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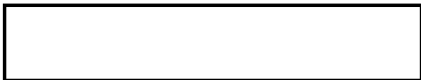


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State Department review completed

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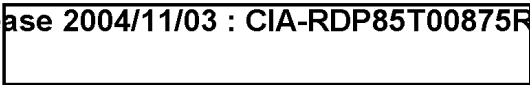


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Agricultural Productivity and Foreign Trade

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A recent study of Chinese agriculture indicates that despite a favorable 2.6 percent rate of growth of grain output since 1965, total factor productivity (output per unit of combined factor inputs - in this case, land, labor, and modern industrial inputs) has declined some 19 percent over the same period. Declining factor productivity has haunted agriculture throughout the 1960s. In 1965 productivity was 11 percent lower than in 1957; now it is 28 percent lower than in 1957. This means that while China's agriculture-first policy has produced results, it has been a very costly process; today a unit of grain output costs 1.40 units of inputs, whereas in 1957 the same unit of output cost only 1.0 units.

Because agriculture accounts for approximately 30 percent of GNP and because investment in agriculture has been given top priority since 1962, it is inconceivable that the 28-percent drop in productivity has gone unnoticed and unappreciated by China's leadership. Grain output and productivity are so important that it is tempting to interpret China's diplomatic and foreign trade efforts over the past two years in light of this decline in productivity. It can be argued that this decline has been one more force making rapprochement with the West attractive to the Chinese.

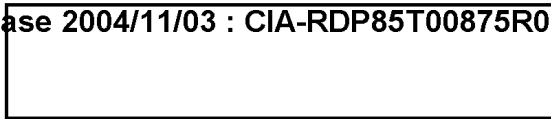
An important aspect of the improvement in China's international relations has been the regularization and expansion of trade with the industrial East and West. Until recently it appeared that China's imports would increase slowly but steadily, matching increases in export earnings. Since 1971, however, Peking has signed contracts in the West for industrial plants worth between \$400-450 million, more than double the value of plant purchases during the entire decade of the 1960s. The contracts signed so far this year amount to at least \$385 million; negotiations now under way could raise the figure to more than \$1 billion.

Significantly, a large portion (perhaps 70 percent) of these contracts involves either plants that produce modern agricultural inputs (fertilizer plants) or plants that manufacture substitutes for agricultural products (synthetic fiber plants). The growth in imports for the mid and late 1970s implied by these purchases and the nature of the purchases themselves indicate a heightened concern for agricultural performance.

Imports of grain, cotton and vegetable oils have doubled in 1973, but they appear to be associated with the disappointing harvests in 1972. In contrast, the sudden expansion of trade in whole plants designed to produce agricultural inputs or substitutes for agricultural products appears to be related to chronic, long-run difficulties in agriculture.

According to this interpretation, the need to arrest the decline in productivity is one more reason for the Chinese to come to terms with the industrialized nations, for only then can the requisite plants and equipment be acquired. The high costs of these items means that the Chinese must also relax their previous restrictions on accepting credit. [REDACTED]

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Issues and Options



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Peking is holding to a flexible timetable, but preparations are moving ahead for meetings of the leadership scheduled to begin later this year. Although outside attention is focused on the party congress, much of the real work will be done at the preceding central committee plenum, a restricted session which will allow fuller discussion of the issues and debate over alternative solutions.

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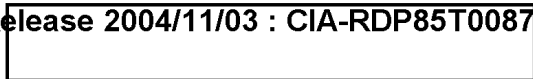
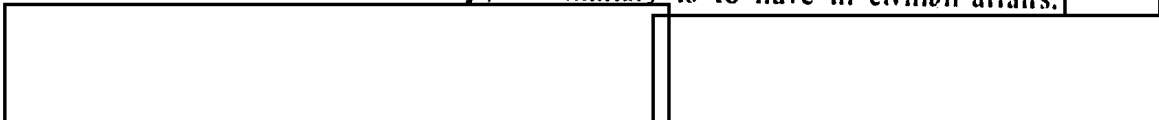
Spadework for the plenum seems to be occupying much of the leaders' time. This may be why Peking has postponed the scheduled visits of several foreign delegations. The announcement of the new Politburo will probably be the highlight of the congress, but a number of other difficult decisions will also demand the regime's attention.

