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29 June 1962

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NUMBER 13-4/1-62

SUPPLEMENT TO NIE 13-4-62

Prospects for Communist China

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE

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The following intelligence organizations participated in the preparation of this estimate:

The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, the Army, the Navy, and the Air Force.

Concurring:

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NOTE

1. The text of NIE 13-4-62, dated 2 May 1962, discussed the economic problems, military situation, and internal stability of Communist China within a relatively brief compass. The following three annexes amplify these discussions and provide backup information for the estimates made therein.

2. Significant changes in the deployment of Chinese Communist military forces which have occurred since the publication of NIE 13-4-62, "Prospects for Communist China," dated 2 May 1962, have been discussed in SNIE 13-5-62, "Chinese Communist Short-Range Military Intentions," dated 20 June 1962 (TOP SECRET, LIMITED DISTRIBUTION). Annex B in this set of annexes addresses itself to analysis of Communist China's overall military strength and basic capabilities, which have not been affected by the recent and current redeployments. With this exception, the annexes include the latest available information.

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PROSPECTS FOR COMMUNIST CHINA

ANNEX A

ECONOMIC

I. BACKGROUND

1. The fundamental economic problem faced by the policymakers of Communist China is the pressure of a huge and rapidly growing population on a relatively small acreage of arable land. Only about 12 percent of the land area of China can be profitably cultivated today. The margin between food supply and the population's nutritional requirements has long been slim.

2. However, beginning immediately after the takeover in October 1949, the Communist leaders embarked on a policy of forced-draft industrialization by channeling the maximum possible amount of funds into the development of heavy industry. The correlative policy decision was to skimp on agricultural investment; China's farms became in effect a residual claimant on resources. In spite of this policy, agriculture was able through most of the first decade of Communist rule to supply the population with an uninspiring but adequate diet and provided a surplus for export. These exports went largely to pay for imports of industrial goods and to provide debt service on the loans which the Soviet Union had made available to China to assist her in reaching great power status.

3. The party leadership, however, was not satisfied with the very considerable progress being made. They sought a shortcut to transform a poor, backward agricultural country into a modernized industrialized nation within 10 to 15 years. The policy adopted was the so-called "great leap forward." This program was designed to take advantage of China's enormous resources of manpower and to work every man, woman, and child, every freight car, every machine, and every plot of farmland at a frantic pace. In agriculture, it was characterized by the establishment of communes—super collectives which comprised tens of thousands of people and endeavored to combine economic, political, and social responsibility and authority in a single organization. Soviet advice was ignored as the Chinese leadership carried out its own innovations in ideology and economics.

4. Despite mounting dislocations, the Chinese Communists stubbornly persisted in this leap-forward program until it collapsed in mid-1960. With the nation on the verge of starvation, and the regime's fiscal and administrative controls in a state of near chaos, Peiping in the 1960-1961 food year concentrated on survival, and, apart from permitting a sharp drop in industrial output and con-

struction, made only such minor organization reforms as could be easily effected. With a slight improvement in the food supply in the 1961-1962 food year—largely from imports and private plots—it has attempted more basic reforms to restore peasant incentive and initiative in agriculture, to rationalize industry, and to relocate surplus urban population.

II. AGRICULTURE

5. The Chinese economy is fundamentally dependent upon agriculture. About 500 million people—some 80 percent of the population—are directly dependent upon agriculture for a living. Agriculture must not only provide food for China's large and rapidly growing population, but also exports to pay for imported machinery and equipment, and raw materials for light industry. It also contributes directly or indirectly to the capital required to expand industry. Budget revenue, retail trade, investment, and industrial production (particularly in light industry) all fluctuate with good or bad harvests.

6. In the first year of the "great leap forward," 1958, China achieved the greatest agricultural output in its history. Grain production, which we estimate at over 210 million tons, was about 25 million tons greater than in 1957. This success, however, was not sustained in succeeding years. While available data, and hence our estimates of crop production, are very imprecise, we believe that the annual grain harvest from 1959 through 1961 was no better than the 185 million tons recorded in 1957 and probably worse. Between 1957 and 1961, population probably increased by at least 50 million persons, implying a 10 to 15 percent decrease in per capita availability of foodstuffs.

7. The agricultural failure, which preceded the industrial slump by about two years, resulted largely from ill-conceived and precipitately implemented agricultural policies. A principal manifestation of this was the com-

mune program of 1958. The effort to substitute a totally new and all-pervasive form of rural organization in a single season destroyed the old organization without an effective replacement. Many administrative functions broke down, including much of the work in statistics, collection, and distribution. At the same time, politically reliable cadres with little or no farming experience imposed Peiping-inspired techniques such as extremely close planting and extravagantly deep plowing, upset time-tested planting and rotation schedules, and dissipated much manpower on commune industrial projects, including the now notorious backyard iron furnaces. The adverse effect of the policy errors and arbitrary methods of the regime were not as great as they might have been because of the institutional inertia of a farming system involving hundreds of millions of tradition-bound peasants.

8. The peasants resented the bureaucratic interference with their established practices. They were confused and upset by abrupt and unpredictable vacillations of policy and disillusioned by the reduced living standard which followed their exhausting labor efforts in the early leap-forward period. Furthermore, they found that in large-scale collective farming there was no clearly discernible relation between their livelihood and the quality and quantity of their labor. Then, as food shortages developed, sheer physical weakness was added to apathy and bitterness, further reducing labor productivity.

9. Although we do not know its extent and cannot estimate its importance, some material damage was also done to China's farms. Community-owned tools and machines often did not receive the care normally afforded to those owned by individuals, and replacements were inadequate. The number of draft animals fell sharply, and the soil itself has suffered from various malpractices. In some places poor irrigation practices have caused

either leaching or salinization. In others, overuse, especially close planting, has decreased soil fertility.

10. Bad weather has seriously added to Peiping's agricultural problems. During the past three years there have been serious droughts in various parts of the country. Most of the North China plain was drought-stricken in 1960 and smaller areas, e.g., much of Shantung province, have continued to have below normal moisture. The great "rice bowl" of Szechuan was hard hit in 1961. Although weather, without doubt, contributed to the recent agricultural failures, it is growing increasingly evident that, Peiping has exaggerated its effect to cover up its own mistake. A normal year in China includes bad crop weather in some parts of the country. The size and geographic complexity of the country combined with the marginal nature of much of the farming insures that there will be crop failures in some parts of the country almost every year.

11. Because agricultural statistics reported to Peiping were falsified under the slogan, "let politics lead economics," the regime did not realize the seriousness of its agricultural situation until late in 1960. The massive labor drives, under which peasants were mobilized into large battalions and shifted from one non-productive task (such as the backyard iron furnaces) to the next, then came to a halt. Subsequently, the authority of the communes, was drastically curtailed, and its functions taken on by production brigades and later by production teams and, in some areas, even by families. Incentives to the peasantry were increased by restoring private plots and free markets and by tying grain distribution more closely to individual effort.

12. Any estimate of the prospects for Communist Chinese agriculture through 1967 rests heavily on the probable effectiveness of these and other measures that the Chinese can take.

However, because the years 1959-1961 were lost to agricultural advancement, and because the regime decided on a policy of keeping the maximum number of people alive rather than reverting to the traditional corrective of mass starvation, the task today is a most difficult one. Merely to restore by 1967 a per capita level of grain production equal to that of 1957 would require a four percent annual increase in output.

13. Although the Chinese Communists have often paid lipservice to the fundamental importance of agriculture, they have been very reluctant to divert a significant portion of total investment to agricultural needs. They have operated agriculture as a sort of holding operation hoping that domestic peace, better organization, and "peasant enthusiasm" along with local investment by the peasantry would raise the level of agricultural output at a rate sufficient to meet increasing demands. Meanwhile the attention of Peiping was focused on the struggle for triumphs in heavy industry. In the wisdom of hindsight everyone, including Peiping, now knows that the margin of agricultural output over absolute minimum needs was inadequate to cushion a serious drop in production.

14. Since 1960 Peiping has had forced upon it a much deeper appreciation of the seriousness of its agricultural problem and the need to allocate a greater share of its resources to the development of agriculture. Chinese leaders have indicated that agriculture is to receive priority over other parts of the economy and that investment in new industrial projects is to be suspended. The limited remaining industrial investment is to be focused upon those industries that serve agriculture, e.g., fertilizer plants and factories to produce pumps and tractors. Since neither a 1961 nor 1962 budget has been published, we cannot judge to what extent the emphasis of investment has actually been shifted.

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15. In the short run, gains must come from increased production per acre. Communist China must sustain approximately one-fourth of the world's population on about one-fifteenth of the earth's land surface. Only about 12 percent of mainland China's 3.8 million square miles is under cultivation—under one-half acre per capita. Estimates of potentially cultivable acreage vary widely, but it is probable that very little land can be added without considerable investment in long-range programs, especially irrigation. Thus Chinese success during the next few years will depend mainly upon measures to increase yields, including water conservancy, land improvement, chemical fertilizers, higher yield crops, and improved tools, as well as on increases in peasant incentives. The prospect for each of these is discussed in the following paragraphs.

