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Memorandums in Support of Former President Nixon's Trip to China

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August 1979

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CONTENTS

People's Republic of China: New Pinyin Romanization

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Province-level Names

Conventional	Characters	Pinyin	Pronunciation	Conventional	Characters	Pinyin	Pronunciation
Anhwei	安徽	Anhui	ahn - way	Kweichow	贵州	Guizhou	g_way - joe
Chekiang	浙江	Zhejiang	juh - jee_ong	Liaoning	辽宁	Liaoning	lee_ow - ning
Fukien	福建	Fujian	foo - jee_en	Ningsia	宁夏	Ningxia	ning - she_ah
Heilungkiang	黑龙江	Heilongjiang	hay - loong - jee_ong	Peking	北京	Beijing	bay - jing
Honan	河南	Henan	huh - non	Shanghai	上海	Shanghai	shong - hi
Hopeh	河北	Hebei	huh - bay	Shansi	山西	Shanxi	shahn - she
Hunan	湖南	Hunan	hoo - nan	Shantung	山东	Shandong	shahn - doong
Hupeh	湖北	Hubei	hoo - bay	Shensi	陕西	Shaanxi	shun - she
Inner Mongolia	内蒙古	Nei Monggol	nay - mung - goo	Sinkiang	新疆	Xinjiang	shin - jee_ong
Kansu	甘肃	Gansu	gahn - soo	Szechwan	四川	Sichuan	ssu - ch_wan
Kiangsi	江西	Jiangxi	jee_ong - she	Tibet	西藏	Xizang	she - dzong
Kiangsu	江苏	Jiangsu	jee_ong - su	Tientsin	天津	Tianjin	te_en - jin
Kirin	吉林	Jilin	jee - lynn	Tsinghai	青海	Qinghai	ching - hi
Kwangsi	广西	Guangxi	g_wong - she	Yunnan	云南	Yunnan	yu_oon - nan
Kwangtung	广东	Guangdong	g_wong - doong				

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CHINA: DOMESTIC POLITICAL OVERVIEW

Executive Summary

The post-Mao era in Chinese politics has seen a major change in the way Chinese leaders handle their personal and political rivalries and the effect these political problems have on the country at large. Gone is the extreme polarization of the late 1960s and early 1970s when leftists, whose primary concern was political struggle, and rightists, whose preoccupation was the problem of nation building, clashed repeatedly. In this earlier period, policies were put into practice with great fanfare and then suddenly shelved; political leaders wielded enormous power and then lost their jobs.

Today, there are several leading officials who together form the decisionmaking core. While they differ sharply over how to carry out some policies, they are in general agreement on the broad outlines of China's priorities and policies. Consequently, a basic policy to embark on economic modernization remains fixed despite disputes over concrete measures to take. Policies have been scaled down, redirected, or otherwise modified but not reversed. This is true of even such contentious policies as the desanctification of Mao Zedong and the promotion of "democratic" activity.

Many officials in the leadership do not work well together, but the emphasis is on limiting an opponent's influence rather than removing him from office. Leaders

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who rose to power during the disruptive Cultural Revolution--as well as Deng Xiaoping, a chief victim of that era--are all potential troublemakers who have suffered some reduction in their status. 25X1

Deng has weathered severe criticism that has diminished somewhat his once-preeminent influence. Other leaders, who have assumed larger roles, have moved to adjust the more controversial aspects of his policies. This process has actually made his policies more durable because they are now more acceptable to a wider constituency. 25X1

The diffusion of influence within the leadership has resulted in greater political power for leading economic specialists who are responsible for the less ambitious modernization program. Senior victims of the Cultural Revolution other than Deng have also seen their fortunes rise, as has party Chairman Hua Guofeng. 25X1

Introduction

Political life in China has undergone a major transformation since the deaths in 1976 of China's two political giants, Mao Zedong and Zhou Enlai. Although the loss of these men was neither sudden nor surprising, Chinese political leaders were ill prepared for the consequences. Zhou's death was followed by a marked upsurge in disruptive political maneuvering by the so-called Gang of Four, extremists headed by Mao's wife who had little interest in the nuts and bolts of running a country but enormous concern with the political reliability of people in all walks of life. Zhou's chosen successor as Premier, the abrasive but able and popular Deng Xiaoping, was ousted from the leadership in early 1976 and his many supporters were in danger of losing their political lives. 25X1

This period of heightened political tension came to an abrupt end with Mao's death in September 1976 and the summary arrest a month later of the Gang of Four. The arrest brought to a close more than 10 years of extreme polarization in the leadership and was greeted with national euphoria. It left the remaining leaders, however, somewhat uncertain about how to apportion power among themselves, what to do first to repair the damage

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of more than a decade of instability, and what longer term goals to set. Mao's successor, Hua Guofeng, had been moved into position during Mao's lifetime, and his promotion was perhaps the easiest decision of the immediate post-Mao period. But the 56-year-old Hua was an unknown quantity to most older leaders and to the nation at large; no one else in the leadership was vigorous enough or prestigious enough to seize the reins, and there was a growing feeling that China needed the firm and familiar hand of Deng Xiaoping at the helm.

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Deng's return in July 1977 had significant political consequences. It marked the end of this "collective"-leadership-by-default as Deng worked, ultimately with mixed success, to become the dominant force. It halted the drift in decisionmaking as the determined and decisive Deng quickly outlined sweeping policy changes aimed at vaulting China into the modern industrialized world by the end of the century. Moreover, it ushered in a new kind of political struggle among leaders who are not necessarily on opposite ends of the political spectrum and do not disagree significantly over what China's general goals should be, but who have major differences over how to achieve them.

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The Combatants

There are roughly two main lines of argument over how to build the nation. One, advocated by Deng and his followers, demands a detailed and lengthy indictment of past policies and political officials associated with them. This would entail a thorough condemnation of Mao, of the disastrous Cultural Revolution of the mid-1960s, and of the xenophobic, often impractical and highly politicized decisions of the past. It would also involve the removal of many officials--possibly including Hua himself--who made their names during that time.

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Deng's group believes that this approach is the only way to ensure that his pragmatic policies are not waylaid in the future by those who remain committed to the principles of the Cultural Revolution--the supremacy of political reliability over technical expertise, the corrosive effect of material rather than ideological incentives, a distrust of foreigners and foreign practices and of intellectuals and any other

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group not necessarily wedded to the tenets of Communist ideology. Deng seems to believe that only by condemning the past can an atmosphere be created in which people will feel free to experiment boldly with new techniques and policies in order to further the primary goal of modernizing the economy. 25X1

Deng's opponents, including but by no means restricted to Hua, fear the disruptive effects of so sharp a break with the past. They put a premium on political stability now as the only hope for creating an environment conducive to steady economic growth. A purge of the few top officials and the many middle and lower level officials who were promoted during the Cultural Revolution, they believe, would paralyze people with fear and prevent them from taking any initiatives in the economic sphere. A denunciation of Mao and of the recent past would have a destabilizing effect, casting doubt on the legitimacy of all of the late Chairman's policies, including his selection of Hua as his successor, and creating confusion about the legitimacy of the Communist revolution itself. 25X1

This group recognizes, as Deng does, the residual influence of the Cultural Revolution and all it represented. Unlike Deng, it wants to enlist the support of the true believers of the Cultural Revolution by allowing them another chance, by not calling into question everything they believe in, and indeed by acknowledging that some policies of that era were correct. 25X1

The shifts in policy in the two years since Deng's return have occurred when one or the other group held sway. Significantly, these were not the sharp twists and turns of the last decade, when leaders were in fundamental disagreement over the direction of policies, but were modifications, adjustments, matters of degree. The wisdom of trying to modernize the economy has not been at issue, nor has a greater involvement of the outside world in order to achieve modernization. But even over the relatively narrow issue of how to implement a particular policy, or how far to push it, the Chinese leadership, with its penchant for internecine struggle, has found much to argue over. If this has not resulted in policy changes or the ouster of individual leaders, it has caused modifications of policies and the reduction of the political power of several leaders. 25X1

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Deng on the March

From the time of his return, Deng moved quickly to put his personal stamp on Chinese policies. At no point was he without opposition, but he advanced on so many fronts in ways that captured a good deal of public and official support that he enjoyed enormous success. At the same time, however, the boldness of his initiatives and his refusal to accommodate even the slightest criticism of his policies sowed the seeds of stiffer, more successful opposition down the road. 25X1

The economic modernization program is not Deng's alone and was in fact first announced by Zhou Enlai in 1964. Many of the specifics of the program, however, as outlined in 1977-78, were distinctively Deng's. These included turning to the outside world for help to a degree probably well beyond what Zhou Enlai had in mind. Deng seemed willing to go much further than other Chinese officials in accepting foreign loans, entering into joint ventures and concessionary arrangements, inviting foreign technicians to train Chinese technicians in China, and sending thousands of scientists and students abroad to do research and to study. Deng won the support of workers with a long-awaited pay raise and secured the loyalty of intellectuals when he stood Maoist orthodoxy on its head by proclaiming that intellectuals are part of the laboring class and therefore not politically suspect. Scientists commanded Deng's particular attention and were cheered by his personal pledge to allow them to do research unencumbered by party politics. 25X1