A new administrative framework is high on the agenda. The revolutionary committees, administrative organs established during the Cultural Revolution to implement party policy, are being phased out at the lower levels. Whether to replace them with new organizations or transfer their functions to the party committees has yet to be decided. There is apparently some discussion about retaining the revolutionary committees at the higher levels, but sharply reducing their responsibilities. A return to a regional system, which would group several provinces under a single administrative unit, is also being considered. A regional system would facilitate the implementation of economic policies occasionally obstructed in the past by unresponsive provincial officials.

Another unanswered question is what to do about the post of head of state. According to the official story, this was a major bone of contention in the year preceding the fall of Lin Biao. The leadership is now trying to decide whether to abolish the post, hand it over to Mao, Chou, or some other prestigious individual, or create a collective presidency. Study documents on this question are reportedly slated for distribution after 1 October. Why this controversy has developed is a mystery. In the past, the post appeared to be largely ceremonial and its occupants, while distinguished, drew their power from their party positions.

The lackluster Army Day celebrations on 1 August highlighted yet another unsettled issue--what role, if any, the military is to have in civilian affairs.

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[Redacted] By forgoing an official Army Day statement, Peking avoided any comment on the current status of the military. China's leaders can be expected to remain similarly noncommittal on the other open questions until after the plenum.

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Between Persians and Arabs

[Redacted]

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Peking's efforts to improve its ties with Iran as a counterweight to the spread of Soviet and Indian influence in the Persian Gulf is adversely affecting its relations with the Arab states of the Middle East. [Redacted]

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[Redacted]

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The one country that would be likely to take offense at developments in Sino-Iranian relations is Iraq. Peking's friendship with Baghdad has been going downhill since Iraq signed a friendship treaty with the USSR in April 1972. As Iraq's ties with the USSR became closer over the last year or two, Peking has shown its increasing displeasure by a series of small symbolic acts, such as moving slowly to implement the \$45-million economic aid agreement it signed with Baghdad in June 1971. Most recently the Chinese manifested their displeasure by giving the celebration of the Iraqi national day only limited attention. During the previous two years, the Chinese had marked the occasion with special messages of congratulations from Premier Chou En-lai, and Chi Peng-fei had attended ceremonies at Iraq's embassy in Peking. This year there were no messages at all, and the Chinese representatives at the ceremonies were the ministers of agriculture and forestry and of public health.

[Redacted]

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In their concern over blocking the expansion of Soviet influence, the Chinese do not appear particularly worried about Arab sensitivities. Despite an Egyptian request to vote for the recent UN Security Council resolution on the Middle East in order to further isolate the US on the issue, China abstained, publicly justifying its action by arguing that the resolution was not hard enough on Israel. In Dhofar, the PRC has ceased giving aid to the rebels, a move Iran appreciates, but one which will disillusion Peking's admirers in the Arab nationalist left and in those Palestinian fedayeen groups with close ties to the insurgents.

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Korean Contretemps

As the summer wears on, it is becoming increasingly clear that Peking will not agree to defer discussion of the Korean issue at the UN General Assembly session this autumn. Ambassador Huang Hua made this explicit in conversation with US officials at the end of July. The Chinese also have made it clear that they will follow North Korea's lead in opposing admission of both North and South Korea to the United Nations. In addition, Peking has somewhat stepped up its propaganda support of North Korean positions. A recent NCNA article quoted a North Korean general's attack on "US imperialist provocations," another replayed a demand for the immediate withdrawal of US troops from the South. While there is little new in such propaganda (which in any event leaves the condemnations in the mouths of others), Peking has recently given greater prominence to this material. Several such articles were grouped together with other anti-American material in a recent edition of *People's Daily*.

