the Indochina and Taiwan issues to divide the West, and exploit such vulnerable situations as ROK-Japa-

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nese and Indian-Pakistani tensions to win further Asian support for the Bloc. The Chinese Communists will probably endeavor to have their approach to international problems characterized as conciliatory and flexible, but Bloc policy will probably permit no major concessions to the West and its Asian allies. At times, in fact, Peiping will probably assert its power ostentatiously, but within the general limits of Bloc strategy, in order to reaffirm its particular claims and pretensions. (*Paras. 105-106, 112-113*)

7. The Chinese Communists will probably continue their buildup in the area opposite Taiwan and the offshore islands in order to increase pressure on the US and Nationalist positions. They probably do not intend to attack Taiwan so long as the US maintains its commitments to the Nationalists, but they may expect to induce a gradual erosion of the Nationalist position. Moreover, unless Peiping comes to believe that it can obtain the offshore islands by negotiation, it will almost certainly conduct probing operations against them. If the Chinese Communists became convinced that the US would not assist in defense of the islands with its own forces, or react in strength elsewhere, they probably would attempt to seize them. Should Peiping's forces successfully occupy the Nationalist-held

offshore islands without incurring US military retaliation, there would be an intensification of the campaign to obtain Taiwan. (*Para. 119*)

8. Peiping will continue its efforts, in conjunction with the Hanoi regime, to expand Communist influence and control in South Vietnam by attempting to discredit and undermine the authority of the Diem government through propaganda and diplomacy. Even if the Viet Minh are delayed in extending their control over South Vietnam, Peiping will probably not encourage the Viet Minh to renew open hostilities. However, at some point Peiping probably will encourage increased Viet Minh guerrilla activity in South Vietnam. Actions beyond that phase would probably depend upon the effectiveness of Diem's counteraction and the response of the US and the SEATO powers. (*Para. 121*)

9. The possibility of a Communist-initiated war in the Taiwan Straits, Vietnam, Laos, and even Korea will continue to exist. Moreover, Peiping would almost certainly react with force if Communist control of North Korea or North Vietnam were seriously threatened. It would almost certainly retaliate to any sharp increase in the level of Nationalist attacks against the mainland. (*Para. 116*)

## DISCUSSION

10. The basic objectives of the Chinese Communists appear to be: (a) to develop a Soviet-style state in China with a strong industrial economy and a modern military establishment; (b) to eliminate Western (and especially US) influence and power and to achieve dominance in East Asia; (c) to establish control over Taiwan and other areas which they

regard as traditionally Chinese; (d) to achieve recognition as a major world power; and (e) in general, to promote the goals of international communism.

11. Since its formal establishment in Peiping in 1949, the Communist regime has shown flexibility, skill, and ruthless determination

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and has made significant progress toward the achievement of its goals. Its authority is firmly established and its control effective throughout the mainland area. War-torn and neglected industry and communications were largely rehabilitated by 1952, production in most important sectors has reached or surpassed prewar peaks, and socialization on the Soviet model is well advanced in all fields except agriculture and retail trade. The armed forces have made great progress in the evolution from lightly armed formations to well-organized regular units with modern Soviet equipment.

12. The regime has also greatly enhanced the influence and prestige of Communist China in Asia. Its power and ability to influence Asian developments were demonstrated in Korea and Indochina. Its stature among Asian states has been enhanced by its skillful diplomacy at Bandung and by the establishment of contact with the US on the ambassadorial level. Strong pressures have developed in the Free World for a reduction of controls on trade with Communist China and for its entry into the UN. Meanwhile, the Sino-Soviet alliance has given Peiping considerable strategic security and access to the material resources of the Bloc, both of which have greatly reduced Peiping's vulnerability to non-Communist pressures.

13. However, during the period of this estimate Peiping almost certainly will not sustain the momentum of its first five years. The Chinese Communists have only recently come to grips with the basic problems involved in the creation of a socialized national economy, and these will be difficult to resolve even with the benefit of Soviet experience.

#### I. DOMESTIC PROBLEMS

14. The Chinese Communists define the present stage of their internal development as "the transition to socialism." While they are relying on Soviet experience, their tactics continue to be modified by Chinese Communist experience and by flexibility toward groups which they regard as basically hostile. Peiping has sought to utilize the party's monopoly of power and the state's direct control of

economic key points to coerce the remaining private producers of goods and services into accepting socialist economic forms. Periods of pressure and social change have been followed by brief respites. This tactic of "tension and release" has been applied in recent years both to unnerve the populace and to destroy whatever cohesiveness and independent leadership the intellectuals, private entrepreneurs, and well-to-do peasants may have possessed.

#### Political Situation

15. The government of Communist China has recently been reorganized, with control further centralized in Peiping. Although the constitution of September 1954 vests formal governmental responsibility in the National Peoples' Congress, this body is primarily a forum for publicizing already decided policy. Between the infrequent sessions of the Congress, most of its functions are exercised by its Standing Committee. The Standing Committee has nominal supervision over the State Council, which in turn directs all the central government ministries, including the Ministry of Defense, and supervises the operation of provincial and local governments and the governments of "autonomous" minority areas. (See Chart I, page 5.)

16. *Party Leadership.* The Chinese Communist party dominates and controls the government structure. Although we have little information on the distribution of power within the party, the supremacy of party chairman Mao Tse-tung appears absolute. Mao is Chairman of the party Politburo and of the Secretariat of the Central Committee, as well as formal head of the government.

17. Mao's position under the new constitution requires a less active role in the formal direction of governmental affairs, and important areas of influence appear to have been delegated to other leaders. Liu Shao-chi, who ranks next to Mao in the party hierarchy, seems to control the party organization; Chou En-lai, who ranks third in the Politburo, has become the dominant figure in government administration and foreign affairs; and Chen

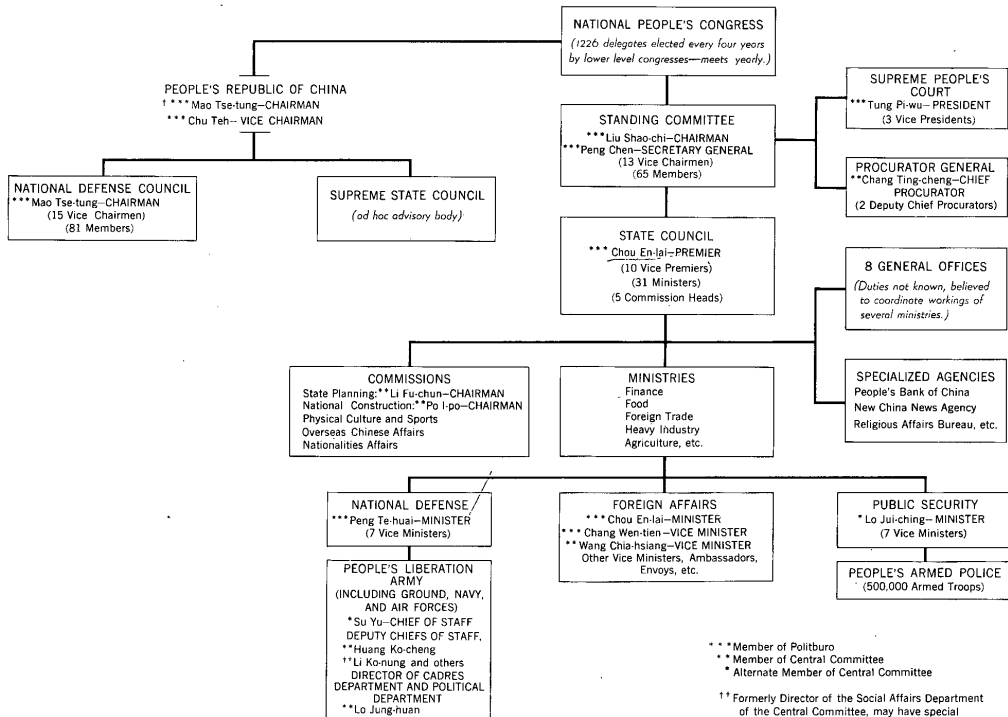
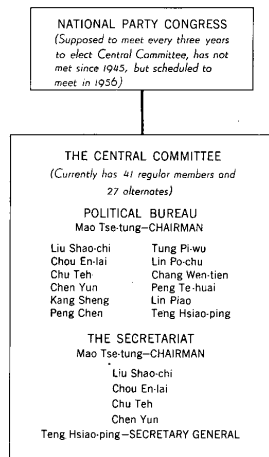
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CHINESE COMMUNIST PARTY

COMMUNIST CHINA  
PARTY AND GOVERNMENT ORGANIZATION

CHART I

CENTRAL PEOPLE'S GOVERNMENT



\*\*\* Member of Politburo  
\*\* Member of Central Committee  
\* Alternate Member of Central Committee

\*\* Formerly Director of the Social Affairs Department of the Central Committee, may have special responsibilities for security and intelligence.

\* As formal head of state, Mao is vested with broad executive and appointive powers. Official Communist commentators have described Mao's office as being a "symbolic" one, and have stated that the chairman and the standing committee constitute a "collective head of state"—suggesting that the formal rank of Liu Shao-chi in the governmental hierarchy is virtually equal to that of Mao.

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Yun seems to have the largest role in economic affairs. Although Chu Teh is a venerated military leader and Vice Chairman of the "Peoples Republic of China," he is nearly 70, and Peng Te-huai, newly appointed as Minister of Defense, has assumed active leadership of the armed forces.

18. The first high-level party purge since 1938 took place during 1954 when Kao Kang, state planning chief and sixth-ranking member of the Politburo, and Jao Shu-shih, party organizational chief, were removed from the party and imprisoned together with a number of their associates. Kao's death has since been announced, but Jao's fate is unknown. Kao and Jao had both been veteran members of the Central Committee and had been the ranking party leaders in Northeast and East China respectively until 1953.

19. While the actual details of the Kao-Jao affair still remain shrouded in mystery, the chief reason for the purge was probably an effort by Kao, Jao, and their supporters to broaden their own power. Despite official denials, some differences over issues of domestic policy may have been involved. Kao and Jao may also have attempted to make common cause with some of the military leaders, but apparently with little success, since no ranking military men have yet been involved in their disgrace.

20. In any event, there is no evidence that the purges have had any lasting effect on the stability of the inner core of party leadership or its ability to control the party. Simultaneously with the purge announcement in April 1955, the party announced a new control commission to check on party discipline. As the regime confronts the problems of socialization, shifts in the influence of leaders may occur and purges may be expected, especially at lower levels.

21. The question of Mao's successor will grow in importance since Mao is now 62 and possibly in poor health. It is doubtful if any individual in the event of Mao's death would be in a position for some time to assume the full authority held by him, and an effort would probably be made to establish some sort of collective leadership.

22. Liu and Chou would probably be in the best positions to bid for pre-eminence. Liu, second only to Mao in formal party listings, is known as a theorist whose attention has been largely focused on internal party matters. Chou has had a broader range of experience and contacts and has a reputation for tactical elasticity. However, their expressed views on major policies have not been in conflict. Barring any major setbacks to the regime, the differing backgrounds of these and other leaders appear more likely to serve as complementary forces in implementing agreed policy than as causes of serious conflict.

