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TAB A

COMMUNIST CHINA'S FOREIGN TRADE IN 1951

1. The majority of the goods shipped into China consist of war materials or strategic commodities necessary for the Chinese war effort and the maintenance of existing industrial plants. These include in part: all types of manufacturing and technical machinery, tanks, trucks, ingots of various strategic metals (aluminum, copper, lead, and zinc), steel and steel products (structural steel, scrap, plate, hard machine steel, bearings and machine tools), industrial chemicals, medicines (sulfa drugs, penicillin, streptomycin, and numerous other pharmaceuticals and vaccines), tires, raw and smoked rubber, and petroleum products (bunker, diesel fuels, and lubricating oils and greases). In the latter part of 1950 and early 1951, large quantities of all of these categories of goods originated in non-Communist countries and were transshipped through Hong Kong to China. However, the present trend shows that although increasing amounts of pharmaceuticals, industrial chemicals, rubber, and petroleum products are being shipped through Hong Kong (clandestinely or otherwise) to China, the Chinese are relying more and more on the Soviet Union and her Satellites for their supply of metals, trucks, machinery, and various steel products.

2. The value of Chinese Communist trade with non-Communist countries continued to increase through 1950 and imports into Communist China from

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such sources reached a record high in the first half of 1951 as shown in the following table:

COMMUNIST CHINA'S TRADE WITH NON-COMMUNIST COUNTRIES

(in millions of US dollars)

	<u>Imports</u>	<u>Exports</u>	<u>Trade Balance</u>
Jan-June 1950	\$112	\$170	/ 58
July-Dec 1950	302	230	- 72
Jan-June 1951	360	120	- 240

3. Chinese Communist trade with non-Communist countries appears to have fallen somewhat in the third quarter of 1951. It is impossible to estimate accurately the extent or the significance of the fall. Recorded exports from Hong Kong, the port through which two-thirds of the non-Communist trade with Communist China was conducted in the first half of 1951, fell by more than half in the third quarter of 1951. While smuggling between Hong Kong and mainland China probably increased in these months, there undoubtedly was a sharp fall in total exports from Hong Kong since imports also registered a sharp drop. It is probable, however, that some of the imports which formerly passed through Hong Kong are now carried direct to Chinese ports, or to Macao. It is impossible to secure accurate figures on this trade, but it seems evident that Communist China is still able to secure needed strategic materials from non-Communist sources, though with greater difficulty, and probably

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in somewhat reduced quantity. Analysis of merchant ship traffic bears out the conclusion that the volume of Chinese Communist trade has not fallen greatly. Merchant ship traffic generally continued to increase during 1951, reaching a high in July and declining only slightly since then.

3. It is possible that such decline in the trade of Communist China with non-Communist countries as has taken place in recent months is to be explained by a shortage of foreign exchange.

4. During 1951, the trade of Communist China with other members of the Soviet Bloc increased very rapidly, as shown in the following table:

COMMUNIST CHINA'S FOREIGN TRADE

(in millions of US dollars)

Period	<u>Soviet Bloc</u>		<u>Non-Communist Countries</u>		<u>Total trade</u>	
	Imports	Exports	Imports	Exports	Imports	Exports
1950, Jan/June	17	52	112	170	129	222
1950, July/Dec	94	123	302	230	396	353
1951, Jan/July	980-1,050	565	420-450	160	1,400-1,500	725

The imports from the Soviet Bloc, totalling one billion US dollars from January to July 1951, were probably composed almost entirely of military materiel.

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5. The trade of Communist China with both the Soviet Bloc and with non-Communist countries in 1951 showed a surplus of imports over exports. This import balance is considerably in excess of any reasonable estimate of China's available exchange resources and suggests that China has received substantial Soviet assistance in financing this import balance. While the exhaustion of China's exchange resources would not necessarily limit China's ability to import from non-Communist countries, it does increase China's dependence upon the Soviet Union for financial assistance to maintain imports from both the Soviet Bloc and non-Communist countries, and would therefore increase Soviet influence over the direction of China's foreign trade.

TAB B

COMMUNIST AIR DEFENSE CAPABILITIES IN MANCHURIA

1. Present Chinese Communist air defense capabilities are due directly to Soviet active participation in supplying equipment, operational procedures, training, and, in many cases, Soviet personnel. In assessing such capabilities, the following factors are pertinent:

(a) Fighter Aircraft. Approximately 525 first-line jet fighters of the MIG-15 type are located in the Mukden-Antung area of southern Manchuria. Approximately 225 additional first-line jet fighters, which are now located in the Peiping-Tientsin, Tsingtao, Shanghai, and Canton areas, could be deployed for operations in the Mukden-Antung area.

(b) Early Warning. A radar defense system has been installed and set in operation, with the assistance of Soviet radar engineers, technicians, and advisers, which is believed to give practically continuous early-warning coverage from the Manchuria border south to Canton. A visual system supplements the electronic early-warning system.