16. One of the great boasts of the Communist regime has been its water conservancy program—"overcoming nature," as the regime calls it. During the winter of 1957-1958 and on a lesser scale in the next two winters, a tremendous input of corvee labor built thousands of miles of levees and ditches for irrigation and drainage. Dams were built and many thousands of wells were dug. Although some dams and levees crumbled under the pressure of floods and some ill-conceived irrigation projects did more harm than good, in general these projects apparently did much to reduce damage by floods and drought in the past few years. But by now many of the more easily accomplished projects have been completed, and the willingness and physical ability of the peasant to tackle mass work projects has been greatly reduced since the peak years 1957 and 1958. We believe that water conservancy work can make only a small contribution to production in the next two or three years, but that better use of existing facilities and resumption of investment in large-scale projects could substantially increase agricultural production over the long run.

17. The prospects for land reclamation and soil improvement are limited, and even at best are likely to contribute less than a one percent annual increase to farm output. According to official claims, land reclamation has added five percent to the cultivated acreage since 1955. Each major additional increment will require more time and investment for its accomplishment. Soil improvement involves various measures such as improved drainage, fallowing, and green manure crops. Material shortages and the need to keep all land in production severely limit what can be accomplished by these methods in the next two or three years. In June 1962 a campaign was launched for a one-shot increase in tilled acreage by cultivating factory yards and the ground in uncompleted construction projects—even to the extent of plowing up "temporary" roads. In 1960 and 1961 railway embankments for suspended double tracking projects were planted to crops. There will probably be some slight increase in production obtained from these programs and the return to cultivation of marginal lands which had been abandoned in previous years.

18. The greatest potential increase in productivity from material or technical means would come through greatly increased use of chemical fertilizers. The effective fertilizer applied to the soil in Communist China is only a fraction of that applied in other areas of intensive cultivation. To apply fertilizer on the Japanese scale over its whole sown acreage, China would need about 30 million tons a year

APPLICATION PER HECTARE OF CHEMICAL FERTILIZER

(in terms of nutrient content)

	Kilograms *
Communist China	4
Taiwan	167
Japan	207
Denmark	116

* Data for China are 1960 estimates, for others, 1958-1959 figures.

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in terms of nutrient content or 150 million tons in terms of gross quantity. The Twelve-Year program¹ calls for production of only 10 percent of that amount by 1967, i.e., 15 million tons compared with a production of nearly 2 million tons in 1959, the last year for which we have a figure. We cannot be certain whether the 15 million-ton goal will be reached on schedule, but considering the rate of increase till now and the kind of equipment and technology the industry requires, we think this achievement unlikely. If the regime is prepared to reverse its current policy and use a large part of its limited foreign exchange to import fertilizer in great quantities, agricultural production in China could make substantial gains in the next few years as a result of the use of chemical fertilizers. We estimate that the Chinese could get roughly 3 tons of additional grain for each ton of fertilizer (gross basis) added.

19. The Twelve-Year program provides for increasing the proportion of high-yield crops, such as rice, maize, and sweet potatoes. Temperature and water supply limit the areas to which rice cultivation can be extended, and maize and sweet potatoes are considered second-rate foods by the Chinese people. Multiple cropping has been extended under the Communists but appears to have been reversed in recent years as a result of drought and rural disruption. Given a period of stability and good weather, increased multiple cropping could again add to China's total food output.

20. The Chinese Communists appear to expect great things from increased mechanization of agriculture. We believe that these expectations are ill-founded. In the first place,

¹ The Twelve-Year program for agriculture (1958-1967) has not been mentioned in the press for a long time and it has apparently been largely, perhaps totally, scrapped. In the absence of any other plan figures we have used the 15 million tons of the Twelve-Year program. The regime probably has no valid 1967 plan figure at present.

only about half of China's tilled acreage is adaptable to mechanized ploughing and harvesting. Moreover, machinery will probably not increase per acre productivity very much over present levels because its primary effect is on yields per unit of labor rather than per unit of land. In any case, the rate of production of farm machinery in China is not sufficient to have a major impact in the next few years. Moreover, as the use of farm machinery increases, so will the consumption of POL, which, in China's economy, is costly in relation to manpower. The biggest boost that mechanization might supply in the next few years is powered pumps to increase the efficacy of small, local irrigation efforts.

21. None of these material or technical methods will sufficiently vitalize Communist China's agriculture, however, unless, the peasantry can be induced to work effectively. Communist China's leaders obviously have a strong ideological compulsion toward Marxist collectivization. It will be difficult for them to make the widespread and sustained gestures toward individual responsibility and rewards that are probably necessary to provide enduring and sufficient motivation to the peasants of mainland China.

22. As the preceding paragraphs indicate, there is no quick and easy solution to China's agriculture problem. Weather can produce sharp annual variations, and a season of good weather in 1962 could bring about a big boost in output; but to achieve a continuing rise in output will require great increases in the resources allocated to agriculture as well as improved management practices. Assuming an average run of weather through 1967, the rate of increase in production will be determined largely by investment and motivation of the peasantry. A fairly substantial achievement in both of these would be required to achieve the four percent average annual increase over estimated 1961 production that would regain 1957 per capita output levels by 1967.

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23. Peiping's grain imports are a key indicator of its short-range agricultural prospects. Last year it imported 5.3 million tons of grain for domestic consumption,² and as of June it had contracted for about four million tons for 1962. These purchases have been from Free World countries and have to date consumed or obligated about \$600 million of hard-currency exchange. Peiping is continuing to seek foreign sources of grain, but because of its foreign exchange shortage it is forced to finance the bulk of its grain imports by credits. The short-term credits it used in buying Canadian and Australian grain last year have been repaid as due, and further short-term credit is likely to be available. The quantities imported, however, only take some of the edge off the food shortage; they do not nearly fill the gap.³

III. DEMOGRAPHIC ASPECTS

24. Estimates and projections of the population of Communist China are especially hazardous because of inadequate data. The following estimates are based on (a) the total population reported in the census of 1953, and (b) estimates of growth rates based on analysis of Chinese statements, and on general information about the food supply, incidence of disease, and other demographic influences in China. For 1962-1967, the projection is based on the arbitrary assumption that the average annual rate of natural increase will be 20.0 per 1,000 population and that there will be no significant migration.

Year	Mid-year Population (millions)
1953	583
1957	641
1958	657
1959	674

² In addition, about half a million tons of grain was bought by Communist China for shipment to other countries.

³ Table 1 at the end of this Annex shows the approximate food deficits for recent years.

Year	Mid-year Population (millions)
1960	689
1961	702
1962	717
1963	731
1964	745
1965	760
1966	776
1967	791

25. If these demographic estimates are approximately correct, every year about 15 million people are being added to the population of Communist China. Each year of delay in resuming the economic advance means, therefore, a considerably smaller margin between total national output and the minimum amount necessary to keep the population alive and reasonably productive. This margin represents resources available for investment.

26. Measures to limit population increase—sterilization, contraception, abortion, and even infanticide—might be adopted to solve the population problem. Currently, there is a revival of discussion in the Chinese Communist press of birth control—including the advocacy of late marriages—and this discussion could be the forerunner of a new national campaign. Indeed, in the cities there is already evidence of increased practice of birth control. However, it would take Draconian measures for any such program to have a significant effect on the growth of population in the next few years.

IV. INDUSTRY

27. The severity of the current industrial slump in China, makes it difficult to recall how rosy the future seemed to be in 1957, before the ill-fated leap-forward began. China was then embarked on well-conceived, highly ambitious programs to industrialize and to acquire modern technology. Effective support had been received from the USSR and the European Satellites, and additional support had been scheduled. The prospects seemed excel-

Mid-year
Population

lent for creating an industrial establishment by 1967 which would exceed that of Japan in the gross production of basic industrial commodities and be technically self-sufficient in many of these industries. The short-run successes achieved were impressive—production of crude steel went up from 5.3 million tons in 1957 to 13 million tons in 1959 and even more in 1960. But these short-run successes were achieved at the expense of long-run development.

28. In the struggle for maximum output inaugurated in 1958 under the "great leap forward," production goals were unlimited and rational planning was practically abandoned. As one result most producers concentrated on the production of finished products to the exclusion of replacement parts. Equipment was worked at sustained top capacity; maintenance and repair were neglected. Considerable material and enormous amounts of labor were dissipated in such primitive enterprises as the notorious "backyard furnaces" which turned out three million tons of largely worthless iron. Not only the primitive enterprises but many of the small modern plants which were erected in great numbers were found to be uneconomic producers and have been shut down.

29. In 1960, with its agricultural and industrial problems already mounting dangerously, Peiping challenged Moscow on the question of the proper leadership of world communism. This led in the summer of that year to the abrupt withdrawal of nearly all of the 2,000 or so Soviet technicians from Communist China. The departure of the technicians, who in some cases took vital blueprints with them, halted progress on the construction of major new factories and power plants and led to reduced production in many plants which had been recently completed. Subsequent developments also indicated that the unaided Chinese lacked the experience and knowledge

necessary for successfully coordinating a modern industrial economy.

