

APPROVED FOR RELEASE
DATE: JUN 2004

~~SECRET~~

NIE 13-59
28 July 1959

NATIONAL INTELLIGENCE ESTIMATE
NUMBER 13-59
(Supersedes NIE 13-58 and NIE 13-2-59)

COMMUNIST CHINA

Superseded by 13-60

**Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE**

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

**Concurred in by the
UNITED STATES INTELLIGENCE BOARD**

on 28 July 1959. Concurring were the Director of Intelligence and Research, Department of State; the Assistant Chief of Staff for Intelligence, Department of the Army; the Assistant Chief of Naval Operations for Intelligence, Department of the Navy; the Assistant Chief of Staff, Intelligence, USAF; the Director for Intelligence, The Joint Staff; the Assistant to the Secretary of Defense, Special Operations; and the Director of the National Security Agency. The Atomic Energy Commission Representative to the USIB, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

~~SECRET~~

Nº 410

CENTRAL INTELLIGENCE AGENCY

DISSEMINATION NOTICE

1. This estimate was disseminated by the Central Intelligence Agency. This copy is for the information and use of the recipient indicated on the front cover and of persons under his jurisdiction on a need to know basis. Additional essential dissemination may be authorized by the following officials within their respective departments.

- a. Director of Intelligence and Research, for the Department of State
- b. Assistant Chief of Staff for Intelligence, Department of the Army
- c. Assistant Chief of Naval Operations for Intelligence, for the Department of the Navy
- d. Director of Intelligence, USAF, for the Department of the Air Force
- e. Director for Intelligence, Joint Staff, for the Joint Staff
- f. Director of Intelligence, AEC, for the Atomic Energy Commission
- g. Assistant Director, FBI, for the Federal Bureau of Investigation
- h. Assistant to the Secretary of Defense, Special Operations, for the Department of Defense
- i. Director of NSA for the National Security Agency
- j. Assistant Director for Central Reference, CIA, for any other Department or Agency

2. This copy may be retained, or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Office of Central Reference, CIA.

3. When an estimate is disseminated overseas, the overseas recipients may retain it for a period not in excess of one year. At the end of this period, the estimate should either be destroyed, returned to the forwarding agency, or permission should be requested of the forwarding agency to retain it in accordance with IAC-D-69/2, 24 June 1953.

4. The title of this estimate when used separately from the text, should be classified:
~~FOR OFFICIAL USE ONLY~~

~~WARNING~~

~~This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Sec. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.~~

DISTRIBUTION:

White House
National Security Council
Department of State
Department of Defense
Operations Coordinating Board
Atomic Energy Commission
Federal Bureau of Investigation

~~SECRET~~

TABLE OF CONTENTS

	<i>Page</i>
THE PROBLEM	1
CONCLUSIONS	1
DISCUSSION	4
I. INTRODUCTION	4
II. THE "GREAT LEAP FORWARD"	5
Background	5
Characteristics	7
Achievements	7
Prospects	9
III. THE COMMUNES AND THE PEOPLE	12
Motivations for the Commune Program	12
The Record of the Communes	13
Prospects	14
IV. PARTY PROBLEMS	15
Party Leadership and Cohesion	15
The Party and the People	15
The Party and the Intellectuals	16
The Party and the Ethnic Minorities	16
The Party and the Military	16
V. THE MILITARY ESTABLISHMENT	17
Major Developments	17
Outlook for the Military Establishment	18
Missiles and nuclear weapons	18
VI. RELATIONS WITH THE COMMUNIST BLOC	19
The Sino-Soviet Partnership	19
Prospects	19
VII. RELATIONS WITH THE NON-COMMUNIST WORLD	21
Major Trends	21
Probable Developments	23
VIII. COMMUNIST CHINA IN 1963	24

~~SECRET~~

~~SECRET~~

	<i>Page</i>
APPENDIX I: THE CHINESE COMMUNIST ARMED FORCES . .	26
Ground Forces	26
Air Forces	28
Navy	29
APPENDIX II: CHINESE COMMUNIST SCIENCE AND TECH- NOLOGY	30
APPENDIX III: THE CHINESE COMMUNIST COMMUNE	32
Background of Communalization	32
The Form and Functioning of the Commune	32
APPENDIX IV: THE NEW CHINESE COMMUNIST STATISTICS .	36
APPENDIX V: TRANSPORTATION	38
1958 Performance	38
Prospects	39

~~SECRET~~

~~SECRET~~

COMMUNIST CHINA

THE PROBLEM

To analyze Chinese Communist domestic developments and external relations, and to estimate probable trends during the next five years.

CONCLUSIONS

1. In this, its tenth year of power, the Chinese Communist regime exercises firm control over mainland China, the country's economy is rapidly expanding, and Communist China's weight in world affairs is on the increase. At the same time, its greatly accelerated domestic programs of the past year have brought it some of the greatest economic and social difficulties it has yet encountered. There is also growing awareness in Asia of the ruthless character of the Chinese Communist regime and the aggressive designs of its foreign policy. Such problems will make the next five years rough ones indeed for Communist China. However, we believe that the regime will be able to cope with its domestic problems and that the power of Communist China will increase considerably in the next five years. In spite of Communist China's achievements, however, its national power will remain far less than that of the US or the USSR.

2. Although production increases in 1958 were far less than Peiping's extravagant claims, impressive gains in economic out-

put were achieved. We believe that a record increase of about 20 percent was achieved in Gross National Product (GNP) in 1958, with industrial output rising about 40 percent, and agricultural output about 15 percent (due in part to unusually favorable weather). However, these production records were achieved at considerable economic and human cost. (Paras. 25-29)

3. In attempting to achieve continued sizable production increases over the next five years, the regime will encounter serious problems with respect to incentives, dislocations in production and transportation, faulty statistical data, and ideological pressures. Nevertheless, we believe that Communist China will be able to increase its GNP by about 12 to 15 percent in 1959, and about seven to 10 percent in each of the three succeeding years, 1960-1962. These increases will probably result in a total increase in GNP of between 65 and 85 percent for the Second Five-Year Plan period (1958-1962). The annual growth rate for industry will probably average about 50 percent higher than

~~SECRET~~

the remarkable 16 percent rate achieved in 1953-1957. The most dramatic increases in output over the next five years will probably be in basic industrial commodities; for example, Communist China may be able to raise production of crude steel, commercially usable though not fully up to Western standards, to about 20-25 million tons in 1962. (Paras. 31-37)

4. Agricultural production, on the other hand, will probably not increase dramatically during the period of the estimate. The 15 percent increase achieved in 1958 is unlikely to be repeated. Total increase over the full Five-Year Plan period (1958-1962) will probably be between 20 and 30 percent. Such an increase will probably be adequate to sustain economic expansion, but will not permit significant increases in consumption. (Para. 38)

5. The commune system has provided the regime with a more effective means of mobilizing and directing Communist China's vast labor potential. However, the regime will face serious difficulties over the next five years in attempting to establish the commune as the basic unit of Chinese Communist society. It is inescapable that the commune program has generated extensive bitterness toward the regime. This bitterness, together with economic dislocations, has already led the regime to modify certain of the more extreme features of the communes. We believe that Peiping will continue the communal program, introducing modifications as they become economically or politically necessary. The ceaseless pressures on the people will probably result in a populace that for the most part is no

better than grudgingly acquiescent. However, given the regime's flexibility and controls, it is unlikely that popular resistance will reach the point where the regime will have to choose between a blood bath or an abandonment of the communal experiment. (Paras. 46-53)

6. We believe that Mao Tse-tung will continue to be the dominant figure in Communist China, even though there are indications that the party's unique cohesion of the past quarter of a century has begun to feel the erosion of time. The selection of Liu Shao-ch'i as Mao's successor as government Chairman is probably designed to confirm him as Mao's heir to party leadership as well. In the event of Mao's death or incapacitation, an initial transfer of power to Liu would probably occur without challenge, but the party's effectiveness, vigor, and its prestige within the Communist world might decline. (Paras. 54-57)

7. There will be a substantial growth in Communist China's capability to assemble or produce complex military equipment over the next five years. However, Communist China probably will not have developed a significant native guided missile program during the period of this estimate. The USSR will probably provide, or help the Chinese Communists to produce, relatively unsophisticated missiles. Within the period of this estimate, Chinese Communist forces will probably have one or more of the following types of missiles of Soviet design: surface-to-air, air-to-air, air-to-surface, short-range surface-to-surface. Communist China has probably initiated a nuclear weapons development program, but will almost certainly not have developed a nuclear

weapons production capability of its own by 1963.' (Paras. 73-75)

8. We believe that Soviet and Chinese Communist interests with respect to nuclear weapons are in some degree incompatible. The USSR is almost certainly reluctant to see the Chinese Communists acquire nuclear weapons under their own control. For its part, Communist China almost certainly wants nuclear weapons and recognizes that its chances of developing a production capability would be seriously impaired if a test ban agreement should be reached. There is no reliable evidence regarding the presence of nuclear weapons in Communist China. We believe it highly unlikely that the Soviets have transferred nuclear weapons to Chinese Communist control. It is possible, however, that they have provided the Chinese Communists with some surface-to-surface missiles—adaptable to nuclear use and of sufficient range to reach Taiwan. It is even possible that nuclear warheads for these missiles may be stationed on Chinese Communist territory, but if so they are almost certainly in Soviet custody. In any event, unless barred by an effective international agreement, nuclear weapons are likely to be stationed in Communist China within the period of this estimate, although almost certainly under Soviet custody. (Paras. 84-86)

9. The Sino-Soviet alliance will almost certainly remain firmly united against the West during the period of this esti-

mate, with the USSR retaining its senior position in that alliance. As Communist China grows in strength and stature, however, it will probably exert an increasing influence on general Bloc policy and Communist ideology, and the reconciliation of Sino-Soviet interests will probably become increasingly difficult. In particular, differences of view will probably arise with respect to nuclear weapons, attitudes and tactics toward the West, and patterns of economic and social development. We also believe that, while Moscow welcomes Communist China's increasing contribution to Bloc strength, it will become increasingly concerned over the long-range implications of Communist China's growing power. Nevertheless, both partners will undoubtedly recognize that their problems are the inevitable consequence of the alliance itself, and that there is no feasible alternative to maintaining it in essentially its present form. Over the next five years, therefore, the main effect of these differences will be an increasing need for the two countries to make accommodations to each other in policy matters, not a weakening of the alliance itself. (Paras. 77-82, 87-89)

10. The aggressiveness which the Chinese Communist regime has displayed in domestic programs, in the Tibetan situation, and in foreign policy has caused increased apprehension throughout Asia of Communist China's strength and intentions. Despite the foreign policy setbacks the Chinese Communists have suffered during the past year, they probably view the future with considerable confidence and optimism. We believe that there will continue to be frequent manifestations of Chinese Communist truc-

¹ NIE 100-2-58, "Development of Nuclear Capabilities by Fourth Countries: Likelihood and Consequences," dated 1 July 1958, estimates (paragraph 78) that Communist China, with some Soviet support, "will probably develop a small independent nuclear weapon capability within the next 10 years."

lence and of an impatience to emerge as an acknowledged major power. World pressures will increase for Communist China's admission into the UN and into other international organizations. The Chinese Communists will probably seek to gain their objectives principally by political and subversive means. They will also continue their trade and aid offensive, but this effort will probably remain restricted and selective because of economic limitations. However, the emphasis on nonmilitary means will not preclude the use of force to exploit some target of opportunity or to respond to some situation which they might interpret as a serious threat to their position in Asia. (Paras. 90, 99, 106)

11. The Chinese Communists will almost certainly not let the situation in the Taiwan Strait area remain quiescent indefinitely. An invasion of the major offshore islands is unlikely, at least during the next year or so, unless Peiping comes to believe that US determination to help the Government of the Republic of China (GRC) defend the islands has weakened. The Chinese Communists will probably continue sporadic military pressures in the area, such as shellings and occasional naval and air sorties. The chances of some kind of major military probings in the Taiwan Strait area to test US intentions will increase as time passes. An attack against one or more of the smaller Nationalist-held islands is possible at any time. (Para. 102)

DISCUSSION

I. INTRODUCTION

12. Communist China greatly accelerated its rate of economic growth and social change during the past year, but as a result ran into some of the greatest difficulties it has yet experienced in its decade of existence. The greatly increased output led to serious production imbalances and maldistribution of supplies, and the forced pace of the production drive resulted in a decline in the morale of the underfed and overworked population. The commune innovations further increased the regime's control over the population, but, together with the "leap forward" program, resulted in confused administration and added to the many problems already facing the regime. Other difficulties came as reactions to Communist China's renewed assertiveness in relations with other states: Chinese ideological pretensions incurred Soviet displeasure, and foreign policy setbacks were experienced in connection with the Taiwan Strait, Japan,

and Tibet. The road Peiping has chosen as a shortcut to world power is clearly a rough one, but the difficulties which have been encountered do not appear likely to prevent the Chinese Communists from making progress along this path.

13. The frenetic leap forward and commune programs are the latest and most radical of a series of experiments which the Chinese Communist Party (CCP) has undertaken since 1955-1956. Until that time there had been a rather steady line of national development, pretty much on the Soviet model. Since that time, however, the CCP leaders have apparently become increasingly convinced that this scheme of development could not result in fast enough economic growth, and that acceleration and radical experimentation would be necessary if Peiping's basic objective of rapidly transforming a backward country into a great world power was to be realized.

14. The problems were many. Population growth had nearly equaled the increase in agricultural output. The regime, relying primarily on tax and marketing controls, was finding it difficult to mobilize supplies to feed the rapidly expanding urban population and to obtain products for export. Rapid industrialization required increased imports of capital goods. The modest Soviet credits had meanwhile come to an end, and the increased import needs could be financed only by expanding exports. Moreover, it had become necessary once again to stir up revolutionary spirit in the CCP. The regime had lost much of the popular support it had initially been given. Meanwhile, it had made no great offsetting psychological gains abroad; Communist China had not succeeded in gaining Taiwan or replacing Nationalist China in the UN. Lastly, relations with the USSR had become more complicated as a result of turmoil in Soviet leadership, de-Stalinization, the Hungarian Revolution, Communist China's own growth in power, and its almost certain desire for Soviet assistance in the field of nuclear weapons.

15. The radical shifts in Chinese Communist economic and political programs since early 1956—by one experiment after another—have all sought to elicit a greater effort from the people. From 1956 to 1958 there were apparently a considerable number of differences within the CCP on economic and political questions, particularly with respect to the rate of advance. By mid-1958, however, the party seemed to have settled upon a set of daring and drastic approaches. The undertaking of the commune and the leap forward programs appeared to have signaled a victory for a generally more aggressive point of view within CCP leadership. These programs were accompanied by the publication of politically inspired statistics and economic goals and by a marked increase in foreign policy truculence,

in doctrinal assertiveness within the Bloc, and in demands for ideological conformity within Communist China. By the end of 1958, growing strains had forced some retreats, but these have been in the nature of readjustments rather than changes of course, and the general economic and political patterns for the near future, at least, seem to have been established.

