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COMMUNIST CHINA

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Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 13 May 1958. Concurring were The Director of Intelligence and Research, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Assistant Chief of Staff, Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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COMMUNIST CHINA

THE PROBLEM

To analyze Chinese Communist domestic developments and external relations during the period of the First Five Year Plan (1953-1957), and to estimate probable trends during the next five years.

CONCLUSIONS

1. We believe that the Chinese Communist ability to exercise firm and effective control of mainland China will continue. The leadership of the party continues to demonstrate cohesion and determination and, at the same time, a considerable degree of flexibility. It is supported by a party membership of about 13 million and controls a large and efficient military and public security apparatus. We believe that the death or incapacitation of Mao Tse-tung would not endanger the regime's control of the country, although it might complicate the achieving of some objectives and reduce the party's policy flexibility. (*Paras. 43-45, 66-68*)

2. The regime apparently has made considerable progress in its efforts to recast the traditional structure of Chinese society in the Communist mold. It has collectivized almost all the peasants and has virtually eliminated private ownership in industry and commerce. Although the Chinese people have viewed with favor some of the regime's achievements, the regime's stringent curtailment of con-

sumption and the constant pressures to conform and to work harder have provoked much dissatisfaction and disillusionment, especially among the peasants. The party's experiments during the past two years to gain wider popular support by admitting problems and encouraging their discussion—the "letting 100 flowers bloom and diverse thoughts contend" program—has been sharply cut back. (*Paras. 27-42*)

3. In its efforts to elicit a more positive popular response, the regime, because of its determination to achieve rapid industrialization, will have little to offer in the way of material inducements. Dissatisfactions and occasional popular outbursts will continue, especially among the peasantry and certain minority groups, but we believe the net effect on the regime's programs will be no more than a complicating or retarding one. Most Chinese, conscious of the regime's power and seeing no alternative, will probably continue to acquiesce in Communist rule. (*Paras. 68-70*)

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4. The Chinese Communists achieved a high rate of economic growth during their First Five Year Plan (1953-57), demonstrating their capability to marshal resources for investment despite the backward nature of the economy. A vital factor in their economic program was the assistance rendered by the USSR in expanded trade, credits, and technical aid. Starting from a very small base, the average annual rate of growth of industrial output was about 16 percent, but industrial output at the end of 1957 was still small compared to the industrial output of Japan or the UK. Agricultural output was adequate to meet basic needs, but its expansion fell far short of that in other sectors of the economy. (Paras. 17-26)

5. During the next five years, the regime will have to cope with difficult economic problems stemming from the forced pace of industrial development. However, the basic problem will continue to be the race between population growth and food production. The Chinese population is now probably about 640 million and increasing at about 2.0-2.5 percent per year; agricultural output during the next five years will, at best, probably not exceed the 3 percent per annum increase achieved during the First Five Year Plan. In the event of a series of bad crop years and of widespread lack of cooperation among the peasants, the regime would face grave difficulties. However, even in these circumstances, the regime, because of its control apparatus, probably could maintain itself in power and, at the same time, maintain industrial growth, although at a reduced rate. (Paras. 54-57)

6. We believe that Communist China during the next five years will probably be

able to maintain a rate of economic growth roughly comparable to that of the past five years. By 1962 its Gross National Product will probably be on the order of US \$65-67 billion, as compared with US \$46 billion in 1957. The contribution of the industrial sector will probably have increased to about 26 percent, as compared to about 19 percent in 1957. (Paras. 52, 53, and 59)

7. Communist China's military power in the Far East will bulk even larger by 1962 than it does at present. The army will probably be somewhat smaller, but it will be better equipped and more mobile. The air force and navy will have increased in size and effectiveness. The Chinese Communist armament industry, with Soviet technological assistance, will probably be able to meet most, if not all, army requirements for small arms, artillery, transport, and ammunition. Shipbuilding and aircraft production will probably have increased considerably. Nevertheless, Communist China will still be dependent on the USSR for heavy and complex military equipment and for many components. (Paras. 71-73)

8. Although Communist China will almost certainly not have developed a missile or nuclear weapons production capability of its own by 1962, we believe that the Chinese Communists will press the USSR for such advanced weapons. By that time the USSR will probably have provided it with some varieties of missiles and other weapons adaptable to nuclear use, but with non-nuclear warheads. Unless barred by an effective international agreement, the USSR may introduce nuclear weapons into Communist China by 1962, although they will almost certainly remain under Soviet control. In any

event, even though nuclear warheads were not deployed in Communist China, they would be readily available if Sino-Soviet interests required them. (Para. 74)

9. Communist China will almost certainly remain firmly aligned with the USSR. Peiping will continue to acknowledge Moscow as the leader of world Communism, but as Communist China grows in strength and stature, it will probably play an increasingly important role in the formulation of general Bloc policy. Although there will almost certainly be some frictions, these are unlikely to impair Sino-Soviet cooperation during the period of this estimate. (Paras. 75-83)

10. In its efforts to reduce and eliminate Western influence in Asia, Communist China will probably proceed primarily by non-military means. Its foreign policy will probably display more initiative and assertiveness, while continuing to emphasize coexistence and a readiness to increase economic and political relations with other states. Without compromising its stand on basic issues, Communist China will continue to portray itself as willing to reach a rapprochement with the US. At the same time, the Chinese Communists will almost certainly continue their subversive efforts throughout the Far East. They will almost certainly continue their efforts to undermine the will of the Nationalists on Taiwan, and to discredit them internationally. They will probably not resort to overt military aggression as long as they believe it would involve them in military action with the US. Although their attitude towards the Offshore Islands may become more aggressive, a decision to initiate military

action to seize these Islands would probably be contingent on an estimate that the US would not intervene militarily. (Paras. 88-90)

11. Japan will continue to be one of Peiping's most important targets, especially because there is a growing area of competition between Communist China and Japan. Peiping will continue to seek to reduce conservative strength and US influence in Japan by exploiting Japanese fears of becoming involved in a nuclear war, any areas of friction with the US, and Japan's eagerness to expand trade with mainland China. In pursuit of these objectives, Communist China will continue to employ both conciliatory and tough tactics. Trade between Communist China and Japan will probably increase, and Peiping will probably be able to gain at least quasi-diplomatic status for a trade mission in Japan. (Paras. 93, 63)

12. Assuming a general continuance of present Bloc and Western policies, we believe that intercourse between Communist China and the Free World will increase considerably during the next five years. This trend will probably involve added diplomatic recognition of Peiping by a number of states, but will occur whether or not formal diplomatic ties are established. It will also involve greater difficulty in excluding Communist China from the UN. (Paras. 95-96)

13. If Communist China continues its present international policy, we believe that its prestige in Asia will continue to grow during the next five years. This will occur whether or not additional countries recognize Communist China, or it is

admitted to the UN. But it does not necessarily follow that as a result of increased prestige the Chinese Communists will be able to induce non-Communist Asian countries to adopt internal or external policies desired by Communist China. Communist China's future role in Asia will be determined to an important extent by developments in five fields, in varying degrees beyond the control of the Chinese Communists:

a. The course of events in the US-USSR relationship and in the broad aspects of the cold war.

b. Developments within the Bloc such as spectacular scientific achievements or major political upheavals.

c. The extent to which local Communist parties, e.g., those in Indonesia, Laos, and India, gain or lose political strength.

d. The extent to which the growth of Communist China's power gives rise to increased apprehensions among Asian governments as to Communist China's future intentions and thus causes them to take increasingly effective measures at least to counter their own internal Communists.

e. The extent to which the US has the confidence and trust of non-Communist Asian governments, and in turn helps these governments not only to resist the Communists, but also to meet their national aspirations. (Para. 97)

DISCUSSION

I. INTRODUCTION

14. The Chinese Communist regime during the period of its First Five Year Plan (1953-1957) made considerable progress toward its long-run goal of transforming Communist China from a backward agricultural country into an industrialized nation. With assistance from the USSR, the Chinese Communists have achieved a high rate of increase in their Gross National Product, and especially in the output of heavy industry. The imposition of Communist institutions on society has proceeded at a rapid rate as a result of the virtual elimination of private enterprise in industry, commerce, and agriculture. These domestic achievements and the growing military power of Communist China contributed to its increased impact abroad, both in the Free World and in the Communist Bloc.

15. At the same time, the forced pace of change has created internal stresses and strains which are substantial and widespread. These stresses and strains have been produced by the rigidities and repressions which are essential features of Communist methods and programs and which hinder the development

of general popular support for the regime. They were inevitable in view of the regime's efforts quickly to mold the Chinese into a disciplined Communist society. Tensions have also developed out of the intervention, at all levels of society and in all activities, of party workers who have the power to command, but who in most cases have inadequate training and experience in their duties of supervising the specific educational, social, or economic organization. Moreover, the regime's efforts to restrict consumption in order to increase investment have been felt particularly by the peasants, whose incentive to produce has been reduced. Nevertheless, as far as we can see, these tensions are not critical in the sense of threatening the position of the Communist leaders or of being likely to hamper production to the extent of seriously limiting the further growth of the Chinese Communist economy.

16. The Chinese Communists, after going through a period of pessimism engendered by the economic problems which came to a head in 1956, now appear confident that they can maintain a rapid rate of economic expansion

during the next five years. This confidence is tempered by the extent of popular criticism of the regime as revealed by the recent but short-lived experiment in relaxing controls on public discussion, by the evidence that there was a growing separation between the party and the people, and by the widespread peasant dissatisfaction when collectivization failed to bring increased income. The regime's confidence is also tempered by a more realistic appreciation of the magnitude of its basic problems, particularly that of agriculture.

II. DEVELOPMENTS DURING THE PERIOD OF THE FIRST FIVE YEAR PLAN¹

A. The Economy^{2,3}

17. The Chinese Communists, during the period of their First Five Year Plan, achieved a high rate of economic growth which compares favorably with that of the Soviet Union in its First Five Year Plan (1928-1932). (See Figure 1.) This progress was achieved despite relatively crude and rudimentary planning, resulting from such factors as the limited technical personnel, the lack of reliable and comprehensive statistics, the backward state of the economy, and the rapid imposition of social change. Although the regime has made a pretense of proceeding according to an overall five year plan, it has actually operated from year to year on annual plans which have generally been aimed at correcting the excesses and defects of the previous year. Nevertheless, the regime demonstrated its capability to control the economy sufficiently to limit consumption and to marshal resources

for investment, despite the backward nature of the economy and the necessity of obtaining the funds for investment largely from the agricultural sector, the output of which fluctuated widely from year to year.

18. Starting from a small base, the average annual rate of growth of industrial output during the period was high, probably about 16 percent. This growth was uneven, exceeding 30 percent in 1953 and 1956, but dropping sharply in 1955 and 1957. During the five year period, production of such basic items as steel more than tripled, while the output of coal, electric power, and cement more than doubled. Despite this considerable progress, the Chinese Communist industrial output at the end of 1957 was still small compared to that of Japan or the UK. (See Figure 2.)

19. The increased industrial output was to an important degree obtained from the reconstruction, expansion, and more intensive utilization of existing plant, although a considerable investment was made in new plant, much of which will come into production in 1958-1962. The regime has directed about 56 percent of total investment into the industrial sector and has favored heavy over light industry by about eight to one. Industry became more diversified with the addition of new plant, and by the end of the period production facilities for trucks, sea-going ships, aircraft, and more complicated machine tools were put into operation, although the Chinese Communists are still dependent on foreign sources for many components.

20. The growth of industrial output was retarded by uneven development among various parts of the industrial sector, which resulted in serious imbalances. The most important of these was the failure of the output of raw materials to keep in phase with the expansion of manufacturing capacity, especially in the machine and equipment building industries. In some cases, however, the deficiencies of raw materials arose from the difficulties in developing natural resources; for example, the regime has been unable to develop sufficient sources of crude oil and copper, accessible to existing rail lines, to meet requirements. The output of light industry, dependent largely on

¹See Appendix A for a more detailed discussion of the First Five Year Plan.

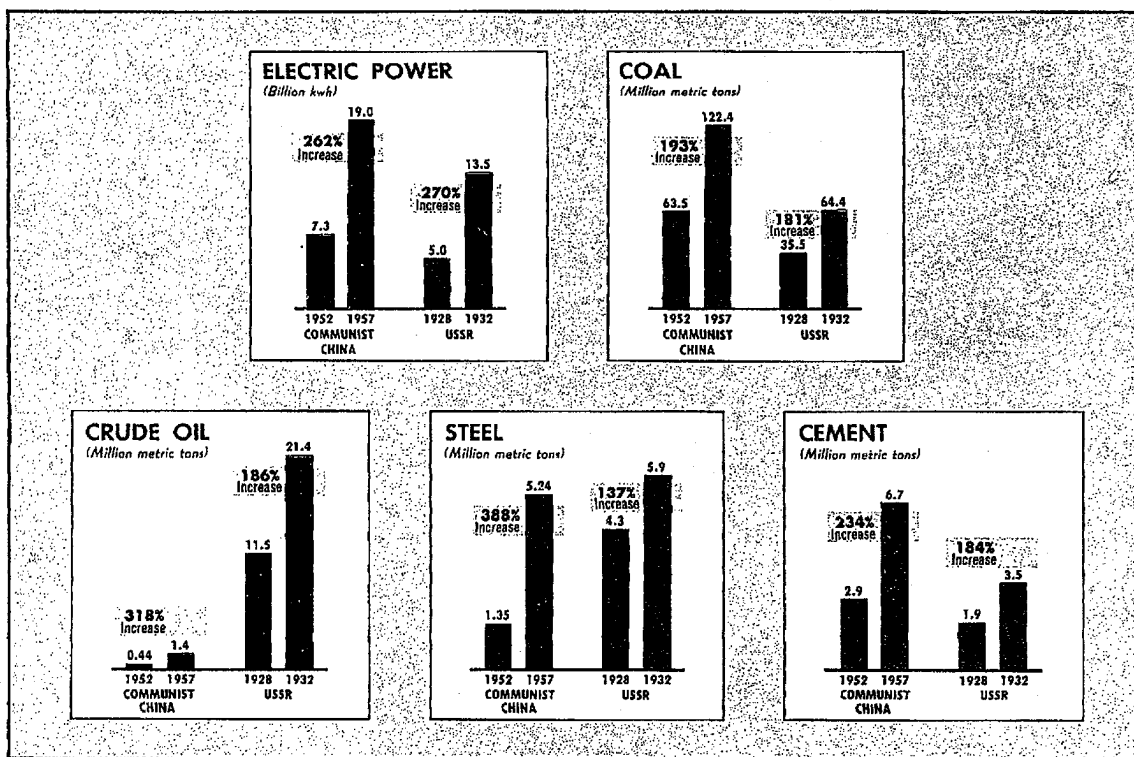
²Chinese Communist statistics upon which the data and analyses throughout this estimate are based are subject to the same reservations as those of other Bloc countries, but to a somewhat greater extent, in view of the inexperience on the part of the newly established Chinese Communist statistical collection system. This inexperience probably accounts for the majority of such statistical defects as have been noted. Chinese Communist statistics are the basis for the regime's planning and we believe are not, in general, misrepresented.