At the United Nations, China will probably adopt tactics similar to those it used last year. At that time the Chinese allowed others, such as the Algerians, to act as the cutting edge in putting forth the North Korean position. Chinese support for Pyongyang will therefore be lukewarm, but it is unlikely that Peking will actively attempt to push North Korea into a modification of its positions. Indeed, the Chinese probably would not be unhappy to see the Korean situation develop in ways that depart from Pyongyang's formal position—so long as this does not involve active intervention, publicly or behind the scenes, on China's part. A Chinese diplomat as [redacted] recently claimed that Peking was prepared to see UNCURK phased out gradually, adding that while the UN command must "ultimately" be ended, its continued presence would not hinder progress toward reunification. Needless to say, these views would hardly create much enthusiasm in North Korea.

This is almost certainly the crux of the matter. One North Korean diplomat recently expressed concern that the developing Chinese relationship with the US was leading Peking to sacrifice Pyongyang's interests. Even more to the point, Kim Il-sung recently complained not only that Peking too often interfered in North Korean affairs, but offered the view that the Soviet Union was an easier ally at this point than was China. These comments are symptomatic of North Korean resentment of previous Chinese pressures on Pyongyang to moderate its position; any hint that such pressures have led North Korea to lean toward Moscow obviously would cause concern in Peking.

The Soviets of course have their own difficulties with North Korea, and the Chinese probably are not worried about a complete reversal of form in Pyongyang.

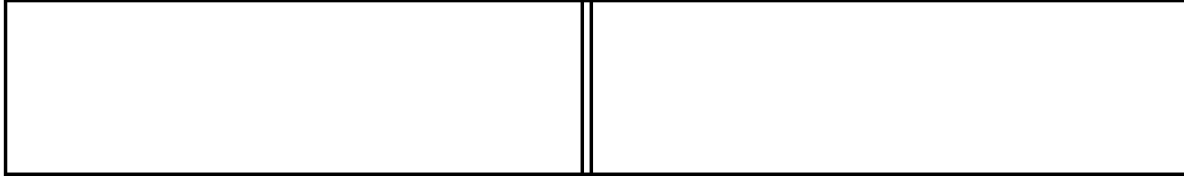
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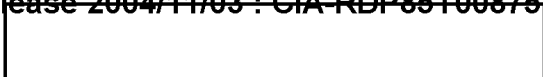


But this is a particularly delicate time in China. With a party congress in prospect, the formulators of Chinese foreign policy, such as Chou En lai, cannot afford to appear as errand boys for Washington, pressuring unwilling allies to adopt unpalat-



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Concern About Kabul

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Peking appears to believe that the newly installed Daud government in Afghanistan is even more pro-Soviet than its predecessor and over the long term could adversely affect Chinese strategic interests in the western Indian Ocean basin. Several Chinese officials have professed to see Moscow's hand in the mid-July coup, and Peking withheld recognition for nearly two weeks. When it finally recognized the new government, the New China News Agency pointedly referred to Daud's pledge that he would follow a non-aligned foreign policy.

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[Redacted]

As prime minister ten years ago, Daud called for the creation of an independent state of Pushtunistan from the frontier provinces of Pakistan. Shortly after his coup last month, Daud referred to this problem as "unresolved." Peking has long been strongly opposed to further dismemberment of Pakistan, and moves against either Pakistan or Iran, particularly if clearly supported by Moscow, almost certainly would lead to heightened tensions. Peking, however, will probably await a clearer reading of Daud's political strength and intentions before further defining its policy toward Kabul.

Much of this Chinese "concern" over Soviet intentions may be a tactic designed to alarm Pakistan and Iran. We have no evidence of Soviet complicity in the Zahir government's downfall, and Peking probably does not either. Moreover, the Chinese believed that Moscow had a close and profitable relationship with the Zahir regime, and Peking clearly counted Kabul as in Moscow's camp prior to Daud's accession. There is also evidence that Moscow itself is concerned that Daud's support for tribal autonomy might cause undue aggravation in the region, undercutting Soviet attempts to improve relations with Iran and Pakistan. Peking may believe that it can exploit Pakistani and Iranian concern as leverage to forge an alliance anchored in Tehran and Islamabad and aimed indirectly at curbing Soviet gains in the region.