16. Peiping's moves in the past year underline the determination of Communist China's leaders to press rapidly and relentlessly toward their ambitious objectives of industrializing their underdeveloped country and transforming it into a great world power and its people into "new Communist men." One of the most important factors molding the pattern of Chinese Communist life is the fact that the present CCP leaders are first generation revolutionists, deadly serious about their brand of Communist dogma and their concept of "uninterrupted revolution." However, their outlook also contains strong nationalistic currents; the "new Communist man" is definitely to be a Chinese Communist man. This nationalistic ingredient contributes to the driving pace Communist China's leaders have set, but the problem of reconciling this Chinese nationalism with the demands of the Soviet alliance may become increasingly difficult.

17. For the period of this estimate, the principal difficulties the Chinese leaders will face will be those involved in maintaining the forced pace of economic development. They will continue flexible in improvising ways and means of meeting these difficulties, but will almost certainly not alter their basic objectives.

II. THE "GREAT LEAP FORWARD"

A. Background

18. Communist China has two principal economic problems. The first and most fundamental is the press of its vast and rapidly in-

creasing population against its limited food production. The increase in food production achieved during the First Five-Year Plan was barely enough to match population growth. The regime has extracted the necessary surpluses of agricultural products for the expanding urban population and for exports only by steadily increasing controls over the rural areas and by restricting consumption. Furthermore, although the output of industrial crops has substantially increased, severe fluctuations from year to year still cause serious disruptions in the plans for light industry and for exports.

19. The second problem is the difficulty of achieving a high level of capital accumulation. To raise Communist China from its backward status to that of a modern industrial nation calls for vast amounts of capital and considerable import of advanced types of equipment. The failure of agricultural production to increase substantially above severely restricted levels of consumption limited the amount of capital which could be generated outside that produced by the modern industrial sector. The Soviet Bloc has met Communist China's need for import of capital goods, but only a small part of this was on credit, and there is no evidence that Communist China has received a single red kopek of economic grants from its relatively opulent Soviet ally. Aside from military loans, all that Peking has received from Moscow in the past decade is two economic loans totaling \$430 million. Since 1956, all Peking's imports from the USSR have been on a pay-as-you-go basis, and in addition it has been necessary to generate an export surplus in order to service the Soviet loans of previous years.

20. In 1957 the imbalances from the expansion drive of 1956 led the regime to institute

a period of economic consolidation and a reconsideration of development policies. It had become clear that the Soviet pattern of development by concentration of investment in big industry alone was not a solution to the problems of capital-short, labor-surplus Communist China. In the first place, such a program required massive imports of capital goods which Communist China was hard pressed to pay for from its own resources. Secondly, it did not adequately utilize the large and growing labor force. There was underemployment in the cities, and during some months of each year the 500 million peasants were relatively unproductive. At the same time, economic developments during 1957 prepared the way for greater production in 1958; even with no "leap forward" drive, 1958's rate of increase in GNP would probably have reached 1956's record level of 12-13 percent.

21. Although Communist China's leaders had initially announced relatively conservative goals for 1958, they apparently decided during the first half of that year that a much faster rate of increase was possible than had been initially foreseen in their planning. They determined to launch a "great leap forward" on all fronts by capitalizing on the labor potential of China's vast population. The general framework of investment and fiscal and price policies established during the First

*In 1957, output of cotton and other industrial crops—which constituted the supply of raw materials for light industry in 1958—had increased significantly. With the slight reduction of consumption and the decline in capital investment in 1957, stocks of both consumer goods and producer goods had increased substantially, more than enough to offset the drawing down of stocks in 1958. Because the level of state investment in 1956 and 1957 was much higher than in the years 1953-1955, significant increases in capacity for key industries could be expected in 1958 when a larger number of projects were scheduled for completion.

Five-Year Plan was to continue, but a new effort was to be undertaken in addition to existing programs.

B. Characteristics

22. A principal feature of the leap forward was the increased attention given to small and medium industry, which required less capital investment, technical knowledge, and skill, and could begin producing and earning more quickly than large and complex factories. Responsibility for the management of most of the small and medium industries was transferred to local administration. This promoted the expansion of local industry and local construction, and made fuller use of the labor force and local resources. The growth of production in heavy industry was also accelerated by overworking both plant and labor force. Workers worked multiple shifts, and were constantly prodded to overfulfill ever higher norms.

23. The special characteristic of Communist China's leap forward, however, was the astounding outpouring of human energy for agricultural production,² irrigation projects, and the construction of hundreds of thousands of native-style "backyard" industries. These latter were typified by the multitude of small blast furnaces that appeared on farms, in schoolyards, and in office building courtyards all over the country. Operated by students, housewives, clerks, and peasants who "volunteered" their spare time, these homemade furnaces, using every available piece of scrap iron (including cooking pots of the peasants) and locally produced ore and coal, turned out about 40 percent of the pig iron and 20 percent of the steel produced in 1958. The bulk of this output, however, was of inferior quality and of questionable utility.

²The organization and exploitation of labor in agriculture is discussed in the section on communes beginning in paragraph 41.

24. Everyone was put to work: kindergartners pulled weeds, grade school children made shoes, housewives dug ditches and stoked iron furnaces, and the aged tended hogs and watched after children. Hours of labor were very long and holidays were given over to "volunteer" labor. Always there was pressure for "more, faster, better, more economical." To have launched and sustained this unprecedented work orgy was a tour de force of Chinese Communist motivation, organization, and regimentation.

C. Achievements³

25. Communist China's production record for 1958 is an impressive one, even if it is far short of Peiping's production claims. It was the first year in which both agriculture and industry made big increases. We estimate that GNP in 1958 was about 20 percent above that of 1957, well above the previous record increase of about 13 percent in 1956.

26. The official claims for agriculture are that production in 1958 was 64 percent higher by value than in 1957 and that the production of basic food crops increased 100 percent. These figures are patently nonsense, unsupported by available intelligence and incredible in terms of the intensive agriculture already practiced in Communist China. We nevertheless believe there was an impressive increase in agricultural production, probably about 15 percent over-all and about 15-20 percent in basic

³Our economic estimates are less firm than those of previous years. This results from the rapid expansion and radical change of Communist China's economy and from the pronounced deterioration of Chinese Communist statistics in 1958. We consider that the over-all description of the Chinese Communist economy is reasonably accurate, but the specific statistical estimates should not be viewed as precise, particularly for the agricultural and handicraft sectors. A discussion of this problem appears in Appendix IV: The New Chinese Communist Statistics.

food crops.² About one-third of this increase is attributable to favorable weather. Production of cotton and some other industrial crops, under development programs of a number of years standing, increased spectacularly—more than during the entire First Five-Year Plan. However, the production of vegetables, meat, and other supplementary foods, gener-

ally a sideline enterprise of individual peasants, was neglected and probably actually declined.

²The factors contributing to this increase in basic food crops are estimated to be as follows. The sown acreage for basic food crops is not claimed to have increased significantly compared with 1957, but a pronounced shift is claimed to sweet potatoes and a lesser shift to corn, primarily from the area sown to wheat and other miscellaneous grains with lower average yields. These state-sponsored shifts alone would result in an increase of nearly four percent over 1957 with no changes from average yields for the various crops. In addition, crop weather was substantially more favorable in 1958 than in 1957, although the Chinese Communists have claimed otherwise in order to play up the effectiveness of their production measures. This factor is estimated to have increased production by roughly five percent. Less certain is the remaining factor, the increase in yields from the production measures undertaken. A tremendous irrigation program was organized which was claimed to have increased the irrigated area from 30 percent of the land under cultivation to about 60 percent in 1958—an increase more than double the increase claimed for the five years 1953-1957. The application of organic fertilizer, such as manure and pond mud, was claimed to have been increased to more than 10 times that of 1957. However, only a fraction of the claimed newly irrigated land could have drawn benefits during 1958, and the additional organic fertilizer was of low grade. Chemical fertilizer availabilities increased by one million tons to a total of 2.8 million tons, but this small amount probably contributed less than a two percent increase in basic food crops. Dramatic results were also reported from deep plowing, close planting, improved seeds, and the application of other new techniques, but these appeared to be largely limited to small acreages and some of these measures were carried to useless extremes. Moreover, the effect of these production measures was to some extent offset by the failure, due to competing programs, to make adequate provision for harvest, resulting in above normal harvest losses. On net, we estimate that these production measures probably contributed to a seven to 10 percent increase in basic food crops. In conjunction with the other factors, this leads to an estimated total increase of about 15 to 20 percent in basic food crops in 1958.

27. The apparent anomaly of a 15 to 20 percent increase in food production for 1958 on the one hand, and serious food shortages in 1958-1959 on the other is explained by a number of factors: (a) food requirements and calorie needs were substantially increased by the greatly intensified labor effort; (b) the regime was at first overly generous in the distribution of food through the communal messhalls; (c) the percentage of food output devoted to nonfood uses probably expanded, reflecting the increased seed and feed requirements of the farm program, as well as expanded manufacturing uses; and (d) transport shortages hindered shipment of food from surplus to deficit areas, especially the cities. In addition, there was a qualitative deterioration in the diet resulting from the reduction in supplementary foods (meat and vegetables) and the increased substitution of potatoes for grain. The state food collection target for July 1958 to June 1959 was raised 43 percent over that of the preceding 12 months, but Peiping admits that collection for the last half of 1958 rose only 24 percent. It is likely that procurement for the entire 12 months (mid-1958 to mid-1959), although possibly securing one-half of the increase in food output, will fall far short of the target. State food sales for the last six months of 1958 rose about 33 percent over the same period in 1957. This has prevented planned increases in reserve and has caused a reduction in exports.

28. Chinese Communist industrial claims were less exaggerated than those in agriculture, and available data are more firm than those for the agricultural sector.³ We believe that total industrial output in 1958 increased by approximately 40 percent, about two-thirds of the amount claimed. This is the largest percentage increase to date and by far the largest absolute increase. Light industry probably increased about 20 percent and heavy industry about 60 percent. While industrial expansion occurred on a broad front,

³See Appendix IV: The New Chinese Communist Statistics.

the main emphasis was on steel. We believe that total steel production may have been about as claimed, 11 million tons, more than double that of 1957. Even if the more than 3½ million tons of substandard products, mostly from the native and small-scale plants, are subtracted, 1958's steel production probably increased about 40 percent over that of 1957. Nevertheless, to help meet expanding needs, steel imports had to be doubled, reaching more than one million tons, and construction of all modern iron and steel mills was accelerated. The increase in coal output may have been nearly as much as the claimed 100 percent, but about 40 percent of this increase was a low-grade coal produced from native workings. Communist China has probably become the third largest coal producer in the world, ranking after the US and USSR. The machine tool and chemical industries also made large increases.

29. The production records of 1958 were achieved at considerable economic and human cost. The obsession with quantity and the spread of the backyard factory movement led to a great amount of economic waste. In particular, labor was often dissipated needlessly in work of little productive value. As a result, a considerable amount of crops went unharvested, were harvested too late, or spoiled while waiting shipment. Hard pressed managers of the overworked industrial plant were reluctant to withdraw equipment for maintenance and repair, and repair shops were diverted to production.

D. Prospects

30. During the first year of the leap forward, conservatism became anathema and planning gave way to improvisation and hasty expansion of production. By mid-1959 Peiping still had not formally adopted a Second Five-Year Plan, and the tentative five year targets that had been announced in September 1956 had been rendered obsolete by the great leap forward. The regime is committed to a continuation of the driving pace in 1959, but at the same time recognizes that it must correct production imbalances and improve the new institutional arrangements, particularly by "tidying up" the commune system. There is no indication at present that the Chinese Communists intend to abandon their original plans to prolong the leap forward for three years. However, they have already had to relax pressures somewhat, and it is almost certain that they cannot re-establish and maintain either the rate of increase or the intensity of human effort attained in 1958.

31. Indeed, the regime faces a number of problems in attempting to sustain even the present pace of the leap forward. A principal problem will be that of maintaining incentives for the peasants and workers. The increases in production should make possible a modest increase in consumption, but this may in part be offset by continuing distribution difficulties and imbalances in supplies. Moreover, the workers and peasants will probably consider that such increases in consumption as they may get are disproportionately small in relation to the effort that is being demanded of them. Such dissatisfactions will be intensified

Item	Percentage Increases in Production—1958 over 1957		Average Annual Increase, 1953-1957 Our Estimate *
	Chinese Communist Claims *	Our Estimate *	
GNP	not given	20	7
Agricultural Production	64	15	2.5
Production of Food Grains	103	15-20	2
Industrial Production	66	40	16
Production of Heavy Industry	103	60	23
Production of Light Industry	34	20	10

* Increases claimed for gross value of production.

* Value added estimates based on Chinese Communist claims for production of industrial commodities and our estimates of production of agricultural commodities.

If the regime continues to make exaggerated agricultural production claims.

32. The rate of economic growth in the next few years will also depend upon the ability of the planners to redress the imbalances created in 1958. The leap forward in production created demands for transportation considerably in excess of the capacity of the transport system. A large part of the increase in traffic consisted of coal and ore for the mushrooming steel industry. Demand on distribution and transportation will continue to be in excess of capacity for some time. Recognition of this problem has led the regime to raise the proportion of total capital investment devoted to transportation and communications from 13 percent in 1958 to almost 21 percent in 1959. The goal for freight car production in 1959 is just about two and a half times that achieved in 1958. It will be necessary to continue investment in transportation at this increased rate for a number of years in order to make up the existing gap and to keep up with increasing demand. The rise in demand is a result of increased production (particularly in steel and its raw materials), increased interdependence of industries, and increased interdependence of city and countryside as the economy develops. The railroads, which are the prime means of transport, are planned to increase their performance 37 percent in 1959; even if this goal is achieved, which we believe unlikely, some transportation jams will occur during 1959, requiring strict shipping priorities.⁷

33. In 1959, industrial imbalances are also forcing production cutbacks in some sectors of the economy and costly shifts in investment. By the end of 1958, recognition of the very poor quality of "native" and local coal, pig iron, and steel led to a drastic reduction in this program. The inadequacy of raw material supply for the modern steel program caused some drop even in the production of commercial quality steel in the first quarter of 1959, compared with the last quarter of 1958. The capacity to finish steel has lagged behind output of crude steel, and steel output, restricted in types and shapes, is unbalanced. Peiping is

concentrating its efforts on modernizing as well as expanding its facilities, and there has been a substantial increase in investment in steel and related industries at the expense of other industries. Machinery output greatly expanded in 1958, partly by setting up large production runs with little regard for requirements, but the industry has since been directed to limit its main effort to the new priority needs. This has resulted in retooling and in cutbacks in production of many kinds of equipment, thus restricting growth in output over the rate obtained at the end of 1958. These imbalances do not appear susceptible to quick or easy solutions and will persist in one sector or another as the regime presses for large increases in output.

34. The regime will also have trouble in making its radically reorganized economic administration work effectively, particularly the communes and the local governments which have been given increased authority and responsibility. In this the Chinese Communists will be handicapped by faulty statistical data and by strong ideological pressures to plunge ahead regardless of cost and confusion, "letting politics command." Their economic planning will also be further complicated with the increasing complexities that accompany rapid economic growth.