23. Although the prestige of the army and the role of its leaders remain great, the direct role of the army in planning and policy has been steadily curtailed, particularly since the dissolution of the regional governments in 1952-1954. The newly created National Defense Council appears to be largely an advisory body less powerful than its predecessor, the People's Revolutionary Military Council. Control of most of the internal security forces has been taken away from the armed forces and placed under the Minister of Public Security. There appears to be increasing integration of the civil and military elements of the government.

24. There is <sup>no</sup> firm evidence of actual conflict between professional military leaders and the primarily political group. It is possible that there may have been some sympathy among military commanders for the alleged belief of Kao Kang that "the party was created by the army" and that those with party experience in the old revolutionary base areas should take precedence over nonmilitary leaders. However, the high party status of many military commanders gives them a vested interest in the regime, and the long established system of political officers within the army provides a constant check on the activities of military leaders. We believe that there is little prospect of differences which would seriously affect the cohesion or stability of the regime during the period of this estimate.

25. The Chinese Communist Party, with a membership of over eight million or 1.33 percent of the population, is substantially smaller

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in proportion to population than Communist parties in other Bloc countries. Although there is no shortage of potential members, there is a serious problem in quality and political reliability. An eight-year program of systematic political indoctrination was initiated in 1955 for some five million party members and nonparty intellectuals. Despite these efforts to improve the quality of the party, governmental efficiency will continue to be hampered by low levels of literacy and by friction between old revolutionaries and new bureaucrats.

26. *Popular attitudes and support.* Tight control and a series of repressive campaigns since 1951 have dissipated some of the support the regime initially enjoyed, leaving much of the populace disillusioned or disaffected. Discontent mounted during 1954 and civil disobedience at the local level increased. Official announcements allege that there were 364,604 cases of "subversion" and "economic sabotage" from February 1954 to May 1955. These activities occurred in both urban and rural areas throughout Communist China. The principal causes appear to have been local food shortages resulting from the floods and droughts of 1954, the pushing of grain collection and agricultural socialization, and the forced austerity program. Discontent seems to be particularly marked among the peasantry, and at least one open "peasant revolt" is admitted to have taken place in April 1955.

27. Communist efforts to remold the traditional Chinese social system have also met with considerable resistance. Their attempts to destroy family proprietorship and family cohesion have generated widespread resentment. The regime has slackened its efforts to enforce its marriage law, and reform of the family is now being attempted primarily by the indoctrination of youth.

28. Chinese intellectuals, many of whom have been educated in the West or exposed to Western thought, also pose a serious problem to the regime, which is still dependent on their skills. The campaign to obtain their conformity was accelerated in May 1955 when Hu Feng, a writer who pressed for greater freedom of expression, was accused of leading

a vast conspiracy against the state. Abject confessions by intellectuals were published and mass meetings were organized to denounce and expunge "the remnants of Hu Feng thought" in such widely diverse fields as medicine and plant management.

29. At present, popular discontent is too sporadic and disorganized to pose a serious threat to the stability of the Peiping regime. The recent emphasis on security and the heightening of vigilance during the past year may have been partly intended to provide a rationale for continued austerity and stringent economic controls by creating an atmosphere of fear and tension. The regime now has a large and effective control system, including an internal security force of about 500,000 men in addition to the army. At the local level, a system of "security defense committees," "urban residents' committees," and other mass organizations provides additional controls which extend into every street and small community. As the process of socialization progresses over the next five years, popular discontent, particularly in rural areas, is almost sure to increase. However, the regime will almost certainly be able to repress such discontent.

### The Economy

30. The Peiping regime has stated that the creation of a modern, industrialized economy will, despite maximum efforts, require the rest of the century. It regards this development as essential to the transformation of Communist China into a great power. To this end, it is seeking to create an economy which will eventually be capable of providing a full range of military and capital goods, and which would reduce Communist China's dependence on the USSR. The Chinese Communists began in 1951 to develop a Five Year Plan for channeling their resources to the development of industry, especially heavy industry.

31. The years 1950-1952 were a rehabilitation period during which the regime was able to obtain with relatively small investments a substantial increase in output and generally to raise production levels to or above pre-Communist peaks. However, even after the

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rehabilitation period the industrial base remained extremely small. In 1952 Communist China produced no trucks, tractors, automobiles, or airplanes; only an insignificant number of such important items as locomotives, electric motors, and turbines; and only a small number of the simplest types of machine tools. Its output in the basic steel and electric power industries was only about one-sixth that of Japan. Moreover, while the Chinese Communists have tremendous human resources and substantial power and mineral resources with which to build a strong industrial base, the quality and utility of these resources are limited. Some 80 percent of the people are illiterate and about 80 percent are peasants or live in backward rural communities. Communist China has one of the greatest land areas in the world, but only about 10 percent is under cultivation and almost all the remainder is unsuitable for cultivation. It has substantial mineral resources, but since many are of poorer grades or in areas distant from railroads and industrial centers, their development and processing will be very costly.

32. Finally, the regime is faced with the serious long term problem of stretching its limited resources to meet the requirements for capital investment and the minimum needs of a population which is growing at a rate estimated to be at least 1.5 percent annually. In mid-1953 the population was recorded at 582.6 million in an official census, and it will probably total some 650 million by 1960.

33. *The Five Year Plan.* In mid-1955 the regime, after considerable delay, adopted a comprehensive Five Year Plan (1953-1957). (See Chart II, page 9, for major goals.) The Plan is fairly rudimentary, modifications have been introduced since its publication, and further modifications can probably be expected. Even though the Russians have given extensive technical assistance, the Chinese Communists admittedly have encountered great difficulties in drafting their plan. Its delayed announcement was officially attributed to the lack of resource data, difficulties in the collection of statistics, lack of skilled personnel, and inexperience in handling the problems arising out of rapid development.

34. The Plan calls for a total state economic and social expenditure of 76.64 billion yuan (\$32.8 billion).<sup>1</sup> Funds for capital construction, i.e. investment in fixed assets, amount to 42.7 billion yuan (\$18.1 billion) and are to be apportioned as follows:

	Billion Yuan	Percent of Total
1. Industry	24.8	58
a. Heavy	22.0	52
(1) Fuel and Power	6.8	16
(2) Machine Industry	6.9	16
(3) Iron & Steel, Chemicals, Building Materials	6.5	15
(4) Other	1.8	5
b. Light	2.8	6
2. Transport, Posts, and Telecommunications	8.2	19
3. Agriculture, Water Conser- vation, and Forestry	3.3	8
4. Culture, Education, and Health	3.1	7
5. Municipal Utilities	1.6	4
6. Commerce, Banking, and Commodity Stockpiling	1.3	3
7. Other	.4	1
Total	42.7	100

35. The main investment effort is being made in heavy industry. To support the industrial program, the regime plans substantial expenditures on transportation and, to a lesser extent, on health, education, and other social projects. To achieve its goals in the other major sectors — agriculture, light industry, and trade — the regime apparently plans to rely chiefly on organizational changes and, in the case of agriculture, on stimulated investment by the peasant and the cooperatives.

36. Basic to the fulfillment of program goals will be the regime's ability to control the disposition of Communist China's economic resources, particularly those in agriculture. To this end, the "transition to socialism" has been entered into aggressively. State-controlled cooperatives in agriculture, trade, and credit have been organized, and most of modern

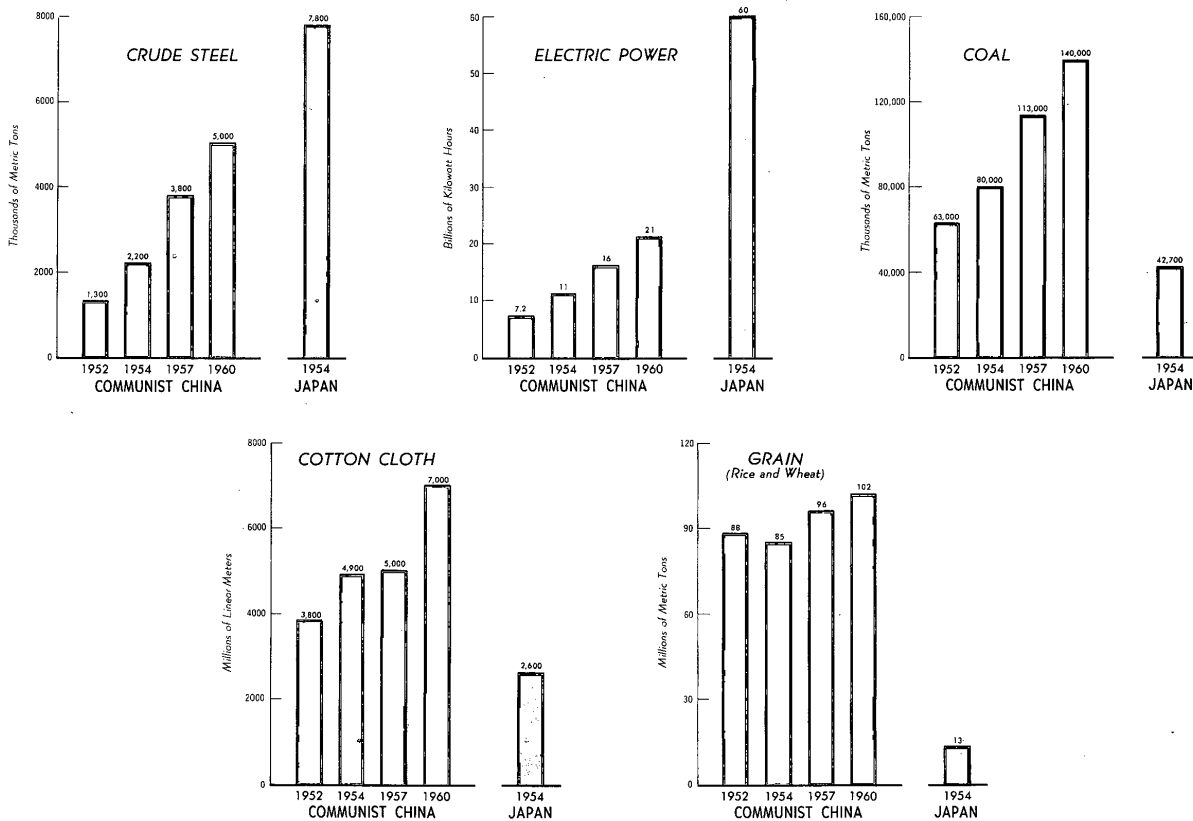
<sup>1</sup> Converted at the official rate (\$1=2.367 yuan) which, because of probable overvaluation of the yuan, overstates the value of the investment by possibly 20 to 50 percent.

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COMMUNIST CHINA  
ESTIMATED PRODUCTION OF CERTAIN COMMODITIES\*  
COMPARED WITH PRODUCTION IN JAPAN IN 1954

CHART II



\*Production figures for 1954, 1957 and 1960 are the same as those in table on page 12, and are subject to the qualifications noted thereto.

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industry<sup>2</sup> has been nationalized. A hard line has been adopted toward the consumer, and strict control measures, including forced grain procurement, control of cotton production, and food rationing have been instituted.

