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NIE 13-4-62  
2 May 1962

APPROVED FOR RELEASE  
DATE: JUN 2004

## NATIONAL INTELLIGENCE ESTIMATE

Number 13-4-62

# Prospects for Communist China

*superseded by 13-63*

Submitted by the  
DIRECTOR OF CENTRAL INTELLIGENCE

Concurred in by the  
UNITED STATES INTELLIGENCE BOARD

As indicated overleaf  
2 MAY 1962

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Nº 421

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## PROSPECTS FOR COMMUNIST CHINA

### THE PROBLEM

To estimate the prospects for Communist China over the next several years with emphasis on the viability of the regime and trends in its foreign policy.

### CONCLUSIONS

1. The future course of events in Communist China will be shaped largely by three highly unpredictable variables: the wisdom and realism of the leadership, the level of agricultural output, and the nature and extent of foreign economic relations. During the past few years all three variables have worked against China. In 1958 the leadership adopted a series of ill-conceived and extremist economic and social programs; in 1959 there occurred the first of three years of bad crop weather; and in 1960 Soviet economic and technical cooperation was largely suspended. The combination of these three factors has brought economic chaos to the country. Malnutrition is widespread, foreign trade is down, and industrial production and development have dropped sharply. No quick recovery from the regime's economic troubles is in sight. (*Paras. 5-14*)

2. Economic disasters have brought widespread disillusionment and disaffection in their wake, but we believe that widespread organized resistance to the regime is unlikely to develop. In any case, the regime's monopoly on arms, organization, and communications is probably sufficient to crush any incipient uprising. Communist China's armed forces have experienced setbacks in their modernization program and logistical capabilities, but, although there has been some decline in morale, they will probably remain loyal to the

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regime. We believe that by the end of the decade the Chinese Communists will have a limited nuclear weapons and missile capability.<sup>1</sup> (*Paras. 21-24*)

3. We believe that over the next few years Communist China will follow relatively conservative and rational policies of the kind recently instituted, that the odds favor improved crop weather, and that increased trade with Western Europe and Japan will partially compensate for the severe reduction in Soviet economic and technical cooperation. We therefore believe that the most likely prospect is for slow recovery and a gradual resumption of economic growth. However, there is also a possibility that the economic depression will continue, bringing increasing problems for the regime, and there is a slimmer possibility of fairly rapid recovery and economic expansion. In any case, over the longer run, given communism's demonstrated inefficiency in agriculture, it is possible that the regime will founder on a failure to solve China's chronic food problem. (*Paras. 15-20*)

4. We believe that the US will continue to face a hostile Communist China which will be constantly probing for weaknesses, trying to push the US out of the Western Pacific, and causing trouble wherever else it can. Meanwhile China will probably continue to promote the image of being a strong but peaceful nation, while covertly providing tactical guidance and material aid, to the extent of its capabilities, to leftist revolutionary movements in Asia, Africa, and Latin America. Outside the Far East these capabilities are limited by China's poverty, relative international isolation, and difficulties with the USSR. Communist China almost certainly does not intend to attempt the open military conquest of any Far Eastern country during the period of this estimate, although it would almost certainly be willing to take military action to defend Communist interests in North Vietnam and North Korea and, probably in Laos. (*Paras. 26-35*)

<sup>1</sup> See NIE 13-2-62, "Chinese Communist Advanced Weapons Capabilities," dated 25 April 1962. The Assistant Chief of Naval Operations (Intelligence), Department of the Navy, believes that a reliable estimate of the Chinese Communist program in the development of nuclear weapons cannot yet be made. His footnote to paragraph 38 of NIE 13-2-62 contains the rationale for his position.

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## DISCUSSION

### I. INTRODUCTION

5. Communist China contains the greatest mass of people ever ruled by a single government. It has a limited amount of arable land and plentiful but underdeveloped natural resources. When the Communists took power in 1949 they set out to mold this raw material into a leading modern state in a single generation. For the first 10 years, it seemed as if they might achieve this aim; the whole nation was placed firmly under the control of Peiping, industrial output was multiplied, a powerful military machine was established, and education and science were developing rapidly.