³See maps for Communist China's railroad system and major industrial and mining centers.

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Figure 1

COMMUNIST CHINA AND THE USSR
ESTIMATED PRODUCTION INCREASES DURING THEIR FIRST FIVE-YEAR PLANS



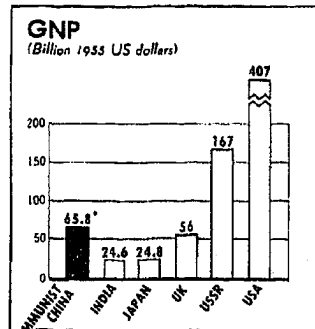
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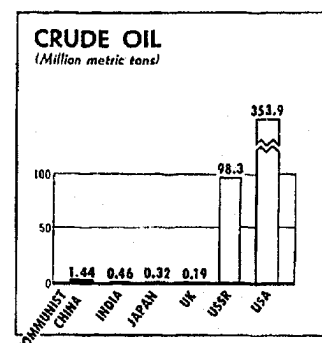
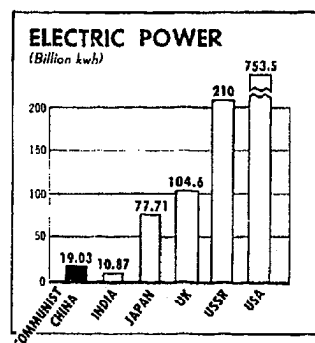
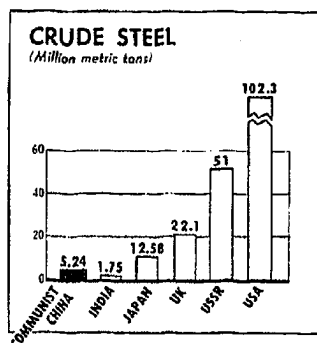
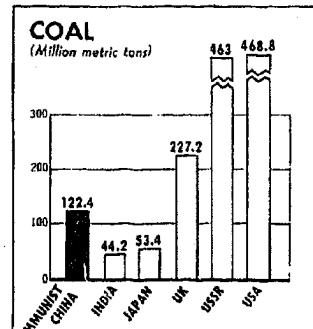
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Figure 2

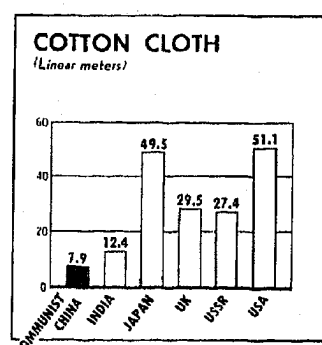
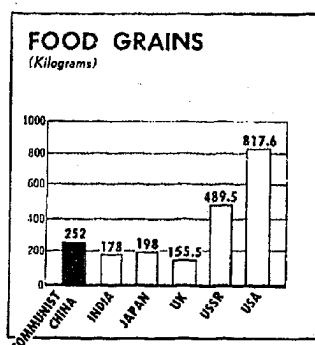
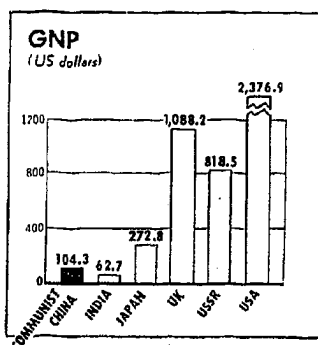
COMMUNIST CHINA
ESTIMATE OF 1957 GROSS NATIONAL PRODUCT
AND PRODUCTION OF PRINCIPAL COMMODITIES
COMPARED WITH THOSE OF SELECTED COUNTRIES



*Dollars from figure presented in paragraph 6 which was converted from yuan at the official exchange rate.



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agricultural raw materials, has not been sufficient fully to utilize present plant capacity.

21. Technical assistance from the Bloc has been of paramount importance to Communist China's industrialization. The major industrial projects, accounting for about 40 percent of total industrial investment, were designed, supervised, and placed in initial operation by Soviet technicians. In addition, Bloc, largely Soviet, advisors and technicians have worked with virtually every ministry in the government and with many individual enterprises. Technicians have provided on-the-job training for Chinese workers and some 7,000 Chinese have been sent to the USSR for training. Soviet bloc technical data have been used on a large scale.

22. The growth of agricultural output was adequate to meet basic needs, but its expansion fell far short of that in other sectors of the economy. Serious natural calamities in 1954 and 1956 and bumper crops in 1955 caused wide fluctuations in output during the five year period. Moreover, production was adversely affected by the disruption and confusion which accompanied the rapid collectivization of agriculture in 1955 and 1956. Agricultural growth was also hampered as a direct result of the regime's decision to minimize state investment in this sector and to depend on its ability to squeeze the bulk of agricultural investment funds directly from the earnings of the collectives. The large flood control and irrigation projects, undertaken by the state, were not sufficiently advanced to increase materially the acreage under irrigation, even though the amount spent exceeded the plan by 50 percent. Furthermore, State investment in the chemical industry was inadequate to increase substantially the availability of chemical fertilizer. The increases in grain and cotton production that were achieved were largely the result of direct investment by the collectives in small irrigation projects which permitted an expansion of double-cropping.

23. Economic progress during the First Five Year Plan, to an important extent, was dependent on the importation of vital machinery, equipment, and industrial raw materials. Bloc countries were Communist China's

major trading partners, accounting for nearly 78 percent of total trade. There was some increase in trade with non-Communist countries, but this increase was limited to some extent by Western trade controls. The Chinese Communists were able to maintain an import surplus over the period 1953-1957 as a whole. This was made possible by Soviet credits, largely of a military nature, which accounted for about 13 percent of total imports, and, to a lesser extent, by remittances from Overseas Chinese. However, during the period, balance of payments pressures increased. Despite a doubling of exports, imports rose by only one-third, and the trade balance shifted from an import to an export surplus. This shift resulted from the exhaustion of foreign credits, mounting foreign debt service, reduced Overseas Chinese remittances, reduced Soviet expenditures in China after the force withdrawal of 1955, and the Chinese Communist foreign aid program. (See Figure 3.)

24. Despite this slim margin on which they have been operating, the Chinese Communists made a series of offers or grants of economic aid. The largest portion of Chinese Communist foreign aid has gone to other Communist countries: grants in goods and services of \$325 million each to North Korea and North Vietnam, \$40 million to Outer Mongolia, and \$7.5 million to Hungary; and a loan of \$25 million to Hungary. In addition, to non-Communist countries, Communist China has extended grants totalling \$55 million, and has extended in late 1957 and early 1958 loans totalling an additional \$32 million.⁴ Of the total of about \$810 million in grants and loans, Bloc and non-Bloc, about \$630 million had actually been expended by the end of 1957.⁵

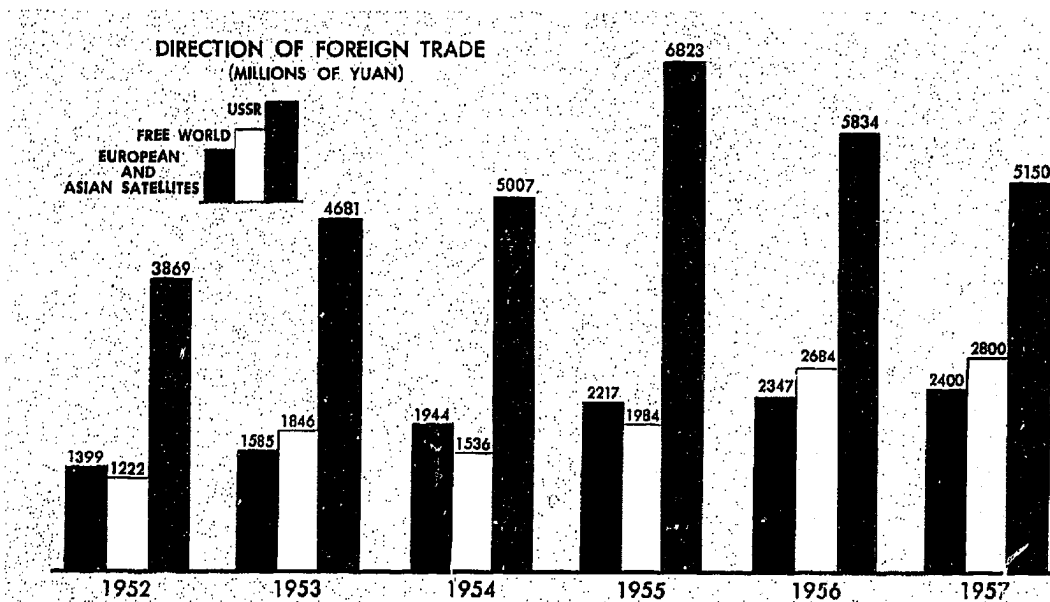
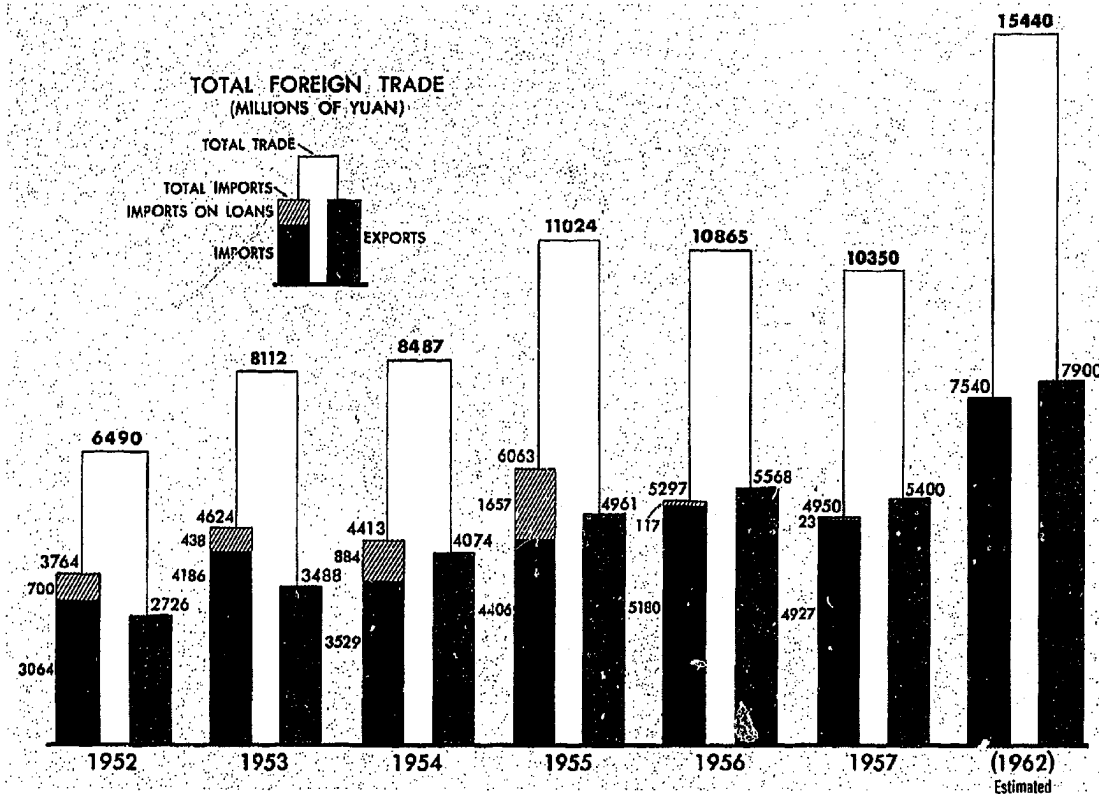
⁴ Grants (in millions of US\$): Cambodia, 22.4; Nepal, 12.6; Egypt, 4.7; Ceylon, 15.75. Loans extended (in millions of US\$): Indonesia, 11.2; Burma, 4.2; Yemen, 16.3.

⁵ The loans and grants to Bloc countries were in yuan currency to North Korea and North Vietnam and in rubles to Hungary. Yuan data have been converted into US dollar equivalents at the rate of 2.46 yuan per US \$1 and rubles at 4 per US \$1. The use of the yuan-dollar exchange rate may overstate considerably the value of aid to North Korea and North Vietnam.

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COMMUNIST CHINA
FOREIGN TRADE
1952-1957, AND 1962

Figure 3



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25. The total increase in GNP during the past five years has probably been great enough to register an average annual growth in per capita output of five to six percent, even though the population expanded at an average annual rate of about two percent. About 45 percent of the increase in output apparently was channeled into investment or government purchases of goods and services. While the remainder was absorbed by an increase in personal consumption, probably more than three-fifths of this increase went to the non-agricultural population, which comprised less than one-fifth of the population. As a result, per capita consumption of the peasant population was probably improved little, if any.