37. The regime appears to have based its investment plan on a realistic appraisal of its control of mainland economic resources and of the availability of Soviet credits. Between 1950 and 1955 it appears that GNP increased by over one-half in constant prices, while budgetary revenues more than tripled and reached one-third of the GNP. The most substantial increases in revenues reflected "profits" from nationalized enterprises. However, the regime's future program through 1960 appears to contemplate a much slower rise in the GNP and budgetary revenues, though they will continue to increase relative to GNP, will do so at a slower rate. (See Chart III, page 11.)

38. According to Chinese Communist budget data, defense and economic construction have accounted for about 70 percent of total expenditures each year. However, the proportion devoted to each of these categories has been almost exactly reversed during the past five years. In 1950, defense accounted for 42 percent and economic construction 26 percent; in 1955 defense accounted for 24 percent and economic construction 48 percent. Despite the percentage decline, budgeted military expenditures in 1955 were at the highest level since the regime gained power. The maintenance of military expenditures at the current proportion of the budget would appear to be consistent with the planned rate of economic growth.

39. *The industrial outlook.* During the first Five Year Plan, the Chinese Communists plan to concentrate on developing the capacity and production of heavy industry. Consumer goods industries are to receive only about 11 percent of the total industrial capital con-

<sup>2</sup> "Modern industry" is used by the Chinese Communists to mean factory and mine production, largely exclusive of the output of handicraft industries.

struction funds. The 156 industrial projects for which the Soviets have announced that they will supply equipment and technical guidance constitute, in cost, nearly half of the industrialization program. Almost all are in heavy industry and have been assigned top priorities in the supply of domestic resources. While planned targets in other sectors may undergo subsequent major revisions, this portion of the Plan is the least likely to be changed substantially.

40. Although most of these 156 projects will not be completed during the first Five Year Plan, and some of the most important will not be completed until after 1960, the following descriptions of certain planned major developments in heavy industry are given for illustrative purposes. The heavy industry program calls for major construction in the Anshan iron and steel complex and the initiation of construction of large iron and steel combines in the Wuhan area in central China, and at Paotou in Inner Mongolia. Only the first stage of development of the latter two projects will have been completed by 1962. By 1957 the Chinese Communists also plan to complete their first aluminum plant (except for a small pilot plant built by the Nationalists) and to double power generating capacity over 1952.

41. We believe the Communist control of the industrial sector of the economy is sufficiently well developed to insure that whatever resources are available will be directed to heavy industrial projects. About 60 percent of industrial output comes from nationalized industries, and the regime directly controls another 20 percent through cooperatives or joint public-private industries. Through the placing of orders, control of banking, raw material allocation, and product distribution, the government effectively controls the output of the remaining privately owned sector. Only in the case of the individual handicraft enterprises, which engage about 10 million people full-time, has the extension of state control been delayed. During the period of this estimate, the regime will almost certainly further extend its control over industry.

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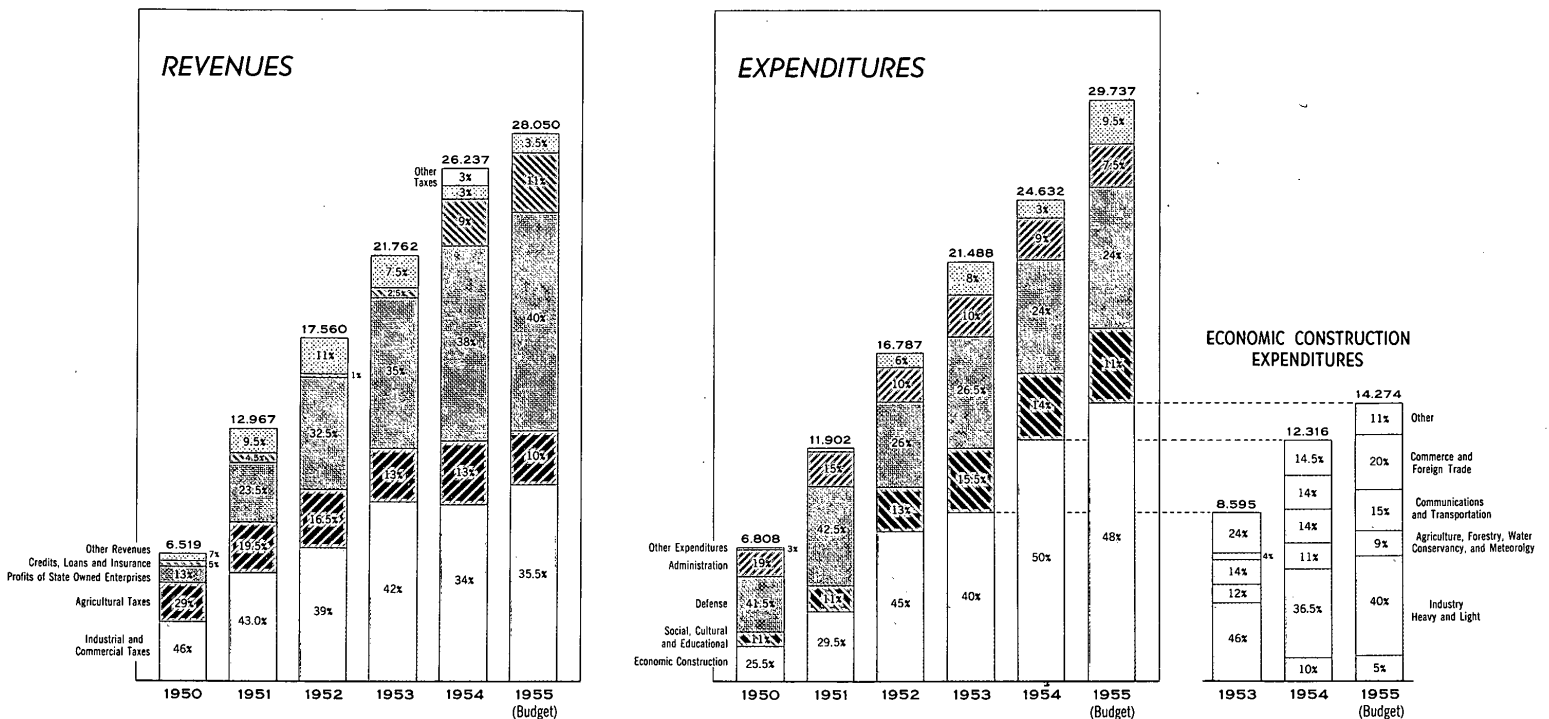
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CHART III

COMMUNIST CHINA'S BUDGETS, 1950-55

(Billions of Current Yuan)



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**ESTIMATED CHINESE COMMUNIST PRODUCTION OF SELECTED COMMODITIES  
FOR 1954, 1957, AND 1960**

**NOTE:** The figures in this table should be used with caution. The estimates are subject to varying margins of error, some of which might be considerable. The 1954 estimates for certain of these commodities should probably be regarded as a maximum, particularly for pig iron and crude steel, with respect to which production in the quantities stated is predicated on maximum utilization of all possible facilities. The estimated production of industrial products, as projected for 1957 and 1960, depends upon construction or improvement of capacity, the assimilation of advanced techniques by the Chinese Communists, the continuance of Soviet Bloc aid, and continued importation of capital goods from the West at approximately present levels.

With the exception of pig iron, steel, trucks, and food crops, our estimates of 1957 production are of the approximate order of magnitude of the Chinese Communists' goals. With respect to crude oil and gasoline, while production estimates are presently under revision, we believe that the Communist goals are overly optimistic. The specific goals of the Five Year Plan are given in parentheses.

	Unit	1954 Estimate	1957 Estimate	1960 Estimate
Coal	Million MT	80	113	140
Coke	Million MT	5	7	11
Electric Power	Billion KWH	11	16	19-23
Pig Iron	Million MT	3	4.2(4.7)	6
Crude Steel	Million MT	2.2	3.8(4.1)	5
Tungsten	1,000 MT	19	24	24
Copper	1,000 MT	13	14	15
Tin	1,000 MT	12	17	22
Lead	1,000 MT	22	23	24
Zinc	1,000 MT	9	14	19
Crude Oil	1,000 MT	-	-(2,000)	-
Gasoline	1,000 MT	-	-(399)	-
Ammonium Nitrate	1,000 MT	27	44	89
Ammonium Sulphate	1,000 MT	300	500	734
Motor Vehicle Tires	1,000 Units	577	760	1,000
Cement	Million MT	5	6	8
Locomotives	Units	50	200	500
Freight Cars	Thousand Units	5.5	8.5	8.5
Trucks	Thousand Units	0	0 (4)	10-15
Electric Motors	1,000 KW	985	1,000	1,000
Generators	1,000 KW	93	225	325
Cotton Cloth (excluding cloth made from hand- icraft yarn)	Billion Linear Meters	5	5	7
Paper (machine made)	1,000 MT	490	650	700
Food Crops	Million MT	159	168-177 (193)	182-191
Timber	Million cu. m.	21	20	20

42. We believe that the Chinese Communists will not achieve some of the specific industrial goals of the Five Year Plan, particularly in pig iron, crude steel, trucks, crude oil and

gasoline, and advance machine fabricating. They will probably not be able to develop certain of their planned capacities. The regime has not been able to maintain the planned

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rate of investment in fixed assets, and 48 percent remains to be made in the last two years of the Plan period. Furthermore, unit costs for new plant construction have been exceeding estimates, and further sharp economies will have to be effected if planned investment is to prove adequate to realize construction goals. Moreover, because of a probable overstatement of output of light industries in 1953-1954, we believe that the planned rate of increase of production in light industry is inadequate to realize the planned level of output of consumer goods in 1957. Unless the regime is successful in increasing the production of cotton and other commercial crops, it will probably also fall short of some of its consumer goods industry goals. We believe that the gross value of industrial output will increase about 75 percent during the first Five Year Plan rather than 98 percent as planned by the Communists.

43. The growth of output has, in many industries, been accompanied by high costs of production, deterioration of quality, and a limited range of products, resulting in high prices for industrial goods, shoddy merchandise, and overproduction combined with shortages in various industrial lines. These conditions reflect the deficiencies existing in skills, plant, and materials at current levels of production, and the limited flexibility of Chinese Communist industrial output. In view of the present official pressure to expand the volume of output, we believe problems of waste will continue to plague the regime for many years to come.

44. *Manpower problems.* The labor force is believed to total around 300 million, which would include around 95 percent of the males, and 65 percent of the females over 14 years of age. The nonfarm labor force numbers only about 60 million, of whom approximately 4 million are government employees, 3 million are in the army and security services, 19 million are employed by business and industrial enterprises, and the remainder are self-employed in trade, services, and handicraft industries. Some 16 million of the nonfarm labor force are directly employed by the State in the military, government administration,

and economic enterprises. The regime claims that 5.9 million of the factory workers are currently employed in the industrial sector, an increase of more than 4 million since 1949.

45. Despite such basic problems as control of its huge population and of underemployment, the regime's most pressing manpower problem is a shortage of trained managerial and technical personnel. The Communists tend to complicate this problem by seeking to insure political reliability as well as technical competence in their trained personnel.

46. The Chinese Communists are continuing their efforts to overcome shortages of trained personnel by employing many thousands of Soviet advisors and technicians. Many of these teach in universities and in training programs connected with factories or with specific development projects. Under the Five Year Plan, Peiping is sending 10,000 students and 11,300 skilled workers to the USSR for training. Most important, the regime has sought to expand the educational system and concentrate student interest in technical subjects. The speed-up has produced poorly trained engineers, and there are still too few qualified secondary school graduates to satisfy the needs of the economy and the growing capacity of higher educational facilities. Peiping now recognizes the need for more thorough training, and has adopted the Soviet five-year curriculum in most technical fields beyond the secondary school level.