30. The agricultural crisis has also played an important part in depressing industry. Light industry, in particular has been hard hit by shortages of agricultural raw materials; cotton textile production was down 50 percent in 1961. Heavy industry, too, has been affected indirectly. The marked reduction in exports, which stems from agricultural difficulties, has reduced the regime's ability to finance the import of capital equipment, components, and industrial raw materials for heavy industry. Imports of capital equipment in 1961 were substantially below the 1957 level. The general result has been a drastic curtailment in investment and in industrial production, possibly back to 1957 levels, although it is impossible to specify current production. Whether the leap-forward excesses, shortages of raw materials, malnutrition and apathy of the workers, or the slash in Soviet support played the greatest role in the collapse of industrial growth cannot be determined at present, but all were important factors.

31. The decline of industrial output apparently began as a disorganized collapse. As the regime finally realized the magnitude of its errors and problems, it attempted, in January 1961, to turn the rout into an organized retreat. The two-year period, 1961-1962 has been set aside for plant rehabilitation and the reinstitution of planning and coordination in industry. Emphasis has been shifted from quantity to quality and variety of products. Abandoning the policy of "letting politics take command," Peiping has returned authority to the experienced managers and technicians. Uneconomic plants have been closed down and an attempt has been made to gear output to the effective needs of the economy.

32. The slowdown in industry has been striking. We have insufficient data to provide any comparative figures, but direct observation of industrial difficulties include reports by travelers that the majority of factories in Peiping, Tientsin, Shanghai, and other accessible cities appear to be either closed or operating at a small fraction of capacity. Construction of many buildings and factories has stood still even in the show-place capital city.

33. The industrial slump has caused considerable unemployment and underemployment. The regime has been trying vigorously to send the unemployed to collective or state farms, apparently in the belief that they will be easier to feed and control in the countryside. The propaganda has stressed the need in rural areas for more manpower. This need is questionable, however, and there is considerable evidence that the peasants do not welcome extra city dwellers to share rations with them.

34. Early prospects for resuming industrial growth are not bright. In light industry, where considerable capacity is idle, output is heavily dependent upon an increased flow of agricultural raw materials, particularly cotton. Prospects for heavy industry are more complex. Not only are the necessary raw materials not being received in adequate quantities, but Chinese technical capabilities appear to be less than we had previously believed. In general, industrial production seems to be drifting lower, and there is no evidence that the bottom has been reached—a development which we previously thought likely for 1962. Numerous current reports chronicle new shutdowns of industrial facilities. Visitors to Chinese plants also are struck by the number of workers who are virtually idle.

35. Further, the margin between total output and current consumption is probably so thin that the leadership is finding it very difficult to accumulate resources for investment.

With the revival of industry so heavily dependent upon agricultural recovery, we see little prospects for a resumption of industrial growth over the next few years.

V. FOREIGN ECONOMIC RELATIONS

36. In the first decade of Communist rule, the primary function of the foreign trade of China was to export agricultural products in exchange for equipment for the military establishment and machinery for the rapid expansion of heavy industry. Peiping, however, has often placed political interests ahead of economic rationality in its conduct of foreign relations. Its stubbornly maintained ideological dispute with Moscow has caused the loss of essential Soviet economic and technical cooperation; its political restraints on trade with Japan has denied China an excellent and convenient source of equipment and technical know-how; and, in the face of serious domestic economic difficulties, it has continued a costly program of foreign economic aid.

37. The fluctuations in the volume of Communist China's foreign trade since 1957 reflect the sharp changes in tempo of production in the domestic economy. Total trade rose from \$3.1 billion in 1957 to \$4.2 billion in 1959 and fell sharply to \$2.9 billion in 1961. Because of continuing serious economic problems, we believe that China's foreign trade in 1962 will be no higher than the level in 1961 and probably lower.

38. The decline in foreign trade was accompanied by a marked change in the direction and commodity composition of trade.⁴ Trade with Bloc countries in 1961 fell sharply to 48 percent of Communist China's total trade, compared to an average of about 65 percent in the years 1958-1960; this is the first time

⁴ See Tables 2 and 3 at the end of this Annex for a breakdown of Communist China's trade by commodities.

since 1950 that the Bloc countries accounted for less than one-half of total Chinese trade. Exports of agricultural products were cut back sharply in 1961, and import priorities were shifted from investment goods to grain and sugar. In the period 1952-1960 food comprised less than 2 percent of imports; in 1961 the proportion jumped to about 40 percent. Imports of industrial and military goods dropped from 55-60 percent of total imports in 1952-1960 to about 20-25 percent in 1961. Imports of industrial raw materials—mainly petroleum products, cotton, wool, rubber, fertilizer, and metals—accounted for roughly the same proportion of total imports as previously, although they declined sharply in absolute terms from 1958-1960 levels.

39. China has continued to conclude new contracts for grain imports in 1962 and is still negotiating other contracts. As of early June 1962, grain purchased for shipment during 1962 amounted to about 4 million tons. Each million tons of grain imported costs about \$65 million in scarce Western currencies.

40. In the field of machinery and equipment, Peiping evidently intends to reduce its reliance on the Bloc and has been shifting toward greater imports from the West. A major change has not yet been reflected in actual trade statistics, but there have been numerous illustrations of a growing Chinese interest in Western equipment and technology. These have included discussions with France, Japan, and the UK for supplying equipment for a hydroelectric project formerly being built with Soviet assistance, negotiations with British and French aircraft firms and the purchase of six transports from the UK last year, probes for possible acquisition of steelmaking equipment from Austria, and increased visits of Chinese trade and technical missions to Western Europe and of Western commercial delegations to China.

In May and June of this year, for example, two Chinese Communist missions interested in buying heavy machinery visited France; they toured ports, shipyards, power plants, scientific installations, and a natural gas field.

41. Despite adverse economic fortunes, Peiping has continued firm in its commitment to an economic aid program designed to expand its political influence abroad. Since 1954, when Communist China began a foreign aid program, Peiping has signed agreements for over \$1.5 billion in economic aid, of which nearly \$800 million had actually been expended by the end of 1961. About half of this foreign aid was offered in 1960 and 1961, and 60 percent of aid offered in 1960-1961 was to North Vietnam, North Korea, Mongolia, and Albania, to a considerable extent in competition with Moscow.

42. While China's reserves of gold and Western currencies are believed to be minimal, its export earnings are still substantial and it will probably continue to have access to short-term credit. During 1962, China should be able to buy as much grain as it did in 1961 (\$400 million), meet the annual debt repayment to the USSR (about \$170 million), sustain its foreign aid deliveries at the same level (about \$100 million), and maintain petroleum imports at about the 1961 level (\$130 million). If Peiping makes all these expenditures, imports of industrial raw materials and semimanufactured goods and producers durables, particularly the latter, probably will decline.

43. Looking immediately beyond 1962, because of the difficulties faced by the agricultural sector and the need to retain foodstuffs and cotton textiles to sustain the population and to rebuild minimum stores, we believe current export levels will prove difficult to increase. Expansion of exports will depend largely on the ability of the Chinese to develop surpluses of industrial raw materi-

als—tungsten, coal, iron ore, etc., which would find markets in the Free World.

44. While long-term credits would be most helpful, there seems little likelihood that they will be supplied, either by Bloc or non-Bloc countries. A further restraint on imports is the fact that net debt repayments will probably rise sharply in 1963 and 1964. Short-term credits on grain purchases in the West will probably continue.

VI. PETROLEUM SUPPLY

45. Contrary to the general trend, imports of petroleum products probably increased in 1961. The estimated production, imports, and consumption of petroleum products since 1957 is presented in the following tabulation (million metric tons):

	1957	1958	1959	1960	1961
Products from domestic crude	1.3	2.1	3.4	4.2	n.a.
Imported products and products from imported crude	1.8	2.7	3.3	3.3	3.5
Total product availability	3.1	4.8	6.7	7.5	n.a.

Although direct evidence is limited, domestic production of petroleum may not have fallen in 1961.⁵ The high level of imports indicates that sustaining the supply of petroleum products was a priority objective. We know of no technical difficulties experienced by the domestic industry in 1961. The oilfields are relatively shallow, and the refinery processes employed are relatively simple. Although Communist China reportedly has produced both aviation gasoline and jet fuel on a trial basis, there is no evidence of production of these fuels in quantity.

⁵ We do have evidence that the big new oil shale plant at Mao-ming, southwest of Canton, suspended production towards the end of 1960 and has probably not resumed output. Even before the leap-forward speedup, this plant was scheduled to produce one million tons of petroleum in 1962.

46. Fewer shortages of petroleum products were noted in 1961 than in late 1960, suggesting that availability had generally improved. Buses in large cities largely stopped using coal gas, a cumbersome fuel substitute adopted in the fall of 1960, and returned to burning liquid fuel. Training and patrol activity of the air force has remained at a low level, and consumption of jet fuel by all military services amounted to about 375,000 tons in 1961 (all imported from the USSR). The need to import POL remains an area of economic and military vulnerability for China.