35. Despite these difficulties, we believe that Communist China's GNP will increase during the period of the Second Five-Year Plan at an average rate of about 10 to 13 percent a year. This is about one-third to one-half greater than the rate of increase during the First Five-Year Plan, and will result in a total increase of between 65 and 85 percent for 1962 over 1957. This judgment is derived from the 20 percent increase we believe to have been achieved in 1958, probable increases of about 12 to 15 percent in 1959, and about seven to 10 percent in each of the three years, 1960-1962. We believe that these latter four years will be marked by consolidation of the unusual gains of 1958.

36. The fast growth during the period of the Second Five-Year Plan will be possible because an increasingly large proportion of the GNP can be devoted to investment. This can be accomplished because of the rapid growth of

⁷ See Appendix V: Transportation.

heavy industry and the regime's ability and willingness to deny to the consumers all but a very small portion of the increases in production. Whereas we estimate that about 21 percent of the GNP was devoted to gross domestic investment in 1957, the percentage probably increased to about 28 in 1958, and we believe the level will reach at least 30 percent in 1959. We believe that the total volume of investment during the Second Five-Year Plan period will be approximately three times that of the First Five-Year Plan period.

37. The 1958 pattern of funneling 65 percent of state budgeted investment into industry at a rate of nine for heavy industry to one for light industry will probably continue for the next few years. Growth in total industrial production during the Second Five-Year period will probably be about 50 percent higher than the remarkable 16 percent annual rate achieved in 1953-1957. The most dramatic feature of the period 1959-1963 may prove to be substantial increases in the output of basic industrial commodities, increases which would have been dismissed by Western observers as inconceivable before the leap forward of 1958. For example, we now believe that Communist China may be able to raise production of commercially usable crude steel to about 14 million tons in 1959 and to about 20-25 million tons in 1962, compared with 5.35 million tons in 1957 and an original plan goal of 10.5 to 12 million tons for 1962. It must be realized, however, that in terms of variety and quality of finished steel, the industry will be substantially inferior to those of Japan and the West. Moreover, not all branches of industry will be able to expand at this dizzying pace.

38. While the regime will continue its stepped up agricultural development efforts, we do not believe that in the next five years agricultural production will increase dramatically following the remarkable 15 percent increase in 1958. The ambitious goals for multiplying the output of chemical fertilizers, if met, would be sufficient for possibly a five percent increase in agricultural output. Some increases in output are probable as the programs for irrigation and better crop practices are implemented and wasteful leap forward practices elimi-

nated. These programs, if carried out, should raise agricultural output in 1962 to a level 30 percent over 1957, or about double the increase in the First Five-Year Plan. However, failure to stabilize the communes or an inability or unwillingness to carry through some current programs might limit the increase in output to possibly 20 percent. A succession of bad crop years would confront the regime with grave difficulties.* However, the regime could almost certainly maintain itself in power, and would be able to maintain industrial growth, though at a reduced rate.

39. *Population Growth.* If population growth continues at the present estimated rate of about 2.5 percent annually, Communist China will have more than 740 million people by the end of 1963, about 80 million more than in mid-1959. The Chinese Communists currently claim that the vastness of their population is an asset rather than a liability, and that emphasis should be placed on people as producers rather than as consumers. Nevertheless, the need to provide a growing population with an improved living standard from China's limited arable land will remain a major problem for the regime. In 1957 the regime launched a birth control campaign, and although it has been submerged in the leap forward, official birth control programs still continue on a small and unpublicized scale. In the long run, to alleviate population pressure, the regime will probably have to resort increasingly to programs, however disguised, that will tend to reduce the birth rate. It will also be under pressure to decrease net exports of food and to increase imports of fertilizer in exchange for manufactured goods.

40. *Foreign Trade.* During the next five years Communist China will probably increase its foreign trade by an average of about 10 percent a year, generally in step with its expanding over-all economic output. Increases, however, will be irregular, as difficulties in planning and in production affect the level of Communist China's exports. Imports from

* Although the floods so far this year may have caused serious local difficulties, we believe that their effect on total agricultural production for the year will be slight.

~~SECRET~~

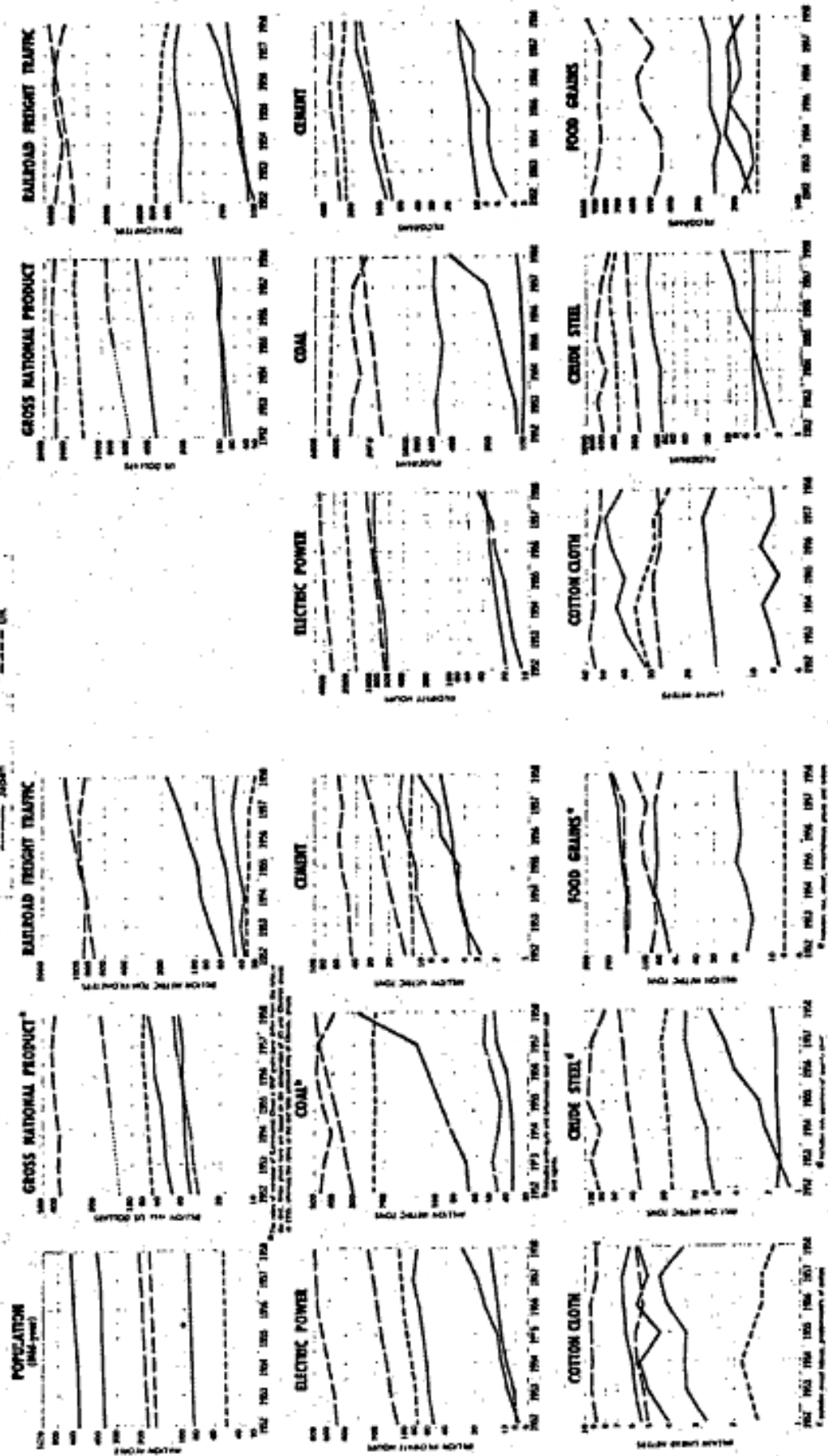
COMMUNIST CHINA

GROSS NATIONAL PRODUCT, RAILROAD FREIGHT TRAFFIC, AND PRODUCTION OF SELECTED COMMODITIES, COMPARED WITH THOSE OF SELECTED COUNTRIES, 1952-58

Figure 1

TOTAL

PER CAPITA

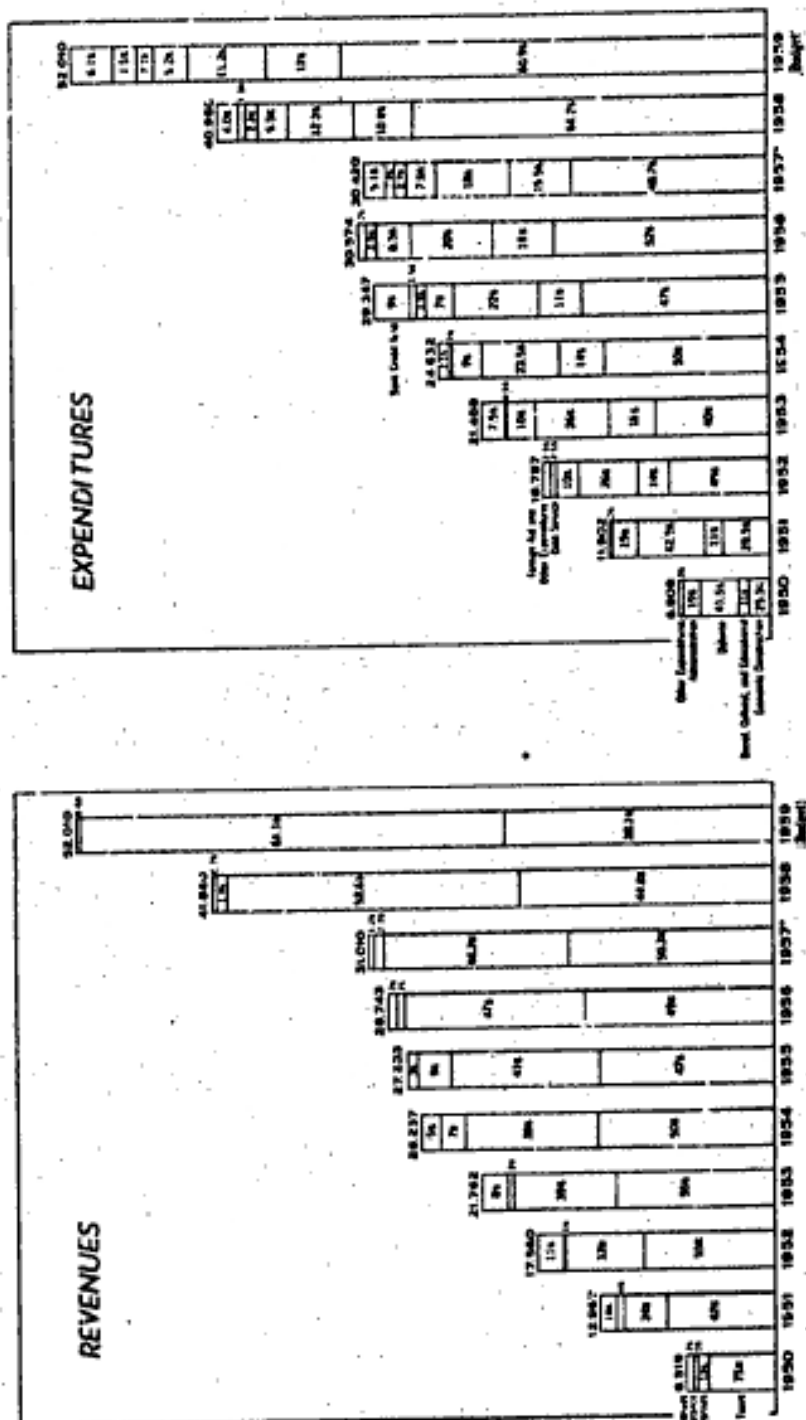


~~SECRET~~

~~SECRET~~

Figure 2

COMMUNIST CHINA
BUDGET REVENUES AND EXPENDITURES
1950-59
(Billions of Current Yuan)



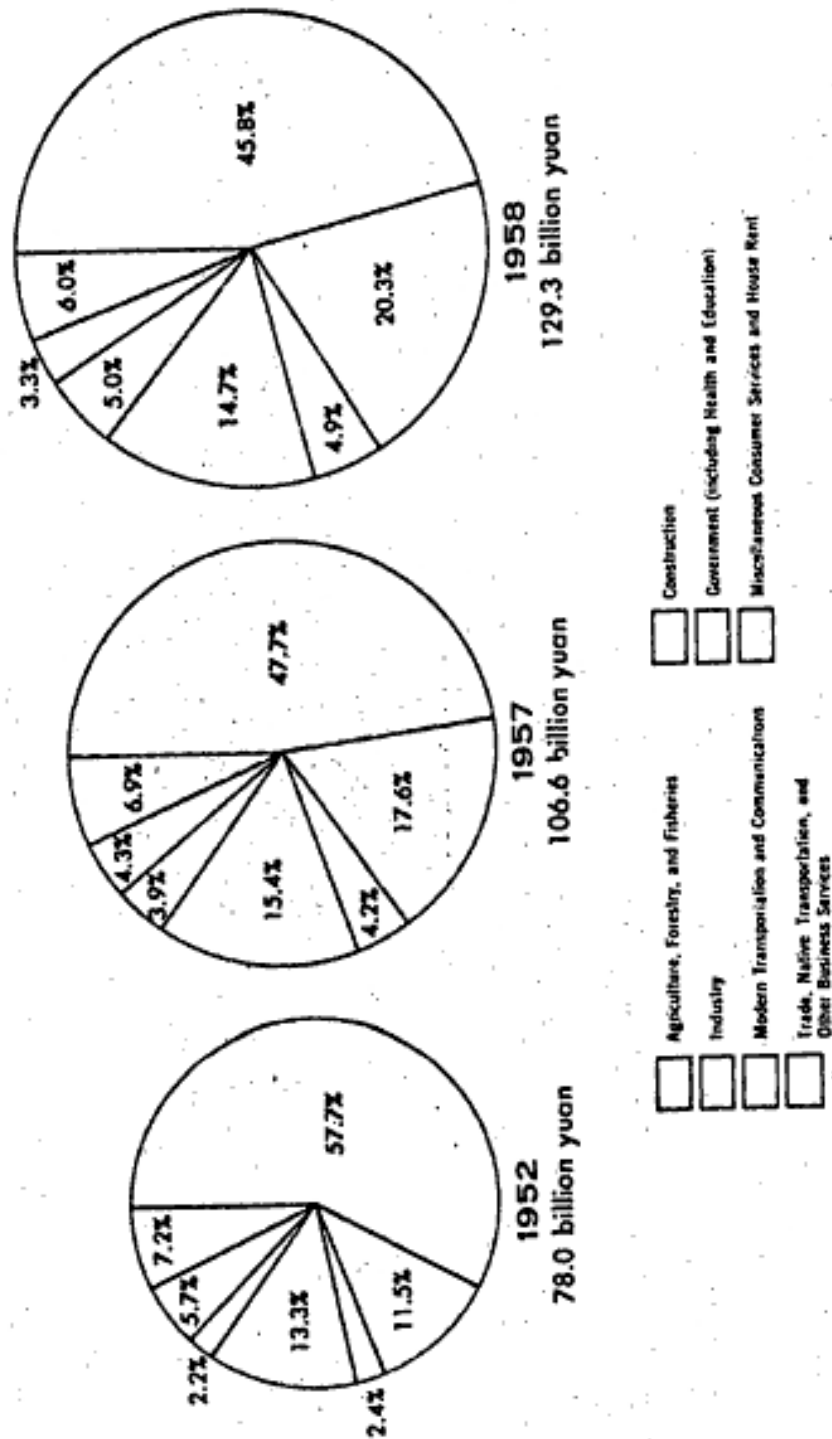
* Data for 1950-1959 are based on the 1959-60 financial year. The percentages shown are based on the 1950-51 financial year. The data for 1950-51 are based on the 1950-51 financial year. The data for 1952-59 are based on the 1952-59 financial year. The data for 1950-51 are based on the 1950-51 financial year. The data for 1952-59 are based on the 1952-59 financial year.