6. In 1958 the Chinese Communists appeared confident that within two decades they would be one of the dominant powers of the world. They accelerated the tempo of economic development by launching the "great leap forward," believing that, with their vast population, effective organization, great energy, supposedly infallible leadership, and Soviet support, success was assured. Westerners returned from China profoundly impressed with the industrial progress and the almost frightening dynamism and fanaticism they had observed. By the end of 1961, however, the picture was strikingly different. Agricultural output had dropped, factories had closed, education and scientific development had been disrupted, severe rationing had been instituted and many millions of people were suffering from serious malnutrition. The resultant change in the mood and outlook of the Chinese people and their leaders has been startling. Travelers, especially those who had seen the country in 1958 or before, were amazed at the widespread lethargy and sullenness; confidence was gone, morale was low, petty corruption had become relatively com-

mon, and disillusionment with the regime was expressed openly. Obviously the regime has lost much ground, some of which it may never recover.

7. Peiping's almost complete silence on economic results for 1960 and 1961 and on the plans for 1961 and 1962 obscures the causes and extent of this reversal. It is clear that overambitious plans obstinately persisted in by Peiping's leaders disrupted economic planning and production, overworked plant and equipment, and demoralized the people. Also, in mid-1960, the exhaustion of grain and other reserves, a balance of payments crisis, and the sudden withdrawal of most Soviet technicians seriously disrupted its industrial program. Moreover, adverse weather, ill-conceived programs, and faulty management resulted in three successive years (1959-1961) of poor harvests.

8. In 1961 there was probably less output from China's farms than there was in the "normal" year 1957, yet population had increased by around 60 million. The result has been widespread hunger and malnutrition. The improved transportation facilities and the more effective control which the regime had developed over the past decade or so have made it possible to spread the suffering so that, although all (except a favored few) are underfed, there has been no localized mass starvation of the sort traditional in China.

9. Industrial production began to fall sharply in the latter part of 1960 and has remained low since. Raw material shortages affected some sectors, chiefly cotton textiles, where ration data suggest a halving of output as a result of the poor 1960 cotton crop. Also, the halt in expansion eliminated the market for some products, e.g., freight car

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production was reduced 80 percent from 1960 to 1961. Peiping ordered the concentration of output in plants meeting cost and quality standards, more reasonable rates of operation, and increased maintenance efforts. Western diplomats and travelers inside China have reported that the majority of factories they have seen in Peiping, Tientsin, Shanghai, and a few other accessible cities, appear to be either closed or operating at a small part of capacity. Even the armed forces appear to have had to absorb a full share of production cutbacks. We have good evidence only for the first half of 1961, but during that period the military received only a small percentage of scheduled deliveries of construction materials and maintenance parts.

10. We believe that the gross national product (GNP) decreased by more than 10 percent in 1961—the first decrease since the Communists came to power. Foreign trade for 1961 fell about 25 percent (around \$1 billion) from the 1959 high, and with the initiation of large grain imports, capital goods imports were sharply reduced. Foreign exchange reserves were badly depleted.

11. The people of China, who had been urged and pushed into prodigious efforts and sacrifices by the promise of wondrous progress under the three-year "leap forward," now find themselves worse off than they were before. They are understandably bitter and disillusioned with the Communist leadership. In the countryside, pilfering of crops, clothing, and ration coupons, and even highway robbery have been reported. In many cities begging, blackmarketing, theft, and prostitution are once again evident. Open grumbling has become more commonplace and anti-Communist slogans have appeared on walls. Yet there have been no large uprisings (except for the sustained rebellion of the isolated Tibetan minority), and the regime has quickly crushed such small local disturbances as have arisen.