VII. TRANSPORTATION

47. Analysis of maintenance records that appear on the sides of freight cars reveals that a program to repair the fleet began in mid-1960 and was largely completed early in 1961. Expansion of the railroad system, speeded up in 1958-1960, had been drastically slowed through sharp cutbacks in tracklaying and addition to rolling stock. The absence of production of freight cars since June 1961 probably reflects reduced traffic requirements.

48. A strategic railline is now being built southward from Kunming toward Burma and Laos. If Peiping decided to do so, the trans-Sinkiang railroad, construction of which seems to be suspended, could reach Urumchi this year (if it has not already done so) and could join the Soviet railhead at the border by the end of 1964.

49. There is the probability of some advances of Chinese Communist international air and maritime services. British Viscount aircraft, scheduled for delivery in 1963, are well adapted to the medium distances of internal China and, with an intermediate stop, could be used on the proposed service to Ceylon. In 1961 Peiping inaugurated a shipping service from south China to the Bay of Bengal with several way stops, the first extension of Chinese Communist flag service beyond North Vietnam.

TABLE 1

COMMUNIST CHINA: ESTIMATES OF ACTUAL AND "REQUIRED"
PRODUCTION OF GRAIN, 1952-1962 AND 1967

Grain Production ^a
(millions of metric tons)

Year	Peiping's Claims	Our Esti- mate	"Re- quired" ^b	Year-End Population ^c (millions)	Per Capita Production (metric tons)	Surplus or Deficit ^d (millions of metric tons)
1952	154	168	164	576	.292	+4
1953	157	169	168	589	.287	+1
1954	160	160	172	603	.265	-12
1955	175	175	176	618	.283	-1
1956	182	182	180	633	.288	+2
1957	185	185	185	649	.285	0
1958	250 ^e	212	190	665	.319	+22
1959	270	185	194	681	.272	-9
1960	no claim	180 ^f	198	696	.259	-18 ^g
1961	no claim	180 ^f	202	710	.254	-22 ^g
1962	...	...	206	724	...	...
1967	...	...	227	798	...	...

^a In statistics on grain production in Communist China, tubers are included at the rate of 4 tons of tubers to 1 ton of grain.

^b Based on the selecting of the production per capita of 1957 as a reasonable standard.

^c End-of-year population is used because the food consumption year runs from July through June and the production of a calendar year (say 1960) may be regarded as the supply for a food consumption year (1960/1961).

^d Our estimate of production minus "required" production.

^e Original claim was 375; subsequently reduced to 250.

^f Mid-value of estimated range used.

^g The "deficit" of about 20 million tons in 1960 and 1961 was compensated for by such measures as reducing rations, drawing down reserves, reducing the proportion of grain going to feed and industrial uses, arranging for imports of grain, and reducing the expenditure of energy required of the population.

* Includes tin, tungsten, coal, iron ore, antimony, and silver.


TABLE 3

COMMUNIST CHINA: ESTIMATED COMMODITY COMPOSITION OF
IMPORTS, 1952 AND 1957-1961

Commodity	1952	1957	1958	1959	1960	1961
(Million US Dollars) ^a						
Foods ^b	10	20	30	10	40	550
Raw materials ^c	430	560	810	810	900	540
(POL).....	(30)	(90)	(100)	(120)	(120)	(130)
Machinery and equipment, mil- itary items, and other manufactured goods.....	620	840	950	1,220	1,070	330
(Machinery and equipment).	(330)	(630)	(770)	(980)	(900)	(275)
TOTAL.....	1,050	1,420	1,790	2,040	2,010	1,420
(Percentage Distribution)						
Foods ^b	1	1	2	^d	2	39
Raw materials ^c	40	40	45	40	45	38
(POL).....	(3)	(6)	(6)	(6)	(6)	(9)
Machinery and equipment, mil- itary items, and other manufactured goods.....	59	59	53	60	53	23
(Machinery and equipment).	(31)	(44)	(43)	(48)	(45)	(19)
TOTAL.....	100	100	100	100	100	100

^a Data have been rounded to the nearest \$10 million.^b Includes mainly grain and sugar.^c Includes mainly POL, cotton, wool, rubber, fertilizer, and metals.^d Less than 1 percent.

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ANNEX B

MILITARY

I. GENERAL

1. The Chinese Communist Army—the world's largest—has a tested capability for prolonged, large-scale offensive action. The capabilities of the air forces are primarily oriented toward air defense and tactical and logistical support of ground forces. The navy is primarily a defensive arm, designed for relatively short-range operations. The Chinese Communist armed forces do not now possess nuclear arms or most other advanced weapons.¹ Nevertheless, they are capable of mounting large-scale ground campaigns, and could almost certainly seize most of southeast Asia and the entire Korean peninsula unless opposed by very substantial Western—including US—forces.


2. The post-Korea trend in the armed services toward modernizing equipment and balancing forces has been retarded by the cutbacks in heavy industry, the sudden departure of the Soviet technicians and advisers, and the virtual cessation of Soviet military assistance. In the first half of 1961 domestic deliveries of military construction materials and spare parts had fallen far below planned amounts. By mid-year the top level Military Affairs Committee was forced to order a general cutback in budgeted defense expenditures in which military construction was slashed by over half. Subsequent evidence

¹ A comprehensive analysis of Communist China's advanced weapons capabilities and prospects will be found in NIE 13-2-62, "Chinese Communist Advanced Weapons Program," dated 5 April 1962 (TOP SECRET).

has indicated chronic maintenance and supply problems with deterioration of equipment and high accident rates. Moreover, shortages of POL and other supplies have drastically reduced flight training for the air forces, under way training for the navy, and field maneuvers for the army.

3. There is little evidence that the health and stamina of Chinese Communist troops have been significantly affected by the national food shortages, primarily because the rations of the armed forces appear to have been maintained at substantially higher levels than those for the general population. During the winter of 1960-1961 there was about a five percent incidence of edema among some military elements—apparently resulting at least in part from an overoptimistic plan to expand production by the military of vegetables and other foods. During the late spring and summer of 1961 this situation was corrected.

4. Issues of a secret magazine published by the General Political Department reveal that high-level investigations of various units had exposed considerable ideological confusion among the troops, mental anguish over the condition of relatives back home, and some outright distrust of the party's leadership. Corruption among cadres and Rear Services personnel in the distribution of food and supplies was reported. Although measures were taken which apparently restored health and morale to a level acceptable to Peiping, the effectiveness of such measures may have been significantly reduced by continued food short-



ages and economic difficulties in the winter of 1961-1962.

5. The slash in Soviet aid and the prolonged economic slump have accentuated previous shortcomings in the armed forces and the limits these place on their capabilities for engaging in protracted, large-scale warfare. However, we believe the armed forces' ability to discharge their important internal security mission remains substantially unimpaired. An above-average standard of living, careful selection of conscripts, and intensive political indoctrination will probably prevent troop morale and discipline from sagging to dangerous levels. On the other hand, continued deterioration of the economy and rising public unrest might eventually cause critical damage to morale and discipline.

6. Tibet continues to be the army's only principal area of active hostilities. Sporadic armed dissidence continues there, but the 100,000 Chinese regulars have established effective control and are systematically improving logistical facilities, particularly the road net. Chinese Communist Army units engaged in joint operations with Burmese forces against Chinese Nationalist irregulars in Burma in late 1960 and some of Peiping's troops may still be in Burma. Peiping has recently unveiled ambitious plans for strengthening lines of communication all along its southern border; it has begun to build roads into Laos and Burma and has made preliminary surveys for a road to Katmandu in Nepal.

7. The regime continues to rely primarily upon conscription to maintain the strength of its forces. In 1961, however, it formalized procedures for retaining up to 25 percent of the troops (including, particularly, key non-commissioned officers) beyond the regular term of service. At the time they also began to place emphasis upon recruitment of better

educated, urban rather than rural youth. These measures are probably designed to meet the army's need for higher technical skills required by modernization and to provide greater continuity in its cadres.

II. GROUND FORCES

8. The standing army has maintained a nearly constant strength of approximately 2.6 million men for the past several years. Its principal elements are 34 armies² and 54 independent divisions, altogether totaling 156 combat divisions.³ Thirteen of the armies have now been identified as having organic artillery regiments and 69 of the 108 infantry divisions are accepted as having tank-assault gun regiments. There are also 4 armored, 3 airborne, and 15 Border Defense and Internal Military Security divisions. Over two-thirds of the total ground forces are currently disposed in critical frontier areas or strategic zones, including those adjacent to Korea, the Taiwan Strait, and southeast Asia. The remaining combat units comprise a strategic reserve which is available for deployment to any area in the event of operations.⁴

9. At present Communist China has a production capability for most types of infantry weapons, artillery, ammunition, armored vehicles, and the simpler kinds of electronic

²This represents a reduction of two armies since our last scheduled estimate (NIE 13-60, "Communist China," dated 6 December 1960). The 5th Army in Sinkiang was dropped from the combat order of battle following its conversion to a paramilitary production-construction type organization. The 18th Army in Tibet was deactivated and reorganized into nine reinforced regiments directly under the Tibet Military Region Headquarters.