~~SECRET~~

~~SECRET~~

Figure 3

COMMUNIST CHINA
GROSS NATIONAL PRODUCT, BY SECTOR OF ORIGIN
1952, 1957, and 1958
(1957 Constant factor prices)



~~SECRET~~

non-Bloc countries were accelerated in late 1958, financed in large part by nearly exhausting foreign exchange reserves. At the end of 1958 and through the first half of 1959, Peiping failed to meet certain export commitments to Western Europe and for some time refused even to sign further trade contracts. Although some recovery in non-Bloc trade is likely in the latter half of the year, it is probable that 1959 will show a drop from 1958. Since trade with Bloc countries has increased in 1959 and long-term trade agreements with many Bloc countries have been concluded, Communist China's trade pattern will probably continue to be oriented principally toward the Bloc during this period.⁴¹ Communist China's major problem in foreign trade will be to expand exports sufficiently to meet the fast-growing demands of its investment program. Minerals and light industrial products will increasingly replace agricultural products as exports.

III. THE COMMUNES AND THE PEOPLE⁴²

41. *Motivations for the Commune Program.* To implement the new leap forward program decided upon in early 1958, the regime sought a form of organization and control that would cut across the confining boundaries of the agricultural collectives and provide a unit strong enough to generate its own capital and utilize the available manpower with maximum effectiveness. From 1956 onward there had been sporadic experiments in grouping co-

operatives into larger units, and an accelerated trend toward such amalgamations occurred in a few provinces in the spring of 1958. One such unit in Honan, subsequently named the Sputnik commune, was cited as a model for the later commune drive. The characteristics of the new form of organization were: (a) all the Agricultural Producers' Cooperatives (APC's) of one hsiang (township) were combined; (b) the hsiang government was merged with the commune management and given control of virtually every activity, agricultural or otherwise, within its area; (c) the residue of private ownership was further reduced by expanding the scope of collectivization; (d) children were placed in public nurseries or schools and meals were eaten in messhalls, thus releasing the women from household duties to take part in the labor effort; and (e) workers were organized along military lines and deployed to the fields or small industries.

42. The experiments apparently convinced the party leaders that they had at last found a means of organization which fully employed Communist China's labor supply—including women and even children and the aged—and which answered the economic needs generated by the leap forward undertakings. Accordingly, the intensive drive to organize the country into communes was suddenly launched in August 1958.

43. Ideological considerations almost certainly also played an important part in the undertaking of the communal experiment. The rectification campaign of 1957 had indicated that there was some feeling among Chinese Communist leaders that the revolution was losing momentum and that a significant new step toward communism was needed. By the middle of 1958, the enthusiasm and optimism stimulated by the leap forward psychology were reflected in a wave of ideological revivalism. The urge to move forward rapidly on the ideological front found an apparently perfect answer in the radical concept of the commune. In one stroke the establishment of the commune system would hasten the achievement of socialism and even introduce some aspects of a pure

⁴¹ In 1958 about 40 percent of Communist China's \$3.8 billion total trade was with the USSR, 22 percent with the European and Asian Satellites, and 38 percent with the Free World. Through 1955 Communist China received more from the USSR than it exported in return, but the pattern has been the opposite since that time, as Communist China has had to squeeze an export surplus from its people. In February 1959 the two countries signed an agreement which calls for the USSR to provide \$1.25 billion worth of equipment and technical assistance for the building of 78 major new factories in Communist China, in the period 1959 through 1967. The latter is obligated to export a similar value of goods and services to the USSR during the period. No loans or grants are involved in this agreement.

⁴² See also Appendix III: The Chinese Communist Commune.

Communist society. Communist China would be in the vanguard of ideological advance.

44. Moreover, the centralization of all political, economic, and social authority in a single administrative unit and the militarized regimentation of all the members would greatly ease the problem of continuous surveillance and physical control of every individual. The mass militia drive within the communes would abet this process. The collective living aspects of the commune would hasten the break-up of the family, the only remaining institution that could compete with the state and party for loyalty. Finally, the communal system of care and control of the citizen from infancy would permit continuous indoctrination.

45. The strategic dispersal implications of the economic and political decentralization inherent in the commune system may have also motivated Peiping, though probably as a secondary consideration. The Chinese Communist press has explicitly stated that the nation will be less vulnerable to disruption under the new organization should war come. However, this is probably essentially an attempt to gain additional support for a program which had been undertaken largely for other reasons.

46. *The Record of the Communes.* By early November 1958, Peiping claimed that 99 percent of the rural population had been organized into 26,500 communes, averaging about 4,750 households each. The available evidence indicates that the actual degree of communal organization achieved by that time ranged from little more than that of a paper organization at one extreme, to a highly regimented communal society at the other—with people living in barracks, the children reared by the community, and food, clothing, and most other necessities supplied by the state. By mid-1959, however, few communes are at either of these extremes. Most of the paper organizations have been at least partly realized, and some of the more radical features of the advanced communes have been modified following the CCP directive of 10 December 1958.

47. Before the commune program was four months old, its promoters were harvesting a crop of stubborn problems. From the beginning, old forms were abandoned faster than new ones could be perfected. The result was considerable chaos in administration, accounting, tax collection, and domestic commerce. The increased regimentation of the peasants and the additional demands levied on their time resulted in a drastic reduction of subsidiary food crops (which in Communist China means substantially everything but grain and yams), and a loss of much traditional household production of clothing, tools, etc. Even those who are better fed must find it difficult to perform the long hours of hard work demanded of them. And though the maximum work day in the communes at present is supposed to be 12 hours, with eight hours allowed for sleep, there is evidence that at least in some cases an 18-hour work day is still required. Under these circumstances, it is inescapable that the commune program has generated extensive bitterness toward the regime.

48. Although there has been no wave of peasant revolts across the countryside, there is ample evidence that a substantial part of the peasantry bitterly resents the effect which the communes have had on their lives. Many who dwell near the non-Communist borders have fled, some of them at very great risk and with the knowledge that relatives or friends left behind would be subject to severe reprisals. Letters to relatives outside Communist territory reflect this dissatisfaction with communal life. But whatever overt resistance has appeared has almost certainly been crushed mercilessly. Other types of resistance, such as minor pilferage of mess supplies and withholding grain from the state have occurred (sometimes with the cooperation of party cadres), but as the administrative machinery improves, even this becomes prohibitively risky.

49. A conspicuous failure in the commune program has probably been the system of "free supply," that is, the practice of distributing part of the commune member's income in the form of messhall meals and other goods

and services according to "need." The bumper crops of the first half of 1958 apparently led the regime to believe that the food problem had been solved and that it was therefore possible to provide ample food supplies through communal messes while at the same time assuring maximum accumulation of surplus for the state. It appears that for a while the peasants, on the average, were eating better under the free supply system than they were before. But then the slight increase in consumption overtook the inflated statistics of food production. Complaints about cold and tasteless food began to be replaced by complaints about too little food. Many communes closed their kitchens in early 1959 and "allowed" the peasants to eat at home. More recently, official spokesmen have stated that commune members may withdraw from the messhalls. The regime has also been concerned with the loss of incentive which the free supply system has entailed. In the past few months it has had to caution the commune cadres against providing too large a proportion of the member's income in the form of free supply, and recently the issuance of messhall tickets has been tied in with the type and quantity of work performed.

50. The original three-month "tidying up" campaign launched in December 1958 is still going on, and modification and consolidation of the communes will continue during 1959. Many of the extreme practices have been stopped and a number of practices of the old APC's have been reintroduced. Emphasis has been shifting back to incentive rewards, some subsidiary food production (including hog raising) has been returned to the individual, and inroads on the family system have been reduced. The widespread introduction of urban communes has been postponed. Emphasis on the mass aspect of the militia system appears to have been reduced.

51. *Prospects.* These adjustments do not mean the end of the communes, however. The top leadership is still firmly and expressly committed to the belief that communes, rural and urban, are the best way for China to speed up its socialist construction and bring about the transition to communism. We believe that

although there will be many modifications of the system, including some tactical retreats, the commune will probably remain the basic form of organization for the countryside. Forms and practices are likely to become more standardized and more bureaucratic among the communes, and incentive pay systems will be further developed. The present program of consolidating communes into larger communes will probably continue. Urban communes are now being tested, mainly in Honan province, and some type of urban commune may be adopted on a nationwide scale before 1963.

52. In carrying out the communal program, the regime will face numerous and difficult problems. There will probably be costly blunders in planning and administration. The ceaseless and ill-rewarded sacrifices will probably drive some of the peasants to open revolt, but such cases will be smashed ruthlessly and with little or no publicity. Most peasants apparently consider that overt opposition to the commune system is hopeless; passive resistance will probably be the regime's main difficulty. However, past experience shows that the regime has the ability to be flexible when necessary, and it has the whole spectrum of totalitarian pressures and controls to use wherever needed.

53. The commune program directly involves half a billion people and entails drastic changes in almost every aspect of their lives. It is the most audacious attempt in history to rapidly transform society. Although many of the program's features may be changed, Peking has committed its prestige to the communal experiment; it neither wants nor can afford to abandon the program in its entirety. National pride and a sense of accomplishment will work for the benefit of the regime, but the necessary, ceaseless pressure upon the people will probably result in a populace that is, at best, grudgingly acquiescent. This is a far cry from the "new Communist man" the communes are supposed to create. This failure to stimulate enthusiastic support will probably contribute to greater caution in the future. Nevertheless, given the regime's flexibility and controls, it is unlikely

that popular resistance will reach the point where the regime will have to choose between a blood bath or an abandonment of the communal experiment.

IV. PARTY PROBLEMS

54. *Party Leadership and Cohesion.* Although we believe that CCP leadership is still basically unified, there are indications that the unique cohesion of the past quarter of a century is beginning to feel the erosion of time. During the past two years a number of important new programs and theses appeared to encounter opposition within the CCP leadership. These included collectivization, "blooming and contending," the nature of "contradictions" in Communist society, rectification, and the communes. There have also apparently been divergent opinions concerning the pace to be set for economic development and the degree of risk the regime should accept in pushing its foreign policy goals. In addition, the leadership has probably not been unanimous in some questions of Sino-Soviet relations.

55. Mao Tse-tung was personally identified with many of the programs which caused controversy in the CCP. To some party members, at least, his conduct of policy may have appeared erratic and unwise. However, there is no evidence that Mao was pushed when he retired as government Chairman. We believe it more likely that Mao himself took the initiative in resigning from his lesser post in order to devote more time to his more important post as party Chairman and to basic policy and ideological matters. Moreover, Mao was probably concerned over the question of establishing a clear order of succession to the top party leadership post. Mao's position of pre-eminence has apparently not been challenged. He is receiving far more attention and adulation at present than is Liu Shao-ch'i, his successor as government Chairman. Mao is still boss of the party, and we believe that he will continue to be the dominant figure in Chinese communism.

56. The selection of Liu, already number two man in the party, as government Chairman is probably designed to confirm him as Mao's heir to party leadership. Policy trends over

the past two years appear to have been increasingly in line with Liu's views, and several men who apparently share these views have moved into influential party posts, notably secretary-general Teng Hsiao-p'ing. Chou En-lai continues to maintain his position as the third man in the party and as the principal link between the party and the government machinery."

57. If Mao should die or become incapacitated during the period of this estimate, the initial transfer of power to Liu would probably occur without challenge. However, the cohesion of the party might suffer, and the absence of Mao might cause the CCP's effectiveness, vigor, and its prestige within world communism to decline.

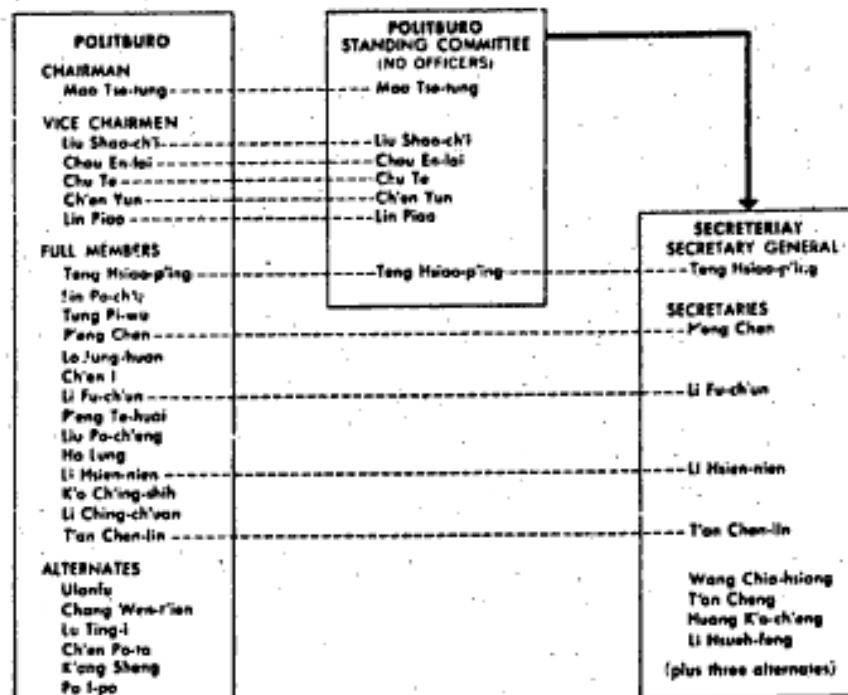
58. *The Party and the People.* The CCP leaders have shown determination to arrest any sag in the party's revolutionary vigor which might weaken the spartan spirit which the nation must maintain if its goals are to be met. And the top leadership has been keenly concerned, especially since the object lesson of the Hungarian Revolution, that the CCP not permit itself to become even more separated from the people. The CCP has sought, through various means, to prevent the creation of a privileged "new class," alienated from the people. These have included party rectification, the mass shipping of bureaucrats and party activists to the countryside, the occasional manual labor done by Mao and other leaders, and the sending of officers to serve in the ranks.