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[REDACTED]

Reforming the Reform Schools

[REDACTED]

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Peking recently announced plans to overhaul and regularize the system of cadre reform schools established in 1968. Under this system--one of many programs instituted at the close of the Cultural Revolution--party and government officials are supposed to attend special schools on a rotational basis for ideological rectification. These "7 May" cadre schools, which take their name from the date of a directive from Mao Tse-tung, are highly unpopular, and in the past year or so some have closed and rumors have circulated that all of them were to be phased out. The plans for revising them, however, strongly suggest that in one form or another the schools will be around for a long time.

According to a Chinese news agency report on 11 July and a follow-up editorial in the *People's Daily*, the new guidelines on the 7 May schools were produced at a conference held recently by departments under the party central committee and the State Council. In an apparent effort to make the schools more palatable to assignees, the guidelines emphasize upgrading the quality of political instruction. The standards of the school staff are to be improved, and steps are to be taken to ensure an adequate supply of teaching material. When these changes are implemented, the 7 May schools will more closely resemble the orthodox party schools that existed prior to the Cultural Revolution.

Although it appears that 7 May students will be spending more time studying, manual labor is still part of the curriculum. The announcement on 11 July stipulates that the schools will send their students to work at designated farms and factories. In the past, most cadres worked along with other cadres in workshops and farming plots at the school. The new arrangements will quickly turn the farms and factories that are selected into special showcases and theoretically, at least, will bring the schools more in line with Mao's original idea that cadre should mix with the masses so as to avoid assuming bureaucratic airs.

The conference of central party and government organizations was probably convened following a sharply worded defense of the 7 May school system broadcast on the Peking domestic radio service on 9 May. The broadcast stated that anyone who agreed with the theory that 7 May schools are another form of unemployment--a view attributed to Lin Piao--could "go to hell." On the key matter of whether all cadre would have to attend the schools, even if they had not erred, the conference stated only that the question was "discussed."

Criticism of the 7 May schools comes from several quarters. The new plans for overhauling the system doubtless represent a compromise on several scores, but the emerging 7 May system seems to smack a good deal of that old maneuver: "left in form but right in essence." [REDACTED]

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[REDACTED]

Law of the Sea—Another Round

[REDACTED]

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Chinese statements made at the July UN Seabeds Committee meeting in Geneva indicate that Peking is more sharply defining, and in some cases modifying, its stand on several important issues.

Peking's basic positions on the issues of the extent of territorial seas and the creation and breadth of national maritime economic zones remain as stated in the draft articles informally circulated for discussion at the previous committee meeting in April. At the July meeting, however, PRC representative Shen Wei-liang modified the claim that each nation may define the limits of its own territorial seas. Although Shen asserted that coastal states are entitled to reasonably determine the extent of their territorial seas, he suggested that such issues should be settled on a regional basis, with each nation taking into account the legitimate interests of neighboring states and the conveniences of international navigation. This emphasis on regional negotiations probably was prompted by China's desire to reach agreement with the Koreans and Japan on jurisdiction over potential oil-bearing areas in the Yellow and East China seas. Shen's statements suggest that the PRC favors a maximum world limit on territorial seas considerably beyond its own 12 nautical mile claim, but probably less than the 200-mile limit claimed by Latin American states.

In another modification of Peking's position, Shen advocated that the proposed maritime economic zones be limited to 200 nautical miles or to a 200 meter depth, whichever is greater. Earlier the Chinese had merely endorsed the concept of exclusive national maritime economic zones without suggesting a limit.