³For further details see Table 1 at the end of this Annex.

⁴Chinese Communist military capabilities are discussed more fully in SNIE 13-3-61, "Chinese Communist Capabilities and Intentions in the Far East," dated 30 November 1961.

equipment.⁵ Output is small, but seems to be generally adequate for replacement of equipment lost by attrition. Recent production of small arms has been sufficient to meet the army's demand, and output of medium tanks (T-54) has made possible the expansion of armored units. However, the Chinese Communists relied heavily on the USSR for weapons design and machinery for ordnance production and have not emphasized indigenous research and development. This practice has restricted independent research and development capabilities in this field.

III. NAVAL FORCES

10. The Chinese Communist Navy, with an estimated strength of 81,000 (including 15,000 naval air), is primarily a defensive force, but has a limited capability for short-range offensive and support operations.⁶ It has demonstrated its capability for hit-and-run motor torpedo boat operations in coastal waters. Among its major assets are an extensive minelaying capability (nearly every ship is fitted for minelaying) and a potential capability, as yet untested, for submarine operations against lines of communications in the Western Pacific.

11. The troop lift capacity of conventional landing ships under direct naval control is estimated to be three infantry divisions (about 48,000 troops) with organic armor and artillery. Any major amphibious operation would also be supported by employment of some portion of Communist China's 10,000

⁵ See Table 2 at end of this Annex for details of weapons production for ground forces in 1960 and for an inventory of current military equipment together with remarks on domestic production capabilities.

⁶ See Table 3 at end of this Annex for estimated ship strength.

motorized junks to embark large numbers of troops with hand-carried weapons. However, lack of major support craft would seriously hamper full-scale amphibious operations. An assault could be launched against the offshore islands with small assault craft, but the shallow depth of surrounding waters would limit the use of the larger amphibious ships to selected areas.

12. Over half of current naval tonnage consists of obsolete or obsolescent ships formerly belonging to the Chinese Nationalists and built during or before World War II. About 40 percent of the tonnage consists of ships built or assembled in Communist China with extensive Soviet assistance. The latter ships are generally in good condition, but they lack some of the capabilities of modern warships. At present, high-speed propulsion systems and complex electronic equipment constitute two of the most critical bottlenecks in the construction of modern naval vessels. Communist China will probably need at least two years to develop a domestic production capability for these items. Barring the resumption of substantial Soviet assistance to the Chinese Communist naval program, it is likely that Chinese Communist naval capabilities will decline somewhat over the near term.

IV. AIR FORCES

13. The Chinese Communist Air Force and Naval Air Force have a total strength of approximately 2,850 aircraft of all types,⁷ about as many as possessed by all non-Communist countries in the Far East combined. These forces are capable of conducting limited, short-range tactical and support operations, but are not sufficiently trained or equipped

⁷ See Table 4 at the end of this Annex.

to engage first-line opposition successfully. About three-fourths of the aircraft are fighters, of which less than 10 percent have an all-weather capability. The offensive and defensive capability of the air forces suffers from scarcity of modern aircraft, inadequacy of flying time for combat proficiency, lack of air-to-air missiles and nuclear weapons capability, and logistical weaknesses in POL and aircraft engines and parts for sustained combat.

14. At present the Chinese aircraft industry is probably limited to the production of less sophisticated Soviet jet fighters (the MIG-17 or possibly MIG-19), small transports, and helicopters.⁸ Jet engines and electronic instruments continue to be the most formidable barriers to the development of a native Chinese capability for military aircraft production.

⁸ See Table 5 at the end of this Annex.

TABLE 1
THE CHINESE COMMUNIST GROUND FORCES
(1 June 1962)

	Units	Estimated Strength
Armies	34	2,631,000 Total ^a
		7 @ 49,000
		16 @ 48,000
		6 @ 47,000
		5 @ 46,000
Divisions		
Infantry	108 ^b	69 @ 15,000 ^a
		38 @ 14,000
		1 @ 10,000
3 infantry regiments		
1 artillery regiment		
1 tank-assault gun regiment		
1 AA battalion		
1 AT battalion		
Principal weapons:		
24 light and medium field artillery pieces		
39 x 57/76-mm AT guns		
120 light and medium mortars		
12 light AA pieces		
32 medium tanks		
12 self-propelled assault guns		
Armored	4 ^b	6,600 each
2 armored regiments		
1 infantry regiment		
1 artillery regiment		
Principal weapons:		
10 heavy tanks		
80 medium tanks		
14 self-propelled assault guns		
20 light and medium field artillery pieces		
12 light AA pieces		
47 light and medium mortars		
Airborne	3 ^b	7,000 each
Cavalry	3 ^b	5,000 each



TABLE 1
THE CHINESE COMMUNIST GROUND FORCES (Continued)

	Units	Estimated Strength
Artillery		
Field artillery	14	5,500 each
3 gun or gun-howitzer regiments		
1 AAA battalion		
Principal weapons:		
108 pieces 122-mm to 152-mm		
12 light AA pieces		
Antitank	3	3,400 each
4 antitank regiments		
96 57-mm to 100-mm AT guns		
Antiaircraft	6	1@ 4,000
		5@ 2,600
1@ 5 AAA regiments		
64 medium and 20 light AA pieces		
5@ 3 AAA regiments		
48 to 60 light and/or medium AA pieces		
Border Defense and Military Internal Security	15	7,000 each
TOTAL number of combat divisions	156	

* This figure has been rounded to the nearest thousand. It includes support and miscellaneous elements not shown in this table.

* Counted for purposes of comparison or measurement of line division strength. We consider, on this basis, that the Chinese Communists have an estimated total of 118 line divisions.

* To date, 69 of the 108 infantry divisions are believed to have the tank-assault gun regiment. (In addition, the ground forces include approximately 68 independent combat regiments including artillery, cavalry, tank, and border defense/internal security.)





TABLE 2
GROUND FORCES: MAJOR ITEMS OF MATERIEL

Production of Major Items in 1960				
Armored Vehicles				500
Artillery				200
Infantry Weapons				400,000
Ammunition:				
Artillery and Mortar Shells				1,600,000
Small Arms Ammunition				150,000,000
Major Ground Force Items in Current Inventory				
Type	Quantity*	Origin	Remarks	
Small Arms		China, USSR	Domestic production adequate for current needs.	
Ammunition		China, USSR	Domestic production adequate for current needs.	
Trucks	100,000	China, USSR, Czechoslovakia, other countries	Domestic production medium truck adequate to replace attrition losses.	
Mortars				
60-mm	13,000	China, US	No current production of complete weapons, but existing inventory can be maintained by Chinese-produced spare parts. Output could be resumed if necessary.	
82-mm	10,000	China, USSR		
107-mm	200	USSR		
120-mm	4,700	China, USSR		
160-mm	500	China, USSR		
Rocket & Recoilless				
57-mm rcl rifle	3,100	China	No current production of complete weapons, but existing inventory can be maintained by Chinese-produced spare parts. No new production expected as items are probably being phased out of the inventory.	
75-mm rcl rifle	3,100	China		
90-mm AT RL	6,300	China		
4.5-in AT RL	500	China		
Field Artillery				
57-mm AT gun	{ 6,200	China, USSR	No current production but inventory can be maintained by Chinese-produced spares.	
76-mm field/AT gun				
85-mm field/AT gun .	80	USSR	Dependent upon USSR.	
100-mm field/AT gun .	80	China, USSR	Domestic production adequate for current needs.	
122-mm How	2,200	China, USSR	Dependent upon USSR.	
122-mm gun	900	USSR	Dependent upon USSR.	
130-mm gun	75	USSR	Dependent upon USSR.	
152-mm How	500	China, USSR	Domestic production adequate for current needs.	
152-mm gun-How	500	USSR	Dependent upon USSR.	



TABLE 2
GROUND FORCES: MAJOR ITEMS OF MATERIEL (Continued)

Type	Quantity*	Origin	Remarks
Assault Gun			
SU 76-100	900	USSR	Dependent upon USSR.
JSU 122	100	USSR	Dependent upon USSR.
JSU 152	100	USSR	Dependent upon USSR.
Armor			
Medium tank T-34/85	2,500	USSR	No production but most tank spares can be made, except for spare 85-mm gun.
Medium tank T-54 ...	1,000	China, USSR	Domestic production adequate for current needs.
Heavy tank JS-2	100	USSR	Dependent upon USSR.
Armored car BA-64 ..	100	USSR	Dependent upon USSR.
Antiaircraft Artillery			
37-mm AA gun	1,300	China, USSR	No current production but inventory can be maintained by Chinese-produced spares.
57-mm AA gun	500	China, USSR	Domestic production adequate for current needs.
85-mm AA gun	1,200	USSR	Dependent upon USSR.
100-mm AA gun	400	USSR	Dependent upon USSR.
132-mm RL	150	USSR, China	Domestic production not confirmed but believed probable and it should supply current needs.
140-mm RL	100	USSR	

* Estimated quantity based on accepted TO&E; includes only equipment in depots and in hands of troops and units at level of army or below.