12. The external relations of the regime have also given Peiping little cause for cheer in recent years. For example, China's trade embargo failed in its objective to influence Japanese policy. Despite improved relations with Burma and Nepal, the continued border dispute with India has drastically reduced Peiping's influence in India and is an embarrassment for Peiping in its relations with the rest of the world. The resounding vote against Communist China's admission to the UN in 1961 was probably a surprise and a disappointment. Peiping's severe domestic difficulties have done much to weaken the carefully cultivated image of Chinese communism as the model for other underdeveloped countries. Most importantly, the dispute with Moscow, which had been temporarily papered over by the December 1960 Moscow communique, intensified in the latter part of 1961.<sup>2</sup>

13. The Chinese Communist leaders were apparently stunned by this accumulation of setbacks. The annual meeting of the National People's Congress was cancelled in 1961 and the Ninth Communist Party Congress which was due by 1961 was not called. Strenuous debates have evidently taken place within the upper echelons of the party concerning the best means to regain rapid progress. There are those who urge conservative, go-slow policies and concessions to the people and those who believe that the present need is for more and better political indoctrination and tighter regime discipline. In any case the two years 1961 and 1962 have been set aside as years of rehabilitation and reorganization. Peiping has retreated markedly, in practice, from such grandiose programs as the "leap forward" and the giant communes. However, there appears to be no unanimity as to the best policy to extricate China from its

<sup>2</sup> Sino-Soviet relations are discussed in NIE 11-5-62, "Political Developments in the USSR and the Communist World," dated 21 February 1962.

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present great depression; policies adopted in the past year or so are cautious and tentative and lack countrywide uniformity.

## II. PROSPECTS

14. Whether Communist China can regain its forward momentum depends upon three fundamental, but uncertain, considerations: the wisdom and realism of the leadership, the nature and extent of foreign economic relations, and the level of agricultural production. During the past few years all of these factors have worked to China's disadvantage.

15. If these three factors continue to develop adversely for Communist China, the results could be extremely grave for the population as a whole and, indeed, for the regime itself. The lowering of an already inadequate level of food supplies, a failure of the regime to provide a realistic development program, and the hamstringing of industrial growth because of insufficient foreign economic support would create a deepening pessimism and an increasingly brittle political situation. In this circumstance the regime might be changed by a "palace coup" or it might remain in power ruling over a miserable, weakened country through privileged military and security forces. In the latter situation, the regime might eventually be overthrown with the aid of defecting military forces or China might be split by contending military factions.

16. If, on the other hand, these three basic variables develop in a manner favorable to the regime—that is, if the regime's policies are realistically conceived and intelligently implemented, if there is several years succession of better than average crop weather and harvests, and if Soviet or Western technicians, machinery, and credits become available in volume—China would probably recover rapidly from its current depression. Industrial production would again rise, aided by greater supplies of agricultural raw materials and a more productive labor force. To a consider-

able extent the regime would regain its lost dynamism. However, even under the best of conditions, China, with its basic problem of limited land and expanding population, will walk a thin line between economic sufficiency and economic shortage.

17. The manner in which the three variables are likely to develop cannot be estimated with much confidence. The regime appears to be aware of the gross planning and management errors of the recent past and is likely to adopt a more realistic program in the future. China's weather, as it affects agriculture, tends to be erratic, but it is unlikely that the extremely bad weather of the past three years will persist over the period of this estimate. On the other hand, we believe it unlikely that Soviet economic and technical cooperation will return to past high levels or that Peiping can fully meet its needs from the West or internal sources. Thus, it appears to us that Communist China will probably avoid complete economic failure and political collapse, and that it will recover gradually from its present severe depression. However, even if agricultural production is increased substantially, China will almost certainly not approach in the next few years the dramatic rate of economic growth achieved during the first decade of Communist rule.