59. The party will probably continue to demonstrate the flexibility shown to date in attempting to maintain its identification with the people. However, the regime's programs have already alienated much of the population, and efforts to redress the situation will be hampered by the limited material rewards the regime can offer the people. Great steel production figures cannot be eaten, and since a sizable percentage of economic returns will probably not be funneled into consumption, it is almost certain that a hungry, exhausted

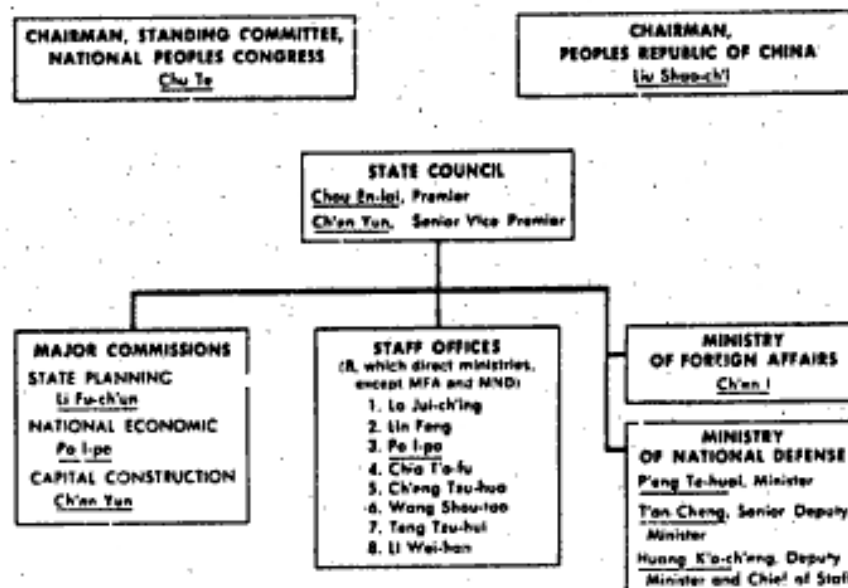
" See chart.

Figure 4

PRINCIPAL CHINESE COMMUNIST PARTY ORGANS



TOP CHINESE COMMUNIST GOVERNMENT POSTS



— Member of Politburo or of Party Secretariat

populace will not feel a close sense of identification with the party.

60. *The Party and the Intellectuals.* To meet its ambitious goals, Communist China must fully utilize its intellectuals and highly trained personnel, yet the majority of these people, by the regime's own admission, are non-Marxists and only lukewarm toward the CCP. These people are needed but not trusted, a dilemma which has been evident in the regime's various efforts to command their full support.

61. This need was one of the principal reasons which impelled Mao to launch the "100 Flowers" effort of 1956-1957, in apparent confidence that the Communist system had won general acceptance in China and that a freer atmosphere would induce the intellectuals to give the regime more enthusiastic support. There was apparently considerable doubt within the party as to the wisdom of this gamble, a skepticism which proved justified when the intellectuals accepted the CCP's invitation to air criticisms (May 1957) and began to attack the foundations of the regime itself. This resulted in their being attacked as "rightists," sent to duty in the countryside, and subjected to other repressive measures. Although the party still employs the "100 Flowers" slogan and has at least nominally rehabilitated some accused "rightists," its policy seems clearly one of only tolerating the intellectuals and exploiting their skills. Meanwhile, every effort is being made to educate a new generation of "red and expert" intellectuals.

62. *The Party and the Ethnic Minorities.* The generally aggressive attitude which the CCP displayed in almost every phase of endeavor in the past year was also reflected in its treatment of Communist China's minority peoples. Not only in Tibet, but also in Kansu, Sinkiang, Tsinghai, and Yunnan, the increased pressures of the past year sparked active resistance to what was considered unbearable Han (Chinese) domination and an effort to destroy local customs and institutions. The outbreak of resistance in Tibet resulted from the cumulative effect of successive pressures against the Tibetans' religious and political separateness, and from the spark

of an incident which appeared to threaten the Dalai Lama. While the forcefulness of the Chinese Communist response resulted from the direct challenge posed in Tibet, it almost certainly also reflected Peiping's concern for its authority in other minority areas of Communist China.

63. It is unlikely that the CCP will substantially moderate its now heavy pressures, although they may be adjusted to local conditions. It is equally unlikely that minority discontent will diminish, though it is doubtful that resistance forces will have the leadership, organization, weapons, and food supplies to permit them to mount more than scattered guerrilla operations. In Tibet, the CCP will almost certainly attempt to destroy the position of the Dalai Lama as a Tibetan leader, especially if he presses Tibetan desires for independence. The CCP will attempt to maintain the facade of autonomy and religious freedom, but will accelerate the pace of "reforms" in an effort to make Tibet an integral part of Communist China as rapidly as possible.

64. *The Party and the Military.* Relations between the party and the military continue generally close; in 1958, Marshal Lin Biao was elevated to membership in the CCP's highest body, the six-man Standing Committee of the Politburo. Nevertheless, the creation of a modernized, professional military force has probably had some disruptive effect on the unity of view which has traditionally marked relations between the party and the military. From the fall of 1957 through the fall of 1958, a number of articles and speeches carried by the Peiping radio and press criticized "some among the military" who had an "exclusively military viewpoint." The need for absolute party control was strongly reaffirmed; "separatists" were criticized for holding that the "suddenness and complexity" of modern warfare had made the dual party/military pattern of authority in the armed forces dangerously inefficient, or for overstressing the importance of modern weapons and neglecting the "role of the people" in war. Corrective measures have included a program of study of Mao's military writings and a de-

cree that officers must periodically serve short periods in the ranks. Such party/military differences will probably not become acute, but the attempt to create a professionally qualified military force that will remain as fully responsive as in the past to party control is likely at times to lead to differences between the party and military leadership.

V. THE MILITARY ESTABLISHMENT¹²

A. Major Developments

65. There have been few changes of major significance in the size, equipment, or deployment of Communist China's armed forces since our last estimate (NIE 13-58, dated 13 May 1958). However, the over-all capabilities of the armed forces to fulfill their internal and external functions have continued to improve as a result of training, reorganization, the conscription program, and the progressive transition to newer weapons. We believe that the morale of the armed forces is generally good, although that of the air force is probably somewhat lower as a result of its poor showing against the Chinese Nationalists during the Taiwan Strait crisis. Army troops are being used to an increasing extent on agricultural and industrial projects to help the leap forward program.

66. We believe that the air force has recently acquired some MIG-19's from the Soviet Union. This is in addition to an estimated increase of 80 in other jet aircraft strength during the past year. The number of tank-assault gun regiments in Communist China's 114 infantry divisions is estimated to have increased from 28 to 63. Six new submarines have been added to the navy, bringing the total to 22. The withdrawal of Chinese Communist troops from Korea during 1958 was probably based on propaganda and political considerations, and a desire to reduce logistic costs. The Chinese Communists probably estimated that their continued presence was not necessary to deter the Republic of Korea (ROK) or the US from attacking. Large numbers of Chinese Communist troops are

still stationed close by and could be rapidly dispatched to Korea.

67. The Chinese Communists continue to base their military effort primarily on the concept of large ground forces. The military program appears to be emphasizing the improvement of logistic support, mobility, communications, and fire power. At present there is no indication that the Chinese Communists have started or intend to start a basic reorganization of their forces for nuclear warfare. However, some Chinese Communist military personnel apparently are receiving training with nuclear weapons in the USSR. Soviet nuclear and missile progress has strengthened Peiping's confidence in the growing power of the Communist Bloc, but it has probably also increased Peiping's sense of military dependence upon the USSR and stimulated Peiping's desire to develop a nuclear capability of its own.

68. Some recent statements from Peiping, however, have tended to play down the importance of nuclear weapons in determining the outcome of a war, and have stressed human and political factors. This is probably both a rationalization for the lack of nuclear weapons, and a reflection of confidence that Communist China, with its vast population and relatively simple economic structure, could survive nuclear attack. More importantly, however, it may also reflect a Soviet failure to agree to the transfer of nuclear weapons to the Chinese Communists.

69. There has been little direct evidence of the arrival in Communist China of large quantities of Soviet weapons and equipment over the past two years; except for ammunition, it is probable that such deliveries, while still substantial, have fallen off since 1955. However, the Chinese Communists have obtained from the USSR increasing quantities of industrial machinery and technical assistance for the development of their own munitions industry. With this help, Communist China has been able during the past two years to undertake production of Soviet-type artillery, jet aircraft, submarines and escort vessels, trucks, and electronic equipment. An increasing proportion of the component parts for

¹² See Appendix I: The Chinese Communist Armed Forces.

these items is now being produced domestically.

70. The cost of maintaining such a large military establishment and of developing a munitions industry continues to be a heavy drain on Communist China's economy. Much industrial development, of course, can serve both the military and nonmilitary sectors, and as the country's industrial complex grows, more rapid and significant modernization of the military can be expected. The total amount allocated for national defense in the 1959 budget is approximately 16 percent greater than that of 1958. As the total budget rose about 25 percent, the increase in the military sector does not appear to involve a major shift in the allocation of national resources, but rather a determination to push ahead in both the economic and military programs.

B. Outlook for the Military Establishment

71. Communist China's military capability will almost certainly continue to grow over the next five years. The transition to more modern weapons will continue. However, the rate of modernization will be moderate because of the demands of the over-all economic development program on Communist China's resources and the limited pool of trained technical personnel. The ground forces will be better equipped and trained, although their numbers will probably remain about the same as they are today. The ground forces will be supplemented by a large organized reserve developed as a result of conscription and militia programs. The concept of the mass army will probably still prevail, but modernization will have led to improvements in tactics and techniques.

72. The offensive and defensive capabilities of the air forces will probably have improved considerably by 1964. Both the air force and the naval air arm will have more advanced aircraft (probably including some jet medium bombers), weapons, and electronic equipment, and a backlog of qualified air crew members and ground technicians by that time. There will probably be considerable progress in developing an all-weather fighter capability, and Communist China's air de-

fense system will have become substantially more difficult to penetrate. By 1964, the combined air forces (CCAF-CCNAF) will probably have about 3,700 aircraft operational (about 3,100 jet), an increase of about 700. The Chinese Communist Navy will increase in size and improve its capabilities especially for long-range submarine operations and coastal defense. The navy, now largely concentrated north of the Taiwan Strait, will probably be deployed more evenly along the China coast, including small units in the Taiwan Strait.

73. Development of the munitions industry will receive considerable emphasis over the next five years, and we believe that there will be substantial growth in Communist China's capability to assemble or produce complex military equipment. However, Communist China will continue to be heavily dependent upon the Soviet Union. Communist China will probably expand considerably its present limited efforts in basic research and development, but will remain heavily dependent upon the Soviets for technological assistance.¹³

74. *Missiles and Nuclear Weapons.*¹⁴ Communist China almost certainly desires to develop an independent nuclear weapons capability, and probably has initiated a weapons development program. However, Communist China will almost certainly not have developed a nuclear weapons production capability of its own by 1963.¹⁵

75. Communist China probably will not have developed a significant native guided missile program during the period of this estimate.

¹³ See Appendix II: Chinese Communist Science and Technology.

¹⁴ See Sino-Soviet section, paragraphs 83-86, for a discussion of: (a) Chinese Communist and Soviet attitudes with respect to Chinese Communist acquisition of a nuclear weapons capability, and (b) the prospects of the Soviets giving Communist China nuclear weapons or stationing their own on Communist Chinese territory.

¹⁵ NIE 100-2-58, "Development of Nuclear Capabilities by Fourth Countries: Likelihood and Consequences," dated 1 July 1958, estimates (paragraph 75) that Communist China, with some Soviet support, "will probably develop a small independent nuclear weapon capability within the next 10 years."

The USSR will probably provide, or assist the Chinese Communists to produce, relatively unsophisticated missiles. During the period of this estimate, Chinese Communist forces will probably have one or more of the following types of missiles of Soviet design: surface-to-air, air-to-air, air-to-surface, short-range surface-to-surface.

76. We believe the chances are better than even that an attempt will be made to launch an earth satellite from Chinese Communist territory during the period of this estimate. Chinese Communist spokesmen have indicated such an intention, and Moscow and Peiping probably believe that considerable political and propaganda gain would accrue from such an exploit. Any launching from Communist China will be the direct result of Soviet participation. With Soviet equipment and guidance throughout the project, the Chinese Communists could probably launch an earth satellite in about one or two years after initiation of the project. The USSR itself has the capability, with about six months preparation, to place an earth satellite in orbit from Chinese Communist territory. There is as yet no firm evidence of the initiation of any such projects.

VI. RELATIONS WITH THE COMMUNIST BLOC

77. *The Sino-Soviet Partnership.* The 10 years of alliance with Moscow has brought Communist China considerable gain: Soviet support has afforded it protection and enabled it to become the strongest indigenous power in the Far East. In many aspects of the relationship, Communist China over the past several years has emerged as a nearly-equal partner of the USSR within the Communist world. The preponderant influence is still in Moscow, but this appears to operate through discussion and persuasion rather than by exercise of authority or control. The foundations of Peiping's alliance with the USSR remain firm: it shares with Moscow a common ideology, a common enemy, a mutual dependence, and, almost certainly, a mutual realization of the grave consequences which a collapse of the alliance would have for them

and for world communism. This interdependence continues to mark many of the policies of the two countries.

78. However, agreement on basic issues has not prevented the growth of divergent outlooks and interests as a decade's time has brought change in the context of the Sino-Soviet relationship. Communist China's interests, activities, and ambitions have become worldwide. There has been continuity and cohesion in CCP leadership during the decade, considerable upheaval in that of the Communist Party of the Soviet Union (CPSU). A certain thaw has occurred in Soviet society since the death of Stalin, while the Chinese Communist outlook in the past two years has become even more rigid. The post-Stalin USSR has employed a broader and more flexible range of tactics in dealing with the West.

79. Over the past three years there have been various differences between Communist China and the USSR concerning de-Stalinization, Soviet "great power chauvinism," various points of Communist doctrine, and the degree of risk to run in dealing with the West. Strains were especially pronounced in the past year's unprecedented sharpness and frankness of Chinese Communist ideological assertiveness—and of Soviet displeasure—concerning communes and the best paths to communism. Some of these differences have probably been resolved and some papered over, but the Moscow-Peiping relationship is becoming increasingly complex and the reconciliation of interests probably more difficult.

80. *Prospects.* Consequently, we believe that differences of view between Moscow and Peiping are more likely to grow than to diminish over the next few years. We also believe that while Moscow welcomes Communist China's increasing contribution to Bloc strength, it will become increasingly concerned over the long-range implications of Communist China's growing power. It is probable that the process of reconciling differences between the two will involve more compromises on the part of the USSR than in the past. Nevertheless, the Sino-Soviet alliance will almost certainly remain firmly united against the West, with the

USSR retaining its senior position in the alliance.

81. A number of differences will probably arise during the period of this estimate from the general question of Communist China's influence as an ideological and political force within the Bloc. We do not feel that Chinese Communist leadership will attempt to make Mao's doctrines, or China, uppermost in the Bloc. Nor do we believe it likely that the Chinese Communists will attempt to take sides in any disputes within Soviet leadership. But, regardless of any design on the part of the CCP, Communist China is emerging as a rival center of Communist ideology, and frictions will almost certainly accompany its further growth of strength and self-confidence.

82. Disagreements will probably arise out of the differing internal requirements and policies of the USSR and Communist China. The very fact of Chinese departure from established Soviet patterns will have the effect of diluting the authority and exclusiveness of Soviet leadership. Any accompanying Chinese Communist assertiveness will aggravate the situation. And any Chinese Communist success will make it even worse. The communes may continue to be an important source of such difficulties, even though the past year's frictions on this score appear to have diminished.