26. The fact that population growth has nearly kept pace with the increase in agricultural output has become a matter of deep concern to the regime. During the past five years, the number of mouths to feed has probably increased by some 65 million and now totals about 640 million. As a result of improved sanitation, hygiene and public health measures, better distribution of food, and the maintenance of peace within the country, the rate of increase of the population has probably risen somewhat over the period of the last five years, averaging about 2.2 percent. With an average annual increase in agricultural output during the past five years of about three percent, the margin of safety is very thin. In an effort to deal with this problem the regime is developing programs which it hopes will, in time, reduce the birth rate.

B. Reorganization of the Chinese Society

27. The regime apparently made considerable progress in its efforts to recast the traditional structure of Chinese society in the Communist mold. These efforts sprang from both Communist doctrine and from the pragmatic need to establish a high degree of organization and control in order that a relatively small group — the Chinese Communist Party — could dominate the vast Chinese population.

28. Before 1953, the power of the landlords and well-to-do peasants which had been dominant in rural areas was virtually eliminated. Subordination of youth to their elders was weakened by placing the former in positions of responsibility. Women were given equal status in society. Through centralized control of all media of communications and a cadre network, the Communists weakened the clan and regional loyalties which still existed among many Chinese. The regime sought to convince all Chinese that the welfare of the individual and of the family must be subordinated to the general good of the nation as a whole.

29. Since 1953, the regime has intensified its efforts to reorganize traditional Chinese society. By persuasion, pressure, and, in some instances, terror, the Communists increased their efforts to impose the Communist way of life on the intellectuals and the middle class. The most radical changes in the old ways of life during the past five years, however, resulted from the regime's programs to socialize all forms of economic activity. The success of these programs was surprising because of the rapidity with which the millions of peasants were shuffled into collective groupings and business enterprises were brought under government control. Moreover, there were relatively few outward manifestations of resistance, at least initially.

30. By the end of 1956, socialization had virtually eliminated all private control of industrial and commercial enterprises. The regime continued to utilize many former owners as managers and technicians, paying them liquidation dividends which may be continued for a few more years. It has also introduced measures designed to increase party control of management and labor.

31. By the end of 1957, the Chinese Communists claimed that 93 percent of peasant households were in collective farms, and that an additional four percent were in cooperatives. The remaining small fraction, except in Tibet and certain other exempted areas, had been placed under the guidance of the nearest collective.

32. Although the organizational phase of collectivization was quickly accomplished, the Communists have not realized the major benefits which they had anticipated. Despite an increase in the output of major food crops, the government's 1958 collection declined, in part because many peasants discovered that even in collectives they could circumvent government controls, especially when the local cadres sided with the peasants. Agricultural output was also adversely affected by the dislocations which accompanied the actual organization of the collectives, and by the difficulties which were encountered in establishing effective management of the larger agricultural units.

33. The Communists also had to cope with peasant disillusionment which became increasingly apparent in 1957. Many peasants were unhappy because their incomes had not increased as promised, or because they had not been adequately remunerated for their contribution of land and implements. In addition to evading government efforts to procure grain, substantial numbers of peasants withdrew from collective farms, although most of them were forced to return. The higher urban incomes continued to attract large numbers of peasants into cities where unemployment was already a critical problem. Strong measures have been taken to force these dissatisfied peasants to return home, but the problem still exists.

C. Problems in Eliciting Popular Support

34. The regime's progress in changing the form of Chinese society apparently was not matched in the realm of popular attitudes. The Chinese population as a whole appears to have ambivalent feelings toward the regime. The regime has had considerable success in its efforts to foster a sense of common identity in the population at large, in part because of the groundwork of nationalist sentiment which had been stimulated by Sun Yat-sen and the Kuomintang, and in part because of its own achievements. There has probably been a favorable response to specific programs such as public health and education which

improve the lot of the individual, or road building, irrigation, and flood control which are visible community improvements. There has probably also been a favorable, but less general, response to developments which boost national pride such as the production of planes and trucks, bridging the Yangtze, and the increased world prestige of Communist China.

35. But in most Chinese these effects have in varying degrees almost certainly been offset by negative reactions to other aspects of the regime. The intellectuals have been resentful of the pressures to conform and the restrictions on discussion. The urban workers have disliked the constant orders to produce more goods faster, the compulsory attendance at innumerable indoctrination meetings in their free time, and the shortages of consumer goods. The peasants have been dissatisfied with the failure of their personal incomes to rise in proportion to their increased output, and with the regimentation of the collective system. In general, the regime has made little progress in gaining popular acceptance of the Communist dogma or in substituting, as an incentive, the prospect of a future millennium in place of more food and clothing for the present generation. Moreover, the intensification and centralization of control have probably caused previously diffused discontent to be directed against the regime. But regardless of dissatisfaction or resentment, the Chinese are aware of the power of the regime and see no alternative; their response to the regime is, for the most part, one of acquiescence.

36. To elicit greater popular support for the regime and to improve the effectiveness of the party organization, the regime undertook a venturesome experiment in the spring of 1957. It admitted the existence of problems, relaxed restrictions on public discussion, and invited criticism of the operations of the party and its programs. Although some elements within the party were apparently opposed to relaxing controls, Mao and other leaders seemed to see many advantages. Public criticism, in their view, might provide a safety valve, give the people a greater sense of participation in party affairs, and create the im-

pression that the regime was modifying its authoritarian procedures. They apparently feared that the party had become separated from the people, a weakness they believed had been a principal cause of the outbursts in Hungary and Poland. Moreover, public criticism, they thought, would reveal to the leaders the weaknesses in the operations of the party and provide the basis for corrective measures. They must also have estimated that rule by the Chinese Communist regime had been generally accepted and that criticisms would be directed at the implementation of policy rather than at the basic character of the regime itself.

37. This program grew out of a largely unsuccessful effort in early 1956 to create a more positive response to its programs by a relaxation of domestic tensions and by promising an improvement in the harsh conditions of life. However, the promises and incentives directed initially to the intellectuals, and later extended to the peasants and workers, failed to evoke a significant response, and in the spring of 1957 Mao broadened the scope of the liberalization policy. As part of the 1956 measures, intellectuals had been encouraged to debate differences on non-political subjects; Mao now encouraged the population in general to participate in the greater freedom to discuss and extended the subjects of discussion to the operation of the party and its programs. At the same time he formalized his policy in a doctrinal statement which recognized that even in a Communist state there were contradictions in outlook between the leaders and the people, and within and between various groups. But these contradictions, he insisted, were largely non-antagonistic because of the disappearance of exploitation of one class by another, and, therefore, could be resolved by discussion and persuasion, rather than by force.

38. The extent and intensity of the criticism appears to have surprised the regime. It found that neither the Communist system, the party's monopoly of leadership, nor the Soviet orientation had been as fully accepted in China as it had apparently believed, especially among the very intellectuals it had courted. The regime's critics were numerous

and came from many select groups, including even the party. Their criticisms almost certainly reflected the views of a body of opinion much larger than the regime has admitted.

39. In June 1957 the regime reacted by abruptly cutting off criticism, and Mao's contradictions formula was rewritten to point out clearly the categories of Communist truth which were above criticism. The regime subsequently conducted an intensive campaign against its critics and has dismissed accused "rightists" from their positions. It has apparently not felt it necessary to implement its sometimes explicit threat of punishing its critics on harsh "counter-revolutionary" grounds, however, and the erring ones have been told that they will be given a chance to redeem themselves. To counteract the criticism, the regime also launched a massive campaign designed to convince the people of the superiority of the Communist system.

40. Nevertheless, the regime did not disregard all criticism, and has taken steps to improve the operation of the party and its relations with the people generally. The regime has urged a continuation of public discussion, although, as might be expected, the response has been guarded and concerned largely with details of administration and production. The party also continued the "rectification" program which had been launched as part of Mao's original program and which seeks by persuasion and education to create conformity, tighten discipline, correct errors, and reinvigorate the party.

41. One major source of difficulty within the party was that it had apparently grown too fast for proper indoctrination of members. Total party membership is at present about 13 million. About two-thirds of its members had been recruited since 1949 and about two million since June 1956. As a result there were many who were free-riders, dead-wood, or "not steeled through labor." Traditional localist sentiments also still existed in the party, as exemplified by the many rural cadres who supported the grievances of the peasants rather than enforced edicts of the regime or who resented party personnel of

non-local origin. Moreover, the exercise of authority and the enjoyment of special privileges led to a deterioration of the party's relations with the people.

42. Although the main emphasis of rectification has been upon reeducating members, a number of party officials and deputies to the National People's Congress have been dismissed from the party for "rightist" activities, and further dismissals of cadres for incompetency or unreliability are probable. There has also been a wholesale transfer of party and government cadres to lower levels, particularly to rural areas where large numbers were assigned to agricultural collectives. This program seems to have had a number of objectives: strengthening of the party network in the crucial agricultural field; retrenchment of non-productive personnel in party, government, and industrial organs; reduction of bureaucratic tendencies in these organs; inculcating members with an appreciation of manual labor; and punishment of errant members. It probably was also intended to meet criticisms of the material privileges enjoyed by party members. There are indications that many of those transferred resented the shifts.

D. The Regime's Ability to Control Mainland China

43. We believe that the regime has the ability to exercise firm control of mainland China. Despite the fact that problems and weaknesses within the party have been revealed by the rectification program, the party retains its basic elements of strength: a ruthless and resourceful leadership, a large membership organized to act as an instrument of control and policy implementation, and an intention and ability to enforce a high degree of discipline and conformity. The party organization continues to be backed up by large and well-disciplined police, militia, and security organizations, supplemented by a network of informers and local "resident's committees" which provide surveillance over individual family groups. Party control is reinforced by mass organizations which mobilize various social and occupational groups in the popula-

tion behind Communist programs and which serve as channels for propaganda and indoctrination. The authority of the party is further enhanced by its control of all media of communication and of the distribution of the bulk of food supplies in urban areas, and by its success in corralling most peasants into collectives.

44. Behind this control mechanism stand the large Chinese Communist military forces which are effectively under the control of the party. During the revolution the party and the army were, to a large extent, an integral unit. Military personnel and veterans continue to make up a large part of the party. The regime claims that about 75 percent of the rank and file of the armed forces are members of the Chinese Communist Party or of the Young Communist League, and all receive intense political indoctrination. Because of the close identity of the party and army in the past, many senior party members have a military background; thus the 1956 enlargement of the Politburo and the Central Committee brought a significant number of such persons into the top levels of party leadership. However, there is no indication that they form a military bloc within the party leadership, or that a military group with political ambitions has emerged within the armed forces. The party appears to be fully aware of the importance of maintaining control over the military and the military appears to accept the dominant role of the party. At the time Marshal Zhukov was ousted from his positions in the Soviet Union, Chinese Communist military spokesmen publicly stated their support of a strong party role in the armed forces.

45. The regime has been able to deal effectively with sporadic outbursts of resistance which have for the most part been localized and poorly organized. Probably in part to demonstrate its power, the regime has carried out two nationwide drives against "counter-revolutionaries." The security forces have also dealt with several student riots and demonstrations against the regime, and with some civil disturbances growing out of peasant resentment against collectives. There have been indications of continuing discon-

tent in minority areas, recently including demands for genuine autonomy, but large-scale armed uprisings have been reported only in Tibet. Strong anti-Chinese sentiment in Tibet culminated in an outburst in 1956 and induced the regime to announce that the introduction of social "reforms" into Tibet would be postponed for six years. Despite this concession, sporadic incidents continue in Tibet.

E. Strengthening Its Military Establishment^{6,7}

46. The capabilities of the armed forces to fulfill their internal and external functions have increased significantly during the past several years. The Korean War gave great impetus to the development and modernization of Communist China's armed forces and stimulated large-scale Soviet aid. Since the war, the trend has continued toward further modernization and a more balanced military establishment.

47. Since 1954, ground force personnel and infantry division strength have remained at an estimated 2½ million men and 114 divisions respectively. However, overall capabilities have been increased by continued modernization. Anti-aircraft and anti-tank battalions are now included in most of the infantry divisions, and a tank-assault gun regiment has been added to at least 28 of the infantry divisions. In 1955 the regime inaugurated a new military conscription and reserve program which is now providing an army composed in the main of selected conscripts. The army's effectiveness in modern warfare, as a result of current training programs, has been considerably increased. In addition, the reserves will include, on a continuing basis, about two million men who will have undergone active military service within the previous three years.

48. Since 1954, Communist China's combined air arm has increased from 65,200 to 87,000

officers and men while total aircraft in operational units have increased from 1,580 to 2,880. A more significant indicator of progress toward modernization is the increase from 850 to 2,280 jet aircraft, of which 1,835 are fighters and 445 are light bombers. Communist China has also developed an extensive radar detection system which covers the entire coast and major inland industrial centers. This system has fair to good detection capability except for aircraft at low altitudes. Its high altitude GCI capability has not been expanded to include all areas.

49. The navy has gradually increased its overall strength to 55,000 and its general service personnel strength to 48,000 officers and men. This growth was accompanied by a substantial increase in offensive and defensive capabilities. Its major surface units include four destroyers, 16 submarines, four escort vessels, 54 amphibious ships and 31 mine warfare vessels, as well as a Naval Air Arm including 435 combat aircraft.

50. Although still dependent to a large degree upon the Soviet Union for heavy and complex equipment, aircraft, and many component and spare parts, Communist China has made progress in its effort to achieve military self-sufficiency. It now produces small arms, mortars through 160-mm, and artillery through 122-mm howitzers. In addition, Communist China now has a number of airframe and aircraft parts plants, including an aircraft assembly plant at Mukden capable of series assembly of jet fighter aircraft. Mukden's monthly assembly capacity will probably reach 100 jet fighters by 1963. Communist China has a rapidly growing shipbuilding industry now assembling submarines and producing hulls for escort vessels, submarine chasers, mine warfare vessels, and motor torpedo boats. However, practically all armament for these vessels and a substantial part of components, equipment, and machinery is obtained from the Bloc. The Chinese Communists continue to be handicapped by a shortage of technological skills in both the armed forces and the armaments industry. We believe that the country has no guided missiles or nuclear weapons and, at present, lacks the capability to produce them.