47. Although at both secondary and higher levels of education a considerable percentage of graduates will be drained off to staff the expanding educational system, large numbers of reasonably well qualified graduates will eventually be available to help the regime carry out its programs. We estimate that by 1960 Communist China will have 750,000-800,000 college graduates, an increase of more than 450,000-500,000 over 1952. The recent development and planned expansion of the educational system may be seen in the following estimated enrollment figures, derived in large part from Chinese Communist announcements:

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	1952- 1953	1954- 1955	1957- 1958	1959- 1960
	(in thousands)			
Higher Education .....	189	252	434	600-650
Science .....	11	16	27	
Engineering .....	66	95	177	
Agriculture and Forestry .....	12	15	37	
Medicine and Public Health .....	24	29	55	
Education .....	32	50	89	
Other .....	44	47	49	
Secondary Education .....	3,148	4,247	4,707	6,000
Primary Education (in millions) .....	49.8	51.2	60.2	65.0

48. Scientific research activity in Communist China is at a very low level. The basic policy for utilizing Communist China's limited potential in the scientific field has been to concentrate on training and on technical activity related to industrial expansion. While research activity will probably increase slowly, scientific research and development will probably not make a very significant contribution to the Communist Chinese effort to attain economic and military self-sufficiency during the period of this estimate.

49. Despite the expansion in education, Communist China will continue during the period of this estimate to experience deficiencies in skilled labor and management and in trained technicians. These deficiencies will be reflected in errors, waste, and losses in production, and will be a limiting factor in Chinese Communist progress toward Plan goals. However, it is unlikely that the shortage of skilled personnel will cause a major setback in the program.

50. *Agricultural outlook.* Around 250 million acres, some 10 percent of Communist China's land area, is under cultivation. Although the Chinese Communists claim that another 10 percent of their land is arable, this figure is almost certainly too high. In any event, the bulk of such land would require extensive irrigation or would be relatively unproductive because of short growing seasons, poor soils, or low rainfall. Counting double-cropped acreage, the total area under crops is the equivalent of 330 million acres, of which 300 million acres are in basic food crops and 30 million acres are in technical and other miscellaneous

crops. In addition Communist China has large grazing areas which are not efficiently utilized, and extensive fresh water fishing and coastal fishing grounds. Communist China has largely been deforested. However, the timber reserves in northern Manchuria and Inner Mongolia are believed to be adequate to meet requirements beyond the period of this estimate, although their remoteness presents difficult transport problems.

51. In the crop year 1954-1955, we estimate that the Chinese Communists produced about 158 million tons of basic food crops and about 1 million tons of cotton, as against Chinese Communist claims of 170 and 1.1 million tons respectively. These crops plus fish, livestock, and other technical or commercial products, provided the Chinese people with a bare subsistence standard of living, and the bulk of the raw fibers for the domestic production of clothing. Nevertheless, the Chinese Communists exported about \$1 billion worth of agricultural commodities which accounted for about two-thirds of total Chinese Communist exports in 1954.

52. The regime was faced with a tremendous problem in establishing control over the millions of individual peasants. Since agricultural products directly or indirectly provide the major source of capital, the regime has to obtain a maximum contribution from the peasant to support its industrialization program.

53. During the period while it was still consolidating its control, the regime sought to maximize its take from the peasant primarily by taxes and marketing policies. In 1953, the regime increased its pressure on the peasants. Compulsory sales to the state were imposed, accompanied by a continuation of a nationwide campaign to form mutual-aid teams in order to pool labor and equipment on a seasonal basis. By the end of the year about one-half of the 110 million peasant households had been organized into such groups. These teams were presented to the peasants as a method for increasing output by mutual self-help, but to the regime they represented the first step toward agricultural socialization.

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54. Pressure on the peasants increased still further in 1954 and in the spring of 1955. Compulsory sales quotas went up. Mass organization of small producers cooperatives (in which land, equipment, and labor are utilized collectively though private land ownership is retained) began, and by the spring of 1955 the Communists announced that some 15 percent of peasant households had been organized into 670,000 cooperatives. However, there was some uncertainty in agricultural policy. Thus in 1955, the regime, as a result of peasant resentment to increased forced sales in a poor crop year, fixed the quota at the 1954 level for a three-year period. At the same time, some 20,000 of the new cooperatives were disbanded because of poor administration, too hasty organization, or member noncooperation.

55. The period of ambiguity in agricultural policy was apparently ended in July 1955, when Mao called for accelerated socialization and castigated those who had urged a slower pace. He attributed the difficulties in socialization to errors in implementation. He urged reliance on energetic leadership to induce peasant cooperation and recommended the dispatch of several thousand cadres from the administrative centers to supervise rural cadres in setting up cooperatives.

56. Mao outlined a time-table under which half of the rural population would be organized in cooperatives by the spring of 1958. Some of the cooperatives are to be consolidated into larger units by this time. All of the farm population is to be integrated into at least small cooperatives by 1960. Mao stated, however, that agriculture would not be fully collectivized until the mid-1970's.

57. The regime has probably accepted the political and economic risks of relatively rapid socialization in agriculture both because of doctrinal compulsions and because of the practical need to control production sufficiently to meet industrial raw material, export, and urban consumption requirements. Taxes and forced sales imposed on individual peasants apparently could not perform this task. The regime appears to believe that, contrary to

Soviet and Satellite experience, socialization can be accomplished without adverse effects on production.

58. The Five Year Plan calls for a minimum of central government investment in agriculture. Only about 1 billion yuan or 2 percent of capital construction will be allocated directly to agriculture, with some portion of another 6.6 billion yuan having indirect benefits to agriculture through flood control, reclamation, and other projects. The largest investment in agriculture will be by the peasants themselves. The Plan calculates peasant investment for the five-year period at 10 billion yuan for new tools, replacement of fixed assets, and expendable assets such as seeds and fertilizers. The regime intends to undertake such low cost programs as the distribution of disease resistant seeds, insect control, double cropping, planting of high yield crops, and expanding the use of natural fertilizers. In addition, the regime intends to manufacture new-type farm implements, to increase supplies of chemical fertilizers, and to make modest increases in acreage under cultivation and irrigation.

59. We believe that the Chinese Communists will not achieve their major agricultural goals, particularly in basic food crops. Although the regime is planning to achieve a 23 percent increase in total agricultural production during the Five Year Plan period, we believe it will be doing well to exceed a 10 percent increase. In basic food crops, we believe the Chinese Communists will increase production over the Plan period by about 6-8 percent rather than the 18 percent they are seeking. This failure to achieve planned goals will be the result of a number of factors the most important of which are: the regime will probably not be able to insure that the peasants make the investment expected of them; government investment will be probably inadequate; and the collectivization program will probably have a depressing effect on production.

60. The estimated increase in food output approximates the estimated population growth, but since agricultural exports constitute less than 3 percent of total farm output, the re-

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gime can probably meet its export goals, the proceeds of which are vital to the industrial program, though this might require further squeezing of domestic subsistence levels. Therefore, failure of the regime to achieve its agricultural production goals by the margin indicated will not necessarily affect its industrial goals. However, the regime will be handicapped by its inability to employ material incentives to obtain planned increases in productivity and continuing rapid urban growth, where costs and standards of living are higher, may make it difficult to restrain rises in consumption. Moreover, should farm output fail to make the limited increases we have estimated, industrial goals would almost certainly be adversely affected.

61. *Outlook in transport facilities.* Communist China lacks country-wide modern transport facilities. A rail net exists in the industrial areas of Northeast China and railroads extend to almost all other industrially developed sections of the country. In most other areas, primitive forms of transport are relied upon to meet distribution needs. A rough measure of the state of transport facilities in Communist China is apparent from a comparison with India:

	Communist China (Population: 600,000,000) (Area: 3,800,000 sq. mi.)	India (Population: 380,000,000) (Area: 1,200,000 sq. mi.)
Rail lines	16,000 mi.	34,000 mi.
Motor roads	90,000 mi.	163,000 mi.
Inland water- ways	60,000 mi.	5,500 mi.

62. However, Chinese Communist railroads, on which the industrial sector of the economy primarily depends, apparently have been able to meet the growing military and economic requirements. Based on estimated production figures<sup>3</sup> and estimates of percentages of production carried by rail, we believe that approximately 144 million tons of such bulk commodities as coal, construction materials, food crops, timber, and ferrous metals would

<sup>3</sup> These estimates are subject to the qualifications prefaced to the table on page 12.

have been moved by rail in 1954. In addition to the foregoing, the railroads almost certainly transported substantial quantities of other goods such as machinery, military equipment, POL, and consumers goods. It should be noted that large quantities of heavy bulk cargo, such as coal, were moved relatively short distances.<sup>4</sup>

63. Existing rail facilities were used to near maximum capacity. The Chinese Communists have apparently attained a considerably higher level of car utilization than is current in US practice and slightly above that attained by the USSR. In so doing, rolling stock was probably overloaded and undermaintained, with reserves apparently cut to a minimum, although the Communists have increased the capacity of rolling stock repair and manufacturing facilities.

64. The Chinese Communists claim that the extensive inland water system carried 20 million tons in 1954 by modern waterway transport exclusive of junks. It is estimated that river junks carried a large portion of the nation's total freight in 1954, particularly in the Yangtze and Pearl River systems. Inland waterways, although not fully exploited, are a major transport facility for bulk traffic. Only a small portion of the rudimentary road net is of all-weather type. Roads provide important support for the area opposite Taiwan and the main support for economic development in the northwest. Civil air transport is

<sup>4</sup> The Director of Intelligence, USAF, and the Deputy Director for Intelligence, The Joint Staff, do not believe that there is sufficient intelligence to estimate with accuracy the tonnage carried by Chinese Communist railroads. Fragmentary and often ambiguous Chinese Communist announcements indicate that the railroads originated tonnages as high as 150 to 180 million metric tons in 1954. However, rail operational intelligence as interpreted by the Director of Intelligence, USAF, and the Deputy Director for Intelligence, The Joint Staff, indicates a capacity in terms of freight cars, locomotives, and other facilities sufficient only to originate a tonnage of about half this figure or about 80 million metric tons. Until better intelligence is available, we believe it can only be estimated that the actual tonnage originated in 1954 was somewhere between these wide extremes.

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largely limited to flights between Peiping and a few other cities; the civil air fleet comprises some 50 light transports.

65. The Chinese Communist merchant fleet is small and relatively obsolete, and Communist China must rely on foreign flag shipping to carry all of its overseas trade as well as a small but strategically important portion of its seaborne coastal freight. Coastal shipping, including both inshore junk traffic and ocean-going freighters, provides the cheapest method for moving bulk cargoes between the major ports of Dairen, Tientsin, Shanghai, and Canton. However, because of Chinese Nationalist operations, all coastal freighters calling at ports from Swatow north to Wenchow are of non-Communist registry. In the Yellow Sea area coastal shipping offers an alternate transport facility to ease the pressure on the single rail connection between Manchuria and North China. Along the southeast coast it is the principal means of transport. It is estimated that Chinese Communist registered ocean-going coastal shipping (over 1,000 GRT) carried approximately 87 percent and foreign flag shipping engaged in coastal trade carried about 13 percent of a total of 6.3 million metric tons in 1954. We are unable to estimate the tonnage carried by the inshore junk traffic.