83. We believe that nuclear weapons questions will constitute one of the most difficult areas for Sino-Soviet reconciliation of interests. Problems concerning Soviet release of missiles and nuclear weapons, and of the amount and kind of Soviet assistance in Communist China's missile and nuclear weapons research and development programs will be issues of considerable delicacy and hard bargaining.

84. We believe that Soviet and Chinese Communist interests with respect to nuclear weapons are in some degree incompatible. The USSR is almost certainly reluctant to see the Chinese Communists acquire nuclear weapons under their own control. The Soviets probably consider that a Chinese Communist nuclear weapons capability is unnecessary,

since the Soviets almost certainly rely chiefly on their own capabilities to deter the US from using nuclear weapons in the Far East. Moreover, the Soviets probably also fear that if the Chinese Communists were to attain even a limited nuclear weapons capability, they might—by design or miscalculation—start a nuclear conflict in the Far East which would involve the US. Depending on the course of this conflict, the Soviet leaders might be confronted with the dilemma of whether to come to Communist China's assistance at the risk of general war with the US, or to stand by while the Peiping regime was gravely set back or even destroyed. The Soviets probably consider that a substantial Chinese Communist nuclear weapons capability would detract from Soviet leadership of the Bloc. Finally, they may even consider that such a capability might, over the long-run, constitute a threat to the USSR itself.

85. For its part, Communist China almost certainly wants nuclear weapons and recognizes that its chances of developing a production capability would be seriously impaired if a test ban agreement should be reached. Peiping has echoed the Soviet propaganda position on the nuclear test ban question, but has so far refrained from discussing whether or not it would join an agreement and permit the establishment of inspection facilities on its territory. If agreement on a test ban eventuates, Peiping might be unwilling to adhere. However, Peiping would probably accede to Soviet pressure to join, especially if in return it could obtain greater international recognition from the West and possibly some additional Soviet assistance to compensate for Communist China's inability to conduct nuclear tests. Neither Moscow nor Peiping has vigorously pushed the proposal for an Asian atom-free zone, revived by Khrushchev in early 1959. Perhaps both partners now regard the proposal primarily as a propaganda gambit against the West.

86. There is no reliable evidence regarding the presence of nuclear weapons in Communist China. We believe it highly unlikely that the Soviets have transferred nuclear weapons to Chinese Communist control. It

is possible, however, that they have provided the Chinese Communists with some surface-to-surface missiles—adaptable to nuclear use and of sufficient range to reach Taiwan. It is even possible that nuclear warheads for those missiles may be stationed on Chinese Communist territory, but if so they are almost certainly in Soviet custody. In any event, unless barred by an effective international agreement, nuclear weapons are likely to be stationed in Communist China within the period of this estimate, although almost certainly under Soviet custody.

87. There will probably also be important differences in Sino-Soviet views concerning the West. The Chinese Communists may assess Western power less realistically than the USSR because of their inexperience in modern weaponry, a seemingly stronger doctrinal motivation to push world revolution, frustration at not making dramatic foreign policy gains, and the fact that they have not confronted the West in its principal theaters of power. Consequently, occasions may arise where Peiping may be prone to push higher risk policies than Moscow might feel prudent. In addition, the Chinese Communists' antagonism toward the US may remain more intense than the Soviets', and Peiping may have more doubts than Moscow that a war with the West can be avoided. The Chinese Communists may feel that, under certain circumstances, a Soviet detente with the West would be damaging to Peiping's interests.

88. Other differences will probably also be present. With respect to economic relations, the Soviets may be irked by the necessity to put up with Chinese delays and confusion in repayment and to accept some Chinese goods of limited utility in exchange for capital goods in short supply in the USSR. The Chinese Communists may be dissatisfied at the failure of the USSR to grant additional credits. Some rivalry between the Soviets and the Chinese Communists may develop in their economic offensive in the underdeveloped countries. We do not anticipate that frictions of much consequence will develop concerning respective Chinese and Soviet roles in the Chinese-Mongolian-Korean borderlands,

or guidance to Communist parties in the underdeveloped world. Mao's death might lessen the CCP's status, but would probably not significantly change Sino-Soviet relations.

89. We believe that Communist China will attain an increasing influence on general Bloc policy and Communist ideology over the next several years. To the extent that it fears the emergence of an actual rival, Moscow will attempt cautiously to minimize Peiping's influence within the Bloc. On Communist China's side, gradual reduction of dependence on the Soviet Union will give the Chinese more freedom of action. Moreover, Peiping's assertiveness in international affairs will probably continue and its outlook will probably remain more revolutionary than Moscow's. However, both partners will undoubtedly recognize that their problems are the inevitable consequence of the alliance itself and that there is no feasible alternative to maintaining the alliance in essentially its present form. Over the next five years, therefore, the main effect of these differences will be an increasing need for the two countries to make accommodations to each other in policy matters, not a weakening of the alliance itself.

VII. RELATIONS WITH THE NON-COMMUNIST WORLD

A. Major Trends

90. The Tibetan revolt and the consequent quarrel with India, Peiping's radical domestic programs, the Taiwan Strait crisis, and the rupture in relations with Japan have had the cumulative effect, particularly in Asia, of tarnishing the carefully cultivated image of Communist China as a peaceful, reasonable, and tolerant nation. Throughout Asia there is increased apprehension of Communist China's strength and intentions, and much of the admiration and sympathy which it enjoyed has been lost. As a result, the Chinese Communists are now more circumscribed in pursuing their foreign policy objectives, and must rely to a greater extent upon threats, intimidation, and fear.

91. The shift to a more truculent and militant foreign policy in 1958 seems to have been based upon a mixture of confidence, impatience, and miscalculation. The confidence of the Chinese Communist leaders probably was based in part upon a belief that the West was seriously divided in Asia and generally out of tune with the trend of events in the area. More importantly, they had gained confidence from recent Soviet advances in science and weapons technology and from their belief that the Bloc was rapidly overtaking the West in economic strength. Their impatience probably stemmed from dissatisfaction with the lack of tangible foreign policy rewards which Communist China's leaders apparently believed were due their country. They probably also believed that the Bloc's political gains in recent years had not kept pace with the marked improvement in its power position. This assessment might well have led the Chinese Communist leaders to a belief that an increased exploitation of this power, even if it were not actually employed, would further Communist China's foreign policy objectives.

92. Communist China's leaders seem to poorly interpret the developments and trends in the non-Communist world. Their views are circumscribed by Communist dogma and by the fact that very few of them have lived or even traveled outside of the Bloc. Most Chinese who have had extensive contact with the West are generally suspect or lack influence in foreign policy. The Chinese Communist leaders probably miscalculated Chinese Nationalist (GRC) morale and capabilities and the probable US-GRC response to their military pressures in the Taiwan Strait. They also appear to have been surprised and disappointed at world reactions. They probably misjudged how the Japanese Government and public would react to their efforts to use trade as a political weapon, and how the Indian Government and public would respond to Peiping's attacks on India over the Tibet issue. They appear also to have overestimated the extent of the animosity of the ex-colonial countries toward the Western Powers.

93. Communist China continues to view the US presence in Asia as the principal obstacle to its own ambitions. Consequently, Peiping's foreign policy is directed mainly toward weakening the position and influence of the US in the area. The Chinese Communists appear to believe that US political, economic, and military strength is overextended and that frequent opportunities to exploit vulnerable points in the US position will arise or can be created. Despite occasional protestations of a desire for friendly relations, their overwhelming antagonism toward the US has led the Chinese Communists to place the US outside the pale of "peaceful coexistence" except on terms that would require a US withdrawal from Asia. This attitude, in addition to its dramatic manifestation during the offshore islands crisis, had been a major motif in most of Peiping's recent foreign policy moves.

94. The elimination of the GRC also remains a high priority objective. Peiping's attitude is based on a belief that the continued existence of the GRC constitutes a national affront and a potential threat, hampers the expansion of Peiping's international influence, and is the main symbol of US determination to resist Peiping's advance in Asia. The Chinese Communists probably calculate that the short-run prospects for eliminating the GRC are less than they had estimated before last year's crisis in the Taiwan Strait. While they undoubtedly hope that their negotiation offers and their propaganda will have an unsettling effect within the GRC and on GRC-US relations, it is unlikely that they expect major immediate gains from these political moves. They probably view their long-term prospects with more hopefulness, probably estimating that there will be a deterioration of the GRC's international position, some change in US policy, or an internal collapse of the GRC.

95. In the Asian area, Communist China seeks to play to advantage the ideas of common Asian identity and common problems resulting from Western colonial imperialism. However, Peiping faces serious problems in the area, and the gains it has achieved during the past year were probably more than bal-

anced by the setbacks. Peiping's problems are largely due to the growing difficulty of simultaneously playing the dual roles of a peaceful, friendly Asian neighbor ready to lend a helping hand, and of an ambitious, powerful Communist nation.

96. Probably the most significant recent developments in Peiping's relations with Asian countries concern India and Japan. There has been a considerable cooling of Sino-Indian relations over the past year or two as a result of divergencies in the outlook and interests of the two countries. These relations have been badly strained by the Tibetan revolt. Although the Chinese Communist leaders undoubtedly hope that India will continue to use its influence to promote wider international acceptance of Communist China, the importance they attach to the attitudes of Indian leaders seems to be decreasing.

97. Japan is clearly one of the Bloc's major political targets. Peiping views a prosperous and democratic Japan aligned with the West as a rival economic and political power and as the principal base of the US military presence in Asia. These considerations, along with sensitivity over Japan's ties with the GRC and a misjudgment of Japanese attitudes, were probably responsible for Peiping's decision to break with Japan over trade matters in 1958. The Chinese Communist leaders apparently are willing to sacrifice possible short-run gains in pursuit of their major goals of weakening Japan's alignment with the US. They appear to be seeking the downfall of the Kishi administration by playing upon the issues of trade with the mainland; Japanese sensitivity to nuclear weapons, rearmament, and war; and fear of domination by the US. In this effort, Peiping is assisted by the activities of the Japanese Communist and Socialist Parties and various Japanese peace and friendship fronts.

98. Peiping is also attempting to increase its influence throughout the underdeveloped areas. During the past year, Communist China has expanded its propaganda, economic, and cultural activities in the Middle East and Africa. It gained recognition from Iraq, Morocco, and Sudan, and it recognized and agreed to extend some military aid to the

Algerian Provisional Government. Although no Latin American country recognizes Communist China, Peiping's trade and cultural contacts and subversive activity in that area have increased sharply. In addition, the Chinese Communists appear to have acquired an increased role in the guidance of the Latin American Communist parties.

B. Probable Developments

99. Communist China's foreign policy appears to have become more sober and defensive as a result of the setbacks of the past year. Nevertheless, the Chinese Communist leaders probably view the future with considerable confidence and optimism. We believe that there will continue to be frequent manifestations of Chinese Communist impatience to emerge as an acknowledged major power. We believe that the Chinese Communists will seek to gain this objective principally by political and subversive means. They will also continue their trade and aid offensive,¹⁴ but this effort will probably remain restricted and selective because of economic limitations. However, the emphasis on nonmilitary means will not preclude the use of force to exploit some target of opportunity or to respond to some situation which they might interpret as a serious threat to their position in Asia.

100. Communist China has profited from the antagonism between many of the former colonial countries of Asia and the West. However, China's leaders are finding it increasingly difficult to capitalize upon the nationalistic movements in the area and to camouflage the di-

¹⁴ Communist China's Economic Aid Commitments to Free World Countries, 1954 to 1 January 1959 (in million US dollars).

	Extended		Totals	Utilized Total
	Grants	Loans		
Burma		4.2	4.2	
Cambodia	28		28	8.5
Ceylon	15.8	10.5	26.3	
Egypt	4.7		4.7	4.7
Indonesia*		26.0	26.0	26.0
Nepal	12.6		12.6	4.2
Yemen		16.3	16.3	
TOTALS	61.1	57.0	118.0	44.3

* Since 1 January 1959, Indonesia has provisionally accepted a Chinese Communist offer of an additional \$30 million loan.

vergent interests of Asian nationalism and of communism. In this situation, the Chinese Communists may, in some instances, gradually place less emphasis on maintaining good relations with the governments and leaders now in power and more emphasis upon encouraging left wing or Communist movements. While the "peaceful coexistence" line may be played down, Peiping is not likely to reverse abruptly its policies toward neutralist countries and it will attempt to repair the damage to its relations with these countries, particularly India.

101. Peiping will probably not change substantially its adamant position toward the present Japanese Government, unless the latter makes some major concession, such as diplomatic recognition. The Chinese Communists probably regard the Korean unification issue as relatively static. We believe that they will continue to reject Western proposals concerning Korea, but will probably not initiate, directly or indirectly, major military action against South Korea. Communist China's relations with Indonesia have improved in the last two years, largely as a result of offers of aid and exploitation of Indonesian suspicions of the US and the GRC aroused by the Indonesian rebellion. Peiping will probably continue these lines of action. However, if the Indonesian Government makes serious efforts to curb the influence and activities of the Indonesian Communists, Peiping might place less emphasis on maintaining cordial relations with the Indonesian Government and more on support of the local Communist movement.

102. There is little likelihood of any significant change in Chinese Communist attitude and policy toward the US. In view of the US defense commitment, Peiping will probably not attempt to seize by force Taiwan or the Penghus. On the other hand the Chinese Communists will almost certainly not let the situation in the Taiwan Strait area remain quiescent indefinitely. An invasion of the major offshore islands is unlikely, at least during the next year or so, unless Peiping comes to believe that US determination to help the GRC defend the islands has weakened. The Chinese Communists will probably continue sporadic military pressures in the area, such as shellings

and occasional naval and air sorties. The chances of some kind of major military probings in the Taiwan Strait area to test US intentions will increase as time passes. An attack against one or more of the smaller Nationalist-held islands is possible at any time.

103. Peiping is currently charging that in Asia the US is concentrating its "aggressive" efforts in Laos, Cambodia, and Vietnam, and may demand further international consideration of the 1954 Geneva Accords on Indochina. Laotian action against pro-Communist groups and the Lao Government's more open alignment with the US have prompted the Chinese Communists to make threatening statements and to demand the resumption of International Control Commission (ICC) activities in Laos. Peiping and Hanoi will continue their political pressure on Laos and might take more forceful action, such as military pressure on the borders and reinstituting guerrilla warfare by the Communists in Laos, if they thought their assets in Laos were seriously threatened. Peiping undoubtedly views with satisfaction the foothold it has gained in Cambodia as a result of its aid program, Cambodian recognition of Peiping in 1958, and the recent exploitation of Cambodia's disputes with Vietnam and Thailand. The Chinese Communists probably plan to continue their present tactics in an attempt to consolidate and expand these gains.

104. The Chinese Communists probably do not foresee any satisfactory short-term solution to the Vietnam unification problem, but for propaganda purposes will keep it alive. They will continue to strengthen North Vietnam, and to encourage the North Vietnamese to expand their subversive capabilities in the south. If the dispute with South Vietnam over the Paracels flares up again, Peiping may use force in that area to assert its claim to sovereignty.