⁶See Annex B for more complete discussion.

⁷See maps for the disposition of ground forces and combat jet aircraft, and for the location of naval bases.

51. The high cost of maintaining such a large military establishment and of developing a munitions industry has been a heavy drain on Communist China's economy. The Chinese Communists have reduced the proportion of expenditures budgeted as military from 26 percent in 1953 to 18 percent in 1957. However, this has not involved a significant decline in the absolute amount spent, and there has probably been an increase in investment in plants for producing military equipment.

III. PROBABLE TRENDS WITHIN COMMUNIST CHINA DURING THE NEXT FIVE YEARS

52. We believe that during the next five years the Chinese Communists will continue to be able to exercise effective control of mainland China and will gain some success in further imposing Communist social institutions and patterns on the Chinese people. The regime will probably be able to maintain a rate of economic growth roughly comparable to that of the last five years, but this will necessitate continued stringent control of consumption, particularly in view of the increasing population. Its efforts to gain increased popular support will be severely limited by its determination to maintain the pace of economic development and social change. There will continue to be a widespread but fluctuating feeling of dissatisfaction and discontent among the Chinese people which, while hampering somewhat the regime's programs, will probably not be translated into effective resistance.

A. The Economy

53. Although the Second Five Year Plan is still in process of formulation, the general outlines of this plan as announced in September 1956 appear to be the basis of the regime's planning. These indications are sufficiently clear to enable us to estimate that total output will probably increase by 7-8 percent annually during the period of the Second Five Year Plan, or about as rapidly as in the First Five Year Plan. The increments to production will probably cost more in terms of investment required, since gains from more intensive utilization of existing plants will be

far less. However, investment during the Second Five Year Plan will probably continue to increase relative to total output. The emphasis will continue to be on industrial development, and by 1962 the industrial sector will probably contribute nearly 26 percent of total gross product as against 18 percent in 1957 and 13 percent in 1952.

54. *Agricultural Production.* In their approach to the Second Five Year Plan, the Chinese Communists have been forced to give greater priority to the expansion of agricultural production in order to provide for the minimum consumption needs of its growing population, agricultural raw materials, especially cotton, for its expanding industry, and exports with which to repay loans and to finance the import of vital capital equipment. This greater priority for agriculture will involve some reorientation of industrial development, with a greater share of investment allotted to those heavy industries which provide fertilizers, agricultural chemicals, irrigation equipment, and implements for agriculture. For example, investment in the chemical fertilizer industry will probably rise from one percent of total state investment in the First Five Year Plan to about three percent in the second plan period.

55. The Chinese Communists have announced that, in 1958, 14 percent of the state's capital investment will be in agriculture, suggesting that such investment for the entire Second Five Year Plan may be as much as four times the amount allocated for this purpose during the First Five Year Plan when it amounted to only 7.8 percent of a smaller total investment. The state's investment in agriculture is used primarily on large-scale water conservation projects. However, direct investment by the collectives in irrigation and drainage facilities, fertilizers, farm tools and machinery, livestock, and other production requisites will continue to provide the major source of funds for agricultural development. Such investment, and the related technological improvements, are considered by the regime to be the most effective way of immediately increasing agricultural production.

56. In September 1956 the regime set 1962 agricultural goals at 250 million tons of grain and 2.4 million tons of cotton, but in 1957, recognizing that these goals were far too ambitious, it lowered the targets to 240 million tons of grain and 2.15 million tons of cotton, while increasing substantially the proposed agricultural development effort. However, we believe that these goals are still too optimistic, in view of the limited amount of fertilizers that will be available and the modest proposed increases in both irrigated areas and sown area obtained through reclamation and multiple cropping. Between 1957 and 1962 grain production will probably only rise from 185 million tons to 215 million tons and cotton from 1.64 million tons to 2 million tons. About one-fourth of these production increases are expected to result from increased application of chemical fertilizer.

57. The above estimates imply a rate of increase of agricultural production of about three percent annually. This increase would provide a small margin over the probable annual increase of population of 2.0-2.5 percent. However, a number of contingencies could remove this margin. A major imponderable is the willingness of the peasants to maintain their efforts to produce under collectivization. Weather and its effect on crops are also unpredictable. Finally, we cannot completely discount the possibility that the present rate of population growth might increase. Under the worst combination of these contingencies for the Chinese Communists — a series of bad crop years, peasant apathy, and a rising rate of population growth — the regime would face grave difficulties. However, with its internal security system and its control of food distribution the regime could almost certainly maintain itself in power. Furthermore, other stopgap measures open to Peiping would include loans or aid from the Soviet Bloc, and a reduction in exports and some increase in imports of agricultural products. At the same time, the regime would have sufficient production capacity in heavy industry and construction to enable it to maintain industrial growth, though at a reduced rate.

58. Ensuring a food supply for its enormous and growing population will be Communist China's number one economic problem for the indefinite future. Arable land is relatively limited, and by far the major share of the land area is too high, dry, or hilly to be cultivated. At present about 11 percent of the land is under cultivation. Marginal lands could be brought under cultivation and double cropping extended through heavy investment and modern techniques which would increase the sown area by possibly half. With a generous water supply and a long growing season in the most important farm areas, yields can be raised through improvements in flood control, irrigation, pest control, crop types, and fertilization. In the long run and with more investment, we believe the Chinese Communists can probably double agricultural output. However, present population growth, if unaltered, would double the population in 28 to 35 years, making difficult any improvement in living standards even if all agricultural potentials were realized.

59. *Industrial Production.* No finalized Second Five Year Plan has been prepared, but the preliminary proposals put before the Eighth Congress of the Chinese Communist Party in September, 1956, provided for an increase in gross value of industrial production of about 86 percent during the Second Plan, compared to a rise of about 115 percent achieved during the First Plan. Heavy industry will continue to receive priority. Although there is evidence of considerable change in the individual industrial goals, the attainment of the overall industrial goal, as proposed, appears likely in view of the prospective level of industrial investment. (See Table 1.)

60. An increasing proportion of heavy industrial investment will be in new industrial areas in northern Manchuria and in north-central and northwest China, based upon the location of raw materials and upon strategic considerations. Increased production during the Second Plan will rely greatly on completion of new capacity, much of which was started during the First Plan. In contrast with the First Five Year Plan, in which emphasis was on large scale plants, significant proportions of

TABLE I

ESTIMATED PRODUCTION OF SELECTED COMMODITIES 1952, 1957, 1962 *

Commodity	Measure	1952	1957	% in- crease 1957 over '52	1962		Esti- mated % in- crease 1962 over '57
					Pre- liminary Goal	Esti- mated Prod.	
<u>Industry</u>							
Electric power	Bil kwh	7	19	161	44	44	131
Crude steel	TMT	1,349	5,235	288	12,000	12,000	129
Coal	MMT	64	122	93	190-210	190-210	55-72
Trucks	Units	0	7,000	—	**N.A.	32,000	357
Merchant vessels	TGRT	7	21	200	N.A.	120	471
Cement	MMT	3	7	72	12.5	12.5	87
Turbines	T kw	7	240	3,482	N.A.	1,289	437
Electric generators	T kw	30	284	847	1,400-1,500	1,400	393
Crude oil (Nat. & Syn.)	TMT	436	1,443	231	5,000-6,000	3,500	143
Copper (refined)	TMT	8	14	70	N.A.	50	257
Chem. Fertilizer	TMT	194	803	314	5,000-7,000	6,000	647
Cotton cloth (factory)	Mil. mtrs	3,017	4,000	33	8,000-9,000	6,354	59
<u>Agricultural</u>							
Total grains	MMT	168	185	10	240	215	16
Cotton (ginned)	TMT	1,305	1,640	26	2,150	2,000	22
Cattle (incl. buffalo)	Mil. head	57	74	30	90	90	22
Hogs	Mil. head	89	114	28	220	160	40

* Footnote 2 on page 5 applies also to this table.

** Not available.

the increased output of iron, steel, and coal will come from newly constructed or renovated small and medium size units. To the extent that this program is implemented, it will provide more employment, conserve scarce capital, and require less machinery imports.

61. The variety of products made by Chinese industry will continue to increase rapidly, but there will continue to be shortages, especially in chemical fertilizers and crude oil. During the Second Five Year Plan, the machine building industry will probably be able to supply at least 70 percent of machinery requirements, compared to about 60 percent in the First Five Year Plan. In addition to the priority development of the chemical fertilizer and machinery industries, it is expected that increased attention will be given to merchant shipbuilding, copper, and crude oil. Even if the regime achieves its crude oil targets, however, in 1962 it will still be heavily dependent on imports to meet its rapidly increasing requirements.

62. Shortages of trained technicians and scientists will continue to exist. In an effort to solve this problem, the regime plans to have one third of the 500,000 students, who will graduate from colleges and universities during the next five years, go into teaching in all fields. Of those who will not go into teaching, one half will be engineers, a third will be in medicine, science, agriculture, or forestry, and about a sixth in law, the social sciences, and other fields. During this period the regime also plans to double its present enrollment in primary and middle schools. Even if these goals are met by 1962, however, the regime will still be far short of the highly trained personnel needed in the scientific and technical fields.

63. *Foreign Trade.* Total exports in the Second Five Year Plan are estimated at 32.0 billion yuan, and imports at 29.2 billion yuan. This compares with 23.3 and 25.2 billion yuan, respectively, during the First Five Year Plan. We believe that the bulk of Communist

China's trade will continue to be with the other Bloc countries, especially the Soviet Union. However, the proportion of total trade with the non-Communist world will probably increase in the Second Five Year Plan, expanding from about 22 percent to possibly 30 percent of total trade. We believe that the most important elements of this increase will be an expansion of Communist China's exports of iron ore and coal to Japan and consumers goods to South and Southeast Asia, and imports of fertilizers, industrial equipment, and steel from Japan and capital goods from Western Europe. Communist China will probably increase the use of its growing merchant marine in international trade.

64. The maintenance of the present level of multilateral trade controls will complicate Chinese Communist economic and military development by creating import problems, increasing costs, and reducing flexibility. Furthermore, present unilateral US financial controls will deny Communist China an important export market, as well as reduce dollar remittances.

65. The Chinese Communists apparently are going ahead with their Second Five Year Plan with no provision for new long term credits from the USSR. Communist China will have to finance through exports the imports required for industrialization, as well as to repay Soviet credits advanced during the First Five Year Plan and to finance their own aid program — both of which total an estimated 3.0 billion yuan. With their present capabilities, the Chinese Communists can probably carry out their planned industrial development without further Soviet credits. However, in the event of serious economic difficulties, the Chinese might seek and obtain some assistance on credit from the USSR.

B. The Party

66. The party will probably continue to face difficulties in maintaining vigor, flexibility, and internal discipline. The strains created by recent massive shifts of cadres to lower levels and the difficulty of absorbing the high post-1949 membership will continue. Difficulties that will inevitably arise in formulating

the regime's program will almost certainly create policy differences at various party levels. Although these problems may force the party occasionally to resort to repressive measures, in the main the regime will probably be able, through periodic rectification programs, to resolve intra-party conflicts by discussion, persuasion, and administrative disciplinary procedures. Moreover, we believe that the party will retain a significant degree of flexibility in its policies.

67. These problems would be aggravated by the death or incapacitation of Mao. Should a succession question arise in the next five years, party authority would probably initially pass to a group, with Liu Shao-chi, Chou En-lai, Teng Hsiao-ping, and Ch'en Yun as its most likely members, and with Chu Teh as titular head of state. Policy disagreements and power rivalries would probably sharpen in the absence of Mao. The temptation to occupy his position would be great, and could lead to a struggle for dominance within the party. We believe that such a struggle would complicate the achieving of certain of the regime's objectives and reduce its policy flexibility, but would not threaten the regime's ability to control the country.

C. Popular Attitudes

68. We see little prospect that popular discontent can or will be translated into organized and active resistance in the near future. Unrest will probably continue at about its present level, and sporadic cases of isolated, small-scale active resistance will probably occur, particularly in rural and ethnic minority areas. Reactions to the increasing pressures of austerity and industrialization may, at times, cause the regime to clamp down, but the Chinese Communist leadership, while capitalizing on the people's recognition of the regime's willingness to utilize severely repressive measures if necessary, will probably avoid widespread or systematic use of terroristic methods. There will continue to be much dissatisfaction, but we believe the net effect on the regime's programs will be no more than a complicating or retarding one. Although the regime will continue to seek

greater positive support, it will have limited success because of its determination to carry out its economic and social programs. The response of the bulk of the Chinese people to the regime will probably remain one of acquiescence.

69. The regime will continue to have problems with intellectuals. The outspoken criticisms which came from the universities in the spring of 1957 showed the regime that its efforts at indoctrination failed to force many students and professors into accepting the Communist way. The problems of winning the student generation will be made more difficult by the shortage of facilities for higher education, the limited urban employment opportunities for graduates, and the need to sharpen disciplinary measures and political controls over students. Furthermore, the regime will probably continue to force great numbers of middle school graduates to accept long-term agricultural assignments in the countryside.

70. The peasants will almost certainly continue to give the regime trouble. The regime recognizes that a major problem during the Second Five Year Period will be to improve the management of the collective farms and to obtain from the peasants a greater acceptance of the collective system. The regime will probably be able to keep the peasants in line by enforcement of tighter controls, and, in good crop years, by allowing some increases in consumption.

D. The Military Establishment

71. Communist China's military capability will almost certainly continue to improve over the next five years. Although the army will probably be reduced in size, it will be equipped with newer and better weapons, and will be more mobile and better trained than at present. The air force and navy will increase in size and effectiveness. Although the armed forces will be somewhat better balanced, the concept of a large ground army will still prevail. The Chinese Communists will probably maintain a large standing army which, in addition to its offensive and defensive missions, will provide the basic force for con-

trolling mainland China and will continue to have an intimidating effect in Asia.