**MERCHANT SHIPPING ARRIVING IN COMMUNIST CHINESE PORTS IN 1954 BY REGISTRY\***

Non-Communist	Number
United Kingdom	518
Japan	97
Norway	80
Sweden	32
Denmark	35
Italy	23
Netherlands	17
Finland	18
France	14
Germany	4
Panama	4
Pakistan	2
India	2
Morocco	1
Non-Communist TOTAL	847
<b>Bloc TOTAL</b>	<b>158</b>

\* This table excludes vessels under 1,000 gross registered tons. These totals represent the actual arrivals, each ship being counted as many times as it arrived in a Chinese port from a non-Chinese port.

66. The first Five Year Plan allocates 7 billion yuan, or 16 percent of the total investment in fixed assets, for transportation, with the major share going to railroads. Some 5,800 kilometers of new trunk and branch rail line are scheduled for construction during the Five Year Plan. (See Map 1, for major projects.) In addition, approximately the same amount of trackage is scheduled for logging lines, spurs, yards, and double tracking. A considerable proportion of this construction was probably motivated by strategic as well as economic considerations. In addition, the Plan calls for a total production of 550 locomotives and 33,000 freight cars during the five year period.

67. Plan goals for production of freight cars are probably realizable, though there may be some shortfall in the locomotive program. This production of rolling stock, and the extent of trackage expansion that is likely to be attainable, will probably, unless a substantial proportion of these facilities is diverted for purely military purposes, be adequate, or nearly so, to support the Chinese Communist development program. The Trans-Mongolian railroad, with a capacity when fully operative of about 2.7 million metric tons each way per year, which will probably go into operation early in 1956, will also lessen Communist China's present dependence on seaborne trade. However, even with this new line the interruption of seaborne trade would reduce Communist China's foreign trade sufficiently to cause serious delays in its development program.

68. *Foreign trade and Soviet assistance.* Communist China is dependent on imports for essential elements of its industrial and military programs. Fifteen percent, or \$2.75 billion, of capital construction expenditures under the Five Year Plan are allocated for imports of machinery and equipment, while expanding industrial output is increasing import needs for raw materials and other production requisites. However, except for grants and credits supplied by the Soviet Bloc, Communist China's ability to obtain such goods is presently limited by its dependence on agricultural exports. Agricultural commodities accounted for about two-thirds of total Chi-

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nese Communist exports in 1954. Chinese Communist ability to trade is also adversely affected by the complete closure of the US market and by lesser restrictions maintained by other Free World countries on exports to Communist China. Finally, Bloc markets are apparently having difficulties absorbing certain Chinese Communist exports.

69. The Chinese Communists announced that their total foreign trade in 1954 amounted to the equivalent of roughly \$3.4 billion. Although they claim that their foreign trade was "fundamentally in balance," we believe there was probably an excess of imports covered by Soviet Bloc credits. While the nature of such imports and Soviet property acquired by such credits in 1954 is not known, there are indications that the total value could have been as high as \$400 to \$500 million.

70. Communist China's trade became increasingly oriented toward the Bloc in 1954. Trade with the Asian and European Satellites increased significantly over 1953 levels and remained at approximately the same level with the USSR, excluding that covered by Soviet credits. Even after taking into account Satellite resales of Chinese Communist goods to non-Bloc countries, the Bloc still accounted for about three-fourths of Communist China's trade.

71. In 1954 the value of Chinese Communist total trade with the Free World was greater than in 1952 and probably approximately the same as in 1953. However, there were sharp increases in trade with Japan and Pakistan. The recorded exports of the principal non-Communist countries to Communist China in 1954 were:

	(in US \$ millions)
Hong Kong .....	67
Ceylon .....	48
Pakistan .....	26
West Germany .....	21
Japan .....	19
UK .....	18
Egypt .....	11
France .....	8
Malaya .....	7
India .....	6
Italy .....	5
Other .....	36
<b>TOTAL .....</b>	<b>272</b>

The tonnage of Free World exports to Communist China has increased steadily from 497,000 tons in 1952 to 692,000 in 1953, and to 858,000 tons in 1954.

72. The Chinese Communists have stated that their foreign trade in 1954 totalled over 9 million tons. We believe that this is an incomplete figure, and that the total may have amounted to between 10 and 11 million tons. About 5.1 million tons moved by sea compared to 4.8 million tons in 1953. Almost all of Communist China's trade with the non-Communist countries, and about 25 percent of its trade with Bloc countries, was carried by sea. The bulk of Communist China's trade with the Bloc was carried overland.

73. To meet requirements of the Five Year Plan, the Chinese Communists propose to increase total foreign trade by 65 percent during the period, primarily through expanded exports of minerals, handicraft products, and agricultural products. It is estimated that Communist China could readily expand its exports of coking coal and iron ore (e.g., to Japan) without substantial new investment. However, Communist China may have trouble marketing increased quantities of handicraft and higher priced agricultural products to Bloc countries because there is a question of the ability of the latter to absorb such increases or profitably to re-export them. The decline of Chinese Communist exports to the Free World has stimulated Free World production and use of substitutes for some traditional Chinese Communist products.

74. Although increased trade with the Free World would almost certainly develop if present trade controls were relaxed to the level maintained with the European Bloc, such increases would probably not constitute a substantial reorientation of Chinese Communist trade. Such a relaxation of trade controls, if it included those of the US, would not greatly increase Communist China's ability to secure commodities not now available through transshipment, but would permit an increase in exports to markets not now open and would reduce import costs on certain items. We believe that such a relaxation of controls could increase Communist China's annual import

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capabilities by about \$150 million, of which about two-thirds would be due to the reduction of US controls. The total of \$150 million is roughly equal to about a quarter of Communist China's imports of capital goods, including iron and steel, and about 5 to 10 percent of the adjusted value of Communist China's capital investment program in 1955. To that extent, the buildup of Communist China's economic and military potential could be accelerated. There would also be a reduction in internal Bloc transport costs, amounting to approximately \$100 million equivalent. It is impossible for us to allocate such savings as between Communist China and the other Bloc countries. A relaxation of controls would increase flexibility in planning, procurement, and shipment. However, it probably would not result in any significant changes in Communist China's basic foreign or domestic policies.

75. Peiping has exploited the issue of trade controls to divide the US from its allies and has charged that US insistence on controls is responsible for economic difficulties in Japan, Thailand, the Philippines, and other Asian countries. If controls were relaxed, Peiping would continue its propaganda campaign against the US, but would seek to expand trade contacts with other Asian states, especially Japan, and would continue to use trade as a means of penetration and trade offers as an instrument for political warfare.<sup>5</sup>

76. An increase in trade controls on Communist China alone would probably increase the volume of transshipped goods but would not appreciably retard Communist China's internal development. However, if all Western countries now applying controls were to apply an embargo on Chinese imports similar to that now observed by the US, Communist China would lose markets now taking almost 20 percent of total exports. Since Bloc markets are not believed to be readily expandable, it is probable that Communist China's import capabilities would be reduced proportionately,

<sup>5</sup>The political effects of reducing trade controls are considered in SNIE 100-56, "Political Effects of a Relaxation of Controls on Trade with Communist China," 17 January 1956.

unless Soviet Bloc credits were increased. Such a reduction in export earnings would probably significantly retard Communist China's internal development.

77. Soviet credits have been an important factor in helping Communist China obtain imports. The value of announced Soviet economic aid totals \$430 million, made up of a \$300 million credit extended during 1950-1954 for rehabilitation and reconstruction, and a \$130 million credit extended in 1954. In addition, Chinese Communist budget announcements since 1950 have indicated that other Soviet credits have been given to Communist China. In 1954, the amount appears to have been \$400 million. In 1955, the amount apparently was larger, with the major portion earmarked for military purchases.

### Military Situation

78. The power of the Chinese Communist regime is based on the strength of its armed forces and its great reservoir of potential military manpower. Since the end of the Korean War, Communist China has strengthened and to a large extent modernized its military establishment. However, it continues to depend on the USSR for heavy armaments, complex equipment, POL, and almost all naval and air equipment.

79. *Army.* The Chinese Communist army consists of about 2,500,000 men organized in 115 infantry, 22 artillery, 4 cavalry, 3 armored, and 1 to 3 airborne divisions, as well as other miscellaneous units. Approximately 40 percent of army strength is located in North and Northeast China and Korea, and another 40 percent in East and Central South China, with relatively few troops in the interior. (See Map 2.)

80. Substantial improvements in organization, equipment, and training have been made since the end of the Korean War. Actual strength of most infantry divisions is estimated at 15,000 men, and division organization includes an artillery regiment of 36 field pieces. Tank regiments are believed to be organic to the army troops of 2 of the 37 armies and to 16 of the 115 infantry divisions.

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Standard armored division equipment includes 80 medium tanks, 8 heavy tanks, and 8 self-propelled guns. Twelve of the artillery divisions are field artillery, standard equipment of which includes 108 pieces of calibers up to 152 mm. However, the amount of equipment actually present in armored and artillery units is believed to be somewhat less than TO&E.

81. General army morale is believed to be high because of increased professionalization and ideological indoctrination as well as the privileged social status accorded the soldier. The adoption of universal conscription in July 1955 will probably increase service morale by fixing the terms of service and rationalizing induction methods. However, a significant increase in general popular disaffection, particularly among the peasants, might adversely affect the morale of many servicemen.

82. The numerical strength of the Chinese Communist army will probably not increase through 1960 unless the Chinese Communists feel themselves faced with imminent large-scale war. However, beginning in 1958, the conscription law will increase the body of trained reserves by requiring reserve duty of most of the estimated 450,000-600,000 troops to be discharged annually and an unspecified number of men under 40 with no previous service.

83. By 1960 the army is expected to have completed the process of incorporating a tank regiment and increased artillery and heavy weapons into each infantry division. Standardization of light weapons of Chinese Communist manufacture and heavy armaments of Soviet manufacture will be virtually complete.

84. Chinese Communist vulnerability to air attack has caused them to place considerable emphasis on anti-aircraft defense. Most combat divisions now include anti-aircraft battalions for local protection. Five anti-aircraft divisions and some 19 independent anti-aircraft regiments have been identified. Fire control equipment, especially radar, appears to be in short supply. With expected increases in equipment and further training during the

period of this estimate, the Chinese Communists will probably develop a substantial anti-aircraft capability.

85. *Air Forces.* Chinese Communist air (including naval air) forces have an estimated total strength of 2,270 planes (including 1,485 jets) and about 80,000 personnel. Through 1960 the principal offensive air weapon will be the jet light bomber force, which presently consists of an estimated 310 BEAGLES and which will probably reach approximately 590 by 1960. Although presently stationed mainly in bases near Korea and Taiwan, this bomber force could be redeployed so as to reach any target in Asia north of the Malay Peninsula and the southern Philippines. (See Map 2.) It is handicapped by lack of combat experience and fighter escort capability. Communist China has only 10 piston medium bombers (BULLS), and is expected to have no more than 60 by 1960. These could reach targets as far away as Guam and Singapore. It will probably not acquire its first jet medium bombers before 1960.