TABLE 3
NAVAL FORCES

SHIPS				
Type/Class	Total	Origin	Remarks	
Old Destroyer/GORDYY ...	4	Soviet transfers	Obsolescent; built in 1941.	
Destroyer Escort/"RIGA" ..	4	Chinese-built	Extensive Soviet technical and material assistance involved.	
Submarine/"W"	18	Chinese-built	Extensive Soviet technical and material assistance involved. Completion of 3 additional units has been delayed since late 1960 because of the withdrawal of Soviet aid.	
Submarine/"S-1"	4	Soviet transfers	Obsolescent; built in 1941.	
Submarine/"M-V"	3	Soviet transfers	Coastal submarine.	
PATROL				
Patrol Escort/Various Classes	14	Taken over in 1949	All of WW-II (or earlier) design.	
Submarine Chaser/"Kronshadt"	24	6 units Soviet transfers; 18 units Chinese-built	Soviet aid needed for Chinese-built units.	
Motor Torpedo/"P-6"	80	Chinese-built	Soviet aid needed for Chinese-built units.	
/"P-4"	70	Soviet transfers		
Fast Patrol Boat/"Shanghai"	12	Chinese-built	Chinese design.	
Motor Gunboat	46	44 Chinese-built; 2 taken over in 1949	Some Soviet components used for Chinese-built units.	
River Gunboat	3	Taken over in 1949	Suitable for river use only.	
MINESWEEPERS				
Fleet Minesweeper/T-43 ...	14	12 Chinese-built; 2 Soviet transfers	Soviet aid involved in Chinese program.	
Minesweepers, Coastal (Old)	4	Taken over in 1949	US WW-II design.	
Minesweeper, Auxilliary	20	Some Chinese-built; some taken over in 1949	Limited to inshore minesweeping.	
AMPHIBIOUS				
Tank Landing Ship (LST) .	20	Taken over in 1949	Obsolescent; US WW-II design.	
Medium Landing Ship (LSM)	13	Taken over in 1949	Obsolescent; US WW-II design.	

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TABLE 3
NAVAL FORCES (Continued)

Type/Class	Total	Origin	Remarks
AMPHIBIOUS (Continued)			
Landing Ship Infantry (LSIL)	16	Taken over in 1949	Obsolescent; US WW-II design.
Utility Landing Craft (LCU)	10	Taken over in 1949	Obsolescent.
Landing Craft Mechanized (LCM)	200	Chinese-built	
SUPPORT			
Auxiliaries/Various Classes	55	All but 3 taken over in 1949	All but 3 of WW-II (or earlier) design.
Service Craft/Various Classes	380	Mostly Chinese-built	Limited to inshore patrol.

TABLE 4
CHINESE COMMUNIST AIR FORCE AND NAVAL AIR FORCE

Estimated Current Strength
Personnel: 90,000 (75,000 CCAF, 15,000 CCNAF)
1 April 1962

Aircraft	CCAF	CCNAF	TOTAL
Fighter (Jet) *	1,705	270	1,975
Attack Jet (Ftr)	60	...	60
Prop.	40	...	40
Light Bomber Jet	240	210	450
Prop.	120	10	130
Medium Bomber Jet	...	...	...
Prop.	10	...	10
Transport Prop (Light)	153	15	170
Turboprop (Medium)	2	...	2
Helicopter (Light)	40 ^b	...	40 ^b
Reconnaissance ASW Prop. (Seaplane)	...	10	10
TOTAL (Rounded)	2,335	515	2,850

* Does not include approximately two trainer aircraft per regiment.

^b This figure is based on estimated production. The subordination of these helicopters is unknown.

over in Obsolescent; US WW-
II design.
Remarks
continued)

TABLE 5
CHINESE COMMUNIST AIR AND NAVAL AIR FORCES

AIRCRAFT INVENTORY		
Quantity and Type	Origin	Remarks
Medium Bombers		
10 BULL (TU-4)	USSR	
Light Bombers		
450 BEAGLE (IL-28)	USSR	
130 BAT (TU-2)	USSR	
Fighters		
735 FAGOT (MIG-15)	USSR	Probable country of origin USSR, though some could have come from Czechoslovakia.
1,035 FRESCO (MIG-17, day)	Domestic, USSR,	Communist China has produced about 25 percent of current inventory of FRESCO. Rest of inventory probably from USSR, though some could have come from Poland.
180 FRESCO (MIG-17, AW)	possibly Poland	
85 FARMER (MIG-19)	USSR	
40 BEAST (IL-10)	USSR	
Transports		
Light Props		
30 C-46	US	Taken from Nationalists.
5 C-47	US	Taken from Nationalists.
40 CAB (LI-2)	USSR	
35 COACH (IL-12)	USSR	
60 CRATE (IL-14)	USSR	
Medium Turboprops		
2 COOT (IL-18)	USSR	
Helicopters (Light)		
40 HOUND (MI-4)	Domestic (Soviet design)	Current Communist Chinese production 3 to 5 per month. Subordination is unknown.
ASW/Reconnaissance, Prop		
10 MADGE (BE-6)	USSR	
AIR CONTROL AND WARNING RADAR SETS (Confirmed Only)		
Quantity and Type	Origin	Remarks
Primary Sets		
40 TOKEN	USSR	EW/GCI
15 BIG MESH	USSR	EW/GCI
10 ROCK CAKE	USSR	Heightfinder

TABLE 5

CHINESE COMMUNIST AIR AND NAVAL AIR FORCES (Continued)

AIR CONTROL AND WARNING RADAR SETS (Confirmed Only) (Continued)

Quantity and Type	Origin	Remarks
Secondary Sets		
140 SCR-270	Originally US; copied and modified by both the USSR and Communist China	EW quantities of originals and copies unknown. Obsolescent or obsolete (depending on modifications), but still most numerous of sets in use by Chicoms.
75 CROSS SLOT	Domestic, in both design and manufacture	EW
35 KNIFE REST "B"	USSR	EW
45 KNIFE REST "A" and "RUS"	USSR	EW
25 TACHI 18	Originally Japanese; copied and modified by both USSR and Communist China	EW quantities of originals and copies unknown. Obsolescent or obsolete.

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ANNEX C

INTERNAL SECURITY

A Note On Evidence

Our sources of information on popular morale and discipline in China are relatively few in number, uneven in geographic distribution, and, frequently very subjective in quality. The movements of foreign diplomats have long been limited and closely supervised by the regime. Foreign travelers in China are often casual in observation and lack the background to make informed judgments. Social attitudes and trends are extremely difficult to assess even under the best of circumstances and even the most competent foreign observers have differed considerably in their interpretations. When Peiping placed an official ban on the export of regional and local newspapers in October 1959, we were forced to rely mainly on interrogation of refugees, defectors, and Overseas Chinese visitors to the mainland for most of our information on internal developments.

The value of this evidence is limited by its incomplete geographic coverage of China and also by the personal inadequacies or bias of most observers. Almost 90 percent of the reports we receive are concerned with Kwangtung province, the coastal areas of Fukien, and the major cities of Peiping, Shanghai, and Canton. We believe that this sample probably does not seriously misrepresent the attitudes of the Chinese population as a whole. The quality of reporting, however, is extremely uneven and probably tends to exaggerate negative factors in popular attitudes and public discipline. The great bulk of refugees are from the poorer social classes, extremely few are educated, and most are illiterate and ill-informed even about conditions around them. No persons of high rank in the party, government, or army have defected, although a few medium or low level cadres have joined the refugee stream. The observations of Overseas Chinese visitors to the mainland have proved generally very helpful, but their contacts are usually with elements of the population (especially business and commercial classes) which are untypically cosmopolitan or have suffered most from Communist rule.



I. INTRODUCTION

1. In the first several years of its rule the Chinese Communist regime built an impressive base of popular support with substantial political and economic achievements. China was unified under a stable and effective government and the masses enjoyed a greater sense of security than had been the case in many decades. Land reform policies won widespread peasant enthusiasm despite the bloodshed they entailed. Rapid industrialization accompanied by greatly improved wages and laboring conditions attracted the urban working class. Greatly expanded educational opportunities were made available to youth and intellectuals. The managerial class, though often harassed, generally took satisfaction in the regime's early steps toward industrialization. Except for a small minority of former officials, landlords, businessmen, and traditionalists, the people generally were content with the regime. There appeared to be a widespread feeling of purpose, pride, and hope in the future.

2. While striving to win popular support, Peiping also devoted attention to constructing a highly centralized and effective control system. Traditional sources of dissidence such as the local landlord-gentry, family associations, and secret societies were destroyed or undermined and mass organizations under Communist control were established to influence individuals in various social groups. Pervasive propaganda operations and mass campaigns of indoctrination and study enabled the party to identify and control popular attitudes to a considerable extent. Where coercion became necessary, the army and security forces proved loyal and efficient instruments of the party's will—attesting the value of careful selection of personnel and intensive political indoctrination.