Other policies even more basic to Deng's vision of a rapidly modernizing China drew less applause and in some cases sent shock waves throughout Chinese officialdom. A gradual effort to dismantle the Mao legacy took a dramatic step forward last March with a public denunciation of the last 18 years of Mao's life. De-Maoization inevitably cast aspersions on Mao's chosen heir, Hua Guofeng, who came under more direct attack than at any time since he rose to the party chairmanship. 25X1

Deng's emphasis on discarding Maoist thinking and finding new solutions to new problems spawned opposition among Mao's personal disciples, who feared that a

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wholesale denigration of Mao's precepts would undermine their political positions. Public repudiations of specific incidents during the Cultural Revolution were discomfiting to survivors of that period and threatened to revive bitter feuds. Deng launched a major campaign aimed clearly at removing from office some senior officials with whom he had personal and policy differences in the past, while moving trusted lieutenants into key party, government, and military posts. And he personally endorsed a relaxation of political controls on the populace to encourage open discussion of China's policies and leaders and even its system of government.

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The Retrenchment

Early this year, the political opposition engendered by Deng's programs, the apparent or prospective failure of some of them, and the unacceptable consequences of others combined to force Deng to retreat. The excesses of the economic program were trimmed, Deng's reevaluation of the Maoist past came to a sudden stop, "democracy" was assailed as anarchic, and Deng's political opponents became more active. Deng's own political standing reached its lowest point this spring when he was more heavily criticized than at any time since he returned to office.

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The leadership, guided by senior economic specialists, took a hard look at the specifics of the economic modernization program and concluded it was unrealistic. In its rush to buy foreign plants and technology, to send people abroad for training, to engage in capital construction at home, and to expose middle-level officials to the Western world, China was spending more money than it could afford. None of these programs have been scrapped, but they have all been scaled down and implemented more selectively. Goals deemed unrealistically high were reset at levels still ambitious but more likely within reach; priorities were redirected away from heavy industry and back toward agriculture.

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Deng admitted that he was criticized for the modernization program. As he himself claimed, he was not the only leader to be blamed, but he unquestionably created a climate that allowed if not encouraged China to overextend itself. His highly publicized trips to

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the United States and Japan, shown to a Chinese audience in part to enhance his political image, probably caused him additional problems. The material benefits of these countries, displayed to Chinese viewers in some detail, undoubtedly fueled the spiral of rising expectations that had been set in train when the modernization program was first unveiled. It was left to the more sober-minded economic specialists in the leadership to dampen these expectations. [redacted] 25X1

Deng's policies in the political and social arenas got him into even more hot water. He was privately criticized for promoting de-Maoization; his emphasis on a flexible, pragmatic approach to problem solving and his concurrent deemphasis on the rote application of orthodox Communist solutions--summed up in the slogans "seeking truth from facts" and "practice is the sole criterion for testing truth"--were severely attacked for undermining the sanctity of Mao's thought. The criticism of these slogans in particular enabled the so-called whatever faction--composed of political extremists who have tried to preserve whatever Mao said or did as beyond question--to reassert itself. [redacted] 25X1

Perhaps most damaging for Deng, because it raised questions about his judgment, was the disintegration of the "democracy" movement into social disorder. Chinese tolerance was stretched to the breaking point when people left their places of work to petition for a redress of personal grievances or disrupted production by striking for better living conditions. Even more appalling for the straitlaced Chinese was the activity of young people, who engaged in gambling and promiscuous behavior. The calls for human rights and the direct appeals to foreign leaders to help secure them were embarrassing for the Chinese and more than anything else precipitated the crackdown on "democracy". Ringleaders were arrested, and restrictions were placed on the use of wall posters and the dissemination of unofficial publications. Deng, who had unleashed the "democracy" movement, issued the call to rein it in.

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Deng's Counterattack

In mid-May, Deng began to use the media to lash out at his critics and to reassert his favorite themes--the fallibility of Mao, the need for "democracy" as a prerequisite for economic modernization, and "seeking truth from facts" as an inviolate principle of Chinese Communism. He attacked as "leftists" those who claimed that the "democracy" movement had gone too far or who had opposed "seeking truth from facts" because it harmed Mao's image.

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Gradually, and probably somewhat grudgingly, these favorite themes of Deng's have won acceptance again in Chinese political life. This has not been an unqualified victory for Deng, however. He has had to temper his views to make them more acceptable to a broader range within the leadership. The fallibility of Mao, discussed less often now, is not treated in terms of specific mistakes he made and always includes an acknowledgment of his overall greatness. The defense of democracy is coupled with a definition of and warnings against such "excesses" as actions and statements derogating socialism. Deng has not been able to revive critical discussion of the Cultural Revolution.

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In the area of ideological reform, Deng has made no effort to tailor his views to suit a wider audience. He has mobilized an impressive array of influential officials to endorse publicly his pragmatic approach. The media readily admit, however, that ideological reform is still being discussed nationwide, and not all propaganda outlets have supported Deng on this issue.

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Although Deng has repeatedly been thwarted in his efforts to remove from the leadership those officials with whom he has crossed swords in the past, and in particular those who are trying to preserve the Mao legacy intact, he continues to chip away at their institutional bases of support. They retain seats, but apparently without specific portfolios, in the ruling councils of the party and government. At the National People's Congress, China's legislature that concluded a two-week session in early July, Deng's opponents were criticized for economic malfeasance as well as political error, but this criticism ultimately was muted and no specific steps were taken against the transgressors.

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The New Political Balance

The events surrounding the National People's Congress typify a somewhat changed political situation and a new look for the Chinese leadership. The congress focused on the revamped economic development program and gave pride of place to the economic specialists in the leadership. These men, led by party Vice Chairman and new economic czar Chen Yun, have emerged as a new interest group that is committed to economic modernization at a more measured pace than that set by Deng Xiaoping. The political power that has accrued to this group is evident in the new prominence of vice premier Li Xiannian, long the leadership's senior economic specialist, who seems to have inherited some of Deng's functions; Li, for example, has often filled Deng's usual role as host to high-ranking delegations from the United States.

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There is clearly a greater diffusion of influence within the leadership. In addition to the economic specialists, a number of newly rehabilitated victims of the Cultural Revolution played major roles at the congress and won important posts in the government. These men were senior political figures in the past and probably played a central role in current decision-making.

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Premier Hua Guofeng, too, is enjoying enhanced prominence. He gave the major address to the congress, in which he took the middle ground between the extremist views of Deng and those of Deng's chief detractors. The middle of the road, Hua's usual position, is also occupied by other leaders, especially the economic specialists. Hua therefore appeared to be speaking for a majority in the leadership. He cautiously embraced Deng's "seeking truth from facts" although he shied away from the bolder aspects of de-Maoization such as the fallibility of the man himself and a negative assessment of the Cultural Revolution. He gave qualified approval to "democratic" activity and emphasized the importance of "unity and stability" to the success of modernization, a notion Deng consistently has ignored in his desire to remove some leaders from office.

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The increasing prominence of other members of the leadership underscores Deng's own low profile. He played no role at the congress, the only major event since his return two years ago in which he failed to participate. He undoubtedly supported the congress's outline of a detailed legal code and procedures to give ordinary Chinese a greater sense of participation in their government. He probably also supported the new personnel appointments, but his own closest associates were not named to government positions.

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There apparently has been a deliberate effort to clip Deng's wings a bit to bring him more into line with the views of others in the leadership and to give other officials a more prominent role. Deng apparently will do no more foreign traveling, at least in an official capacity, a decision he revealed even as Hua's once-postponed trip to West Europe was rescheduled for this autumn. He also appears to have relinquished his position as Army Chief of Staff.

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Deng probably will have some difficulty adjusting to his new role, one that takes him down a few pegs from the perch he used to enjoy but that still leaves him as one of the most influential members of the leadership. He is not confronted with the bitter political rivals of the sort who overthrew him during the Cultural Revolution but with a group of men--many similar to him in age and experience--who share his basic policy concerns but do not necessarily approve of his methods.

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The adjustments to Deng's policies probably enhance the prospects for their survival. It is clear now that the unbridled enthusiasm Deng generated last year would have led to economic disaster had not cooler heads prevailed. Just as important, Deng's inclination to ride roughshod over his weaker opponents would have created rifts in the leadership as wide as those of the recent past.