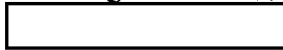
As in previous committee meetings, Shen attacked the superpowers for seeking "maritime hegemony." Not surprisingly, his sharpest remarks were reserved for the USSR, which he accused of opposing the concept of a 200-mile economic zone while advocating an increase in the limits of the continental shelf from the 200 to the 500 meter depth line, thereby extending the USSR's continental shelf more than 200 miles. [REDACTED]

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New Image for Tachai



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Following a severe drought in the northern province of Shansi, the regime in late June had to admit that the only way it could sustain Tachai, its model agricultural unit, was "by carrying water from elsewhere"

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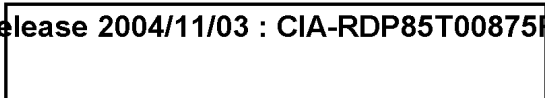
Late last month, however, the official line was revised, to make Tachai's plight seem less ominous. According to NCNA, the model farming brigade could have tapped the water supply from a nearby reservoir, but decided to conserve that supply for other, less fortunate farming units in the area. To make up for this self-imposed deprivation, Tachai members carried water from distant wells and storage pits by shoulder pole and "even in jars and wash basins." With water provided in this fashion, sowing of the crops required ten times the normal labor input.

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Thus, China's model for self-reliance in agriculture is being held up this summer as an example of self-sacrifice. The regime probably hopes that the new Tachai image will encourage areas that have relatively good harvests this year to share generously and consume frugally. The task of grain distribution may become a touchy political issue if the 1973 crop does not show an improvement over last year's disappointing harvest. The treatment of Tachai's problems again underscores Peking's desire to allocate all available resources to support agriculture.

The image of Tachai that emerged in late July is in many ways a real-life enactment of the struggle dramatized in "Ode to Dragon River," an opera performed in 1971 under the aegis of Mao's wife, Chiang Ching. In that opera a farming community deliberately sacrifices its own land so that adjacent farm communities may survive. Occasionally, some provinces have urged adoption of the so-called Dragon River spirit, but the regime has not as yet revived the opera or specifically exhorted people to act out its theme.

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China's Trade Relations with the Third World

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Improvement of political and economic relations with the Third World accompanied China's re-emergence on the world scene following the Cultural Revolution. China is participating in UNCTAD and ECAFE and has endorsed such Third World issues as expanded limits of territorial seas. Prospects of increased trade and aid on generous terms have induced a number of the less developed countries (LDCs) to conclude trade and aid agreements with China. Sino-LDC trade has taken a sharp upturn in the 1970s, reaching \$1.3 billion in 1972—about 20 percent of China's total trade. Trade with Africa and Latin America has shown the greatest gains.

Trade with the Third World is important to China as a source of industrial raw materials and a means of earning foreign exchange. The LDCs provide China with all its imports of natural rubber, a major portion of its purchases of textile fibers, and the bulk of its copper. These three products make up about 70 percent of China's imports from the LDCs. Hard-currency earnings from trade with the Third World are an important offset to the annual deficits that China incurs in its trade with the developed countries. East Asia makes the largest contributions—\$200 million last year—to China's trade surplus with the LDCs. The decline in China's export surplus with the LDCs from \$225 million in 1970 to \$175 million in 1972 is because trade deficits with Latin America resulted in sharp increases in nonferrous metal imports.

Still, trade with China makes up less than one percent of the Third World's total trade. For a number of the LDCs, however, China provides a sizable market for raw materials and an important source of low-priced foodstuffs, textiles, and light manufactures. As a market for raw materials, China is a major customer for Sudanese cotton, Malaysian and Sri Lankan rubber, and Chilean and Zambian copper. Chinese goods find their best markets in East Asia, where many Overseas Chinese reside.

Sino-LDC trade this year will total between \$1.4 and \$1.5 billion, a 10-20 percent increase over 1972. China's imports will probably show a greater gain than its exports, largely because of increased purchases of cotton and rubber. Also, China has recently turned to Kuwait and Greece for chemical fertilizers. Exports will also rise, though to a lesser extent, as new trading relations with countries such as Greece, Zaire, and Mexico expand the markets for Chinese goods.