72. By 1962 the combined air forces will probably have about 3,600 aircraft, an increase of more than 700. The Chinese Communists probably will have completed converting their fighters and light bombers to jets, and may by that time have some jet medium bombers. The navy will probably continue its rapid development, with principal emphasis on improved defense capability within home waters. There will probably be a significant increase in submarine strength, and the probable replacement of overage ships will increase the navy's operating effectiveness.

73. The armaments industry will increase in size and efficiency, but during the period of this estimate, Communist China will continue to be heavily dependent upon the Soviet Union for many kinds of heavy and complex military equipment and for technological assistance. During 1958-1962 it will probably be able to meet armed force needs for small arms and for nearly all artillery, transport, and ammunition, but will still be unable to meet the needs for armored fighting vehicles and more complex fire control systems. The shipbuilding industry will also continue its rapid expansion. Domestic aircraft production will probably increase considerably, but Communist China will continue to be dependent on the USSR for many components.

74. Although Communist China will almost certainly not have developed a missile or nuclear weapons production capability of its own by 1962 because of the continuing shortage of technicians and the demands of other military and economic programs upon its limited resources, we believe that the Chinese Communists will press the USSR for such advanced weapons. It is probable that during the next five years the USSR will provide the Chinese Communists with some varieties of missiles and other weapons adaptable to nuclear use, but with conventional warheads. The Chinese Communist and Soviet views on the introduction of nuclear warheads* into Communist China are less certain. Unless barred by an effective international agreement, the

*Including bombs.

USSR may introduce nuclear weapons into Communist China by 1962, although they will almost certainly remain under Soviet control. In any event, even though nuclear warheads were not deployed in Communist China, they would be readily available if Sino-Soviet interests required them.

IV. COMMUNIST CHINA'S EXTERNAL RELATIONS

A. With the Bloc

75. Communist China's close relations with the USSR are based on mutual objectives, reliance on Soviet military power and economic support, a common ideology, and a conviction that Bloc unity is essential in the face of a common enemy. In the Chinese Communist view, unity is crucial to the expulsion of Western, particularly US, influence from Asia and Africa, and to the ultimate achievement of economic and military superiority over the West. The Chinese Communists appear to accept the Soviet Union as the head of the Bloc because of its experience and leadership in the doctrinal, economic and technological fields, and because of its military power. They have supported Soviet policy on all international questions. Communist China has in turn sought and gained Bloc acceptance as the second major Communist power and, probably, as a participant with the Soviet Union in the formulation of general Bloc policy.

76. The Chinese Communists insist that the strength and unity of the Bloc against the West must be maintained and that the essential Communist character of each Bloc state be preserved. To the extent that it will contribute to, or is compatible with, these overriding considerations, the Chinese Communists favor flexibility in intra-Bloc relations, desiring particularly that the Chinese party have a wide area of doctrinal and policy initiative. Although there have been differences in the emphasis which the Chinese Communists have placed on various aspects of intra-Bloc relations over the past two years, their basic concept of intra-Bloc relations has remained: the USSR is the head of the socialist camp and the member states should at all

times place the interests of unity among the Socialist countries above everything else; but the USSR should, in turn, refrain from excessive intervention in the internal affairs of each Communist state. These views of unity and diversity were substantially reflected in the Moscow 40th Anniversary communique, probably of joint Sino-Soviet authorship.

77. Close Sino-Soviet alignment does not appear to have been affected by the cessation of Soviet credits, although the Chinese Communists may have hoped for new credits or for more lenient repayment terms on past credits. Whatever the nature of the Peiping-Moscow discussions on this subject, the Chinese Communists appear to have accommodated themselves to the situation, and in 1957 they altered their planning for the Second Five Year Plan to take account of reduced estimates of import availabilities. The Soviet Union is still extending technical assistance and has concluded a long-term agreement which is believed to provide for an increased level of Sino-Soviet trade, including the bulk of the essential import needs of Communist China's industrial development program. Moreover, the Chinese Communists probably believe that the USSR remains a source of aid in the event of a serious crisis.

78. Sino-Soviet relations as they concern guidance to the Asian Communist parties appear to have been governed by a mutually acceptable division of responsibilities and a willingness to cooperate. Despite occasional differences of nuance in the statements of Asian Communist parties, we have little evidence of any Sino-Soviet disagreement on the character of Communist activities in Asia. Communist leaders of North Korea and North Vietnam, as well as those in non-Communist Asian countries, visit both Moscow and Peiping for consultation. The policy line, as given in newspapers and radio broadcasts of both countries, varies little if any.

79. With respect to the border areas, the USSR and Communist China apparently have overcome, or at least suppressed, their historical conflict of interests, and in Sinkiang and Outer Mongolia are cooperating in development programs. The Soviet Union is

building the portion of the trans-Sinkiang rail line from the Soviet line in Kazakhstan to Wusu in Sinkiang Province, and the Chinese Communists have accepted Soviet technicians in the area to assist in its development. The USSR, by constructing the trans-Mongolian railroad to China, has facilitated increased Chinese Communist cultural and economic relations with Outer Mongolia.

80. During the five year period of the estimate, it does not appear likely that there will be any appreciable change either in the firmness of the Sino-Soviet relationship or in China's status and role therein. Though there will almost certainly be frictions, Communist China and the USSR will probably be able to work out satisfactory solutions to problems arising out of China's status in the Bloc, its economic relations with the USSR, and the division of Communist responsibilities in Asia. Nevertheless, because of Communist China's growing stature and strength, it is possible that problems may arise which would be difficult to resolve.

81. A source of disagreement may be Communist China's possible desire to exert greater influence on general Bloc policy, both internal and external. Because of the immense value of the Sino-Soviet alliance to both partners, Soviet and Chinese Communist leaders almost certainly will consider that they must meet certain of each other's requests, be careful not to offend each other's sensibilities, and defer, at times, to the other partner. Although the Soviet leaders will almost certainly be apprehensive lest a strengthened China seriously challenge the USSR for Communist primacy at some distant date, there is no evidence that this is affecting present policy. External policy disagreements, if any, would be more likely to occur with respect to areas where the interests of one party might be considerably greater, such as the Taiwan straits, or where they differed as to the risks involved in undertaking a specific action.

82. With respect to high level Soviet negotiations with the West, the Chinese Communists probably feel that it would be inadvisable at present to press for the introduction of topics which are of primary interest to Communist

China and which would require its presence, e.g., entrance into the UN and the acquisition of Taiwan. It is possible, however, that differences between Peiping and Moscow may arise in the future with respect to the substance or the mechanics of negotiations with the West.

83. Sino-Soviet cohesion would probably not be significantly affected by a Soviet-Western detente, or by Communist China's entry into the UN or recognition by the US. Communist China would probably welcome a Soviet-Western detente because its leaders would believe that this would increase Communist opportunities in Asia. They would probably also welcome a limitation of armaments agreement which convinced them that they could safely reduce their expenditures for arms, although they would probably take the position that they would not be bound to any agreement in which they did not formally participate as the representative of China. The USSR would almost certainly welcome Communist China's representation in the UN and its recognition by the US, although the Soviet leaders might have some misgivings that these developments might reduce somewhat Peiping's political dependence on the USSR.

B. Relations with the Non-Communist World^a

84. Communist China's leaders appear to view the present world position of the Sino-Soviet Bloc with considerable confidence. They seem convinced that the world balance of power has shifted to the Bloc and that the "East Wind" is prevailing over the West. Chinese Communist optimism is based on a view of history that assumes that Communism will ultimately triumph and on specific developments such as recent Soviet weapons advances, Communist gains in the Near East and Africa, and the rapid economic growth of the Bloc. While the Chinese Communists probably do not consider that the West has suffered any decisive defeat in the Far East since the French were forced out of Indochina, they appear confident that the trend in Asia

^a See NIE 13-2-57, "Communist China's Role in non-Communist Asia," dated 3 December 1957.

is running against the West. Peiping almost certainly considers the growth of Communist political strength and influence in Indonesia and of neutralism and anti-American feeling in some Asian countries as indications of this trend.

85. In a period of less than a decade, Peiping's leaders have seen their country become the strongest Asian power and achieve substantial progress in making its impact felt in Asia and the world. They are cognizant of growing pressure in the Free World for expanded economic and political relations with Peiping. Communist China is not handicapped by Asian racial antagonisms against the white man and it can claim common experience with the former colonial areas. The Chinese Communists almost certainly believe their economic progress can be used in their efforts to convince the underdeveloped Asian countries that Communism is the best way forward.

86. The Chinese Communists have given no indications of undue impatience in the pursuit of their objectives in Asia. They appear aware of the many problems of internal development facing Communist China, the continuing need to adjust and reconcile intra-Bloc relations, and the suspicions of Communist China which exist in much of Asia. Most importantly, they almost certainly consider the presence of US influence and military forces in Asia to be the major obstacle in their path. They almost certainly estimate that any attempt to speed up the process of communizing Asia by military aggression would involve serious risk of war with the US, but at the same time probably believe that over the long run the US will not be able effectively to counter the forces which they consider to be working to the advantage of Communist China.

87. Given these views, Communist China appears to be directing its energies toward the intermediate objective of weakening the position and influence of the US in Asia. To this end it is seeking to induce Asian countries to adopt a policy of friendship toward the Bloc, to strengthen, and if possible bring to power, indigenous Communist movements

without the use of external force, and to undermine the will of the Nationalists on Taiwan to resist. Since Indochina, the principal thrust of Communist China's policy has been reasonableness and peaceful coexistence, though it has been adamant on certain basic issues, particularly Taiwan.

88. We believe that Communist China will continue essentially the outlines of its present flexible course in Asia, though displaying more assertiveness and a heightened readiness to take advantage of opportune situations. It will probably intensify its efforts to convince other nations of its peacefulness and reasonableness, and even of its willingness for a rapprochement with the US, believing that an apparent readiness to make concessions will add significantly to Free World pressures to accept Communist China as a member of the community of nations and to bring about a change in US policy.

89. Communist China will continue to seek admission to the UN and the expansion of economic and political relations with most states. It will probably make additional offers of economic assistance to other Asian countries. At the same time, it will continue its subversive efforts throughout the Far East. In its propaganda overtures, it will attempt to create an exaggerated impression of its economic growth, and, while stressing its peaceful intentions, will do nothing to dim its growing reputation in Asia as a military power. In relations with Asian states its military power will be an operating but silent factor. It will probably not resort to overt military aggression which it believes would involve it in military action with the US.

90. Peiping is probably concerned that, as an unwanted by-product of peaceful coexistence, there is a growing acceptance of a "two-Chinas" concept. The Chinese Communists will continue their efforts to disabuse the world, and especially other Asian leaders, of any idea that Communist China will renounce its intention to gain control of Taiwan. They will almost certainly not resort to military action to seize Taiwan, so long as this would involve risk of war with the US. They will almost certainly continue their present efforts

to undermine Nationalist will and to discredit the Republic of China abroad. The possibility cannot be excluded that the Chinese Communists will adopt a more aggressive policy toward the Offshore Islands, in part because of intense irritation and a sense of affront, in part to emphasize their determination to destroy the Nationalist government, and in part to test US intentions in the Taiwan area. If they should become convinced that the US would not intervene militarily, they would seek to capture these islands by military action.

91. The Chinese Communists will probably complete the announced withdrawal of their forces from Korea in order to bring pressure on the US to do the same, to enhance Communist China's chances for UN entry, and to support Moscow's efforts to create Free World pressures for summit negotiations and disengagement schemes. However, Peiping will almost certainly maintain its military forces in a position to reintervene rapidly in case of a resumption of hostilities. The Chinese Communists, in concert with the Soviet Union, will probably encourage the North Korean regime to build covert strength in South Korea and to press for the reestablishment of cultural and economic contacts across the armistice line. The Chinese Communists will probably publicly support North Korean pressure for nationwide elections under "neutral" supervision, but will continue to oppose direct UN supervision. The Chinese Communists will almost certainly not agree to unification on terms which they estimate would lead to an anti-Communist Korea.

92. Peiping's objectives in Vietnam will similarly be to strengthen the Communist regime in the north while attempting to undermine the government in the south. Peiping will continue to support Communist agitation for nation-wide elections under conditions that would favor the Communists. The Chinese Communists may believe that should South Vietnam be deprived of President Diem's leadership, the Communists might gain sufficient strength to seize control from within.

93. Japan will continue to be one of Peiping's most important targets, especially because

there is a growing area of competition between Communist China and Japan. Chinese Communist policies will be directed toward reducing the degree of cooperation between Japan and the US, particularly in the military field, toward undermining the Japanese government's anti-Communist position, toward destroying the friendly relations between Japan and the GRC, and toward increasing the influence in Japan of left-wing elements, e.g., left-wing Socialists, and the Japanese Communist Party. Peiping will continue to exploit Japan's desire for peace, its fears of becoming involved in a nuclear war, any areas of friction with the US, and Japan's eagerness to expand trade with mainland China. Peiping will probably be able to gain at least quasi-diplomatic status for a Chinese Communist trade mission. In pursuit of these objectives, Communist China will continue to employ both conciliatory and tough tactics.

94. Although the majority of the Overseas Chinese will probably continue to seek to avoid entanglement in the political activities of both Communist and Nationalist China, Peiping will nevertheless continue its efforts to use the Overseas Chinese as instruments for both overt and covert activities. At the same time, these communities will continue to be a source of friction between Peiping and the host governments. The nature and effectiveness of Chinese Communist policy towards Overseas Chinese will continue to vary from country to country, but there are indications that Peiping will increase its efforts to allay Southeast Asian suspicions by emphasizing in its propaganda the responsibilities of the Overseas Chinese to the host country.

95. Assuming no significant change in the basic policies of the Bloc or of the West, in particular the US, we believe that intercourse between Communist China and the Free World will increase considerably during the next five years. This will come about for a number of reasons, including a growing belief that normal relations with Communist China should be established, a hope that such relations would reduce tensions in Asia, and a desire to exploit what many see as a major trading potential. For these reasons, addi-

tional countries will probably recognize Communist China, possibly including Canada, New Zealand, Belgium, France, and Japan.