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The compromises that China's leaders seem to have worked out in recent months do not eliminate the possibility of either economic or political upheavals in the future. Indeed turmoil seems very much in the cards when the current leaders, most of whom are in their seventies, pass from the scene. But for now, the chances for orderly progress toward rational goals have markedly improved.

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CHINESE FOREIGN POLICY: AN OVERVIEW

Executive Summary

During the past two years, China has continued to refine its strategy of maintaining the international status quo by resisting the expansion of Soviet influence. This strategy resulted from China's ideological and military conflict with the USSR that started in the late 1950s. It is based on China's sense of its own weakness and is consequently defensive, but this defensiveness does not diminish China's inherent sense of its own importance or its interest in projecting its influence abroad. A central aspect of this strategy is a political tilt toward the United States, Japan, and Europe designed to offset the Soviet threat to China while Beijing obtains Western credits, technology, and arms for its long-term self-strengthening programs. [redacted] 25X1

The deterioration of relations with Vietnam has complicated Beijing's planning by imposing increased defense costs, causing large numbers of refugees to flee to China, and inviting a stronger Soviet presence in Southeast Asia. China's invasion of Vietnam in February raised Sino-Soviet tensions to their highest point in a decade. [redacted] 25X1

Shortly thereafter, Beijing denounced the long-dormant 1950 Sino-Soviet Treaty. To achieve the tactical expedient of reducing the dangerously high level of tension in Sino-Soviet relations, however, Beijing paired its

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denunciation of the treaty with a new call for negotiations with Moscow. The talks that result are likely to be long and arduous. The initiative thus far has not produced any detectable lessening of tension along the Sino-Soviet border.

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Introduction

Basic to understanding Chinese foreign policy is an awareness of China's perception of threats to its survival. The Chinese have faced threats from menacing and often technologically superior enemies to the north for thousands of years. The Great Wall was the first, monumental effort to keep predatory nomads from swooping down on the agricultural population in the north China plain. In recent centuries the Chinese have also faced threats from the south and along the eastern coast. The Chinese usually dealt with these threats by aligning with the lesser danger to resist the greater.

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In the aftermath of World War II and the subsequent civil war, Beijing's hold on the country was still challenged by the Chinese Nationalists on Taiwan. The United States, then indisputably the mightiest power in the world, was seen backing the Nationalists' threat to return to the mainland. At the same time, the Soviet Union, ruled by ideologically like-minded people, was willing to assist the Chinese Communists consolidate their power and modernize their industry and military. Beijing therefore leaned toward Moscow.

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The Sino-Soviet alliance, formalized in a 1950 treaty, was China's insurance policy against the United States, Japan, and the Nationalists. Its importance to Beijing grew when the Korean war erupted and the United States was perceived as preparing to move against China once the Korean Peninsula had been pacified. The Sino-Soviet alliance grew increasingly strained, however, as the Chinese chafed under Soviet efforts to meddle in Chinese politics and to dictate the ideological line.

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The Sino-Soviet Rift

By the late 1950s, the breach in Sino-Soviet relations was widening rapidly. The Soviets abruptly halted their assistance programs and demanded repayment despite

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the hard times in China following the failure of Mao's social experiments. This bitter experience intensified Chinese resentment, reducing Sino-Soviet relations to near nonexistence. 25X1

The foreign policy consequences of China's Great Proletarian Cultural Revolution (1966-69) were isolation and weakness. Although the Sino-Soviet Treaty continued to exist on paper, the Soviets and--to a much lesser extent--the Chinese had rapidly built up their forces along the length of the Sino-Soviet frontier and in Mongolia. By 1968, Beijing faced enemies to the north (the USSR), the south (the US forces in Vietnam), and the east (Taiwan, which was united in a security treaty with the United States). China's only trusted ally was remote, feckless Albania. 25X1

At this point, some of China's leaders began to question this isolationism and to recognize the need for change. One major spur toward a new policy was China's inability in 1968 to dissuade Vietnam from attending US-proposed peace talks in Paris. The Vietnamese followed Soviet advice to go to Paris despite the dogmatic urgings of the Chinese, who for years had worked hard to assist Hanoi and build influence there. The Soviet invasion of Czechoslovakia in August, and the subsequent iteration of the Brezhnev doctrine of "limited sovereignty" for "socialist" states convinced Mao and Premier Zhou Enlai that new policies were needed. The Chinese also began to perceive that the United States was on its way out of Vietnam, and thus was a waning threat to China. 25X1

The Turn to the United States

Tentative signs began to appear in China of a desire to improve relations with the United States and to rebuild China's diplomatic apparatus. The first major step came in late 1968 when the Chinese agreed that ambassadorial talks be resumed in Warsaw the following February. 25X1

Within China, however, there were continuing signs of a dogmatic unwillingness by some leaders to come to realistic terms with either the United States or the USSR and the Warsaw talks were called off at the last minute. Lin Biao, Mao's designated heir and Defense

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Minister, was among those who preferred a go-it-alone policy that would have put increased power into his hands as Defense Minister. This unwillingness to make commitments to foreigners went beyond mere jockeying for power. In a deeper sense, Lin appealed to a conservative tradition in Chinese thought that has appeared in every generation, one that is repelled by close relationships with outsiders and is deeply suspicious of introducing foreign ideas into China.

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In 1969-71, Mao and Zhou moved to isolate Lin Biao politically. Their efforts were aided by the first major armed clash along the Sino-Soviet border in March 1969, and an even more intense firefight on the border the following August. These events demonstrated China's vulnerability to Soviet military pressure and the need for lines to other countries. A new call then went out for the Warsaw talks to begin, and anti-US commentary diminished in the Chinese media. Zhou Enlai also moved diplomatically to manage Sino-Soviet tensions by agreeing to meet Premier Kosygin at Beijing's airport in September 1969, and by setting up a framework for border talks which still continue sporadically. Outmaneuvered, Lin Biao died in an abortive coup attempt against Mao in late 1971.

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In the period 1971-73, China made rapid diplomatic gains, displacing Taiwan in the United Nations and opening relations with a broad range of countries. China essentially stopped putting its foreign dealings to an ideological test. It showed a strong preference for the status quo, urging countries to form regional groupings to resist Soviet inroads. There are variations on this theme, such as in southern Africa, where China supports change but opposes Soviet influence. Beijing's primary concern was and still is that the influence of the Soviet Union be contained and not permitted to develop into an overwhelming preponderance of power--or "hegemonism." A corollary of this Chinese view is that the United States should not allow its strategic position to erode vis-a-vis the USSR.

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As Mao and Zhou physically declined after 1974, there were fewer foreign policy initiatives. Jockeying for the succession to Mao increasingly occupied the leadership and politicized foreign affairs. After the

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death of Mao and then the arrest of the radical Gang of Four in October 1976, the way was once again cleared for an activist foreign policy. By mid-1977, Deng Xiaoping, who had fallen in early 1976, returned to power and immediately set about restoring momentum to China's foreign policy.

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The "Theory of the Three Worlds"

To justify this pragmatic strategy in ideological terms, Beijing published "Chairman Mao's Theory of the Three Worlds" in November 1977. This document elaborated the policies initiated in 1969, arguing that the USSR constitutes the "main danger" to world peace and that a "united front" of countries opposed to the USSR was needed to counter this danger. This "antihegemonist united front" is to include the less developed countries of the "third world" and the developed countries of the "second world." The role of the United States, as one of the "superpowers" in the "first world," remains ambiguous, suggesting that as long as it does not replace the USSR as the "main danger," it is welcome to join in resisting the Soviet Union.

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Until China acquires sufficient power and prestige to counter the USSR more directly, it is forced by circumstances to rely on the United States as the main pillar of its strategy. The Chinese recognize that, in order to make this strategy work, the United States and China must cooperate, at least to the point where Soviet defense planners become unsure to what degree the two countries would cooperate during a Soviet crisis with either of them. Theoretically, each side in the triangle can attempt to improve relations with another in order to extract advantage from the third. In late 1977, for example, China tried to demonstrate its maneuverability in the triangle by making small but conspicous gestures to the USSR. In practice, however, China's vulnerability to Soviet power has left little room for maneuver.

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Chinese calculations, nevertheless, are based upon the assumption that the United States is a fairly reliable partner with which it can cooperate in attempting to contain Soviet power and pressures. Doubts on this issue led to strains in the nascent relationship in the 1974-76 period. Recent developments could renew such

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doubts. The Chinese have clearly taken note of SALT II testimony in the US Senate pointing to relative US strategic weaknesses in the early 1980s. A recent commentary in the People's Daily, moreover, underlined indications of "disarray" in the US domestic and strategic position--an unprecedented characterization and one that Beijing avoided even in the summer of 1974.

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In addition to strategic inducements to improving Sino-US relations, American scientific, technical, and financial resources have also been major incentives. Beijing, having been stung by overreliance on a single benefactor in the 1950s, has an interest in diversifying its sources of technology, equipment, and trade. But the US domination of high technology, particularly in weapons and deepwater oil drilling, makes American goodwill invaluable to China's modernization programs.