18. *Domestic Prospects.* The close race between China's population growth and food production will probably continue to overshadow all other problems facing the regime. Until recently Peiping has tended to neglect agriculture while concentrating on the development of heavy industry in the traditional Communist pattern. Public pronouncements of the regime, including the statements from the recent National Peoples Congress, indicate a temporary reversal in economic priorities; the restoration and expansion of agricultural production is to have precedence. The expansion of heavy industry is practically suspended for the time being, and production

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in those segments of industry serving agriculture is apparently being maintained and expanded to the extent that the present economic situation permits. Concessions have been made to peasant individualism and methods have been adopted which attempt to relate the peasant's income directly to his achievement.

19. If the regime's policies continue along these lines for the period of the estimate, there is a chance for a fairly rapid increase in agricultural output. Assuming no worse than average weather over the next several years, farm output will probably increase sufficiently to keep ahead of population growth and permit some improvement in the diet. In the longer run, mainland China must seek much greater yields per acre. The regime will probably seek to do this through collective institutions both because of its ideological bias and its need to hold down consumption. The narrow margin between food production and the minimum needs of a weakened and apathetic population gives the regime little room for error in top-level agricultural policy. Thus, we can foresee no increases in agricultural output in the next several years sufficient to provide a real solution to the regime's chronic food problem.

20. Over the next few years industrial growth will probably be inhibited. It will probably be necessary to continue grain imports and restrict farm exports for the next year or two, and this together with accumulated trade deficits will reduce the amount of foreign exchange available for the import of capital goods for industry. Agricultural materials for light industry will continue to be in short supply, and inadequate diet will continue to limit the vigor and enthusiasm of the workers. On the other hand, Communist China has an impressive long-term potential for industrial growth. China has an abundance of natural resources necessary for industrial development, a considerable indus-

trial capacity built up since 1952, a labor force of unequalled size with an increasing number of skilled workers and technicians, and a growing managerial class. In addition Peiping has begun to broaden its trade relations with the West in order to open up new sources of capital equipment. Finally, the country is ruled by a strong regime which is determined to make China a modern industrial power. On balance we believe that over the next few years, Communist China's industrial output will make appreciable gains from present low levels. At first this will result mainly from merely returning presently idle plant capacity to production. In addition, there will be a gradually increasing amount of new plant construction. However, the goal of "overtaking England" by 1970, much advertised a few years ago, is not even a dream today.

21. If the regime can get the country moving forward again, it will probably regain a measure of popular support. This will be far short of what it enjoyed from 1949 to 1958. It will no longer be able to count on a high degree of revolutionary, almost frenetic enthusiasm. It will face a continuing problem of finding sufficient consumer goods to provide worker incentives and minimize discontent. In the short run, while reconstruction is getting underway, the present high level of resentment against the regime could intensify, especially if the food supply is not improved and further sacrifices are demanded from the population generally. Even in this case, we do not believe there would be a serious internal threat to the regime. On the one hand, the Chinese people have demonstrated an almost unlimited ability to bear suffering with patience and resignation, and malnutrition appears to have inspired apathy and lethargy rather than violence. On the other hand, the state, with its monopoly on arms, organization, and communications will probably be able easily to isolate and mop up any local pockets of resistance that might develop.

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22. Political stability in China rests less on popular support than on the unity of the ruling group and the efficacy of the Communist Party as an instrument of administration. The top leadership still presents a persuasive appearance of overall stability and unity, although we assume there have been divergencies of viewpoint. We believe this unity will be maintained essentially intact unless there is a marked worsening of economic conditions or an impetuous shift away from the present policy of moderation and recovery. However, Mao and most of his colleagues in the highest echelons will be increasingly vulnerable to the physical and mental infirmities of old age, and it would be rash to discount entirely the possibility of a top-level shake up resulting from the death or retirement of one or more of the top leaders.