China is likely to continue its strong interest in Third World trade for both economic and political reasons. Sino-LDC trade will face some problems in the future, however. In the near term, China may have difficulty in producing enough to satisfy its growing markets in the Third World. In the longer term, the LDCs will be able to produce domestically the types of goods now imported from China. [REDACTED]

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[REDACTED]

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CHRONOLOGY

17 July Mao and Chou receive Dr. Yang Chen-ning, visiting Chinese-American scientist [REDACTED]

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17-24 July Algerian Minister of Public Health Omar Boudjellab visits PRC. [REDACTED]

19 July Peking announces first direct aid agreement with South Vietnamese communists; heretofore aid has been funneled through North Vietnam. [REDACTED]

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Liaoning Province began a series of broadcasts attacking moderate educational policies such as the college entrance examination. [REDACTED]

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20 July Chou En-lai meets with visiting North Vietnamese journalists. [REDACTED]

21 July Kuwaiti Minister of Public Health arrives in China. [REDACTED]

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21-27 July Foreign Trade Minister Pai Hsiang-kuo leads government trade delegation to Australia; signs three-year Sino-Australian trade agreement on 24th. [REDACTED]

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27 July *People's Daily* "Commentator" article calls on Saigon to release all detained civilians. [REDACTED]

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27-31 July Foreign Trade Minister Pai Hsiang-kuo leads government trade delegation on official visit to New Zealand. [REDACTED]

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27 July-1 August President of the Congo Ngouabi visits China. Received by Mao, holds extensive talks with Chou, signs loan agreement. [REDACTED]

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28 July Peking recognizes new Daud government in Afghanistan. [REDACTED]

Chou En-lai comments routinely on Cambodia at public banquet for Congolese president. [REDACTED]

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1 August Annual Trade Agreement concluded with Moscow. [REDACTED]

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Army Day features an uneventful Defense Ministry reception. No editorial, and no new PLA appointments announced. Chou En-lai away from Peking on the occasion. [REDACTED]

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[REDACTED]

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2 August

Mao meets with two other Chinese-American scientists, friends of Mao's from Hunan. Chou En-lai absent for the first time since Mao began the practice of receiving visitors in his study. [REDACTED]

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3 August

People's Daily "Commentator" article supports Vietnamese communist Foreign Ministry statements regarding Vietnam cease-fire compliance. [REDACTED]

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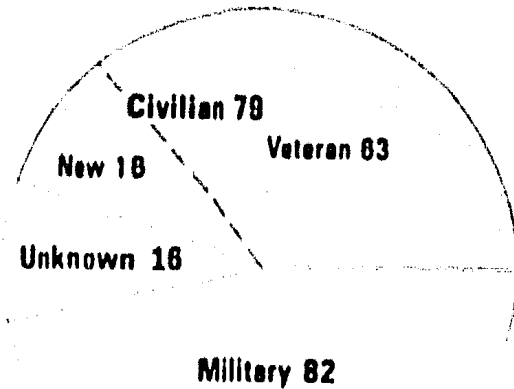
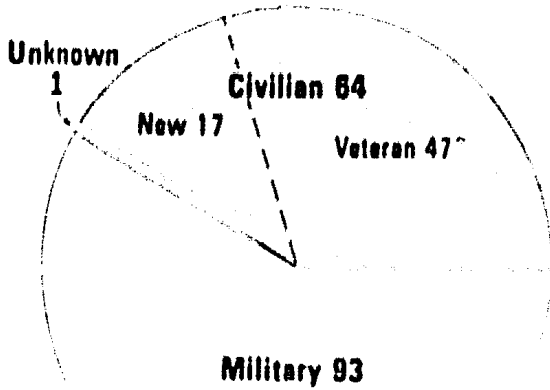
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Composition of Provincial Party Committees

Original total at formation,
September 1971 158

Current total,
July 1973 177



Total additions since formation 57

Civilian 28	Military 11
Veteran 24	Unknown 18
New 4	

Total promotions since formation 13

Civilian 10	Military 3
Veteran 9	Unknown 0
New 1	

Total purged, absent since January 1, 1973 or demoted

Civilian 6	Military 20
Veteran 4	Unknown 3
New 2	

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*Veteran cadre are cadre who held a party or government position prior to the Cultural Revolution