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The United States constitutes the last and most important foreign support for Beijing's longtime rival, the government on Taiwan. Beijing has viewed reducing the US-Taiwan connection less as a means of getting at Taiwan than as removing a stumblingblock in the way of better US-Chinese relations.

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Strategic Considerations

Strategically, China's tilt toward the United States continues to be reflected in important state and party documents, such as the recent government work report by Party Chairman and Premier Hua Guofeng to the National People's Congress. Beijing has taken a less obstructionist tack in its treatment of the recent SALT II agreement and has quietly supported the Egyptian-Israeli peace treaty.

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These decisions are sometimes difficult for Chinese leaders, who are sensitive to criticism from those who still apparently harbor antiforeign views in China and who oppose an exposed position in support of the "imperialist" West. Cases in point were China's eager and visible assistance to Zaire last year after the Shaba incident and Chinese support for the Shah of Iran--both actions urged on China by Washington.

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The Chinese also remain fundamentally resistant to enticements into disarmament negotiations. Their position, simply put, is that China should not freeze its military strength into permanent inferiority by joining in agreements with militarily superior powers. Therefore, Beijing argues that genuine disarmament must begin with destruction of the weapons that give the United States and the USSR their edge over lesser powers. Anything less is "sham" disarmament.

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In order to "catch up," the Chinese continue nuclear testing, usually in the atmosphere. They are somewhat sensitive to criticism of this practice, but we believe they lack the means at present to conduct their testing entirely underground. In difference to the wishes of the United States and others, the Chinese have asked that their seat be reserved at the UN Disarmament Conference in Geneva, and observer delegations have been sent to the sessions. Beijing remains unwilling, however, to take an active part in the talks for fear of eroding its principled position concerning disarmament.

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Beijing is also very skeptical about the mutual and balanced force reduction talks in Vienna, emphasizing in its media the inability of the conference to resolve important East-West differences. The MBFR talks are a matter of concern for the Chinese because the possibility of agreed troop reductions raises the specter that the Soviets will transfer larger forces to China's borders.

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Similar geopolitical considerations influence Chinese views on the Western energy crisis and the political instability in the Middle East and Africa. Beijing fears that, as a result of the energy problem, economic weakness and disunity in the West will strengthen the Soviet hand, inviting adventurism and inevitable war. The Chinese see the Soviets attempting to foster European, Japanese, and US weakness by fomenting and taking advantage of political instability in southern Africa, the Horn of Africa, and th Middle East in hopes of gaining control of the major oil routes. Beijing maintains that war can be postponed through concerted anti-Soviet efforts, but the accent in China's propaganda falls heavily on the possibility the West will not meet the

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challenge. The unspoken final portion of the Chinese argument is that, after Europe, the next Soviet target would most likely be China. Thus, as China's leaders have stated privately, Beijing within its limited capabilities must do its part to counter the Soviets. Military assistance to Egypt, including warplanes and spare parts, is a recent example. [redacted] 25X1

Policy Toward Taiwan Since Normalization

Normalization of US-China relations has reduced, but not eliminated the importance of the Taiwan as a divisive issue. For Beijing the economic and strategic elements in Sino-US relations still take precedence over the recovery of Taiwan. The evolution of closer relations with Washington has been accompanied by a moderation of Beijing's rhetoric on the issue and a shift in emphasis to political and economic approaches to recovery of the islands which the Chinese consistently say will not come for some time. Beijing has adopted a more open stance toward the government on Taiwan, which it now calls the "Taiwan authorities" rather than the pejorative "Taiwan clique." China has called for talks and the opening of trade and postal and aviation services. Some small but politically significant reductions in military strength have occurred opposite Taiwan. [redacted] 25X1

This more moderate approach, however, does not include abandonment of the "right" to use force to reunify Taiwan with the mainland, or any relaxation of China's claim to sovereignty over the island. Nevertheless, the importance of other international and economic goals and military deficiencies makes a Chinese attack on Taiwan unlikely at least for much of the next decade. [redacted] 25X1

New Links to Japan

As China was making major gains in its relations with the United States, it also moved rapidly in 1978 to achieve the Sino-Japanese Peace and Friendship Treaty. The treaty was a milestone on China's road to economic development and it established a political basis for relations, ending the theoretical state of war between the two countries. [redacted] 25X1

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From the Chinese point of view, the treaty's inclusion of an "antihegemonism" plank, despite intense Soviet pressure on Tokyo, helped dissolve strong memories of the Japanese invasion and occupation of China. In order to facilitate movement toward the treaty, both sides agree to put off to "later generations" the thorny question of the disputed Senkaku Islands south of Japan and near Taiwan, which are widely believed to bear oil. The Chinese also agreed to end the explicitly anti-Japanese 1950 Sino-Soviet Treaty, although the method of terminating the treaty was left unclear at the time. 25X1

Having laid this political foundation, the Chinese are building close economic relations with Japan. They recently obtained substantial loans and development assistance from the Japanese Government and banks to finance industrial and mineral extraction projects. In exchange for this enormous contribution to China's modernization program, Japan is expected to receive oil, coal, nonferrous metals, and light industrial products. 25X1

China's Vietnam Problem

As China laid the ghosts of its former enemies, the United States and Japan, new specters arose. Vietnam, traditionally suspicious of its northern neighbor and deeply antagonized by China's support of the Pol Pot regime in Kampuchea, demonstrated its unhappiness with Beijing early last year by kicking off a campaign to drive potentially disloyal ethnic Chinese out of Vietnam, starting the great Indochina exodus. By May 1978, the Chinese were viewing the situation with alarm. 25X1

The Refugee Problem

The Chinese are still faced with enormous numbers of refugees entering the country from Vietnam. By mid-1979, top Chinese officials claimed that more than 250,000 refugees, mostly ethnic Chinese, had been processed into China and that more than 10,000 per month were still crossing the border. The economic burden

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created by this massive influx is obvious. In addition, there are some signs that the dislocations caused by the heavy concentration of refugees in some parts of South China have created resentment and opposition among local residents. 25X1

Beijing has seized on the refugee issue as a means to bring international pressure on Hanoi. From China's perspective, it is an example of Hanoi's oppressive internal programs and its expansionist foreign policies. China sees the refugee problem, not as a disease that can be treated externally, but as something only Hanoi can correct. Beijing has tried to broaden the issue further by linking the USSR with Vietnam's treatment of ethnic minorities. Thus, both Moscow and Hanoi are described as attempting to sow racial dissension and economic chaos in neighboring Southeast Asian countries by forcing ethnic Chinese onto these countries. The Chinese are not sympathetic with proposals to facilitate the relocation of larger numbers of refugees, arguing that it would only encourage Hanoi to continue expelling them. Instead, they have sided with some members of the Association of Southeast Asian Nations (ASEAN) in demanding that Hanoi halt the flow of refugees altogether. 25X1

While the Chinese express support for humanitarian proposals aimed at a speedy resettlement of the existing refugee population, these proposals clearly take a back seat in Beijing's view to steps that would bring pressure on Hanoi to end its persecution of ethnic Chinese. The Chinese hope to achieve this objective by encouraging a unified anti-Vietnamese stance on the refugee issue among ASEAN countries, and a policy of no economic support on the part of Western countries and Japan. Beijing, therefore, has been pleased with the unwillingness of the United States to recognize Hanoi and by Japan's reluctance to get deeply involved in economic aid to Vietnam.

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Anti-Vietnam Strategy

China's broader strategy for dealing with Vietnam goes beyond the refugee issue, however, and attempts to use the limited resources of China and other Southeast Asian nations to maintain political, economic, and

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military pressure on Vietnam. The Chinese, who had long looked to Kampuchea as a counter to the growth of Vietnamese influence in the region, found themselves reduced to making a last-ditch effort in December 1978 to aid the failing Kampucheans. Despite escalating threats from China, and increasing numbers of Chinese forces on the Vietnamese border, the Vietnamese had pushed into Phnom Penh by early January and triggered China's decision to take direct action and invade.

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Chinese party documents published in December suggested that Beijing then believed that the normalization of Sino-US relations and the newly strengthened ties with Japan would strengthen China's hand against Vietnam and the Soviet Union. Hanoi and Moscow had signed a Treaty of Friendship and Cooperation in November, and Beijing sought to convey the impression its new links would offset this Vietnamese advantage. Vice Premier Deng was a strong advocate of the invasion of Vietnam, and his trips to the United States and Japan in late January and February were calculated, in part, to create the impression of US and Japanese support for China's pending action.