VIII. COMMUNIST CHINA IN 1963

105. Communist China in 1963 will have experienced a very difficult five years and will still be faced by a vast number of problems, but will almost certainly be Communist, powerful, and hostile to the US. The enforced pace and

~~SECRET~~

25

austerity will have caused considerable public disaffection and occasional local uprisings, which in turn will have caused the regime to modify certain of its programs and pressures. Nevertheless, the CCP will probably have been reasonably successful in its efforts to discipline the national energies and to achieve a substantial rate of economic growth; the communal organization of society and the forced tempo of industrialization will probably have succeeded well enough to have become fixed features of life. Education, science, and technology will have made considerable progress. However, in spite of Communist China's achievements, its national power will remain far less than that of the US or the USSR.

106. Communist China's international stature will have grown, and pressures will have in-

creased for admission of Communist China into the UN and into other international organizations. However, Communist China's truculence and xenophobia will probably continue to hold it somewhat more apart than the rest of the Bloc from the world, and non-Communist Asians will almost certainly have a greater fear of Communist China than now exists. Communist China's alliance with the USSR will not be basically weakened, but there is a good chance that a cautious Soviet ally will probably both be restraining Peiping's foreign policy assertiveness and limiting its support of Peiping's efforts to acquire an independent nuclear weapon capability. Communist China may be anxious to throw its weight around, and could constitute a chronic threat to peace.

~~SECRET~~

~~SECRET~~

APPENDIX I

THE CHINESE COMMUNIST ARMED FORCES

A. Ground Forces¹

1. During 1958 the Chinese Communists continued to improve their ground forces, through reorganization and modernization, and through improved training and political indoctrination. The reorganization programs have continued the trend which began in 1954 to increase supply and supply facilities within tactical units and in administrative headquarters. The transition to newer weapons has also continued.

2. Over the past year several programs were introduced which were intended to raise the level of military proficiency in the officer corps, to tighten the bonds between officers and enlisted men, and to ensure thorough political indoctrination, particularly of those officers who have tended to regard themselves first as military men and only secondarily as Communists. The long-term result will be a corps of officers better qualified professionally and probably more reliable politically.

3. Although no figures have been announced, it is believed that something less than 800,000 men in the 18-20 age group were called into military service this year under the conscription program. The majority of this group probably were 18 years old and, as in previous years, over 80 percent are probably destined for the ground forces.

4. The militia program was given great impetus during the Taiwan Strait crisis of 1958 and the concurrent institution of the commune system. Under the slogan, "Everyone a

Soldier," millions joined the militia, whose total strength is claimed by the Communists to comprise a third of Communist China's 660,000,000 population. However, we believe that only a small percentage of this vast number has received actual military training, and even fewer are armed. Probably about 30,000,000 have undergone some rudimentary military training. The backbone of the militia consists of some 7,000,000 ex-servicemen. Otherwise, it is an amorphous paramilitary organization, consisting largely of uneducated peasants. It does not contribute immediately to the offensive potential of the Chinese Communist armed forces. It is capable, however, of aiding the armed forces and security police in the maintenance of internal security and also provides a pool of organized and partially trained personnel capable of being absorbed quickly into the armed forces.

5. The armed forces increased their "voluntary labor" program during 1958, and "donated" over 59 million man days in support of the nation's agricultural and industrial production. This figure is well over twice the number of days donated by the armed forces in 1957. The 1959 program calls for one or two months labor annually by each military unit, in which every officer and soldier is to participate. A considerable portion of military service is now being spent in political indoctrination, voluntary labor, and other programs not designed to improve military skills, but such programs are coordinated with military training and do not interfere seriously with the over-all training program.

¹ See Table, page 27.

~~SECRET~~

~~SECRET~~

27

THE CHINESE COMMUNIST GROUND FORCES

	Units	Estimated Strength
		2,646,000 Total *
Armies	36	21 @ 48,000 14 @ 46,000 1 @ 21,000
Divisions		
Infantry	114 *	63 @ 15,000 51 @ 6,000-14,000
3 Infantry Regiments		
1 Artillery Regiment		
24 light and medium field artillery pieces		
12 medium mortars		
1 AA battalion		
12 light AA pieces		
12 AA machine guns		
1 AT battalion		
12 x 57/76-mm AT guns		
1 tank-assault gun regiment *		
32 medium tanks		
12 self-propelled assault guns		
Armored	3 *	6,600 each
80 medium tanks		
10 heavy tanks		
8 self-propelled guns		
Airborne	1 (possibly 3 *)	7,000 each
Cavalry	3 *	5,000 each
Artillery		
Field Artillery	14	5,500 each
108 pieces up to 152-mm		
Rocket Launcher	2	3,300 each
72 x 132-mm multiple rocket launchers		
Antitank	3	3,400 each
96 AT guns		
Antiaircraft	6	1 @ 4,000 5 @ 2,600
1 @ 84 light and medium guns		
5 @ 52 light and medium guns		
Public Security	17	7,000 each
TOTAL NUMBER OF DIVISIONS	165	

* Figure includes support and miscellaneous elements not shown in this Table.

* To date 61 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 86 independent regiments including artillery, cavalry, tank, engineer, motor transport, and public security.)

* 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 123 combat divisions.

~~SECRET~~

Stecher

*GROUND FORCE TOTAL

15 July 1959

36 AIRMAILS

2.646.000 TROOPS

*Three carriers with a total strength of 255,000 troops are unbrigaded



SECRET

SECRET

B. Air Forces

6. The Chinese Communist Air Force (CCAF) and the Chinese Communist Naval Air Force (CCNAF) together are estimated to have about 87,000 personnel and 3,070 aircraft of all types in operational units, including 2,380 jets.¹ Their equipment, training and deployment are oriented toward air defense and tactical support operations. The air forces are organized into bomber, fighter, attack, and transport units, and operate from a large complex of air bases which would permit the launching of attacks from many points along Communist China's borders. While their fighter units have at present only a limited offensive and defensive capability as demonstrated by the recent Taiwan Strait crisis, the Chinese Communist Air Forces continue to present a significant air threat in Asia.

7. Air interception capability is limited by poor pilot techniques, by a shortage of adequate GCI radars and airborne intercept equipment, and by only fair standards in ground controlled interception procedures. The Taiwan Strait crisis pointed up a number of serious weaknesses in Chinese Communist fighter units. They were shown to lack aggressiveness, air discipline, and organization. In combat, they consistently failed to extract maximum performance from their aircraft and displayed faulty range estimation and uncoordinated control movements which resulted in poor gunnery. Fighter capabilities are also limited by the fact that the CCAF at present possesses only about 60 all-weather

fighters (FRESCO D and E) and is believed to have a very limited capability in all-weather operations. We believe that some MIG-19's have recently been given the Chinese Communists. The ability of the CCAF to support ground operations is not known but a capability is probably being developed through operational training.

8. The Chinese Communist AC&W radar network generally follows the pattern of the Soviet system, is integrated into it, and serves as an extension of this network. The greatest density of deployment is along the coastal area, with coverage extending inland in some areas as far as 500 miles. The radar equipment in the network includes Soviet, native Chinese Communist, and types which are believed to be modified and/or improved from original World War II US and Japanese sets left in China. There has been a definite trend toward higher performance radars both through increasing the performance of the World War II types, and through the introduction of Soviet types and native Chinese Communist sets, such as CROSS SLOT. These higher performance sets now represent about half of the total EW/GCI type radars and the proportion seems to be steadily increasing, with a marked increase in the number of CROSS SLOTS being noted. In terms of detection and tracking, the Chinese Communists are believed to be on a par with the USSR, although heightfinding is not as accurate, in general, due to the very small number of accurate heightfinder radars known to be in Communist China. Against multiple raids and offensive tactics designed to confuse, the Chinese Communist AC&W radar network would probably deteriorate rapidly. While the GCI capability is improving, it still fails to match Soviet performance. The Chinese Communists are improving steadily and introducing new native equipment fairly rapidly. However, it is unlikely that they will overtake the Soviets in over-all system performance, although the gap will be reduced.

9. As a result of the high losses suffered in the Taiwan Strait crisis, Peiping has taken steps to improve air force training that should result in an increased level of efficiency. The

¹ Present CCAF-CCNAF total aircraft inventory is as follows:

	Operational
Jet Fighter	1,770
Piston Fighter	35
Jet Light Bomber	450
Piston Light Bomber/Tactical/Attack	235
Land Based ASW	10
Piston Medium Bomber	20
Piston Transport	205
Jet Trainers	140
Other Piston	205
TOTAL	3,070

² In addition there are about 1,400 aircraft in non-operational status: training, storage, or obsolescent.

~~SECRET~~



~~SECRET~~

standard of CCAF training however, remains well below that of Chinese Nationalist, US, or Soviet forces.

C. Navy

10. The principal strength of the Chinese Communist Navy consists of four destroyers and 22 submarines. All of these vessels, with the exception of 10 submarines assembled in Communist China, were transferred from the Soviet Navy during 1954-1955. During 1958, units of the fleet were at sea more often and for longer periods of time than previously, indicating a probable increase in operating effectiveness.

11. Communist China has a significant naval shipbuilding program with large-scale technical assistance from the Soviet Union. Initially, all component sections were prefabricated in the Soviet Union for final assembly in Chinese Communist shipyards. Increasing numbers of parts are now being produced in China, probably including plating, stress

members, piping and wiring for hulls and deckhouses, but the Chinese continue to be largely dependent on the USSR for most engineering, electronics, and ordnance components. 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). In addition to naval ships, there are increasing numbers of oceangoing merchant vessels being constructed in Communist China.

THE CHINESE COMMUNIST NAVY

Officers and Men	88,000 (including 8,060 naval air)
Destroyer	4
Submarine	22
Patrol	212 (including 125 PT, 4 DE, 27 PC)
Mine Warfare	33
Amphibious	53

~~SECRET~~

APPENDIX II

CHINESE COMMUNIST SCIENCE AND TECHNOLOGY

1. Communist China's acute shortage of qualified scientists and technicians is a major limitation in its drive for industrial and military might. The Chinese Communists attach great importance to scientific and technological progress, and in their official doctrines emphasize research and development. In 1956, they announced a 12-year research and development plan and have increased considerably each annual budget allocation in support of the plan. Thus far, however, little independent research has been done. At this state of development, the time and energy of most of Communist China's few qualified scientists is being devoted to immediate practical needs arising from Communist China's effort to speed up industrialization, increase agricultural production, and modernize the armed forces.

2. During 1958, the regime initiated an intensive program to indoctrinate the scientists and to popularize science. The regime is seeking to increase its control over the scientists, particularly those who are Western trained. In order to make party control of research more palatable to the scientists, a few well-known and respected scientists were made party members in 1958. To popularize the science program, the regime is promoting the establishment of so-called research organizations at local government levels, in communes, and in small industrial plants. Recently, there has been a vast extension of education by day, night, spare time, and correspondence courses. Innumerable "universities" and "research organs" have been set up, but because

of a shortage of qualified teachers we believe most, if not all, of these activities are conducted at a relatively low technical level.

3. As of mid-1958, out of a total of approximately 550,000 college graduates in all fields, Communist China had an estimated 260,000 in scientific and technical fields. Of these, about 20,000 persons probably are engaged in research activities in Communist China's research establishments and universities. Probably only about 6,000 are capable of conducting research projects, the remainder being technicians, research assistants, and trainees. Of these 6,000, only about 1,000 are capable of planning and carrying out research comparable to the quality of work done in the West. Only about 600 hold scientific and engineering degrees at the doctorate level, obtained mainly in the US. Included in this total are over 200 Chinese PhD's who have returned to the mainland from the US and other western countries since the Communist takeover.

4. Undergraduate training through 1958 was poor, and despite the expected large increase in college graduates, the rate of expansion of the research force, in terms of well qualified scientific personnel, will not be great during the period of this estimate. The increase through 1963 in researchers over and above the 6,000 presently capable of undertaking research will probably be about 3,000. These new scientists will be advanced-degree (Kandidat) level, trained both in Communist China and in other Bloc countries.

~~SECRET~~

~~SECRET~~

APPENDIX III

THE CHINESE COMMUNIST COMMUNE

1. The Chinese Communist commune is a radical system of reorganizing society into giant, semiautarkic cells entailing the highest degree of regimentation of human life that has been seen in modern times. The commune is designed to simplify and unify local administration and to provide an effective means of exploiting the labor potential of the countryside. As party Vice-Chairman Liu Shao-ch'i said, on 28 December 1958: "Everybody knows that the people's communes are no longer simply organizers of production among the people. They are organizers of the life of the people."

2. *Background of Communalization.* The agricultural program of the Chinese Communists has undergone a series of drastic changes since the regime gained control of the country in 1949. The first stage was the violent campaign of land reform, which by 1952 had largely stripped the landlords and the more well-to-do peasants of their land and parcelled it out among the poor peasants. Mutual aid teams quickly followed, and the first tentative moves toward co-operativization were begun. At Mao Tse-tung's direction in the summer of 1955, the movement toward co-operatives and "higher co-operatives" (collective farms) began, and before the end of 1956 nearly all of the peasants in the country had been swept into Agricultural Producer's Co-operatives (APC's).

3. The APC's were not popular with the peasants nor were they producing sufficiently to satisfy Peking. In early 1957 a number of APC's dissolved and many more showed signs

of wanting to follow suit. The party tried numerous modifications to stabilize the program, including a directive in November 1957 to reduce the size of the APC's to about 100 families each. This, of course, was a move in exactly the opposite direction from that which was to be followed in the commune program just nine months later.

4. As a somewhat parallel development, there were also a few state farms in operation in which the land was owned by the state and the peasants were wage-earning employees. As late as February 1958, Chinese Communist propaganda was still referring to the state farm as the highest form of agricultural organization. This situation also was reversed by the August 1958 announcement on communes, which proffered the commune as the ideal and ultimate form of organization. Thus the idea of the communes, which began to take shape in early 1958 and became the official and universal policy in August, constituted a decided change in the party line.

5. *The Form and Functioning of the Commune.* Although 99 percent of the peasantry was reportedly herded into communes by November 1958, a number of modifications of the program have since occurred. The first big changes came when the movement was barely four months old. Varied and widespread problems, including serious peasant discontent, had resulted from the rapid introduction of the communes in extreme form. To deal with these problems a plenary session of the Central Committee of the Chinese Communist Party met, and on 10 December issued

~~SECRET~~

a directive modifying the harsher practices of the communes, at least temporarily, in an apparent attempt to lessen peasant discontent and encourage greater productivity. Partly in response to Soviet objections, the directive also reduced some of the theoretical claims which had been made for the system. Since December a number of other piecemeal modifications have been made. The basic outlines of the communal effort continue, but, as described below, the movement is still in a state of flux.

6. In mid-1959 the commune usually coincided with the township (hsiang) boundaries and incorporated all of the former APC's of the area. In the year or so preceding the communalization program, there were many mergers of townships and the number had been reduced from 117,000 to about 25,000. The township-sized communes in October 1958 averaged 4,750 households each. The economic and administrative machinery of the APC's was completely amalgamated with the political machinery of the township to form the administration of the commune. Thus, all political, social, and economic responsibility and control is lodged in the commune. This largely eliminates the tangle and overlap of responsibility and authority which formerly prevailed at the local level.