ANNEX

Provincial Party Committees: New Faces of '73

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Since the formation of new provincial party committees in 1971, there has been a steady, if gradual, erosion of the military presence on the committees. Partly through purges and partly through enlargement, Peking has moved to increase the influence of civilians on the committees, especially veteran party officials who were purged by the radicals during the Cultural Revolution and were later replaced by the military. On the whole, these additions are second-level party cadre—former provincial party secretaries and vice governors—who have special administrative skills and in some cases expertise in agricultural and rural problems. With few exceptions, the once powerful regional party bosses and provincial party first secretaries have not been rehabilitated.

"The Gun" Rules the Party

The confusion and breakdown in order engendered by the Cultural Revolution forced Peking to order the military into provincial politics. The permanence of the PLA's "temporary" intrusion was clearly reflected in the composition of the new party committees formed in late 1970 and 1971 (see chart). Of China's 29 provinces and independent municipalities, only two—Peking and Shanghai, hotbeds of Cultural Revolution activity—did not have a military man in either of the top two spots. The committees themselves were manned mostly by military men, and the few civilians who did sit on them were often isolated from real decision making.

The situation proved to be embarrassing for China's leaders, who had long prided themselves on having a party that ruled "the gun." Beginning with, and probably spurred by, the Lin Piao crisis of September-October 1971, Peking took steps to lessen the military's influence. In the succeeding 22 months the effort has been relatively successful, given the factionalism that exists within the provinces and in Peking.

Increased Civilian Influence

Today there is a rough parity between civilian and military representation on provincial party committees (see chart). These numbers are a bit misleading, however, because the military still has an overwhelming command of the top spots. Even after the purge of 16 top provincial figures—all PLA men—in the wake of the Lin affair, only nine of the 16 replacements were civilians. Furthermore, aside from Shanghai and Peking only Hunan and Honan provinces are without a military man in either of the top two positions.

Nonetheless, the current trend clearly favors the civilians:

- since the formation of provincial party committees, more than twice as many civilians have been added as military men, and these additions have favored veteran cadre on the order of six to one;
- civilians have been promoted to posts of secretary and above at a ratio of better than three to one over the military; most of the additions and promotions have come this year;
- more than three times as many military men as civilians have dropped from view, and the trend seems to be accelerating.

New Faces

On the whole, it is second-level veteran cadre who are returning—i.e., those individuals who served in positions just below the top provincial and regional leadership spots prior to the Cultural Revolution. These men were for the most part provincial party secretaries and vice governors, and many have special expertise in rural and agricultural matters; all are experienced administrators. Given the clouded agricultural outlook and the current drive to revive mass organizations, men with special talents in rural work and party organization are especially valuable.

With few exceptions, the former top men in provincial politics—pre-Cultural Revolution regional party bosses and provincial party first secretaries—have not been rehabilitated. The decision on their rehabilitation presumably is now being made, and will probably be ratified at the 10th Party Congress. These people, unlike those who already have been rehabilitated, were serious contenders for political power at the national level before their fall. Should they regain responsible positions, the military's influence in provincial politics will decline further.

The Future

In the immediate future, the current trend toward increased numbers of veteran cadre returning to provincial committees and a corresponding decline in the percentage of military will probably continue. Revolutionary Committees, the administrative units set up during the Cultural Revolution, which still contain a relatively large proportion of Cultural Revolutionary activists and PLA personnel, have been in control in the countryside. If more of their administrative responsibility is shifted to party committees, there will be an even larger voice for party veterans in provincial matters. Such a move seems likely. There are reports that senior military personnel will be asked to choose between a civilian appointment and a military career.

Whatever the outcome, the committees will continue to face many problems. Divisions between younger and older cadre, the tendency to add people without removing others, disagreement over the liberalizing trend, and other vexing issues will hinder the political initiative and efficiency Peking appears to be seeking. A clear indication of a united leadership in Peking remains the key--as it always has been--to smoother functioning in the provinces.

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