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Deng cautiously prepared for the invasion by ensuring a vast numerical superiority, evacuating civilians from wide stretches of Chinese territory bordering the Soviet Union in case of Soviet retaliation, and proclaiming limited objectives. He recognized that the invasion could not reverse the situation in Kampuchea, that it could not be prolonged without unacceptable damage to the economic modernization program, and that it was unlikely to reverse Vietnam's anti-China policies. Deng rationalized nonetheless that it was necessary to do "something" lest the Vietnamese and Soviets think there would be no negative consequences for their actions and the West would begin to think China does not "mean what it says."

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In the event, these calculations appeared to be approximately correct. China invaded and then withdrew in what appeared to be a determined, orderly fashion. The Soviet Union proved unwilling to retaliate directly. China then reinvigorated its broader anti-Vietnamese strategy of urging the ASEAN states to unite against the Vietnamese, imposing political and economic isolation on Hanoi, and periodically threatening a "second strike" against Vietnam.

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It has in fact withdrawn considerable forces from the immediate border area, but insists on impossible terms in the Sino-Vietnamese negotiations that began after the Chinese withdrawal, waiting for the Vietnamese to crack under the internal and external strains. 25X1

Sharp Debate in Beijing

Despite the appearance of a "diplomatic success" in the invasion, an intense internal debate erupted. Even before the invasion, some in China were questioning the Army's capability to do the job or handle possible Soviet retaliation. After the invasion, stories of high, almost Pyrrhic casualty rates circulated in China, and there were complaints about the quality and utility of the Army's equipment. So intense was the argument that six weeks passed after the end of the invasion before the party was able to muster a leadership turnout to congratulate the heroes of the fighting. 25X1

A second factor was the economic costs of the invasion. Economic readjustment was already under way in China when the invasion was launched. Overly ambitious programs were being scaled down and budgets were cut. The Chinese recently revealed, however, that the defense budget for 1979 had to be increased 20 percent, in large part to pay the direct costs of the invasion. 25X1

Third, the organizers of the invasion were vulnerable to charges that in the most important area of concern--that of the Soviet threat to China--they had strengthened the Soviet position. While China's troops were still withdrawing from Vietnam, it was already becoming clear that relations between the Soviets and Vietnamese had become much closer as a result of the attack. Soviet military aircraft and warships for the first time enjoyed access to Vietnamese facilities and Vietnam had become more dependent than ever on Soviet assistance. 25X1

The Call for Talks With the USSR

Internal criticism of Beijing's Vietnam invasion arose at a crucial time for China's broader diplomatic strategy. From early 1978, tensions between Moscow and Beijing had been rising steadily. The Chinese turned aside a Soviet proposal in February 1978 for talks to

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improve relations and stiffened their own terms for the normalization of Sino-Soviet relations. President Brezhnev then made a conspicuous visit to the Soviet Far East and witnessed a Soviet military exercise near the border.

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In this climate of heightened tension, Beijing was confronted with the need to devise a means to end the 1950 Sino-Soviet Treaty. According to the terms of the treaty, if Beijing did not "denounce" it by 11 April 1979, it would have automatically remained in force at least until 1985. Having earlier promised the Japanese that China would allow the treaty to die, failure to denounce it would have prompted fears in Tokyo and perhaps elsewhere that Beijing was backsliding on its commitment to modernization and to anti-Soviet policies. Yet, denunciation of the treaty without something to soften the impact ran the risk of increasing Sino-Soviet tensions even more.

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Consideration of this question coincided with criticism within China of the Vietnam invasion, producing a sharp debate over the immediacy of the Soviet threat and China's domestic needs. In the end, the Chinese decided to pair their denunciation of the treaty with a call for negotiations with the Soviets. Beijing apparently reasoned that the denunciation would reassure Japan and the West about China's fundamental strategic orientation, but that the Soviets, after years of issuing their own calls for talks, would find the Chinese offer irresistible. Soviet willingness to talk in turn might prompt Vietnamese fears of a Soviet sellout of Hanoi's interests. The proposal had the added advantage of portraying the Chinese as "reasonable" in the wake of the Vietnam invasion. Most, importantly, if the initiative succeeds in managing tensions, it might buy time for China to carry out its economic modernization plans without dissipating new resources to offset increasing Soviet military pressure.

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The Chinese media have even argued that limited agreements in some areas with the Soviets might lead to China's acquisition of Soviet management and industrial technology, some of which is better suited to China's level of modernization than the Western alternatives. The terms of trade would be barter, permitting the Chinese to husband foreign exchange while providing what might be a ready market for China's expanding production of light industrial and agricultural goods.

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Finally, the Chinese proposal was issued while a modest antiforeign reaction was taking place in response to the sudden influx into China of Western social values and behavior. It also followed the passage of the Taiwan Omnibus legislation. Beijing's more conservative leaders may have reasoned at that time that the call for talks might remind Washington that Beijing has some maneuverability in the strategic triangle. [redacted] 25X1

These are all essentially tactical considerations. There may have been other motives at play as well. The relationship with the USSR has been a source of controversy in Chinese Communist politics almost since the party was formed. Recent "rehabilitation" of long-purged former leaders--some of whom had fallen while advocating a less contentious relationship with Moscow could have somewhat changed the climate, and perhaps the terms, in which policy toward the Soviet Union was discussed. In any event, we have long been aware of shadowy evidence suggesting that some Chinese military leaders believe that China's vulnerability to Soviet pressures might be reduced by a less bellicose attitude toward Moscow. Recent evidence points toward similar sentime[redacted]UNC[redacted] 25X1 25X1 where second-level officials are also apparently concerned about Chinese overreliance on the United States. [redacted] 25X1

None of this, however, resolves the Chinese dilemma--Beijing continues to have relatively little room for maneuver. It is even possible that such senior leaders as Deng may hope to demonstrate precisely this fact by allowing the talks to go forward. Room for Sino-Soviet accommodation--even of a very limited sort--has in any event been appreciably reduced by Hua Guofeng's statement at the recent National People's Congress that Moscow will have to embody its newfound opposition to "hegemonism" in deeds rather than words. This suggests that the Chinese expect that the broad issues of the Soviet relationship to Mongolia and Vietnam--topics inappropriate for discussion in the narrow confines of the long-stalled Sino-Soviet border talks--to be major topics in the new forum. Moscow is not likely to be accommodating on such issues. [redacted] 25X1

Indeed, it is far from certain how successful Beijing's initiative will be. The Soviet response has been extremely wary. Moscow had been at pains to reassure the Vietnamese that their interests will not be sold out. Moscow also suspects that China will still revert to the unacceptable

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preconditions for successful talks. They have exposed in the past but have thus far avoided in the current context: that the USSR must agree to maintain the status quo along the border, reduce troop levels in the region, and remove all its soldiers from Mongolia. The Soviets' doubts have been fed by what they claim to be recent hints from the Chinese that they may attempt to embarrass the Soviets when Beijing has gained all the mileage it can from the talks.

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In the most important area of concern, Sino-Soviet border tensions remain high. The shooting incident on 16 July demonstrated the explosiveness of the border situation and the deep mutual suspicions of the two sides. Both the Chinese and the Soviets continue to improve their forces in the border regions.

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Despite the indications that some middle-level officials in China would favor significantly improved Sino-Soviet relations--and continue to think this possible even after Hua's demand for Soviet "deeds"--senior officials have persistently attempted to deflate these hopes as they pursue a long, drawnout exploratory course designed to yield nothing in advance of the talks. In the larger context, Chinese officials remain adamantly opposed to the spread of Soviet influence and power. The Chinese speak in terms of very long negotiations. Without some hint of Chinese concessions to keep the Soviets interested, real progress is not likely. Indeed, it may depend as much on an evolution in Chinese domestic politics as on strictly international factors.

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CHINA: THE ECONOMIC OUTLOOK

Executive Summary

This year, and in 1980-81 as well, China's post-Mao leadership will be concerned primarily with realigning its long-term program for economic modernization. The leadership's reassessment of pace and priorities was summed up by Premier and Party Chairman Hua Guofeng at the National People's Congress (NPC) in late June:

> The work of recovery and development in the previous two years (1977-78) has yielded results far in excess of our expectations. But the grave effects of the sabotage by Lin Biao and the Gang of Four cannot be eliminated in a short period. We did not take this into full account and some of the measures we adopted were not sufficiently prudent. [As a result, it is] absolutely necessary that we concentrate our efforts within these three years [1979-81] on readjusting, restructuring, consolidating, and improving our economy. [Emphasis added]

Aside from the forthright discussion of current difficulties, Hua and other officials gave out an unprecedented number of economic statistics that generally confirm their appraisal of economic recovery in 1977-78. On the other hand, the new policies are forcing a slowdown this year in the rate of growth of industrial production and a sharp reduction in budgetary appropriations for capital investment projects. For the first time in many years, China's managers have been directed to emphasize quality, product mix, and cost effectiveness rather than sheer output.