86. Communist China's air defense capability lies mainly in its estimated 1,175 jet fighters, and its core of combat veteran pilots. This force is considered combat-ready under visual operating conditions. Replacement of the few remaining piston fighters with Soviet jets should be completed by mid-1956, and the development of an all-weather force will probably begin shortly thereafter. Some 570 all-weather fighters may be added to the air force by mid-1960. Total fighter strength will probably reach a peak of about 1,600 jet fighters in mid-1958. Despite difficulties in construction and supply, Communist China has greatly improved its base structure in the coastal area opposite Taiwan.

87. *Navy.* With the aid and technical advice of the USSR, the Chinese Communist navy has reached a present modest strength of 4 destroyers, 13 submarines, 50 patrol escorts and gunboats, 118 motor torpedo boats, 13 mining vessels, and 56 amphibious craft. A number of small Soviet vessels may recently have been delivered to the Chinese Communists along with the transfer of Port Arthur.

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88. Although there are indications that the USSR may have recently helped the Chinese Communists launch an accelerated program of naval construction, the development of the navy through 1960 will probably continue to depend primarily on material received from the USSR. The Chinese Communists will continue to possess sufficient air and naval strength to control the air and sea spaces necessary for amphibious operations in the Taiwan Straits and offshore island areas provided the US does not intervene. They will develop a capability for medium range submarine operations and will probably further develop their mine warfare and surface capabilities for conducting defensive operations in coastal waters. These factors, coupled with existing air power, will probably give them during the period of this estimate a significant capability to oppose hostile forces operating in coastal waters.

89. Naval air force strength (included in paragraph 85) is 185 planes and 4,700 personnel. The development of Chinese Communist naval aviation has recently received considerable emphasis, probably reflecting a need to perform standard naval missions such as support of amphibious landings, antisubmarine patrol, convoy escort, search and rescue, reconnaissance, and mining. It is also possible that, following the Soviet pattern, the defense of certain coastal areas and bases is assigned to naval air. In any event, it is known that re-equipment of the naval air force with jet aircraft is being given high priority.

90. The Chinese Communists have sufficient conventional amphibious type ships to provide lift for 35,000 to 45,000 troops with some armor, supporting weapons, and limited transportation, or a maximum of 70,000 lightly armed infantry troops. As of mid-1955 the Chinese Communist merchant marine included 111 vessels (1,000 GRT upward) totaling 278,000 gross tons with an estimated cargo capacity of 417,000 long tons. Utilization of this shipping could provide additional lift for about 200,000 troops. However, considering the special problems of phasing, control, and protection of forces peculiar to an am-

phibious operation and the necessity for logistic resupply and reinforcement lift capacity, it is estimated that a Chinese Communist initial assault force would be limited to 75,000-100,000 troops.

91. *Nuclear capabilities.* We have no evidence that Communist China possesses any nuclear weapons, and it has only a primitive nuclear research capability. However, if the USSR were to provide the necessary equipment and technicians, the Chinese Communists could in a short time achieve the capability to use nuclear weapons. A recent Soviet pledge to supply a 6,500 kilowatt nuclear reactor, a laboratory for handling radioactive materials, and an unspecified number of 25 Mev cyclotrons to Communist China in the next few years and to train Chinese Communist atomic scientists could, if carried out, lead to a small Chinese Communist nuclear research program by 1960. This aid appears to be of most use in such fields as medicine and biology, and additional Soviet assistance of a different nature and on a scale much larger than announced would be required to initiate a nuclear weapons or power program.

### Communist China in 1960

92. Through 1960, the Chinese Communist economy, barring such unforeseen contingencies as a major war or a series of natural disasters, will probably have continued to expand, although at a lower rate than during the first Five Year Plan. The bulk of modern industry will probably be state-owned and most peasants will be in some form of cooperative. From 1952-1960 Communist China will probably have about tripled its electric power output, more than doubled its coal production, and increased the value of its machine industry some two and one-half times. However, even with these substantial increases, Communist China's industrial base will remain small. Crude steel production probably will not be more than 5 million tons, or some 2.8 million tons below Japan's 1954 level.<sup>6</sup> Its estimated electric power output of about 21 billion KWH will be 39 billion KWH below the 1954 Japanese output. Moreover,

<sup>6</sup> See note to table on page 12.

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at best the rate of increase of agricultural production will only approximate the growth of population. Under these circumstances, the regime will continue to have great difficulty in meeting its increasing investment and export requirements. Finally, continued dependence on the sources outside Communist China for a wide range of complex industrial items and a shortage of skilled technicians will complicate planned economic developments.

93. The Chinese Communists will have greatly increased their military capabilities. Against indigenous military forces, Peiping will remain capable of overrunning South Korea, Taiwan and the offshore islands, and mainland Southeast Asia. However, Communist China will still suffer from military weaknesses, particularly air defense deficiencies and lack of an adequate indigenous armaments base. Chinese Communist dependence on the USSR for vehicles, POL, and almost all complex military equipment will continue through 1960. Communist China will probably be self-sufficient only in light weapons and individual equipment.

94. The control system will be under increasing pressure. In particular, increased demands for food will conflict with the regime's program to develop large reserves and to increase exports of foodstuffs and the acreage devoted to industrial crops. Although the regime might make some modifications of its investment program in the event of a series of bad crop years to increase the availability of consumption goods, it probably would not make major concessions. Its control mechanism will probably be adequate to enforce progress toward its economic goals, but the regime will probably have to resort to purges and to terror, particularly against the peasants. Popular support for the regime is likely to decline further among peasants and intellectuals, and the party itself may lose much of the esprit that characterized the revolutionary period.

## II. SINO-SOVIET RELATIONS

95. During the past five years the relationship between Communist China and the USSR has

become a concert of interest and action in which a substantial degree of mutual dependence has developed. The two allies are linked not only by ideological bonds, but by common hostility to the US, by a military interdependence involving Communist China's manpower and strategic location and the USSR's industrial and technical capabilities, and by the mutual advantages of concerted diplomatic and "revolutionary" activities. While we believe that policies of mutual concern are mutually determined, Peiping's dependence on Moscow for arms, industrial resources, and technical assistance will cause it to continue to give Moscow's views great weight on major questions of global policy. But Peiping's tactical position in many areas probably gives it considerable potential for influencing Moscow.

96. From the beginning, the Chinese Communist regime escaped Satellite status both because of the size and remoteness of China and because the regime rose to power primarily through its own efforts. The Communist Chinese role in the Korean War gave Communist China additional bargaining strength in dealing with the USSR.

97. Since late 1950 Soviet writers have accorded Mao special honor for his contributions to the "treasury of Marxism-Leninism" in the field of strategy and tactics for revolutions in "colonial and semicolonial" countries. There were indications in the late summer of 1954 of unusual Soviet solicitousness towards the Chinese Communists in Malenkov's public reference to the "new situation in Asia" created by the emergence of Communist China, and in the unprecedented visit to Peiping of Khrushchev and Bulganin. Communist China's stature in the Bloc was further enhanced by Molotov's subsequent reference in February 1955 to the "world camp of socialism and democracy" as "headed by the USSR — or more correctly said — headed by the Soviet Union and the Chinese People's Republic."

98. Traditional Sino-Russian territorial rivalries along their 1,400-mile common border are a potential source of friction between the allies. Since the 18th century, China has regarded Tannu Tuva and Outer Mongolia as Chinese territory. Although the Chinese Com-

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munists now appear to have accepted Soviet control of these areas, they may still be apprehensive about Soviet influence in Sinkiang and possibly about the recent Soviet interest in developing previously neglected regions adjacent to Sinkiang and Manchuria. However, the well-publicized Soviet withdrawal from Dairen and Port Arthur indicates that the Soviet leadership has taken steps to reduce Chinese Communist sensitivity in the border areas.

99. Sino-Soviet economic relations are another area of potential friction. There have probably been disagreements over the level of Soviet aid to Communist China's industrialization, and the Chinese Communists have almost certainly pressed for much greater aid than the USSR is willing to grant.

100. Although there is no evidence of serious friction or lack of coordination in Chinese Communist and Soviet relations with other Communist parties in Asia, there is a latent possibility of strains developing in these relations. In North Korea the Chinese Communists increased their influence during the Korean War, but Soviet-trained figures still hold the most important positions. In North Vietnam, geographic proximity has fostered Chinese Communist influence, and the volume of Chinese Communist propaganda support and projected aid exceeds that of the USSR. Chinese Communist influence on Japanese Communism may also have increased with the recent return of some Japanese Communist leaders from Communist China. The Chinese Communists apparently control the Malayan Communist Party, but their influence on the Indonesian Communist Party may be offset by long established channels leading to Moscow.

101. The intensity of the "liberate Taiwan" movement in Communist China on a number of occasions may have created apprehensions among Soviet leaders. Chinese Communist willingness since the Bandung Conference to use diplomatic tactics to further their objectives in Taiwan probably indicates that this possible difference of emphasis is not now a serious source of Sino-Soviet friction.

102. During the period of this estimate, Communist China's power and its potential for pursuing courses of action which could conflict with Soviet interests or desires will probably increase. Communist China will probably exert an increasing influence on Asian opinion independent of that exercised by the USSR. The growth in Chinese Communist prestige might encourage some Chinese Communist leaders to attempt to extend Chinese influence over other Asian Communist parties beyond the point desired by the USSR. However, no major differences of interest in Asia seem likely to develop during the period of this estimate.

103. For a considerable time to come mutual advantage, the existence of common enemies, and a single ideology will almost certainly prevail over lesser considerations to preserve close Sino-Soviet ties which will probably continue to be relatively impervious to outside manipulation. Peiping probably believes that its alliance with the USSR prevented UN forces from broadening the Korean War and restrains the US from action against the mainland. The Chinese Communists will almost certainly feel the need for continued protection until their own power in the Far East is much further developed.

104. Therefore, at least through 1960, Peiping will almost certainly adhere to the alliance. A lessening of East-West tensions would probably not significantly affect Peiping's estimate of the continued need for the alliance, and might ease pressure in Sino-Soviet economic and military negotiations. A heightening of tensions could create new problems for the alliance, but would strengthen Peiping's desire for solidarity, unless the USSR proved unwilling to insure the security of the Peiping regime.

### III. PROBABLE CHINESE COMMUNIST COURSES OF ACTION IN ASIA

105. In pursuit of its basic foreign policy aims, Peiping will, during the next five years, probably concentrate on eliminating the Nationalist government and gaining control of all Nationalist-held territory, eliminating Western (and especially US) influence and power in Asia, extending its own influence in the

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area, and achieving acceptance as the legitimate government of China. The Chinese Communists probably believe that time is on their side. This conviction is based on a belief both in the ultimate victory of the world Communist movement and in the power of China under strong central government. Leninist doctrine and their own interpretation of recent events have probably convinced them that flexibility and even tactical retreats will not seriously compromise their long term prospects.

### The Chinese Communist Estimate of the Situation

106. The primary factor in determining the manner in which Peiping will pursue its foreign policy objectives is its estimate of probable US actions and reactions. It probably considers the ultimate US objective in Asia to be the elimination of the Chinese Communist regime, but probably estimates that the US does not intend, unprovoked, to attack Communist China within the next several years.