3. In 1955 the Communist regime embarked upon a course of rapid, forced agricultural collectivization which began gradually to dampen the mass enthusiasm previously built up in the countryside. In 1958 Peiping called upon all sections of the population for three years of maximum labor effort and personal austerity to permit China to leap forward to a new stage of industrial modernity. The population was reorganized into huge communes. Despite heroic popular efforts, mismanagement, adverse weather, and a consequent flagging in initial popular zeal combined to produce a major depression in both agriculture and industry.¹ Reduced rations led to widespread edema, hepatitis, and diseases associated with malnutrition. Peasants and laborers frequently were too weak to work effectively.

4. Three successive years of economic disasters and food shortages have substantially increased popular disillusionment, resentment, and disaffection. The regime has virtually exhausted the credits of enthusiasm and popular approval built up in the early years of its rule. Despite Peiping's intensive efforts to instill a popular sense of national pride and an expectation of greater rewards in the future, the current mood of the Chinese people is predominantly characterized by apathy and hopelessness. Discontent has spread from the masses to local officials and low level cadres who have borne most of the load of exhorting the people and received the brunt of the blame for the regime's failures. In general, however, dissidence has remained passive, nonpolitical, and unorganized. Moreover, the regime has maintained a firm control over the military and police forces. Available evidence indicates that the regime has apparently been able thus far to deal swiftly

¹ For further details of the economic crisis see Annex A.

and effectively with any serious incidents of dissidence or resistance.

II. EVIDENCE OF DISSIDENCE AND RESISTANCE

A. Popular Attitudes and Conduct

5. Public morale and discipline in China probably have fallen to the lowest level since the Communist regime came to power. Food supplies have been little better in 1962 than last year and may have declined in May and June below the 1961 level. Each year in late spring and early summer, food stocks decline to a critical low prior to the new harvest, and popular dissidence usually reaches its annual peak. Accordingly, reports are now frequent of further deterioration in the appearance and behavior of the population. There is evidence of widespread lethargy resulting from malnutrition and physical exhaustion.

6. A general decline in standards of conduct is evinced in numerous reports of work slowdowns, petty corruption, and criminal activity. In the countryside, stealing of crops, clothing, and ration coupons and robbery of travelers are often reported. In the cities begging, blackmarketing, theft, and prostitution are once again becoming evident. Open grumbling and complaining have become more commonplace and antiregime wall slogans have frequently appeared. The recent rush of refugees on the Hong Kong border and subsequent disturbances at Canton transportation terminals underscore the popular discontent. In general, however, dissidence has been muted and nonviolent.

7. *The peasantry*, constituting some 85 percent of the total population, has endured three years of increasing privation and malnutrition with traditional passivity, for the most part. Gross official mismanagement in agriculture has generated growing bitterness, but resentment has generally been focused more on the rural cadres or local officials than

on Peiping. The regime's retreat from the commune system, relaxation of political pressures, and attempts to stimulate individual incentives have been only partially successful in overcoming peasant apathy and discontent. There is evidence that the peasants distrust the regime's motives and have not responded as enthusiastically to its appeals, incentive-measures, and threats as the ruling group had hoped. Relaxation of controls over private plots last year helped boost food stocks but did not improve "collective production." Obstinate and evasive resistance to state grain purchases has made more difficult Peiping's efforts to provide grain for cities and deficit rural areas. As a result of increasing hunger and privation, individuals, groups, and even cadres have narrowed the scope of their loyalties, feeling no responsibility beyond their own family or agricultural unit. The growth of localism is manifested by such popular phrases as "each brigade for itself." Grain shipments between districts and provinces appear to have slowed to a trickle in some parts of China. In sum, there has been an erosion of discipline and order in the countryside which gravely impairs the organization of production and distribution.

8. Thus far *the urban masses* have apparently fared somewhat better than the peasantry. Peiping undoubtedly appreciates the potential of these concentrated groups for organizing rebellion should their living conditions become unbearable. Nevertheless, popular morale in the cities is low, due to spreading unemployment and fear of being returned to the countryside. The regime's retrenchment program has led to a drastic shutdown of factories and curtailment of production. Efforts to move unemployed workers to rural areas have been unpopular both with the peasants and the unemployed workers themselves and have failed to reduce substantially the size of urban population. Some of the unemployed have turned to petty corruption and crime to eke out a living after their

ration cards were withdrawn. The flood of refugees which attempted to enter Hong Kong and Macao after 1 May 1962 included many recently expelled city dwellers who were apparently unable to find work or food in the countryside. After the Communists reimposed border controls, at least two incidents were reported in Canton of police having to use force to disperse unruly mobs demanding tickets to return to the border. Except for the rootless unemployed, however, the urban working class remains, by and large, either politically complacent or passively discontented. It is notable that few refugees leave China for political reasons; most are motivated primarily by the desire to improve their economic situation and many probably intend to return when they have recovered their health and well-being.

9. Discontent among the urban *business, professional, and intellectual classes*, although seldom overtly expressed, is currently one of the regime's most difficult problems. Today it desperately needs their technical and managerial skills to achieve economic recovery, yet it must seek their renewed cooperation after the harsh repression of recent years. Various low-keyed programs of political education have been employed by the regime to win over "bourgeois" elements and there has recently begun a general upswing in United Front activities. Moreover, Peiping has moved to strengthen the power of technicians and plant managers and has at least temporarily relaxed its ideological assault upon intellectuals. There is evidence of some restlessness and declining respect for authority among intellectuals, but they remain essentially a captive class, fearful of being accused of deviationism—and the consequent loss of livelihood or more severe punishment. While reiterating the "100 flowers" theme, Peiping has been alert to prevent any repetition of the runaway "blooming and contending" which occurred in 1957.

10. *The youth* of China, once the most willing and enthusiastic supporters of the regime, now appear in large measure to be disillusioned and confused. There has been a notable decline in idealistic feelings of social responsibility and increasing manifestations of the instincts of self-interest. The latter dictates playing along with the regime now for personal advancement, but latent disaffection could come to the surface should a viable alternative present itself. In the meantime youthful opposition remains unorganized and generally ineffective.

B. Open Resistance and Serious Disturbances

11. Acts of overt opposition to the regime—in contrast with passive dissidence—have been surprisingly few and relatively unimportant, according to our information. While isolated incidents in remote areas might have been hushed up by the regime, it is doubtful that the pattern for China as a whole differs significantly from that indicated by our evidence. Anti-Communist wall slogans and posters have been regularly reported since 1959, and there has been an apparent increase of them in recent months. There have also been reports of antiregime leaflets. According to a recent defector, the Canton Public Security forces handled more cases in 1961 than in any previous year and 70 percent of them involved anti-Communist wall slogans.

12. There has been no evidence of a serious rise in incidents of mass violence despite worsening economic conditions over the past two years or so. From time to time there are reports of isolated attacks on cadres, raids on government granaries, and minor sabotage, but such reports are usually based on hearsay. Refugees are the primary source and their knowledge of the event, memory for detail, and objectivity often leave much to be desired. Some of the most serious disturbances reported since the leap forward began to falter were uprisings of peasants and minority ethnic

groups in the comparatively "good" year of 1959. Secret army documents refer in a general way to the collapse of public order and discipline in certain disaster areas (particularly in Honan and Shantung) during the winter of 1960-1961. In some instances armed militiamen apparently engaged in banditry.


13. One of the best documented incidents of violence leading to bloodshed and mass arrests was a food riot in Harbin in January 1961. After it was put down, the food shortage worsened to the point that grass and leaves regularly supplemented the diet, but there has been no word of a recurrence of violence. The recent flood of refugees across the Hong Kong border was stemmed without violence, so far as we know. Subsequent reports of ticket riots at transportation terminals in Canton apparently involved only one section of the population—the unemployed, homeless workers desiring to reach Hong Kong rather than resettle in the countryside. Although fuzzy in detail, the reports are probably accurate. They indicate that the situation never got out of control and did not result in large-scale bloodshed.

14. The only sustained armed resistance to the regime has come from outside China proper—in Tibet—where guerrilla harassment continues, but poses no serious threat to Peiping's control. Small groups of Tibetans, probably operating independently of each other, are continuing to disrupt communications, raid supply trucks, and attack isolated Chinese outposts. During 1961 there was a marked relaxation in Chinese Communist rule in the area and, toward the end of the year, some indication of reduced popular discontent. However, the recent severance of trade relations between India and China will work a further hardship on the Tibetan people and has already led to near rioting in one border town, according to press accounts.

15. Nationalism among the minorities remains an explosive but limited force not only in Tibet but in the entire frontier area stretching from Inner Mongolia to Sinkiang on the north and from Tsinghai to Yunnan on the west. Strong religious beliefs, such as Mohammedanism, and distinct cultural patterns have created a strong antipathy for Chinese communism among these people. Most of the serious uprisings against the regime since 1949 have occurred among ethnic and religious minorities resisting Peiping's pressures for rapid acculturation and socialization. Outside of Tibet, the last of these for which we have evidence were the Muslim revolts of 1958-1959 in Sinkiang, Tsinghai, and Ninghsia. One of the strongest forces behind minority dissidence is economic. Peiping's policy of favoring grain production over animal husbandry has seriously disrupted the pastoral economy of Inner Mongolia. Recently the regime has indicated concern that its policies not be so strictly implemented as to create severe economic hardship. It has also held a series of high-level conferences with minority nationality representatives to strengthen Communist ties with these groups.