This unclassified memorandum was prepared by the China Division of the Office of Economic Research, National Foreign Assessment Center, in response to a request from the National Security Council. Questions and comments may be addressed to [redacted] 25X1

The five major objectives under the slogan of readjustment center around:

-- Praising growth rates for foodgrains and other farm products in relation to population and industry.

-- Increasing the growth rate of consumer goods production, both for domestic consumption and to expand exports.

-- Assigning higher priority to energy, transportation, and communications.

-- Cutting back an "overextended" investment program so as to concentrate resources on completing vital projects.

-- Raising the incomes of rural and urban workers.

The new policies of restructuring and consolidating require an "overall reform of the structure of economic management." While efforts in this regard are still experimental, they apparently are expected to evolve into some uniquely Chinese model of market socialism in which local authorities are given greater powers over planning, investment, finance, material supply, and foreign trade. Policies in the improvement category are aimed at raising labor productivity and capital efficiency.

Despite the revamping of economic strategy, China's leaders insist that their need for foreign equipment, technology, and capital remains large. What is new is that their shopping list now is more practically focused, reflecting a better appreciation of the high costs of acquisition and the difficulties in absorbing foreign technology.

The comprehensive character of all that Beijing is attempting to accomplish in 1979-81 has inevitably upset the targets and timetable of the 10-year plan for 1976-85 announced early last year by Chairman Hua. That plan--or "draft outline" as Hua now calls it--has been declared overly ambitious and hastily conceived; neither it nor its first phase, the Fifth Five-Year Plan (1976-80), are given much mention at present. The State Planning Commission, having revised the original version of the

annual plan for 1979, is currently reworking earlier plans for 1980 and 1981. A draft of the Sixth Five-Year Plan (1981-85) will not be presented to the NPC until sometime in 1981.

Finally, we believe that the policies of realignment and retrenchment may be in place longer than the three years now envisaged:

-- Institutional changes proposed under the new policies seem too far reaching to be completed so quickly.

-- Leadtimes required for bringing new investment projects into production in bottleneck sectors are such as to make it unlikely that these constraints will be lifted by 1981.

-- In a country as poor and populous as China, the problem of matching supplies to consumer demand will necessarily be around for a long time to come.

Nevertheless, there are grounds for optimism. In contrast to the Maoist era, the present leadership seems pragmatic and relatively unconstrained by orthodox ideology in its policy choices. And, perhaps most important of all, it has already demonstrated this year an ability to react quickly to adverse consequences of these policy choices.

Economic Performance in 1976-79

One of the milestones distinguishing the recent National People's Congress from all others since the late 1950s is the public disclosure of major speeches and a large body of economic and social statistics. Although most of the data cover only the years 1977 and 1978, enough information was provided to show the performance of key economic sectors in 1976 as well. Some data also were released on planned targets for 1979.

A comparison of the new figures with CIA estimates shows that our appraisal of recent economic trends in China has been close to the mark. This is not surprising inasmuch as our estimates have been attempts to reconstruct official data from piecemeal claims of percentage increases

and other fragmentary disclosures. The new official data appear internally consistent, and we expect to adopt nearly all of the figures as the best available.

In interpreting the tabulation of selected official data presented here (see table), a word of caution is in order. The use by Hua and others of 1976 as the base year for much of the data is logical because it marks the point where the present leadership came into power. It was a poor year economically, however, and thus constitutes a low base. Moreover, much of the output in major basic industries is admittedly of poor quality; for example, nearly half of the 618 million tons of coal produced in 1978 probably came from small-scale mines whose output is of variable and generally low quality. Nevertheless, a number of economic trends stand out at once:

-- Industrial output began a rapid recovery in 1977, whereas agricultural production continued to stagnate; in 1978, both had remarkably good years.

-- Budget revenues and expenditures, which normally change at about the same rates as industrial production, rose much faster in 1978 than did industry.

-- With the notable exception of domestic and foreign trade, plans for 1979 reflect a marked slowdown in rates of expansion.

Reasons for the slowdown in 1979 are not hard to find. Last year was an especially good one for grain production--one that is unlikely to be repeated this year. In industry, most of the capacity that stood idle in earlier years has been brought back into operation, so that double-digit growth in 1979 seems infeasible. In addition, many industries--most notably the iron and steel industry--have been ordered to concentrate on improving product quality and product mix rather than increasing output. As for the budget, expenditures and revenues in 1979 are to level off, reflecting what China's Finance Minister has described as an extremely tight budget. Revenues will be cut into by a number of new incentive policies affecting tax flows, and expenditures are to be held to a minimum as part of a wide-ranging scaleback in investment projects.

China: Selected Official Data on Economic Indicators, 1976-79

	1976	1977	1978	1979 Plan	Percentage changes: 1977 Over 1976	1978 Over 1977	1979 Plan Over 1978	Mid-1979 Over Mid-1978
Value Aggregates*								
Billion yuan in 1970 prices								
Agricultural production	NA	134.0	145.9	151.7	NA	8.9	4.0	NA
Industrial production	326.4	372.8	423.1	456.9	14.3	13.5	8.0	4.1
Billion yuan in current prices								
Budget revenues	75.1	87.45	112.1	112.0	16.4	23.4	Negl.	NA
Budget expenditures	NA	84.35	111.1	112.0	NA	31.2	Negl.	NA
Retail sales	131.68	141.00	152.75	175.0	7.1	8.3	14.6	NA
Physical Output								
Grain (million tons)	285.0	282.75	304.75	312.5	Negl.	7.8	2.5	NA
Cotton (million tons)	NA	2.049	2.167	2.4	NA	5.8	10.8	NA
Crude steel (million tons)	20.46	23.74	31.78	32.0	16.0	33.9	Negl.	7.9
Electric power (billion kilowatt hours)	203.0	223.4	256.55	275.0	10.0	14.8	7.2	10.9
Coal (million tons)	483.0	550.0	618.0	620.0	13.9	12.4	Negl.	NA
Crude oil (million tons)	87.0	93.64	104.05	106.0	7.6	11.1	1.9	3.6
Chemical fertilizer (million tons)	5.24	7.238	8.693	9.570	38.1	20.1	10.1	NA
Motor vehicles (thousand units	NA	125.4	149.1	NA	NA	18.9	NA	NA
Freight cars (thousand units	NA	6.396	16.950	NA	NA	165.0	NA	NA
Cotton cloth (billion meters)	NA	10.151	11.029	NA	NA	8.6	NA	NA
Sewing machines (million units)	NA	4.242	4.865	NA	NA	14.7	8.6	NA
Wristwatches (million units	NA	11.04	13.51	NA	NA	22.4	12.7	NA

* The official exchange rate in recent months has averaged about 1.6 yuan per US dollar.
NA = Data not available.

After the flood of statistics released for 1977-78, China's reporting on economic performance in the first half of 1979 looks curiously thin, apparently because prospects are mixed. The country reportedly had a good winter wheat harvest, but it is too soon to gauge agricultural performance for the entire year. Industrial production rose by only 4.1 percent as compared with the first half of 1978, meaning that second-half performance must be well above the 8 percent planned for 1979 as a whole.

Current Problems and Policies

The proceedings of the National People's Congress formalized policies of economic realignment and retrenchment that have gradually come into force since the third plenum of the Chinese Communist Party in December 1978. The Chinese leadership now is clearly much more concerned with short-term economic problems than with ambitious long-term economic goals such as those embodied in the "draft outline" of the 10-year plan unveiled in March 1978. Thus, while Chairman Hua recently spoke of a three-year period of readjustment (1979-81), only the annual economic plan and planned budget for 1979 were presented for discussion at the NPC.

Domestic economic policies are aimed at rectifying a number of longstanding problems that remain major obstacles to eventual Chinese modernization. These include:

-- The need for improved consumer welfare both to stimulate labor productivity and to ensure that poor living conditions do not contribute to political instability.

-- Amelioration of the currently high level of urban unemployment, particularly among youths who cannot now be absorbed in the schools and universities.

-- Raising the low level of productivity of labor and capital that has prevailed for the past decade.

-- Alleviation of the chronic shortages of raw materials, electric power, and transportation capacity that constrain industrial performance.

-- Elimination of the waste of resources engendered by ill-conceived investment programs.

Solutions to these problems are still evolving, mainly because of the present leadership's desire to test new policies on a trial basis. Nevertheless, these problems are being tackled by (a) introducing new incentive and institutional systems and (b) changing the pattern of resource allocation. Under the former, agricultural procurement prices have been raised and the prices paid by peasants for industrial goods have been lowered. In addition, rural production teams have been given greater latitude to decide what crops will be grown and how much will be planted. Similarly, new systems of improved worker and management incentives are being installed in industry, transportation, and other services. The systems have not been in effect long enough to judge their impact on production.