107. Peiping almost certainly estimates that open aggression on its part against either Taiwan or the ROK would lead to strong US counteraction, probably including action against mainland China and possibly including the use of nuclear weapons. It probably further estimates that an overt Chinese Communist attack on any other non-Communist Asian state would also entail risk of US military counteraction against the China mainland. It probably also estimates that an overt attack by the Viet Minh against any of the Indochinese states might result in at least local US military reaction, with such reaction particularly likely in the case of South Vietnam. The Chinese Communists probably also estimate that US military capabilities for the concentration and effective application of force in the areas of Korea, Taiwan, Indochina, and even the China mainland are still superior to their own. However, there almost certainly remain twilight areas in which they are uncertain as to the intention or the ability of the US to react, as in the event of attacks on the Nationalist offshore islands or intensified subversive efforts in non-Communist states.

108. Moreover, the Chinese Communists probably estimate that they have certain advantages over the US in any primarily political struggle in Asia. They almost certainly believe that the prestige of Communist China in Asia will increase along with the military and economic strength of their regime. They probably estimate that the indigenous Communist parties and, to a lesser extent, the 12,000,000 overseas Chinese in Southeast Asia provide them with unique instruments for undermining non-Communist governments. In their view differences among the non-Communist powers on Asian policy will make it difficult for the US to take effective measures against Communist expansion conducted through measures short of overt aggression. Moreover, they probably estimate that anti-colonial, neutralist, and nationalist sentiment will continue to aid their efforts to discredit US motives in Asia. They probably also estimate that American diplomacy is complicated by commitments in other areas and by external and internal political pressures which make it less flexible than their own.

109. At the same time, the Chinese Communists may recognize that serious obstacles exist to the extension of their power: (a) in most non-Communist states in Asia, nationalism is the dominant force and most leaders of these states recognize the threat of a domestic Communist movement to their independence; (b) despite occasional well-publicized offers of technical and material aid, Chinese Communist capital resources are insufficient to help these countries gratify their desires for industrial development; and (c) less importantly, in several of these same countries, the influential local Chinese community is still regarded with envy and suspicion.

110. The Chinese Communists are probably not as concerned with the present strength of SEATO as with the future possibility of an expanded and strengthened anti-Communist bloc in Asia. Their apprehensions on this score probably center on Japan, in their view the only Asian power which might significantly augment anti-Communist power in Asia during the period of this estimate. The Chinese Communists probably also view India

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as a rival for Asian leadership. They probably also estimate that India would resent a substantial extension of Communist influence in South and Southeast Asia and be alienated by overt Chinese Communist aggression in these areas. Peiping apparently feels that an attitude of outward respect for the positions of Japan, India, and other Asian powers will encourage their passivity and a tendency to think in terms of Asian solidarity. It appears to believe that such ostentatious maneuvers as mutual declarations of fealty to "the five principles"<sup>7</sup> are likely to help allay Asian distrust of Peiping's motives.

111. In Communist China's view the probable basic hostility of France, the Netherlands, Portugal, and probably even the UK is unlikely to be effectively manifested because of their political and military weaknesses and, to a lesser degree, because of their desire for trade with Communist China. Chinese Communist hostility to these countries has therefore been subordinated to hostility to the US. The Chinese Communist regime probably estimates that so long as it exercises restraint toward these countries, they can be of considerable value to it, both in trade and in inducing the US to modify its policies in the Far East.

### Main Lines of Chinese Communist Foreign Policy

112. During the period of this estimate, Peiping will almost certainly wish to avoid serious military involvement with the US. For this

<sup>7</sup> The "five principles," first subscribed to by Chou and Nehru in April 1954 as the general principles governing Sino-Indian relations, were defined as "mutual respect for each other's territorial integrity and sovereignty, nonaggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence." Although reportedly inserted at Nehru's insistence, the principles are standard Communist cliches, closely resembling those used in Soviet treaties both with Nationalist China in 1945 and with Communist China in 1950. Since mid-1954, the principles have been major slogans of Peking diplomacy and have been subscribed to by U Nu of Burma and Ali Sastroamidjojo of Indonesia in joint communiqués with Chou as well as by Ho Chi Minh and the USSR.

reason, we believe that Peiping is unlikely to initiate open hostilities with its own forces, except perhaps against the offshore islands. Peiping probably would also be unlikely to encourage the North Koreans or the Viet Minh to undertake large-scale military action because it would probably estimate that such action could not be carried out without ultimate large-scale involvement of Communist China with the US. However, during the period Peiping will probably encourage expanded guerrilla activity in Indochina. Although Peiping will probably continue to sanction other guerrilla movements now in existence it is unlikely, at least in the early part of the period, to provide the support necessary for large-scale expansion of these activities.

113. Although the Communists may again resort to military action whenever they estimate that the benefits will outweigh the military disadvantages of such action, Peiping will continue to pursue policies emphasizing political rather than military action as long as its objectives are acceptably served by this means. The major factor in this consideration will be their estimate of the risk of US military counteraction; thus Communist China will probably emphasize political action over the next two or three years. In collaboration with the USSR, Communist China will pursue a policy of "competitive coexistence with the capitalist bloc." The Chinese Communists will endeavor to have their approach to international problems characterized as conciliatory and flexible, but joint Sino-Soviet policy will in fact permit no major concessions to the West. Moreover, both parties may feel that the development of occasional crisis situations would weaken the diplomatic position of the US and strengthen neutralism, without seriously prejudicing their own "coexistence" posture. Communist China will also be under some pressure, more so than the USSR, to manufacture crises in its external affairs to provide a pretext for imposing new production and austerity drives at home. For these reasons, we believe that although Peiping will continue to profess support for the "five principles" there will be times when it will assert its power ostentatiously, but within the gen-

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eral limits of Bloc strategy, in order to reaffirm its particular claims and pretensions.

114. By 1960, if Communist China follows a course of political rather than military action, most non-Communist countries will probably have recognized Peiping and established normal economic relations with Communist China, and it will probably have been accepted into the community of nations as the major Asian power. In this situation, its position in the Sino-Soviet Bloc will have been enhanced and the Chinese Communists will probably have a greater degree of flexibility in their relationship with the Soviet Union.

115. Peiping's diplomatic activities on behalf of the Bloc policy of "competitive coexistence" will be concentrated in Asia and the Middle East, where there is a disposition to accept Communist China as a "former victim of imperialist and capitalist oppression." Communist China's role in this effort will be to play up to neutralist and nationalist sentiment in Asia; to manipulate the Indochina and Taiwan issues to divide the West; and to exploit vulnerable aspects of intra-Asian relations such as ROK-Japanese and Indian-Pakistani tensions. The Chinese Communists will almost certainly continue their efforts to discredit US actions and motives throughout Asia, insisting that US policy is disguised colonialism and is directed toward a war in which "Asians will be used to fight Asians." In particular, they will attempt to frustrate US efforts to develop a basis for military cooperation among free Asian states. Peiping will emphasize the advantages of technical and economic assistance from Communist countries as well as "mutual self-help" among underdeveloped countries. They will also seek a reduction in Western military, commercial, and other privileges in the area. Chinese Communist propaganda on these themes will seek primarily to keep anti-Communist Asians on the defensive over the issues of "colonialism" while the base for future Communist advances is strengthened. Communist China will encourage wherever possible the formation of popular-front type governments in which the Communist influence would be significant and the Chinese Communist pattern

of anticolonial "people's democracy" studied and admired. While to the US Peiping policy may appear uncompromising, to many Asian states it may appear conciliatory and flexible.

116. The possibility of a Communist-initiated war in the Taiwan Straits, Vietnam, Laos, and even Korea will continue to exist. Moreover, Peiping would almost certainly react with force if Communist control of North Korea or North Vietnam were seriously threatened. They would almost certainly retaliate to any sharp increase in the level of Nationalist attacks against the mainland.

### Specific Courses of Action

117. *Taiwan.* Peiping is committed to the "liberation" of all Nationalist-held territory, and defines the Taiwan issue as an internal one in which foreign interference will not be tolerated. For the period of this estimate, however, Chinese Communist courses of action toward the offshore islands and Taiwan will be determined largely by their estimate of US reactions.

118. Since the Bandung Conference in April 1955, the Chinese Communists have attempted to advance their claims to Nationalist-held territories more by diplomacy than by military action. However, Peiping has emphasized that its current willingness to take over Taiwan "peacefully, if possible," should not be interpreted as an abandonment of its basic objective. Chinese Communist efforts will be concentrated on reducing morale within the Chinese National government and within the mainland Chinese community on Taiwan, in the expectation that Nationalist leaders may ultimately be induced to negotiate with Peiping over Taiwan's assimilation into Communist China. The Chinese Communists will also continue trying to force US agreement to a bilateral or multilateral conference, at which their object would be to induce the removal of US military protection from Taiwan.

119. The Chinese Communists will probably continue their buildup in the area opposite Taiwan and the offshore islands in order to increase pressure on the US and to weaken morale on Taiwan. While the Chinese Com-

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munists probably do not intend to attack Taiwan so long as the US maintains its commitments to the Nationalists, they will almost certainly conduct probing operations against the offshore islands. If the Chinese became convinced that the US would not assist in the defense of these islands with its own forces, they probably would attempt to seize them. Should Peiping's forces successfully occupy the Nationalist-held offshore islands without incurring US military retaliation, there would be an intensification of the campaign to obtain Taiwan.

120. *Indochina.* We believe that the immediate Chinese Communist objective in Indochina was secured at Geneva when the Viet Minh were granted full control of North Vietnam. Peiping may have believed that it also received an implied commitment for the delivery of South Vietnam in July 1956, and that in any event conditions had been created which would make it difficult for the US to intervene. However, we believe that the Chinese Communists now estimate that the US would make a strong effort to frustrate an extension of Communist control to the south.

121. In conjunction with the Hanoi regime, Peiping will continue its efforts to expand Communist influence and control in South Vietnam. Through coercion, subversion, and propaganda the two Communist regimes will attempt to discredit and undermine the authority of the Diem government, and to embarrass that government and the US on the question of nationwide elections. In addition, the Chinese Communists will continue diplomatic efforts to isolate the Diem government from the Western nations and the Asian neutrals. Even if the Viet Minh are delayed in achieving a settlement, by elections or otherwise, favorable to the extension of their control over all of Vietnam, the Chinese Communists probably will not encourage the Viet Minh to renew open hostilities. However, at some point they probably will encourage increased Viet Minh guerrilla activity in South Vietnam. Their actions beyond that phase would probably depend on the effectiveness of Diem's counteraction and the response of the US and the SEATO powers.

122. In Cambodia and Laos, the Chinese Communists will combine pressure and inducements to encourage neutralist sentiment, to weaken ties with the West, and to stimulate subversion of the free governments. We believe that if the Pathet Lao position were threatened by Royal Government action, Peiping would encourage the Viet Minh to assist the Pathet Lao to the extent necessary to preserve the Pathet position. It is less likely that the Chinese Communists will encourage the Pathet Lao to undertake aggressive military action outside of their present groupment area, at least while the International Control Commission remains in being and in the absence of greater evidence of popular support for the Pathet Lao within Laos. Should South Vietnam fall to the Viet Minh, Communist support for subversion and paramilitary operations in Laos and Cambodia would almost certainly be increased.