III. THE EFFECTIVENESS OF THE CONTROL SYSTEM

16. So long as the regime maintains its monopoly of weapons, organization, and communications, popular dissidence can be contained and violent opposition dispersed. Dissidence cannot be transformed into serious organized resistance so long as the party provides central leadership and the armed forces remain strong and obedient to its commands. The most serious threat to the regime would come not from the rising discontent of the masses, but from divisions within the leadership or a breakdown in the machinery of control. Accordingly, the stability of the Chinese Communist regime depends ultimately upon the unity and effectiveness of



the primary organs through which it rules—the party and the armed forces.

17. At present the party leadership appears to be firmly united and determined to follow a path of caution and moderation. Mao Tse-tung apparently retains the position of ultimate authority which he has held for over a quarter century, although he has relinquished more active leadership to his principal lieutenants: Liu Shao-ch'i, Chou En-lai, Teng Hsiao-p'ing, and others. We have been unable to discern any significant factionalism in the upper ranks since the removal of P'eng Teh-huai and the so-called "antiparty" group in 1959. Worsening economic troubles and the dispute with the USSR must have produced lively debates behind the scenes between those who urge cautious, conservative policies with concessions to the people and those who press impatiently for more radical solutions. However, there is still no evidence of an attempt to blame current difficulties on any top leader or group and there appears to be no opposition to the general policy of adjustment and recovery.

18. In the face of worsening conditions Peiping has conducted a realistic retreat from the commune system and adopted flexible policies to curb dissidence and gain popular support. In an effort to revive peasant incentives, the regime has allowed far-reaching experimentation with forms of rural organization, reducing the primary level of production control from the brigade to the team in some places and, according to recent reports, distributing land to families in one province. The party has cautioned against exhausting popular strength and tolerance by holding excessive political meetings. The National People's Congress of March–April 1962 and subsequent national congresses of various parties and groups have focused increasing attention on the United Front theme and sought to cultivate important segments of the population whose support the regime now des-

perately needs—intellectuals, national minorities, religious bodies, and even "patriotic capitalists."

19. Although the party appears to remain united in leadership and policy, there has been a significant demoralization among the rank and file as a result of the repeated economic failures of the past three years. At the upper levels the shock has been less profound. Although morale, pride, and individual careers have suffered, higher cadres remain devoted to trying to make the system work, rather than questioning it. Lower-level cadres appear to be considerably more confused and dispirited. They have become the scapegoats for the leaders, who claim that China's ills are due not to faulty policy but to bad weather or maladministration of cadres. Our evidence indicates that lower-level cadres receive no preferential rations and often fare worse than the masses who may more openly reap the benefits of free markets and private plots. Many are tired, disillusioned, and apathetic. Corruption and bribery among cadres is becoming a problem of great concern for Peiping.

20. Nevertheless, we believe that the cadres remain basically loyal to the regime and continue to be a reliable, albeit less effective, instrument of control. Peiping's main political problem is to lift cadres out of their present confusion and indifference and to rekindle their enthusiasm for the tasks of economic recovery. The regime has strengthened efforts to combat serious ideological opposition within the party. After the purity of cadres is assured by party indoctrination campaigns, they are used to lead mass campaigns to ensure the ideological conformity of the population. The transfer of thousands of cadres from urban and bureaucratic posts to the countryside is continuing in order to strengthen the party's leadership on the vital agricultural front.

21. The regime's internal security forces—the army, militia, and police—continue to play a key stabilizing role in society, enforcing Peiping's policies and assisting local governments to maintain order.² There is evidence that the security forces have not been completely isolated from the suffering of the civilian population and probably share to some extent the disillusionment and dissatisfaction which this has produced. Secret army documents detail considerable mental anguish among troops during the winter of 1960–1961 over the conditions of relatives back home. However, we believe their loyalty and discipline have not been seriously impaired. There have been remarkably few defections from the armed forces or police. There are some reports of disaffection, "ideological confusion," corruption, and violations of discipline within individual units. However, there is no evidence that these conditions are serious and general or that their incidence is increasing. The militia performs important security functions in some localities (especially in Fukien), but has been little more than a paper organization in others. In Honan during the winter of 1960–1961 some militia units reportedly turned to banditry until brought under control by the army.

22. Peiping has employed a number of different measures to sustain morale and discipline in the security forces. The army continues to enjoy a standard of living well above that of the populace. Since mid-1961 political indoctrination has been intensified and greater care exercised in selecting conscripts. In recent months the regime has stepped up efforts to build popular support for military and police forces, emphasizing the contribu-

² Included in the 2.6 million man regular army are 15 divisions (7,000 troops each) and 19 independent regiments (2,000 men each) of border defense and internal security forces. Our evidence is inadequate to allow an estimate of the current size of militia forces or other police and security troops not under the Ministry of National Defense.

tions to production and general well-being made by each. In contrast with the regular army and police, Peiping has done little for the militia, few units of which have been effective military forces.

23. The effectiveness of the internal security forces is difficult to judge except in general terms because direct evidence is scanty. Security in the large cities (except, possibly, Canton) appears to remain tight with police and Resident's Committees keeping close daily watch on all inhabitants. On the border, the recent business-like reimposition of controls at Hong Kong appears to signify effective control. In the countryside security is more lax, but we have no evidence of any increase in disturbances. Census registration, identity cards, and ration tickets continue to control population movement, but regulations are apparently less rigidly enforced than formerly. We believe that privation and dissatisfaction within the armed forces and among party cadres must go well beyond anything previously experienced before there will be serious weakening in the control apparatus.

IV. THE PROSPECTS FOR INTERNAL STABILITY

24. Public morale and discipline will almost certainly continue to be low until the agricultural situation improves. The period immediately ahead will be especially critical as food stocks decline to their annual low before the first fruits of the new harvest. Another poor crop would confront the regime not only with increased passive resistance, such as attempts to withhold grain from the state, but also with more frequent and more serious demonstrations of open dissatisfaction and localized incidents of violent opposition. The present general discontent and dissidence would become acute in the areas of greatest privation, and those most remote from direct control by the regime (e.g., minority strongholds in the great western provinces and the mountainous districts of the south—the tra-

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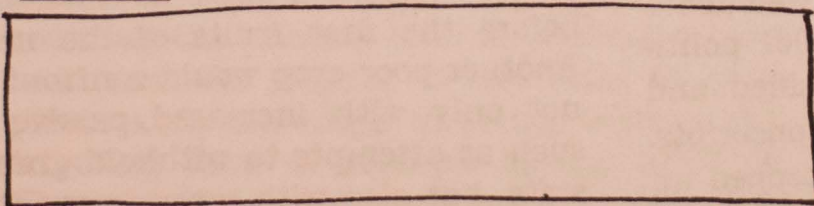
1.5(c)(d)
3.4(b)(1)(6)

ditional hotbeds of revolution). We believe there is little prospect that a spontaneous mass revolt would spread uncontrollably or become sufficiently entrenched to topple the Communist regime; Peiping almost certainly could isolate and repress any localized uprisings. However, it is possible that a general erosion of public order could develop and spread, seriously hampering effective administration of the nation from Peiping.

25. Although we can see no immediate threat to the regime's stability under present conditions, it would be rash to project this estimate into the indefinite future. A marked worsening of economic conditions or a precipitate departure from present moderate policies would increase the possibility of a shift in the leadership or, less likely, a general internal revolt. While our evidence does not support the conclusion either that popular tolerance is close to a breaking point or that there are serious weaknesses in the control apparatus, a continuation of poor crops or an impetuous return to forced collectivization and leap-forward demands would change the prospects for internal stability.

26. Although our evidence is inadequate to provide a forewarning of specific small uprisings or local breakdowns in the security apparatus, we believe it is sufficient to allow

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foreknowledge of a general collapse. We would expect to hear of widespread local uprisings and food riots which the security forces were unable or unwilling to contain and repress. Moreover, it is likely that the regime would realize well in advance the approach of dangers of this magnitude and the actions it would take to forestall such an event would be likely to come to our notice.

27. Apart from the variables of economic fortune and rational leadership, the regime must face several severe tests. It must soon decide whether to force the resettlement of a substantial portion of the urban population (perhaps 30 million people) in the countryside against their wish and to the disruption of agriculture. This rootless, unwanted mass of unemployed people constitutes a potentially explosive force. Revolts of ethnic and religious minorities may erupt again despite the new United Front emphasis, but there is little likelihood that disturbances in the isolated minority areas would affect the bulk of the Chinese population before they were suppressed. Although the leadership in Peiping is likely to remain united for the next few years, it is aging rapidly and the problem of succession poses a long-run threat to the continued stability of the regime. Finally, the last three years have proved that political activity alone cannot persuade the peasantry to work strenuously to raise production. To achieve its goals Peiping may sooner or later have to decide whether to resort to force to overcome peasant apathy and resistance. The Communist regime in its present form could founder on any of these tests.

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