96. It is probable that the US will experience more difficulty in seeking to exclude Communist China from the UN. Moreover, the effect of the UN's censure in generating opposition to Communist China will probably decrease with the passage of time and with the withdrawal of Chinese Communist troops from Korea. Should Communist China gain a seat in the UN, it would be taken, in Asia especially, as a mark of international acceptance of Communist China, and many of the countries not already recognizing Peiping would probably do so. Particularly in Asia, commercial and other forms of intercourse with Communist China would almost certainly increase substantially. Communist China's opportunities in Asian countries for subversion, for influencing the Overseas Chinese, and for giving covert support to indigenous Communist parties would increase.

97. If Communist China continues its present international policy, we believe that its prestige in Asia will continue to grow during the next five years. This will occur whether or not additional countries recognize Communist China, or it is admitted to the UN. But it does not necessarily follow that as a result

of increased prestige the Chinese Communists will be able to induce non-Communist Asian countries to adopt internal or external policies desired by Communist China. Communist China's future role in Asia will be determined to an important extent by developments in five fields, in varying degrees beyond the control of the Chinese Communists:

a. The course of events in the US-USSR relationship and in the broad aspects of the cold war.

b. Developments within the Bloc such as spectacular scientific achievements or major political upheavals.

c. The extent to which local Communist parties, e.g., those in Indonesia, Laos, and India, gain or lose political strength.

d. The extent to which the growth of Communist China's power gives rise to increased apprehensions among Asian governments as to Communist China's future intentions and thus causes them to take increasingly effective measures at least to counter their own internal Communists.

e. The extent to which the US has the confidence and trust of non-Communist Asian governments, and in turn helps these governments not only to resist the Communists, but also to meet their national aspirations.

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ANNEX A¹

THE FIRST FIVE YEAR PLAN

A1. The Chinese Communists made substantial economic progress during their First Five Year Plan 1953-1957. Gross National Product increased at an average annual rate of about 7-8 percent,² which compared favorably with recent rates of a little over three percent in India, eight percent in Japan, and seven percent in the Soviet Union. While the average rate of growth was fairly rapid, increases from year to year were uneven, in large part because agricultural output, which provides about 50 percent of total national income and the raw materials that determine the output of light industry, depends upon uncertain weather conditions. (See Figure 4 for Gross National Product, by sector of origin.)

A2. To achieve this rate of growth, total investment averaged 17 percent of the GNP for the five year period, a proportion roughly comparable to that in the US. Investment in capital construction accounted for about 58 percent of gross investment during the five year period; of total investment in capital construction 56 percent went into industry, 19 percent into transportation and communications, and only about 8 percent into agriculture. Nevertheless, over 50 percent of total investment funds were derived directly or indirectly from agricultural output.

A3. Communist China's budget revenues rose sharply up to 1954 as the regime consolidated

its controls over the economy, but have since risen more gradually and, as a proportion of the GNP, actually declined slightly from 29 to 27 percent between 1954 and 1957. The regime's fiscal policies have been to maximize revenues and to tailor its expenditures to its expected receipts. The regime's flexible control over expenditures has generally maintained budgetary balance and economic stability, except in 1956 when the government resorted to currency issue to cover a budget deficit. However, a surplus in state revenues was reestablished in 1957, largely as a result of a cutback in investment. (See Figure 5 for state revenues and expenditures.)

Industrial Production

A4. During the First Five Year Plan, Communist China, with substantial Soviet assistance, made considerable progress in laying the foundations for industrialization. Starting from a small base, the gross value of industrial output increased about 133 percent, with heavy industry increasing more than 200 percent and light industry some 85 percent. Although the average annual rate of growth of industrial output during the period was high (16.5 percent), it was uneven, being reduced to 7 percent in 1957, which was a year of consolidation and rebuilding of inventories after the overambitious construction activity of 1956.

¹ Chinese Communist statistics upon which the data and analyses throughout this estimate are based are subject to the same reservations as those of other Bloc countries, but to a somewhat greater extent, in view of the inexperience on the part of the newly established Chinese Communist statistical collection system. This inexperience probably accounts for the majority of such statistical defects as have been noted. Chinese Communist statistics are the basis for the regime's planning and we believe are not, in general, misrepresented.

² However, in international comparisons, account should be taken of Communist China's price structure, which in terms of world prices overvalues industrial manufactures—the fastest growing sector—and thus overstates the rate of growth. If Communist China's industrial manufactures were re-valued at world market prices, the rate of growth would drop to 6-7 percent.

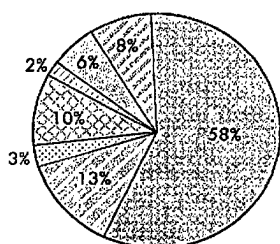
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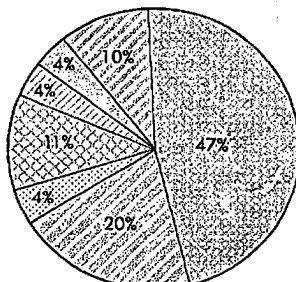
COMMUNIST CHINA

Figure 4

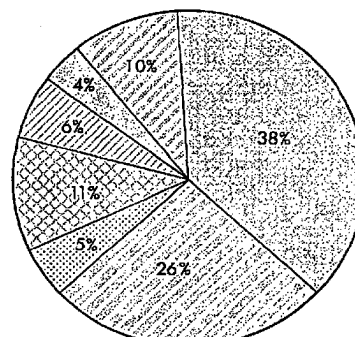
GROSS NATIONAL PRODUCT, BY SECTOR OF ORIGIN
1952, 1957, and 1962
(1956 Constant factor prices)



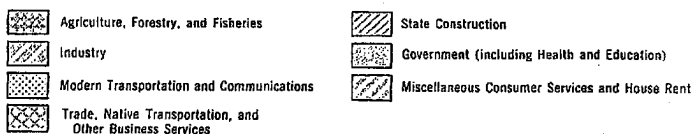
1952
73.7 billion yuan



1957
103.2 billion yuan



1962
148.4 billion yuan



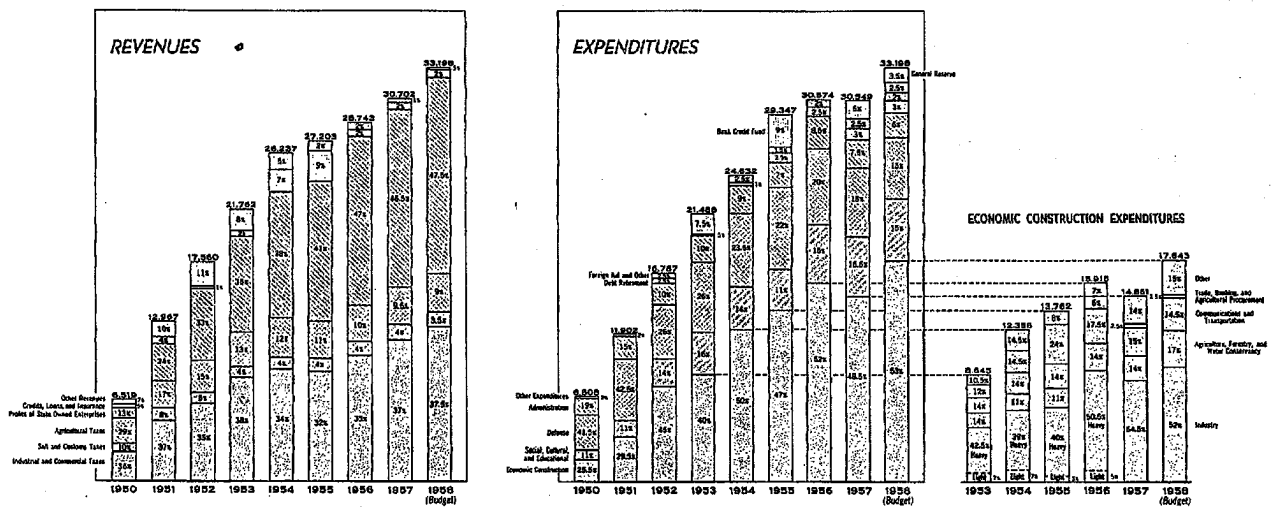
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Figure 5

COMMUNIST CHINA
BUDGET REVENUES AND EXPENDITURES
1950-1958
(Billions of Current Yuan)*



* Because of a general reduction of producer goods in 1956, revenues and expenditures totals for 1955-58 should be increased by about one billion yuan to make them comparable with earlier years.

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A5. Machine and Equipment Building. One of the most important developments of the five year period was the rapid development of machine and equipment building industries. Whereas Communist China was formerly heavily dependent upon foreign producers for machinery, as well as for much of the industry's raw materials, its machine building industry probably was able to satisfy about 60 percent of the machinery requirements of the First Five Year Plan. Communist China now is able to produce a portion of its requirements for more complicated machine tools, mining and metallurgical processing equipment, power station equipment for medium size plants, motor trucks, aircraft, and locomotives. The naval and civil ship-building industries, the electronics industry, and related ferrous and non-ferrous metallurgy industries have also achieved considerable development. Although much of the recent advance has involved imitation of Russian equipment from Russian plans with substantial Russian components, Communist China now is independently able to design many items. The rapid development of machine industries in relation to other industries and services created imbalances in product demand and raw material availability which led to production cutbacks and under-utilization of capacity in a number of machine building industries in 1957 (e.g., trucks, locomotives, freight cars, machine tools, and agricultural and textile machinery).

A6. Iron and Steel. During the past five years, pig iron output increased from 1.9 million tons to 5.9 million tons and crude steel rose from 1.35 million tons to 5.24 million tons. Increased production was obtained mainly through the development of existing facilities, but in the next five years the plan is to establish new iron and steel bases and to improve facilities to provide an increased variety of steels. Construction is under-way on two large integrated plants, one at Pao-t'ou and one at Wuhan, and on some 25 small and medium size non-integrated plants based on nearby coal and ore deposits.

A7. Non-Ferrous Metals. China has become self-sufficient in most non-ferrous metals, with exports of these commodities increasing.

A significant aspect of non-ferrous mineral production has been the rapid development of the aluminum industry which will support aircraft production and provide a partial substitute for copper. Further development of non-ferrous metal production is planned, with particular emphasis on the expansion of copper output, presently inadequate in the Bloc.

A8. Chemicals. Production in the chemical industry tripled during the Five Year Plan. Important commodities now produced in China include basic industrial chemicals, chemical fertilizers, insecticides, antibiotics, plastics, and organic synthesized dyestuffs. However, the industry still is far from meeting the needs of agriculture and other industries in either volume or variety of products. Development of the chemical industry during the Second Five Year Plan appears to have a high priority. As an integral part of the drive to solve China's pressing agricultural production problem, the chemical fertilizer industry is to be developed as fast as possible and, to aid the tight situation in the supply of raw cotton, the synthetic fiber industry is also to be emphasized.

A9. Petroleum. Production of crude oil, although underfulfilling the Plan goal by some 25 percent, still achieved the high growth rate of 230 percent during the Plan period. Development of existing and new producing fields, and construction of new processing and transport facilities during the Plan, have laid the groundwork for future large increases in production. However, the Chinese Communists are planning large-scale investment in high cost production of oil from shale and coal, suggesting that they are pessimistic over the potential crude oil output. Whatever the increase in production that is achieved, it will almost certainly be insufficient to meet the increased requirements for petroleum products, and Communist China will remain heavily dependent upon imports.

A10. Coal. Coal production nearly doubled during the First Five Year Plan and generally kept pace with industrial and power requirements. However, urban and rural household demand increased faster than anticipated and the regime was forced to introduce rationing

in 1956 and 1957. Increased emphasis on small and medium size workings should help to meet the increasing demand for household use.

A11. *Light Industry.* Light industry, although becoming more diversified, progressed much more slowly than heavy industry during the First Five Year Plan, although most production goals were attained. Most increases in light industry production during the First Five Year Plan came from a greater utilization of existing facilities. Although additional capacity has been developed in the cotton textile industry, there has been considerable under-utilization of capacity during the last three years because of shortages of raw materials.

A12. *Regional Dispersion of Industry.* The Chinese Communists plan a more balanced distribution of economic activity throughout the territory of China within a period of three Five Year Plans (1953-1967). But they made relatively little headway toward this goal during the First Five Year Plan. There was an even greater concentration of industrial production in the old industrial areas as a result of reconstruction of existing industrial plant and of building of new industry in these areas. New construction was apparently guided largely by the fact that these areas have known sources of raw materials and fuel, developed transportation facilities, and a supply of skilled labor. More than 80 percent of total investment in China's iron and steel industry was allocated to northeast China during the Plan and half of the 156 industrial projects carried out with Soviet aid are being located in this one region.

A13. *Transportation.* Despite recurrent traffic congestion, the transport system has been able to support the growth of the economy. The transportation system has been utilized at close to capacity, and all branches of the sector have experienced high growth rates. The railroads have been primarily responsible for the support of the industrial sector but the other types of carriers are increasing their proportionate share of the load. The following tabulation of estimated total freight ton-kilometers carried exclude inland and coastal junks and carts and pack animals:

TABLE II

	1952 (Billion ton kilo- meters)	%	1957 (Billion ton kilo- meters)	%
Railroads	60.2	86.6	134.6	81.5
Roads	.678	1.0	3.79	2.3
Inland Waterways	3.64	5.2	15.7	9.5
Coastal Shipping	5.0	7.2	11.1	6.7
TOTAL	69.518	100	165.19	100

A14. By domestic merchant ship construction and acquisition from Poland and elsewhere, the Chinese Communists are continuing to expand their shipping fleet at a substantial rate. The Chinese Communists probably intend not only to expand their coastal merchant marine operation, but also to enter to a limited extent into the carriage of their international trade, especially with other Asian countries. The regime is also apparently planning an expansion of Yangtze River traffic and Yellow Sea coastal shipping to relieve strain on the railroads.