7. Eventually, there may be a move toward the county (hsien) as the proper size for the commune. There were about 2,000 counties in October, but there is some evidence that these will be merged so that eventually there will be about 1,000 county-sized communes averaging over a half-million members each and largely self-sufficient except for some heavy industry and products that are restricted by geography. In a considerable number of counties, the township-sized communes have been organized into county federations, and in a lesser number of instances they have been fully integrated into county communes.

8. Within the commune, the labor force is organized along military lines into brigades, battalions, companies, and various subunits. Their organized manpower is disposed of under the direction of the commune chair-

man and the various functional departments under which the commune is operated. Work teams of appropriate size are sent out to labor in the fields, or on industrial production, or in public works, as the occasion demands. The commune provides labor not only for its own projects but also for such national projects as come within its range. For example, apparently all of the grading and road-bed work for the new second track of the Tientsin-P'u-k'ou railroad is being done by the communes, each commune building the part that passes through its territory. Within a single commune the system of organization makes it possible to call labor teams off other jobs and quickly concentrate thousands of workers upon such a major project.

9. Not only is the work hard, but the hours are long, days off are few, and everybody works. The social services of the commune are designed to increase the labor power of the unit. The creches and boarding schools for children, the drab communal messes, and the community housecleaning teams all serve to free the housewife for productive work in the fields, mines, and workshops. The "happy homes" into which the aged are segregated make it possible for teams of old folks to put in productive days doing work within their physical capabilities. The school children spend a part of the day—or sometimes a full semester—at labor, and even the pre-school tots contribute by spending an hour or more per day pulling weeds or swatting flies. These moves tending to break up the family have proved to be the most repulsive aspects of the communes to many of China's peasants and to the overseas Chinese. The 10 December directive gave tacit recognition of this reaction in supposedly banning the involuntary separation of families.

10. Even this extensive and intensive utilization of the available labor potential has not been sufficient to perform the accumulation of tasks that the leap forward imposed upon the communes. Although agricultural production was acknowledged by the party to be "the central task of the people's communes at the present time," the drive to fulfill steel production goals and public works projects

usurped some of the peasant labor urgently needed in autumn harvesting and cultivation work. Some food crops spoiled in the fields and some cotton was not picked on time, and there were other signs of labor shortage. Since last autumn, the party has directed that at least 80 percent of commune labor-power should be reserved for agricultural production. There has also been a move toward setting more realistic production goals so that the peasants can have a hope of fulfilling them.

11. One of the typical and most controversial characteristics of the commune is what Peiping calls "free supply." This refers to the practice of feeding all the members of the commune in public messhalls on the principle of "to each according to his need." In some communes other goods and services were also supplied on this basis. Concomitantly, monetary wages were correspondingly reduced. This system reputedly introduced the seeds of pure communism and was loudly heralded by Peiping's theoreticians. Apparently, when the free supply system was introduced in August 1958 the party leaders believed that food production had actually been increased to the point where it was possible to provide a reasonably ample diet to everyone, which would have made the system, if not welcome, at least acceptable to the people. As supplies in many communes began to run out in the spring of 1959, meals became poor and infrequent and a heavy onus fell upon the system. In some communes the messhalls were completely shut down, perhaps to reopen when the 1959 crops replenished the supplies. A more intrinsic weakness that revealed itself, however, was that, just as the Soviets had earlier warned the Chinese, the free supply system reduced labor incentive. As early as November 1958, Peiping began backing off from its initial emphasis on the free supply system. In recent months, although the name free supply is retained, the communes have been directed to issue meal tickets on the basis of work performed. Although the party theoreticians cannot concede that the seeds of communism proved sterile, they are forced to admit that they had been planted on ill-prepared ground.

12. The combined revenue from agricultural, industrial, and commercial activities in the rural areas is now collected by the communes, except for the recently re-established private income from subsidiary occupations. For the commune as a whole the following priorities for the distribution of income have been established: a guaranteed share of net income for the state budget, a sizable common reserve fund for the commune, and the distribution of the remaining product to members of the commune. The common reserve fund is to be used primarily for the expansion of production. The ability to accumulate large sums of capital for investment in agricultural, industrial, and construction activity is one of the main advantages claimed for communes. Public welfare funds are not to exceed five percent of total commune income.

13. Education is a responsibility of the commune. In the larger communes this responsibility now extends beyond the secondary school level and will presumably be assumed by the enlarged county-sized communes when they are developed. The commune will control the education and indoctrination of its members from birth to burial.

14. Another feature of the commune movement is the militia—"Everyone a Soldier." This was organized in a crash campaign that coincided with the Taiwan Strait crisis and was partly justified in propaganda by the warning that the country must be prepared to meet "US aggression." The main role of the militia drive may, in fact, have been non-military, since it substantially assisted in the creation of a general atmosphere of militancy and discipline which the Chinese Communists desire. The mass aspect of the militia program has been diminished since the initial period of the drive. However, the militia may become of real value in time, as a vast system of semitrained military reserves designed, as the 10 December party resolution stated, to "cooperate with the People's Liberation Army and at any time replenish it."

15. All of the plans and operations of the communes are, inevitably, monitored and guided by the Communist Party. The party organi-

~~SECRET~~

35

zation generally parallels the organization of the commune down to at least the level of the labor company. This tends to simplify

party control and to streamline the lower-level organization of the party as it does that of the local government and economy.

~~SECRET~~

~~SECRET~~

APPENDIX IV

THE NEW CHINESE COMMUNIST STATISTICS

1. Chinese Communist statistics, which are based on Soviet concepts, have always displayed the general limitations that characterize Bloc statistical data. In addition, there have been weaknesses arising from Chinese Communist inexperience, faulty organization, and lack of statisticians. However, these latter were being steadily overcome prior to 1958. By 1954 the statistical system was operating at a considerably higher level of competence and sophistication than in previous years, and an appreciably greater proportion of economic activity came within the purview of the system; therefore, data covering the years 1954-1957 were relatively good.

2. In 1958 there was a pronounced deterioration in the reliability of Chinese Communist statistics, particularly those from the local government level which largely concern agricultural and small-scale production.¹ In the leap forward campaign, statistical reporting units at the local level apparently came under new, political pressures. Under the slogan "let politics lead economics" statistical reporting was prostituted to propaganda in order to support emulation drives and dramatize production achievements.

3. In a certain sense the regime became the victim of its own statistical malpractice. Local leaders were encouraged to set high goals in order to encourage "production en-

thusiasm." High crop yields secured on experimental plots were apparently adopted as standard goals, and local reportings apparently failed subsequently to show any differences between these goals and actual production—presumably because local leaders were afraid of criticism. Reports of production achievements were apparently made in anticipation of actual results. Under the circumstances it is not strange that the central statistical authorities lost what ability they had previously acquired to check the reasonableness of figures coming in from "the field."

4. The new emphasis on rapid expansion of agricultural output and local industrial output affected just those economic sectors where reliable statistics are intrinsically most difficult to obtain. Tremendous numbers of small reporting units that had no established system for keeping records on output or income were involved. The extension of state control into these areas facilitated the measurement of output that previously was measured inadequately or not at all. As a result, accounting procedures in 1958 tended to measure not only increases in output, but also output not included in previous statistics, or output which was achieved at the expense of a decline in farm home industry or other household activities not previously measured. In addition, there has been a chronic general lack of sufficient statistical workers to cover rural areas in detail and there also have been delays in setting up the planning and statistical departments of communes. These problems were further intensified by the fact that at

¹Data apparently continue to be reasonably reliable for the relatively large-scale enterprises under central government ministries, and fairly good for retail and wholesale trade and for the state procurement of agricultural commodities.

~~SECRET~~

the very time the overburdened statistical workers were under pressure to turn out reports more quickly than ever before they were also forced to divert some of their time and energy to performing such "productive labor" as stoking backyard iron smelters or harvesting crops.

5. As a result of the fantastic figures for food production in 1958, the regime has held forth prospects for considerable gains in food consumption which were not realized. Indeed, actual shortages of food were experienced in some areas. These exaggerations made it more difficult to keep tight control over the limited supplies of food and presumably seriously interfered with the program of state procurement and distribution of foodstuffs. Another consequence was the establishment of unrealistic targets established for 1959.

6. The deterioration in the quality of statistics in the agriculture and handicraft sectors, although a handicap to the planners, is not necessarily disastrous for successful economic planning, because the more modern, highly organized sectors of the economy have so far resisted the pressures that broke the system in these other sectors. The allocation and distribution of investment goods for the national investment program still depend largely on production in relatively large-scale enterprises where the statistics are still relatively reliable. In short, the authorities are probably embarrassed and sometimes confronted with serious problems in their planning as the result of faulty data, but they are able to carry on because the central core of the economy is the area least affected by the deterioration in statistics.

7. Even if the regime was initially deceived by its own statistical system, reports on actual levels of peasant consumption, reports from procurement agencies, and other data available in late 1958 and in 1959 must have re-

vealed serious inconsistencies to the central statistical authorities between the claims for increases in food crops and the actual situation. We believe that the central statistical and planning officials: (a) realize that many claims of huge increases in agricultural and handicraft production are exaggerated, and (b) scale down these claims in those instances where they affect plans for such interrelated activities as transportation, investment in food-processing industries, and the honoring of export commitments. These considerations suggest that the planners in their operations distinguish between reliable and unreliable figures and discount those which have been exaggerated for political purposes. They also suggest that over the next year or two some of the most notorious leap forward figures—such as the 375 million MT of food grains—will receive lip service from the economic planners but will have little effect on the planning itself.

8. The problems of interpreting Chinese Communist statistics become more difficult, but production figures from the agricultural and handicraft sectors can be checked with related figures from the sectors which have more trustworthy data. For example, figures for the production of grain can be compared with figures for the procurement of grain, the transportation of grain, and the rationing of grain products in urban areas. "Reasonable man" checks are necessary. Is it reasonable, for instance, that the Chinese Communists in 1958 could get the same yield of rice per hectare that is achieved by highly efficient Japanese farmers who use far greater quantities of fertilizers? In many cases the best that can be done is to establish a range of values in which the actual quantity is thought to lie. One set of difficulties that is likely to persist over the next few years stems from the formation of the communes and the resulting overturn of previous statistical methods, definitions of categories, and channels of reporting,

~~SECRET~~

APPENDIX V

TRANSPORTATION

1. *1958 Performance.* During 1958 the "leap forward" placed a heavy burden on the transportation system of Communist China. The Chinese claimed that record breaking performances were achieved by all forms of transport, both primitive and modern. Railroads and other modern means of transportation

allegedly produced 230 billion ton-kilometers, an increase of 40 percent over 1957, and originated 734 million tons of freight, an increase of 71 percent compared with 1957. Announced performance in 1958, by type of modern carrier, is indicated in the following tabulation:

Type of Carrier	Ton-Kilometers (Billion)	Percent Increase Above 1957	Tons Originated (Million)	Percent Increase Above 1957
Railroads	186	38	380	39
Motor trucks	8.7	130	280	177
Inland waterways	21.3	41	56.7	41
Coastal shipping	14.0	31	17.1	30
TOTALS	230	40	734	71

2. Although these figures may not have been completely achieved, performance in 1958 undoubtedly was substantially above 1957. Even performance of this magnitude, however, proved inadequate to handle all the demands which resulted from the tremendous increase in production in 1958.

3. In the face of the over-all transportation shortage in 1958, priority was given to heavy industry in the use of transportation facilities. This contributed to serious food shortages in some urban areas, and probably to the decline in exports which took place at the very end of 1958 and the beginning of 1959. The transportation shortage reflected the disruption of the economy attendant on all the "leaps" in various directions. The movement of goods for normal supply of the economy became distorted because of the various extraordinary movements taking place. As a result commodities which were not a part of one of the priority movements, such as the iron and steel

drive, frequently did not get moved. Late in the year the Chinese went back and picked up some of the freight which had previously been slighted.

4. The effort put forth by native transport during 1958 was truly staggering. According to Minister of Communications Wang Shou-tao:

"On the steel and iron transportation line there were not only the professional ranks of the communications and transportation departments but also millions of peasants and people of both sexes and all ages coming from various professions and enterprises. The army, navy, and air force also mobilized motor vehicles, fleets of vessels, and airplanes to render assistance. They formed a big army of transportation which had never been in existence before."

During the entire year, native land transport facilities allegedly moved 920 million tons of goods, an increase of more than 150 percent

~~SECRET~~

above 1957. Junks and other native craft (both inland and coastal) moved an estimated 136 million tons, an increase of about 36 percent above 1957. A portion of the increase in 1958 may be accounted for by increased statistical reporting which has given the Chinese a fuller count of the amount of traffic carried by primitive forms of transport.

5. The waste involved was no less staggering than the increase in performance. The obvious costliness of air transport of finished iron and steel products did not add up to much in absolute terms, but the prodigal dissipation of manpower certainly did. There were millions of people moving over the land with backpacks or wheelbarrows full of coal and iron ore. The Minister of Communications said that in many rural areas transportation between farms during the latter part of 1958 absorbed about 30 percent and sometimes 60 percent of the labor force and that there were cases in which 70 percent of the total available labor was used in transportation to support the small native blast furnaces. It is not surprising that some crops went unharvested. In addition, many of the commodities which were moved in 1958, such as native iron production, probably should not have been produced in the first place. Both the production and transport of these commodities proved to be an extra and largely unprofitable burden on the economy.

6. There was also considerable waste in 1958 in the abuse of equipment. This was important in all sectors of transportation, but it was most conspicuous in truck transport. The increase from 80,000 to 96,000 in the truck park was only 20 percent, while the performance forced out of the available equipment in terms of ton-kilometers increased by 130 percent. Thus vehicle utilization had to increase by nearly 100 percent. This was achieved mainly by multiple driver shifts, use of trailers behind the trucks, and overloading. The damage done by over-use and by unskilled drivers was made more serious by the deterioration of re-

pair and maintenance as garages were diverted to production of trailers and "trial-production" of new trucks. National figures are not available, but the official press recently complained that in Yunnan, Kweichow, and Szechwan nearly 32 percent of the 19,000 available trucks were inoperable.

7. *Prospects.* The government's decision to devote nearly 21 percent of the 1959 investment budget to transportation and communications, compared with 13 percent in 1958, constitutes a solid attack on the transportation crisis. A major part of this investment will undoubtedly go to the railroads, as is indicated in plans to increase production of freight cars in 1959 by 2½ times and to increase the capacity of existing facilities together with some new construction. In addition, the increase in output of commodities in 1959 will not equal the increase which occurred in 1958. Thus, the actual increase in demand for transportation service will not be as great in 1959 as in 1958. The planned increase of 37 percent in railroad tons originated should be sufficient to take care of the increases in output in the industrial and agricultural sectors. A further reduction of native iron production and perhaps other types of native production will ease the burden on the transportation system. Many serious problems will remain in 1959. However, the regime is acutely aware of these in contrast to a year ago, and will pay more attention to transport capabilities when production plans are made.

8. In order to meet further demands of the economy, transportation will require higher rates of investment than in the past. The Vice Minister of Railways has promised only that "after a few years of bitter struggle, China's railways can catch up to the needs of state construction." Other forms of transport, receiving a much smaller share of investment, however, will be even slower to close the gap. At least for the next few years allocation of transportation priorities will be a serious problem.

COMMUNIST CHINA