23. Should divisions or factions appear in the top leadership there might well be a breakdown in the party's effective control over the country. Numbering over 17 million members, 80 percent of whom joined after the Communist seizure of power, the party has continuing problems of organization and discipline. Rectification campaigns have resulted in a high rate of political expulsions since 1959; approximately one million members were dropped from party rolls. Many cadres are already confused and dispirited by the failure of the "leap forward" and would be profoundly disoriented by a breakdown of unity at the top.

24. Communist China's armed forces experienced setbacks in their modernization program and logistical capabilities as a consequence of material shortages. Moreover there has been some decline in morale. Nevertheless Communist China continues to have by far the strongest indigenous armed forces in the Far East. During the next two or three years there is likely to be little improvement in their capabilities, but before the present decade has ended they will probably have

acquired some capability in nuclear weapons and missiles.<sup>3</sup>

25. This capability will be restricted by the weakness of China's economic base and technological industries. The well-conceived but unrealistically scheduled 12-year program in science and technology, launched in 1956, made impressive progress, but any prospects for reaching its goals have been wiped out by the excesses of the "great leap forward" and the drastic cut in Sino-Soviet technical cooperation. As a result, scientific and technical progress over the next few years will be generally slow and erratic. Five years from now, in spite of impressive advances, Communist Chinese science and technology will be further behind that of the most advanced countries than it is now. Around that time, however, new scientists and technicians will be graduating in greater numbers and China's relative position as a scientific power should begin to improve. Its potential is great.

26. *Outlook for Communist China's Foreign Policy.* Communist China's leaders must be aware of the weakness of China's present situation, but they appear to be confident that their policy is in line with the forces of the future and that China's difficulties and relative isolation are only temporary. They believe that anti-imperialism will dominate the international scene for some years to come, and they plan to capitalize on this movement, and as far as possible, guide and control it. According to their reasoning a continuing and spreading revolutionary movement in the underdeveloped areas will sap and eventually destroy the strength of the "Western imperialists." The Chinese leaders are apparently

<sup>3</sup> See NIE 13-2-62, "Chinese Communist Advanced Weapons Capabilities," dated 25 April 1962. The Assistant Chief of Naval Operations (Intelligence), Department of the Navy, believes that a reliable estimate of the Chinese Communist program in the development of nuclear weapons cannot yet be made. His footnote to paragraph 38 of NIE 13-2-62 contains the rationale for his position.

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convinced that the Soviets will in time be forced to return to the Leninist "truths" and provide more militant leadership to the world Communist movement in supporting and accelerating this historic development. It is Peiping's faith in its ideological vision and in China's future greatness that leads it to remain unyielding in the pursuit of the main lines of its foreign policy: implacable anti-Americanism and a two-level campaign to spread Communist influence.

27. Peiping's two-level campaign consists of overt seduction and covert subversion. Overtly the regime poses as a peaceful giant who helps its friends but strikes back powerfully at those who conspire against it. Except for some brief lapses which occurred mainly during the manic "leap forward" period, Peiping has consistently maintained this pose. It has given aid to "neutralist" regimes in Burma, Cambodia, and Indonesia, and it has vociferously voiced its pursuit of peace, the Bandung spirit, and various schemes for an "atom-free" Pacific. Peiping insists that its armed forces are strictly defensive and will never be used to communize a foreign territory (thus their slogan: "communism cannot be exported"). This does not, in their logic, preclude the overt use of military forces to "complete the unification of China" (i.e., conquer Taiwan) or to aid a friend who is being "ravished by imperialist invaders" (e.g., Korea in 1950 and, potentially, North Vietnam). Communist China almost certainly does not intend to attempt the open military conquest of any other Far Eastern country during the period of this estimate. However, it would almost certainly be willing to take military action to defend Communist interests in North Vietnam and North Korea and, probably, in Laos.

28. In the long pull Peiping apparently places its chief hopes upon action on the subversive level. The Communist Chinese leaders believe that much of the underdeveloped

world is ripe for revolution, that anticolonialist revolts should be encouraged and aided wherever possible, and that Communists should guide and take over these revolutions whenever practicable. According to Peiping, Moscow greatly overrates the danger that such local wars might escalate into World War III, and Peiping holds that Soviet talk of disarmament and the horrors of nuclear war tend to weaken the militancy of "the people."