A15. Chinese Communists now have a civil air system which provides direct connections between Peiping and most of the major cities. The Chinese Communists have made considerable investment in civil aviation and there has been an almost complete modernization and changeover of planes and equipment. During the next five years, the network will probably be expanded to include the other major cities, but the goal of a nation-wide air network is not expected to be reached until the third Five-Year Plan.

A16. During the first four years of the First Five Year Plan emphasis was placed on building new rail lines, particularly in the West and Northwest. (See map.) The rail line to the Soviet Union through Sinkiang province has progressed beyond Yu-men, the area which contains the largest proved indigenous source of crude oil. The trans-Mongolian line to the Soviet Union has been completed, which in addition to providing a shorter rail connection between China proper and the European USSR, has permitted an increase in Chinese economic relations with Outer Mongolia. Another portion of the future north-south

trunk line in the west has been completed between Pao-chi, on the Lanchow line, and Cheng-tu in Szechwan Province. The regime also completed the strategic rail line from Ying-tan (on the rail line between Shanghai and Changsha) to the east coast port of Amoy. However, the regime was forced to curtail work in 1957 on new lines and to put emphasis on repairing and increasing the capacity of existing lines in the high density use sectors in the North and Northeast. In part, this was done to alleviate the critical tie-ups which had developed in certain sections of the system in 1956, and in part because of the necessity generally to reduce investment spending in 1957.

A17. The supporting role of native transport in China remains very important. A recent article by the Minister of River Fleet of the Soviet Union, reporting on his inspection of Chinese inland waterways, presents a percentage breakdown of freight carried by all of the various types of transport in 1956:

TABLE III

	<u>Tons carried</u>	<u>Ton/km</u>
Railroads	33.0	78.7
Inland Waterways		
Modern Ships	4.7	8.5
Native Ships	9.9	3.6
Coastal Shipping	1.5	5.7
Motor Vehicles	10.7	2.3
Carts and Pack Animals	40.2	1.2
TOTAL	100.0	100.0

This table emphasizes the important part junks, carts, and pack animals play in short-haul local movement of goods. Such transport in 1956 carried over 50 percent of the freight tonnage, but less than 5 percent of the ton-kilometers.

Agricultural Production

A18. During the First Five Year Plan, we estimate the output of food rose 10 percent³ to 185 million tons grain equivalent, with grain crop area increasing about 3 percent (including double cropping) and per hectare yields rising about 7 percent. Cotton production in-

³ The official Chinese Communist figure is 20 percent, which we believe overstates the actual rate of growth.

creased by about 25 percent, with the area planted in cotton expanding by about 3 percent and the yields per hectare increasing by about 22 percent.

A19. The main factor to which this agricultural expansion is credited has been the mobilization of idle and underemployed rural labor for increased cultivation work and land improvements, which was accelerated after collectivization. Irrigated land reportedly increased by one-fifth to 37,000,000 hectares, and extensive flood control and soil conservation measures were undertaken. In addition, chemical fertilizer supplies were raised from 333,000 tons to a peak of 2,000,000 tons in 1956, providing a small but important addition to soil fertility. Rural coal supplies were more than tripled to a peak of over 25,000,000 tons in 1956, permitting greater use of straw and other by-products as feed and fertilizer. Improved seeds were developed and by 1957 were reportedly sown on 40 percent of the grain acreage, 80 percent of the cotton acreage, and 30 percent of the oil seed acreage. There has also been an increase in the supply of farm tools, and some progress was made in controlling crop pests.

A20. The growth of agricultural production was adversely affected in certain respects by the collectivization of the peasants. It upset the production and market organization in the farm areas and reduced the production of certain subsidiary products. Moreover, there has been a sharp decline in draft animal power per crop hectare, due to an increase in the acreage under cultivation without a corresponding increase in draft animals, and to the lack of care given them by the collectives.

A21. The Chinese Communists have had considerable difficulty in raising livestock production. Cattle are the major source of draft power on China's farms and hogs are the major source of meat in the diet of the population. Official concern has been great, but planned increases have not been realized. Although the number of hogs increased from a low of 84 million in 1956 to 114 million in mid-1957, it still fell short of the 1957 target of 138 million.

Foreign Trade and Economic Relations

A22. Foreign trade has been an important factor in Communist China's First Five Year Plan, and has supplied important quantities of military equipment, capital goods, and essential raw materials. To obtain the necessary imports, the foreign trade policy was to expand exports as rapidly as possible in order to finance a greater volume of imports, and to limit imports to essential commodities. During the period 1953 to 1957, balance of payments pressures increased, reflecting the cessation of Soviet loans, a rise in foreign debt service, continuing high foreign-aid commitments, and declining receipts from foreign expenditures in China and from Overseas Chinese remittances. As a result, although exports approximately doubled between 1952 and 1957, imports rose by only a third. Trade with the Bloc accounted for about 78 percent of total trade.

A23. Imports during this period totalled almost 25.2 billion yuan. Of this total, approximately 3.2 billion yuan was financed by Soviet credits — military credits accounted for 2.2 billion yuan, or roughly 9 percent of total imports, and economic credits accounted for about 1 billion yuan, or 4 percent of total imports. The composition of imports is estimated approximately as follows: machinery and equipment (including military equipment), 60 percent; raw materials, 30 percent; and consumer goods, 10 percent.

A24. Exports are estimated at approximately 23.3 billion yuan during 1953-1957. Agricultural products and products processed from agricultural raw materials accounted for about 75 percent of total exports, with exports of mining products, machines, and industrial products contributing the remaining 25 percent. The small decline in exports in 1956-1957, which apparently caused the Chinese Communists to decrease imports in some degree in 1957, was partially due to a drop in exports of foodstuffs, exports which largely would have gone to the USSR.

Population, Manpower, and Consumption

A25. According to the Chinese Communists, the population of China at the end of 1957

was 640 million, compared to about 575 million at the end of 1952. It was not until about 1956 that recognition of the dangerously narrow margin between the rates of growth of agricultural output and population caused Communist China's leaders to change their doctrinal outlook from one of pride in greater population to the need for population control. They are now developing programs to reduce the birth rate. We expect population growth rate to level off at about 2.0 to 2.5 percent. At this rate the population in 1962 would be about 706-724 million and, by 1967, 780-818 million. In any event, the population increase during the Second Plan period will continue to press heavily on the supply of food and consumer goods.

A26. This population growth not only poses a problem of food supply but also the problem of maintaining full employment with equitable income distribution. The employment category of factory workers and office staff — the only category open to major percentage increase — is still limited to 24 million, and only 5.2 million persons were added to these categories during the First Five Year Plan against a total population increase of 65 million. The Communists have evidenced awareness of their growing employment problem and have plans to use more investment funds on projects which maximize employment. Various steps have been taken to stiffen the policy preventing peasant migration into the cities and even to transfer large numbers of present urban residents back to the countryside. The latter policies will serve to lower average income of the rural population but will not increase agricultural output since rural labor is already excessive.

Scientific Development

A27. During the past year Communist China has reemphasized its policy of vigorous development of scientific research. Although there was retrenchment in most other fields in 1957, the Chinese Academy of Sciences budget was raised one third, and it established over a dozen new research institutes and laboratories. Such emphasis has also been expressed in organizational changes, expansion, and in

revised policies in higher education and training of researchers. However, the amount of significant research work continues to be small. Scientific manpower resources have improved only slightly, and the regime has acknowledged that educational policies have not produced sufficient numbers of graduates qualified for advanced scientific training.

A28. Educational policies in higher education have been revised to place more emphasis on quality. Curricula are expected to be redesigned to provide a broader and more fundamental education rather than the present highly specialized type. The Chinese Academy of Sciences sent 129 students to the USSR in 1956. In addition, the Ministry of Higher Education sent about 500 post-graduates last year, of whom perhaps 200 may be trained as potential researchers.

A29. Training programs in the Academy of Sciences, the universities, and the USSR will probably expand gradually so as to produce by the end of the estimate period some 3,000-4,000 new people with potential for being productive in scientific research and development. This gradual expansion would double

the number now believed to be of research and development caliber. Highly competent scientists will, however, emerge much more slowly; the present estimate is that only a few hundred will be added by 1962 to the less than 1000 now available.

A30. We believe that a transition period has now arrived in which the utilization of Communist China's scientific resources in support of economic and military development will gradually change. Whereas the scientific effort is now concerned with low-level industrial testing, trouble shooting, and assimilation of imported foreign technology, we expect that Communist China's developmental capability by 1962 will be compatible with the level of its imported foreign technological processes. This work will be concentrated in the applied fields listed in the 12-year plan for research and development: nuclear energy, electronics, metallurgy, power, etc. By 1962 we may also expect some basic research results which will go somewhat beyond the backlog of research experience brought back by Chinese scientists from Western laboratories.

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ANNEX B

COMMUNIST CHINA'S MILITARY ESTABLISHMENT

A. Ground Forces

B1. During the period 1955-1957 Communist China's system of internal military regions was reorganized to provide twelve, rather than the previous six regions, and to orient them strategically and functionally to present day requirements. This represents a considerable improvement in the administrative and command structure. Also during the past year there has been a trend toward creating a better balanced army through an increase in the proportion of support units to infantry units. There are continued indications of a possible shift in tactical doctrine to meet problems of modern military operations. For example, continuing atomic and some chemical warfare exercises emphasize individual and unit protective measures similar to those of the Soviet army, and there appears to be increasing emphasis on mobility and dispersion and somewhat decreased emphasis on the offensive doctrine of mass attack. It is unlikely that there is any significant degree of operational integration or coordination between the Soviet and Chinese ground command except in the logistical fields, where it is required because of Communist China's continued dependence on the Soviet Union for much of its military equipment.

B2. In January 1958, about 26 percent of Communist China's ground force strength was in Korea and Manchuria, 23 percent in the area bounded by Shanghai, Hankow, Canton, and the coast, and about 17 percent in the north China plain area. The remainder provided coastal defense in the areas north of Shanghai and south of Canton or was disposed in the central, western and northwestern areas as internal and border security forces. This general deployment represented little change from that of the previous year. (See map.)

B3. However, in February the Chinese Communists announced their intention to withdraw all their forces from North Korea by the end of 1958. Two armies have already been withdrawn, and it appears probable that the remaining forces, which include three armies and total about 200,000 men, will be withdrawn in 1958 as announced. A survey of present troop dispositions indicates south and central China as feasible locations for at least part of the forces withdrawn. Strategic considerations suggest the probable retention of a significant part of the force in north and northeast China. However, there is no firm evidence as to where withdrawing forces will actually be stationed. Although immediate Communist defensive capabilities in Korea are weakened by the withdrawal of Chinese Communist troops, the speed with which forces in Korea could be reinforced from China leaves the relative capabilities of UN and Communist forces in Korea essentially unchanged.

B4. There has been a considerable turnover of ground force personnel as older and physically unfit men have been replaced by conscripts. The military Service Law of 1955 provides for a three-year term of service under the military conscription system and the establishment of a reserve. The ground force enlisted personnel, with the exception of a nucleus of non-commissioned officers, now consists of selected conscripts, who are trained in modern warfare with modern weapons. The training cycle begins with basic training in the spring and appears to progress to regimental and divisional size maneuvers by the following winter. The service school system for officers and non-commissioned officers appears to be concentrating on retraining in the refinements of modern warfare. Higher-level staff colleges are also in operation and both junior and senior officers may be detailed to

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TABLE IV

THE CHINESE COMMUNIST GROUND FORCES

	<u>Units</u>	<u>Estimated Strength</u>
		2,575,000 Total
Armies	36	47,900 each
Divisions		
Infantry	114	14,900 each
3 Infantry Regiments		
1 Artillery Regiment		
24 light & medium field		
artillery pieces		
12 medium mortars		
1 AA battalion		
12 light AA pieces		
12 AA machine guns		
1 AT battalion		
12x57-mm AT guns		
*1 tank-assault gun regiment		
32 medium tanks		
12 self-propelled assault guns		
—Support units		
Armored	3	6,600 each
80 medium tanks		
10 heavy tanks		
8 self-prop guns		
Parachute	1 (possibly 3)	7,000 each
Cavalry	3	5,000 each
Artillery		
Field Artillery	13	5,500 each
108 pieces up to 152-mm		
Rocket launcher	2	3,300 each
72x132-mm multiple rocket launchers		
Anti-tank	3	3,400 each
72 AT guns		
Anti-aircraft	6	4,800 each
108 light & medium guns		
Public Security	20	7,000 each

* To date only 28 of the 114 infantry divisions are believed to have the tank-assault gun regiment.

(In addition, the ground forces are believed to include a number of public security and artillery divisions not yet identified, and approximately 68 independent regiments including artillery, engineer, motor transport, and public security.)

appropriate military schools in the Soviet Union. The reserve includes conscripts who have completed their military service, graduates of reserve training programs in the high schools and universities, and officers released from active duty. After 1958, the reserve will contain at all times about two million men who have had active military service within the previous three years. The Chinese Communists are probably capable of effectively and rapidly mobilizing this reserve for active duty.

B. Air Forces

B5. Communist China's air arm is heavily dependent upon the Soviet Union for planes, equipment, supplies and training. Consequently, its tactical doctrines and command and logistic relation closely resemble those of the Soviet Union. The air force and the naval air force constitute a reasonably developed and improving air arm. Their personnel are young and vigorous. Morale is high. The air forces are organized into bomber, fighter, attack, and transport units which could operate

from many points on Communist China's periphery. The Chinese Communists now have 104 airfields suitable for jet operations and 285 other bases. They have developed a reconnaissance capability, at least in the photographic field. In equipment, training, and deployment, the air forces are oriented toward defensive and tactical operations.