The government is well aware of the impact these policies have on incomes and the demand for consumer goods. Thus, it is attempting to ensure--through new investment and increased allocation of energy and raw and finished materials--that the supply of such goods from agriculture and light industry will more adequately meet the new demand. In addition, Beijing is experimenting with numerous new systems of industrial organization and management--for example, a contract system (to govern how and when goods are to be produced and delivered among supplying, producing, and marketing units) and the creation of so-called "specialized corporations"--all of which are designed to increase efficiency and productivity. Progress in this area will remain slow because party, government, and enterprise bureaucracies are resisting changes and individual cadres remain unsure of the permanence of the new policies. Indeed, one of Beijing's major challenges is that of motivating middle-level managers to act decisive.

As for resource allocation, cutbacks have already been ordered in those parts of the construction program that have been poorly designed or that will pay off only over the very long term. Since December 1978 priority in investment has been given to agriculture, light industry, and textiles because of their importance to consumer welfare and to the expansion of Chinese exports. Energy, transportation, and the building materials industry appear to be next in line in resource allocation

decisions because these sectors constrain the operations of industry in general and because they support the scaled back, but still sizable, construction program now under way.

Despite the revamping of economic strategy over the past several months, Chinese interest in foreign equipment, technology, and capital remains strong. However, it is now more practically framed, reflecting the leadership's understanding that both the costs of acquisition and difficulties in absorbing foreign technology are much greater than previously anticipated.

Short-Term Prospects

The policies developed at the third plenum in December 1978 and now formally ratified by the NPC have been described by the Chinese as "preparing the ground" for eventual modernization. They appear to be well designed, practical measures that probably will mitigate some of the problems noted above.

Perhaps the most difficult problem for the government over the next three years will be that of handling rising consumer expectations. Notwithstanding repeated insistence that consumer welfare can be improved only gradually and should be preceded by increased productivity, the new policies are stimulating long-suppressed popular demand for more and better quality food, clothing, housing, and consumer durables.

One indication of the strength of this demand is that, despite low interest rates over the past two decades, urban and rural bank savings have steadily risen. The size of these deposits is unknown but they clearly are large enough to have become a serious concern for the government. In March the government abandoned the old system of paying a uniform annual interest rate for fixed deposits regardless of term and installed a system of six-month, and one-, three-, and five-year time deposits. In addition to inhibiting the withdrawal of funds from these accounts, the new higher interest rates are also intended to attract more of the increased money income that is beginning to be received by the population. We suspect that the government will find this problem of matching supplies to consumer demand a continual one for the foreseeable future.

Providing employment for youths of high school and college age who cannot be absorbed by the educational system is also likely to remain a difficult problem. Although expansion of educational facilities has not been slighted under the new policies, resources are simply inadequate to provide space for several million junior and senior middle school graduates. The current attempt to create new jobs in the services sector seems unlikely to satisfy the ambitions of this group. We suspect that they will continue to be a problem for Beijing's leaders, primarily because they are a potential source of political dissent.

Finally, the policies of realignment and retrenchment may well extend beyond the three-year period now envisaged. The number and scope of changes proposed under the new policies seem too great to be rapidly accomplished. The leadtimes required for adding new capacity in the energy and transportation sectors also make it unlikely that present bottlenecks will be removed by 1981. Nevertheless, we believe the odds favor the general success of new policies because they embody an unprecedently rational approach to China's economic problems. As compared with that of the Maoist era, the present leadership appears to be much less bound by ideological constraints in its policy choices and more thorough in its consideration of new policies, and to have demonstrated its ability to react quickly to new problems created by the policies.

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HUA Guofeng
(Phonetic: hwa)
(5478/0948/6912)

CHINA

Premier; Chairman, Chinese Communist Party Central Committee; Chairman, Military Commission (since 1976)

Addressed as:
Mr. Premier

When Hua Guofeng arrived in Beijing in 1971, he was not well known outside China. For over 20 years he had been a competent but low-key provincial administrator. Once in the capital, however, he rose to become the first leader in the history of the People's Republic of China to hold the premiership and the top military and party posts concurrently. In 1973 he gained a seat on the Politburo, and in 1975 he became the only member of that select group who was both a vice premier and a minister; he headed the Ministry of Public Security.

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Despite Hua's increasing prominence, most observers were surprised when he was tapped in early 1976 to succeed Chairman Mao Zedong and Premier Zhou Enlai. The most qualified candidate, Vice Premier Deng Xiaoping was purged as a result of pressure from the left. Faced with increasing acrimony between the radicals and the more pragmatic party leaders, Mao selected Hua, a compromise candidate, as his successor. Mao's succession plan was threatened seriously by the ambitious radicals almost as soon as he died. The cautious Hua may have wished to delay decisive action to ensure his position. He reportedly was prodded by party elder and then Defense Minister Ye Jianying, however, and agreed to arrest the leading leftists only one month after Mao's death. Hua's position was consolidated, and the path was paved for Deng's return to power in July 1977.

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Central to a consideration of Hua's role in the leadership is his interaction with Deng, the third-ranking party leader but possibly the most

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(cont.)

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influential man in China. In early 1979 Hua was criticized by pragmatists in the party who felt that he adhered too closely to "Mao's thought." In his address to the National People's Congress in June 1979, however, Hua made only passing reference to Mao and made a qualified endorsement of the ideological and developmental line of party pragmatists.

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Provincial Official

Hua was born into a poor family in Shanxi. In the early 1950s he was a party secretary in Mao's home district in Hunan Province. He evidently came to Mao's attention during this period, and by 1958--he was then a provincial vice governor--he seemed to have won Mao's favor as a supporter of his beleagured economic program, the Great Leap Forward. Little is known about Hua's activities during the Cultural Revolution (1966-69).

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he survived the period because he shrewdly avoided alignment with any of the feuding factions. At the close of the Cultural Revolution, Hua was elected to the CCP Central Committee, and in 1970 he became first secretary of the Hunan party committee. Only a year later, he was called to Beijing in the aftermath of Defense Minister Lin Biao's abortive coup.

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Chinese media refer to Hua, about 58, as modest, approachable and unassuming, and this characterization appears to be accurate. Initially ill at ease with his important posts, he now seems to have adjusted; visitors have said that he has a good grasp of world affairs. During 1978 he made successful trips to North Korea and to Europe and Iran.

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Hua's wife is rumored to be Han Zhijuan, who works for one of China's foreign trade corporations.

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27 July 1979

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DENG Xiaoping
(Rhymes with: sung)
(6772/1420/1627)

CHINA

Vice Premier; Vice Chairman, Chinese Communist Party Central Committee; Vice Chairman, Military Commission; Chief of Staff, People's Liberation Army (since July 1977)

Addressed as:
Mr. Vice Premier

The third-ranking leader in the Chinese Communist Party (CCP) hierarchy, Deng Xiaoping was purged twice by Mao Zedong. After each defeat his tenacity and broad network of political supporters combined with a need for his administrative skill to return him to power.

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(Mao in particular felt--justifiably--that Deng did not show him sufficient deference.)

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As a Politburo member, general secretary of the CCP, and Vice Premier, Deng was the second highest victim of the Cultural Revolution (1966-69). He was not rehabilitated until 1973, when he returned to public office to share the responsibilities of ailing Premier Zhou Enlai. By 1975 Deng had become a member of the Politburo Standing Committee and had even surpassed his former political stature. With Zhou's death in January 1976, Deng was bereft of his prime supporter, and the leftists were able to bring about his second downfall in April 1976. A month after Mao's death in September 1976, the leftists were themselves purged, paving the way for Deng's rehabilitation in July 1977.

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Deng's imprint on current policies and important personnel appointments is unmistakable. A strong advocate of modernization, he has played a major role in drafting China's ambitious economic and scientific programs. In an effort to downplay Mao's emphasis on egalitarianism and self-reliance, which had hindered economic progress, Deng has stressed "seeking truth from facts"--determining

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policy from actual conditions rather than from ideology. Deng's prestige may have suffered in mid-1979, when detractors criticized the speed at which modernization was proceeding as damaging to the economy. More realistic goals were announced by Chairman Hua Guofeng at the National People's Congress in June 1979, but basic policy remained unchanged. How much power Deng has lost, if any, remains to be determined. [redacted] 25X1

Early Communist Activist

Deng was born to a fairly well-to-do Sichuan family. By 1931 he had become a propaganda officer at the Communist base in Jiangxi, and in 1934 he took part in the Long March to Shaanxi. During the ensuing Sino-Japanese War Deng was the political commissar of the 129th Division of the 8th Route Army. After the establishment of the People's Republic in 1949, he became a secretary of the party's Southwest Bureau, which was based in his home province. In 1952 Deng moved to Beijing to become a vice premier and a member of the State Planning Commission. Named to the Politburo the following year, he then rose meteorically in the party, becoming one of the youngest men on the Politburo Standing Committee in 1956. He was also named general secretary directing the daily work of the party. By 1965 Deng rivaled even Mao in influence. Disillusioned with the younger man, the Chairman launched the Cultural Revolution in 1966, in part to divest the party of Deng's "rightist" influence and to restore his own primacy. At the close of 1966 Deng was removed from all his posts. [redacted] 25X1