123. *Korea.* The Chinese Communists, in common with the USSR, hope to secure a withdrawal of UN forces from Korea and a reduction of US influence there and eventually to subvert the ROK. As a means of putting pressure on the US to withdraw its troops, the Bloc will probably urge new negotiations on unification and "relaxation of tensions." To further this end, there may be additional withdrawals of Chinese Communist forces. The Communists will almost certainly refuse any settlement in Korea which endangers Communist control of North Korea or fails to offer better prospects than at present for eventual Communist control of all Korea.

124. *Japan.* Communist China seeks to forestall the re-emergence of Japan as a major military and political power in Asia and, in the short run, to weaken Japan's links with the US by exploiting US-Japanese policy difference. Peiping's tactics will probably continue to rely upon the manipulation of domestic opposition to the policies of the Japanese conservatives, the inducements of Sino-Japanese trade, and the application of direct pressures upon the Japanese government. Communist China will probably be able to increase semiofficial contact with Japan through trade and cultural missions and will probably step up its campaign to normalize relations.

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125. Communist China will probably continue to support the current line of the Japanese Communist Party in avoiding acts of violence and working for a popular front. However, should any Japanese government undertake an extensive rearmament program or reverse the present policy of permitting the expansion of unofficial relations with Peiping, Communist China might publicly revert to the position that Japan is a major threat to peace and launch a campaign of threats and intimidation designed to reinforce leftist opposition within Japan.

126. *India.* Although Communist China almost certainly regards India as a rival, it will, at least during the next two or three years, probably seek to encourage India's present neutralist stand, which has furthered the aims of Sino-Soviet diplomacy by bolstering neutralist sentiment generally throughout Asia and the Middle East. Thus, Communist China will stress those interests it shares with India, and will probably keep its attempts to expand its influence in the Indo-Tibetan border area just short of the point where the Indian government's antagonism could no longer be concealed.

127. *Burma.* In the next two or three years it will probably be Peiping's minimum objective to prevent Burma from abandoning its present neutral position. Beyond that, Communist China will be working to distort Burma's neutrality, by encouraging tighter Burmese bonds with Communist nations. The threat of its military power will continue to reinforce Communist China's diplomatic campaign emphasizing offers of friendship and peaceful cooperation. Peiping will almost certainly attempt to exploit Burma's financial

and economic problems to bring about closer Burmese-Chinese Communist ties. Moreover, the Chinese Communists will retain their capabilities for subverting the minority peoples along Burma's eastern frontier.

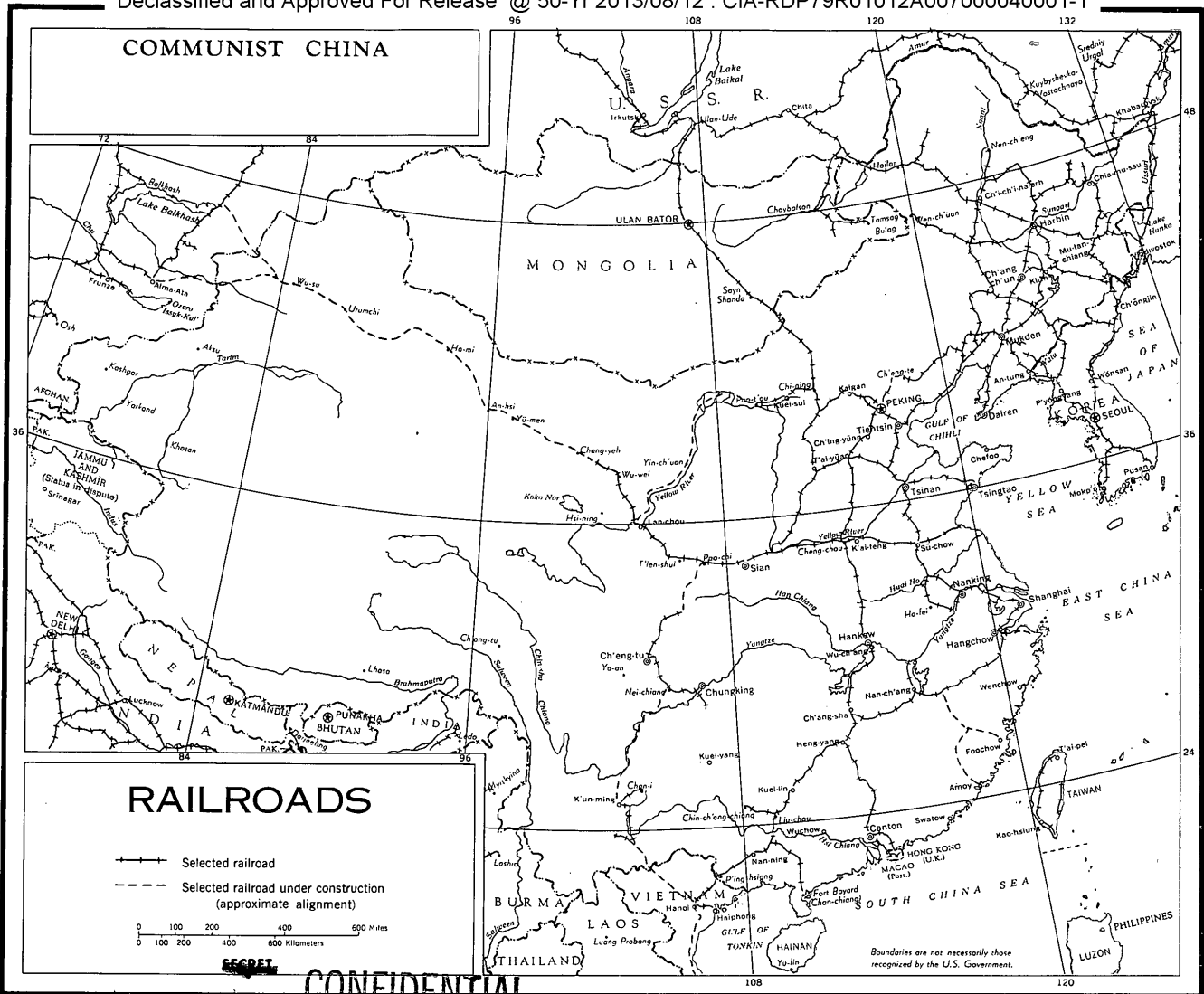
128. *Indonesia.* The Indonesian Communist Party (PKI) is the strongest indigenous Communist party in non-Communist Asia and the Chinese Communists probably estimate that its capabilities will continue to be maximized by emphasizing a "peaceful" attitude toward the Indonesian government. Communist China will probably continue its efforts to enhance the chances of PKI participation in a national front government by itself appearing to support Indonesian nationalist objectives. Even if the PKI were excluded from the new government which will come into office in the spring of 1956, the Indonesian Communists would probably be encouraged by the Chinese Communists to continue working for a popular front primarily by penetration, propaganda, and organizational work.

129. *Malaya.* Communist China probably hopes, by encouraging Malayan nationalism, to force a British withdrawal from Malaya under conditions that would increase local Communist prestige. Peiping probably estimates that its capability to achieve this end is enhanced by the continued colonial status of the area, and in Singapore by the predominant overseas Chinese population. Peiping will almost certainly continue to encourage Malayan Communists to work for popular front governments, to extend control over Chinese youth and the labor movement, and to maintain their guerrilla organization.

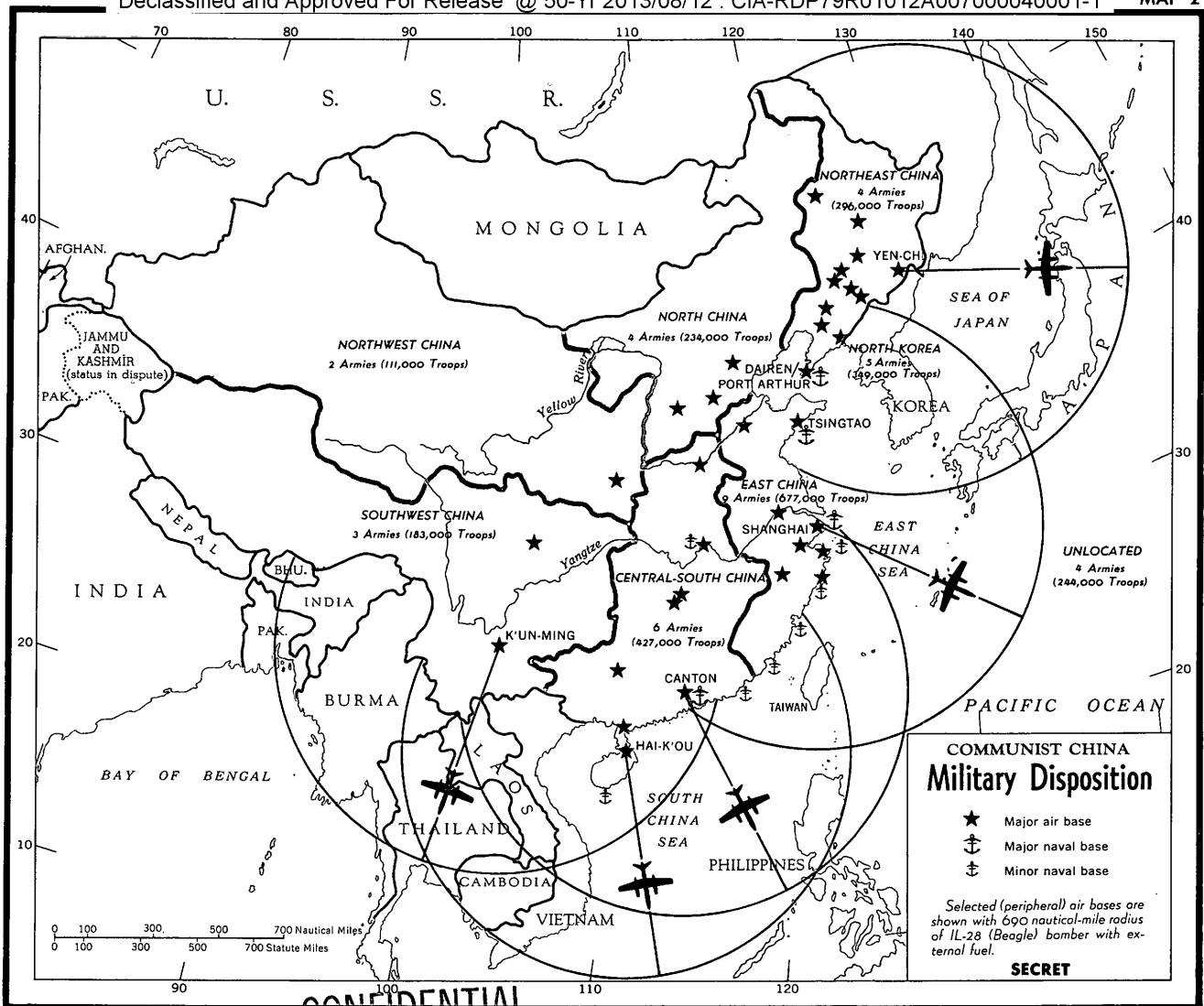
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