B6. The Chinese Communist air defense is concentrated in areas containing major military and industrial targets, with the Shanghai area the most heavily defended. They have a radar system with a central control, which covers the entire coast as well as these major centers. This system provides a fair to good capability to detect penetration of coastal and major target areas, except by aircraft at low altitudes: however there are still some areas not adequately covered by GCI. Air interception capability is hampered by a shortage of adequate GCI radars, by a serious shortage of airborne intercept equipment, by inadequate pilot experience in night and all-weather flying, and by only fair but improving standards in ground controlled interception procedures. (See map.)

B7. The air arm is gradually increasing in size and converting rapidly to jet aircraft. During the past year, the total number of aircraft increased by 475 and the number of jets increased by 540. Piston fighters will probably be phased out entirely by the end of 1958 and we estimate that by 1962 the Chinese Communists will have about 2,900 jet fighters. By mid-1959 piston light bombers will probably be completely replaced. The piston medium bombers will probably increase to about 60 by 1961, and by 1962 the Chinese Communists may have a few jet medium bombers. Communist Chinese air interception capability will improve during the next five years as the programs are carried out to improve communications, to acquire additional high altitude GCI, and to develop further their all-weather interception capabilities. However, the effectiveness of Communist China's air defenses could still be substantially reduced by well planned and coordinated multiple attacks, and by electronic countermeasures. Air force ability to support ground operations is being enhanced through operational train-

ing. Operational effectiveness of the bomber force is reduced by such factors as electronic equipment of limited capability, which under other than visual or ideal radar conditions affects bombing accuracy, and by the lack of combat experience.

TABLE V

THE CHINESE COMMUNIST AIR ARM

A. Air Force

	Jets	Non-Jets
Total Personnel 79,000		
Fighters	1,300	35
Attack, fighter	180	70
Light bomber	230	165
Medium bombers	—	20
Transport	—	170
Helicopter, large	—	30
Reconnaissance	30 (5 light	—
Utility/Liaison	— bomber; 25	65
Trainer, fighter	115 fighters)	—
TOTAL	1,855	555
TOTAL AIR FORCE	2,410	

B. Naval Air Force

	Jets	Non-Jets
Total Personnel 8,000		
Fighter	200	—
Light bomber	205	—
Transport	—	20
Helicopter, large	—	10
Reconnaissance, lgt bomber	5	10
Utility/Liaison	—	5
Trainer, fighter	15	—
TOTAL	425	45
TOTAL NAVAL AIR FORCE	470	
TOTAL AIRCRAFT ALL TYPES	2,880	

C. Navy

B8. The principal strength of the Chinese Communist Navy consists of four destroyers and 16 submarines. All of these vessels, with the exception of three submarines assembled in China, were transferred from the Soviet navy during 1954-1955. Large-scale exercises, including anti-submarine and probably amphibious operations, have been held in the Yellow Sea. During 1957, units of the fleet were at sea more often and for longer periods of time than previously, indicating a probable increase in operating effectiveness. Rocket

installations on landing craft have been confirmed, and there is evidence that training in atomic, biological and chemical warfare has been initiated.

B9. Communist China has begun a significant shipbuilding program with large-scale technical assistance from the Soviet Union. At first, component sections prefabricated in the Soviet Union were assembled in Chinese shipyards; however, increasing numbers of component parts are being produced in China, including propulsion equipment, steel plates, and electronic gear. Five classes of new ship construction, all based on basic Soviet designs, have been identified. By far the largest and most important of these ships are the "W" class submarines (SS) and the "Riga" class escort vessels (DE). Other identified new construction includes "Kronstadt" class submarine chasers (PC), T-43 class fleet minesweepers (MSF), and "P-6"

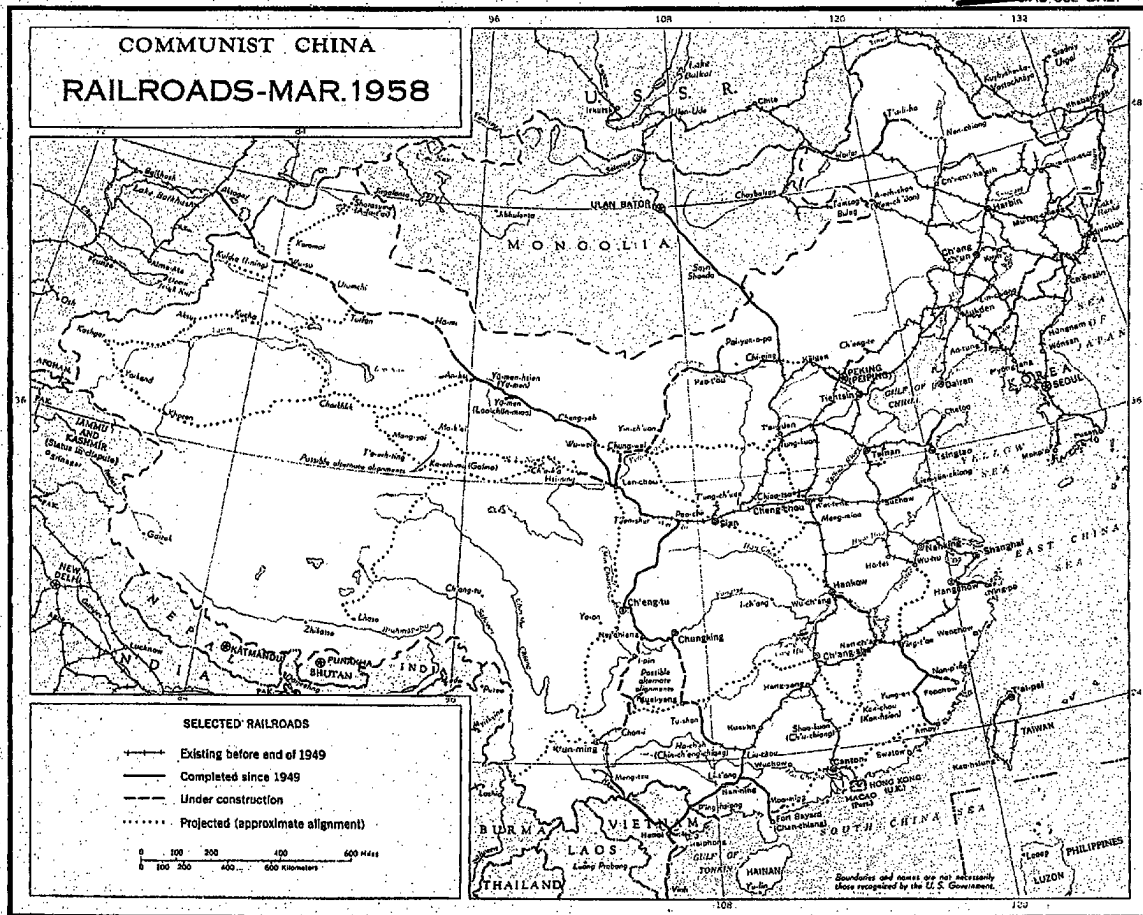
class motor torpedo boats (PT). Nearly all of this new construction is concentrated in the Shanghai shipbuilding complex. The only known naval shipbuilding outside of the Shanghai area is submarine chaser construction at Whampoa and possible PT boat construction at Wuchang on the Yangtze River and Whampoa. In addition, the Chinese shipyards are rapidly increasing the numbers and size of merchant ships under construction.

TABLE VI

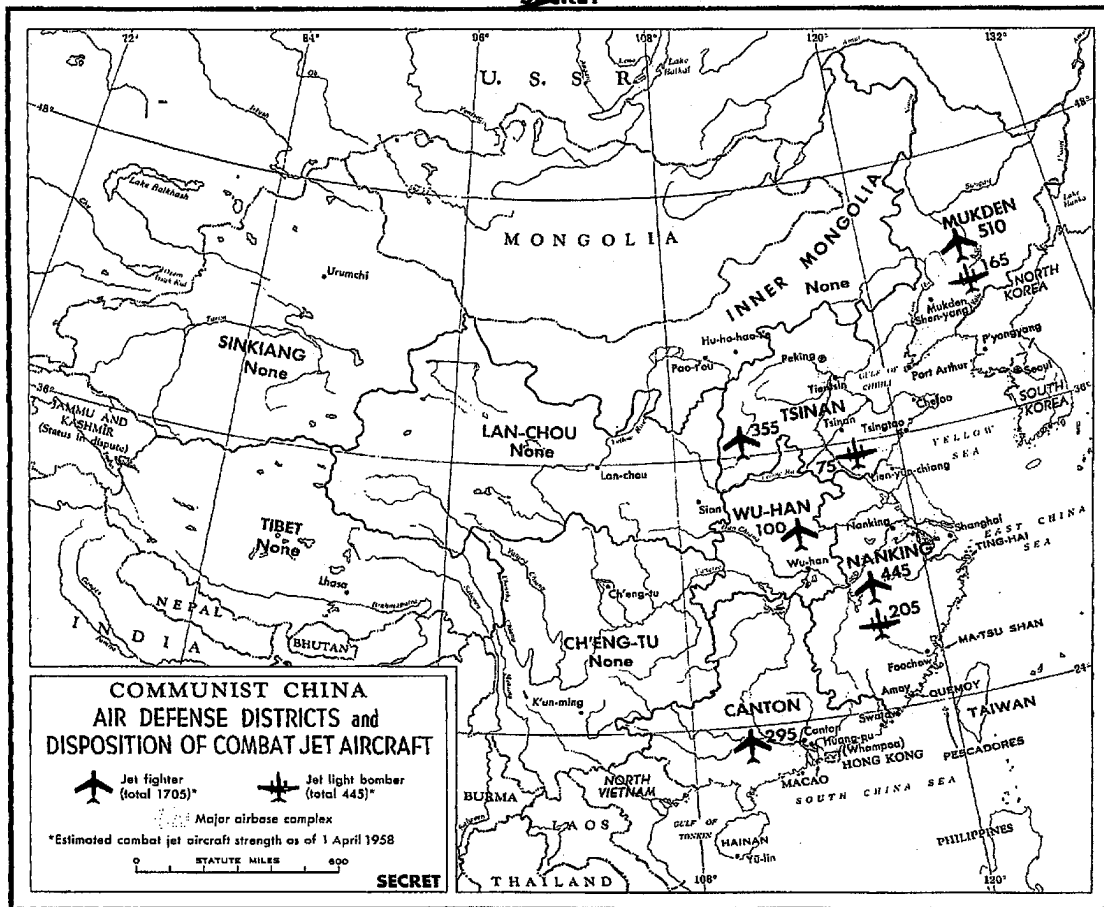
THE CHINESE COMMUNIST NAVY *

Officers and men	55,000 (includes 8,000 naval air)
Destroyers	4
Submarines	16
Patrol	216 (including 110 PT's, 4 DE, and 25 PC)
Mine warfare	31
Amphibians	54

* For naval air strength see Table V.



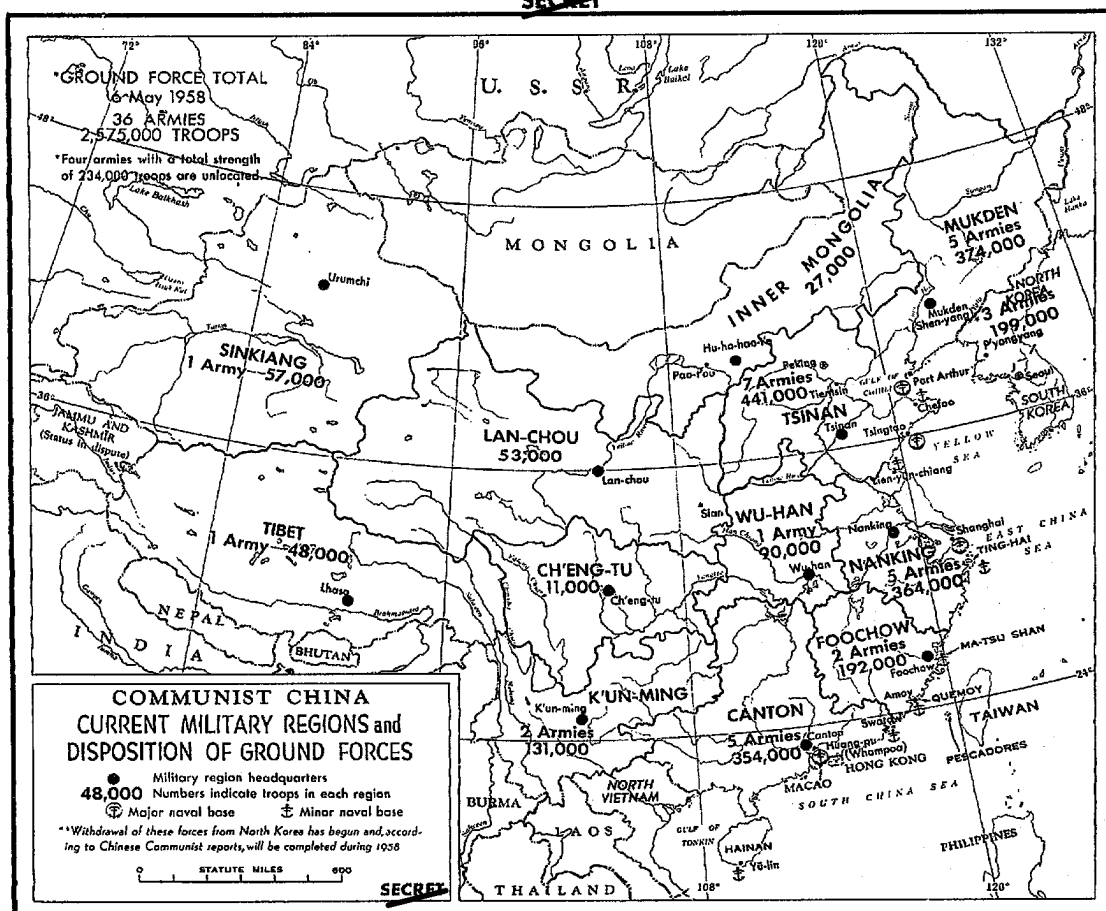
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