[redacted] 25X6

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[redacted] His wife, Zhuo Lin, accompanied him on trips to Japan and Southeast Asia in late 1978 and to the United States in early 1979. [redacted] 25X1

27 July 1979

[redacted] 25X1

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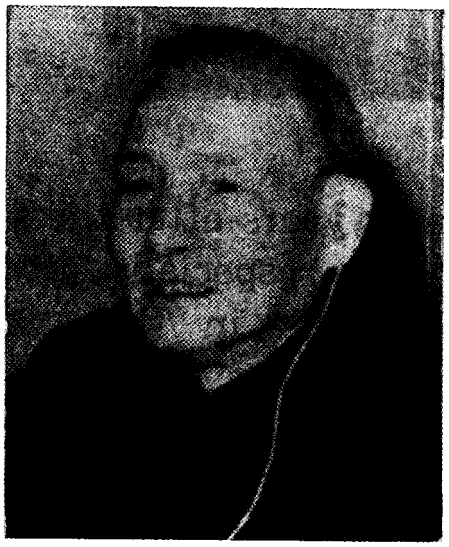
CHEN Yun
(Phonetic: chun)
(7115/0061)

CHINA



Vice Premier; Vice Chairman, Chinese Communist Party Central Committee; First Secretary, Discipline Inspection Commission

Addressed as:
Mr. Vice Premier

In December 1978 economic specialist Chen Yun was restored to the political status he had enjoyed 20 years earlier. His expertise is particularly valuable now that the regime has made modernization its first priority. Critical of the excessive speed at which modernization policies were being implemented, Chen is probably responsible for the more realistic program adopted at the National People's Congress in June 1979. He was named a vice premier in July 1979.

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In 1958, Chen, then the fifth-ranking Chinese Communist Party (CCP) member with an influential voice in inner party councils, broke with Mao Zedong over Mao's Great Leap Forward, an ambitious program intended to produce rapid economic gains. Criticizing the "Leap" as unrealistic, Chen upheld policies that are now in vogue: he encouraged material as opposed to moral incentives, the leadership of professionals rather than party ideologues over the economic sphere, and lenient treatment of the "bourgeoisie," whose experience the government could tap to further its modernization program. After his disagreement with Mao, Chen's political influence began to wane. By 1975 he held only two official posts: member of the party Central Committee and vice chairman of the National People's Congress.

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Chen, now 74, was born in Jiangsu Province.

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CR M 79-14333
27 July 1979

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YE Jianying
(5509/0494/5391)

CHINA

Vice Chairman, Chinese Communist Party Central Committee; Vice Chairman, Military Commission; Chairman, National People's Congress

Addressed as:
Mr. Ye

Ye Jianying, now about 81, has played an important role in the history of the Chinese Communist Party, from the Nanchang Uprising in August 1927 (now heralded as the founding date of the People's Liberation Army) to the purge of the leading leftists in October 1976. In March 1978 he was released from his post as Minister of Defense (a position he had held since 1971) and named chairman of the National People's Congress, a prestigious job that entails few substantive responsibilities. [redacted] 25X6

[redacted] He nevertheless 25X6
continues to hold leading party and military posts. [redacted]

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Ye was born to a wealthy merchant family in Guangdong Province. During the civil and anti-Japanese wars, he was a chief of staff under commanders Zhu De and Mao Zedong. By 1967 he had become a member of the Politburo and a vice chairman of the Military Commission. During the Cultural Revolution (1966-69), he and his family were attacked by Red Guards, but he retained his official posts. Ye was named a member of the Politburo Standing Committee and a vice chairman of the party in August 1973. [redacted] 25X1

[redacted]

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CR M 79-14293
24 July 1979

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LI Xiannian
(Phonetic: lee)
(2621/0341/1819)

CHINA

Vice Premier; Vice Chairman, Chinese Communist Party Central Committee

Addressed as:
Mr. Vice Premier

Li Xiannian is China's second-ranking vice premier and is senior to his colleagues in terms of continuous service; he has held his post since 1954. He is now one of China's leading economic specialists. His increasingly active role as host to foreign visitors and his public interview with a foreign newsmagazine (roles usually reserved for Vice Premier Deng Xiaoping) indicate that Li is playing a much more important part in state affairs. A member of the Politburo since 1956, he became a vice chairman and fourth-ranking leader of the Chinese Communist Party (CCP) in August 1977.

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An advocate of China's industrial modernization, Li meets frequently with foreign groups that support increasing trade with his country. He is realistic about China's economic shortcomings. At an April 1979 work conference Li admitted that China's modernization policies had been too bold and that they should be readjusted for more gradual and efficient economic development.

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Li was a carpenter's apprentice before he joined the CCP and entered military service.

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He visited Iran and Pakistan in 1975 and the Philippines and Bangladesh in 1978. In January 1979 he returned to Pakistan and also visited several African countries. Li, about 72, is married to Lin Jiamei, who often accompanies her husband to social functions.

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CR M 79-14334
27 July 1979

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HUANG Hua (Phonetic: hwahng) (7806/5478)

CHINA

Minister of Foreign Affairs (since December 1976)

Addressed as:
Mr. Minister

As his country's foremost expert on US affairs, Huang Hua has been influential at every juncture in bilateral relations since the 1940s. With his background in dealing with Westerners, his Chinese Communist Party Central Committee membership (since 1973), and his ties to the old-line leadership, he was a natural choice for his current position.

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Huang is a career diplomat. Prior to his appointment as Foreign Minister, he served successively as Ambassador to Ghana (1960-65), Egypt (1966-69), and Canada (1971) and was China's first Permanent Representative to the United Nations (1971-76). (He arrived in New York just after his country was admitted to UN membership.) Having spent most of his career in assignments abroad, he did not become embroiled in the factional disputes that became characteristic of Chinese affairs beginning in the late 1960s. At the time Huang was appointed Foreign Minister, it was assumed that Premier Hua Guofeng, who lacked experience in foreign policy matters, would rely on him heavily. China's concentration on domestic affairs, however, plus the persistent rumors that the leadership was unhappy with his lack of managerial abilities and the influence of Vice Premier Geng Biao on foreign policy, kept Huang from the limelight. In fact, his role seemed to have been reduced to meeting the large number of visiting Western delegations.

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25X6 in December 1978 he characterized normalization as a contribution to world peace and the biggest international event of the year. He has stated that China opposes any international conference on Indochina. 25X1

Early Life and Career

Unlike most Chinese leaders, Huang is not of peasant origin; he was born to a middle-class, landholding family in Hebei Province. During the mid-1930s he attended the Harvard-affiliated Yenching University in Beijing. He joined the Communist Party in 1935 and subsequently was twice arrested for leading student demonstrations to protest government inaction against Japanese aggression in China. In 1936 he established a lasting friendship with American journalist and Yenching faculty member Edgar Snow. Later Huang served as his interpreter while Snow gathered material for a book about Mao Zedong and the early Chinese Communist leadership. Huang joined the diplomatic service in 1953. He headed a Foreign Ministry department for seven years before going UNCODED abroad on his first ambassadorial assignment. 25X1

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25X6 His wife, He Liliang, is a deputy director of the International Organizations and Conferences and Treaty and Law Department of the Foreign Ministry. The couple has three children. 25X1

1 August 1979

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ZHANG Wenjin (Phonetic: jahng) (4545/2429/2516)

CHINA

Vice Minister of Foreign Affairs (since January 1978)

Addressed as:
Mr. Ambassador

One of eight vice foreign ministers, Zhang Wenjin assumed responsibility for coordinating North American affairs after the December 1978 departure of Vice Minister Wang Hairong for a Chinese Communist Party school. An outstanding diplomat, Zhang figured prominently in the early stages of Sino-American rapprochement; his command of English vocabulary (though he does not speak the language) helped him play a role in drafting the Shanghai communique, and he met with an increasing number of visiting US officials during the early 1970s.

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A native of Hebei Province, Zhang attended Yenching University. He was present during the many conversations that the late Premier Zhou Enlai had with Gen. George C. Marshall after World War II. Zhang headed the Asian Affairs Department of the Foreign Ministry from 1956 to 1964 and was Ambassador to Pakistan during 1966-67. Before going to Ottawa he was director of the West European, American and Australasian Affairs Department (1971-72) and an assistant to the Foreign Minister (1972-73).

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His wife, Zhang Ying, was a counselor of embassy in Canada. Zhang has at least three sons and has proudly pointed out that all of them have served in the Army. Zhang represented China at the July 1979 UN conference on refugees in Geneva.

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CR M 79-14413
31 July 1979

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