29. The Chinese leaders must be frustrated by their extremely limited capability to implement their policy of subversion and the encouragement of revolution in areas outside the Far East because of their own poverty, relative international isolation, and their difficulties with the Soviet Union. However, they do what they can. For example, Peiping has trained natives for subversive activities in Asia, Africa, and Latin America, and it recognized and overtly supported the Algerian rebel regime long before the USSR was ready to take such steps. In the Far East Peiping's capabilities for subversive action are increased by the accessibility and vulnerability of neighboring countries.<sup>4</sup> For the foreseeable future Peiping will almost certainly continue these policies to the limit of its capabilities.

30. The anti-American aspect of Peiping's foreign policy is deeply grounded. The Chinese leaders see in the US the epitome of all that is evil in the "bourgeois capitalist system." On the purely practical level they recognize that US strength and determination is the chief obstacle to the seizure of Taiwan and the realization of their plans to achieve hegemony in East and Southeast Asia. Peiping also uses the US bogey to rally the people behind the Communist regime. Thus every unpopular occurrence in the world, including France's Sahara A-bomb tests and the excesses of the OAS in Algeria, is blamed on

<sup>4</sup> See NIE 13-3-61, "Chinese Communist Capabilities and Intentions in the Far East," dated 30 November 1961.

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Washington. Wherever Peiping can strike at the US it does—supporting anti-Eisenhower riots in Japan, wooing the disgruntled textile exporters in Hong Kong, supporting anti-US action in South Vietnam and Laos.

31. We do not believe that this policy will significantly change under the present leadership regardless of what policies the US might adopt. This does not preclude temporary gestures of reasonableness by Peiping for tactical purposes.

32. There are signs of a third and especially ominous motif in Communist China's foreign policy. This is racism. Although Peiping has not promoted the race issue openly or officially, racism occasionally filters through in their propaganda. We do not believe racism will become a major Chinese Communist theme during the next few years, but it may grow with time partly as a means of capitalizing on the antiwhite resentment of the Africans.

33. Although the essential guidelines are likely to remain fixed, within that framework lesser changes and gradual shifts in Communist China's foreign policy appear to be almost inevitable. During the next few years the tendency toward lessening dependence upon the Bloc will almost certainly lead Peiping to turn increasingly to Western Europe and Japan for technology and equipment as it has already turned to Canada and Australia for food. This could also bring with it increased political and cultural contacts. An increased reliance on trade with the West would almost certainly disincline the Chinese from moving

toward a direct confrontation with the Western Powers, but it would not change their fundamental aims nor would it prevent Peiping from bitterly attacking the policies of its free world trading partners should it find this suits its political interests. Peiping probably estimates that unless its policy directly and physically conflicts with that of Western countries, the latter are unlikely to permit their trade relations to be seriously affected by political differences.

34. Although Hong Kong and Taiwan come within Peiping's definition of Chinese territory and are therefore proper objects for the use of military force we do not believe that an attempt will be made upon either during the next few years. The offshore islands will probably be subjected to harassment, but we do not believe that Peiping will feel strong enough to accept the risks entailed in an attempt to seize them. We believe that a seizure of Macao is also unlikely but less so than in the case of Hong Kong.

35. Peiping will continue to support the extreme leftists in Japan, but it will be prepared to adopt a more friendly attitude toward the government if it senses a possibility of recognition or some other means of complicating US-Japanese relations. Peiping apparently desires to improve relations with India but it will be very difficult to resolve the border differences. In Southeast Asia Peiping will probably try to avoid a direct confrontation with the US but its interests are too closely identified with North Vietnam and the Communist position in Laos for it to be able to tolerate serious reverses in these areas.

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