(c) Antiaircraft Artillery. Manchurian air defenses include a substantial number of antiaircraft artillery pieces as well as large numbers of automatic weapons. The majority of these are Soviet manufactured 85 mm., 37 mm., and 12.7 mm. pieces. Reports continue to indicate that the total AAA strength is being increased by shipments of Soviet

equipment. Heaviest concentrations are located in the Mukden area, Shanghai, and in the vicinity of Canton. AAA defenses appear to be employed for the protection of the industrial area, harbor facilities, airfields, and major junctions in the communications and supply systems. Reports indicate that the AAA defenses include gun-laying radar.

(d) Aircraft Control. The Communist air defense system in Manchuria has the capability for limited ground-controlled interception.

2. Communist air defense capabilities in Manchuria are estimated to be as follows:

(a) In the Dairen-Mukden-Antung-Harbin area of southern and eastern Manchuria, the Chinese Communists possess a major air defense capability against daylight bombing missions. At night their air defense capabilities would be considerably less.

(b) Communist air defense capabilities in southern and eastern Manchuria are such that considerable losses of US aircraft could be expected, at least initially, during a campaign of systematic air attacks. Under conditions of prolonged air attack, the ability of the Chinese Communists to maintain effectiveness would be in direct proportion to the amount of support which the USSR would render.

TAB C

CHINESE NATIONALIST ARMED FORCES

1. The Chinese Nationalist Army has a strength of 451,000 personnel organized into 38 infantry divisions, 4 armored groups, 1 paratroop group, 3 fort commands, 5 independent regiments, and 2 independent battalions. The bulk of these forces is disposed on Formosa; some combat elements are located on Matsu, Quemoy, and the Pescadores Islands. The Nationalist Army has no significant number of trained reserves, and under present circumstances its mobilization capacity is negligible. The mass induction of Formosan youths would not be feasible unless the US greatly expanded its proposed MDAP. Even in this event, the dependability and effectiveness of Formosan troops would be questionable. At the present time, the Nationalist Army is short of some types of ammunition, arms, and other equipment, and the materiel that is available is heterogeneous and poorly maintained. Because of these materiel deficiencies, the lack of reserve manpower, and the poor command structure (including the lack of interservice coordination), the combat effectiveness of the Nationalist Army is poor.

2. The Chinese Nationalist Air Force consists of 8 combat groups possessing 384 tactical aircraft. Of this total, however, only 121 aircraft are serviceable for combat. These consist of 35 light bombers and 86 piston fighters predominantly of World War II design. Because of the



lack of spare parts and improper maintenance facilities, the combat effectiveness of this force is very poor. Under conditions of sustained combat, particularly if opposed by jet aircraft, its capabilities would be reduced to a negligible factor in a day or two. In spite of these difficulties, the Chinese Nationalist Air Force is believed to have the organizational structure and necessary personnel to absorb and utilize the additional equipment necessary to make it an effective force.

3. The Chinese Nationalist Navy consists of approximately 150 miscellaneous craft, the largest of which are 7 destroyer-type vessels. Under optimum conditions and provided that there were no air or naval opposition, the Nationalists would be capable of transporting up to two divisions in assault by means of orthodox landing craft and following up with five or six water-lifted divisions.

4. The Chinese Nationalist Forces could not be effectively used for offensive action against the Chinese Communist mainland unless the present US program for equipping and training these forces were greatly expanded, and unless the US were willing to provide not only logistic support for an invasion but substantial air and naval support as well. Even so, Chinese Nationalist ground forces could hardly be ready for an invasion operation before mid-1952, and Chinese Nationalist Forces as a whole are not likely to be ready in sufficient strength for a large scale invasion operation before 1953. However, certain small units of the Chinese Nationalist Army are already capable of effective employment in small-scale hit-and-run landing operations.

5. In a relatively short time certain selected divisions of the Chinese Nationalist Army could be made effective for rotational service on the Korean peninsula. The Chinese Nationalist Army as a whole could be employed effectively in Korea after a lesser amount of preparation than would be required for a large scale invasion operation of the Chinese mainland.



TAB D

ESTIMATE OF THE PRESENT STRENGTH AND CAPABILITIES
OF ANTI-COMMUNIST GUERRILLAS IN CHINA

A. Their Strength and Location.

1. The maximum total number of effective guerrillas throughout all China which can with any certainty be said to exist at the present time is approximately 175,000. Dormant or potential guerrillas exist in unknown numbers, but the utility of this category is and probably will remain small pending all-out war or revolution in China.

2. Active guerrilla forces are located for the most part in inaccessible areas -- mountainous regions and on Nationalist-held offshore islands. Principal regions of activity continue to be the Pearl River and Canton area, the Kwangtung-Fukien border, the Kwangsi-Kweichow border, Szechwan, the Chekiang coast, southwestern Yunnan, and scattered areas in the Mongol and Moslem northwest.

B. Their Physical Composition and Condition.

3. The term "guerrillas" is an elastic one since these resistance forces are heterogeneous in nature and vary greatly in composition from one unit to another. Generally speaking, guerrillas fall into the following categories: (a) ex-Nationalist forces, some of whom profess allegiance, but most of whom owe no allegiance, to Taiwan; (b) discontented



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landlords and peasants; (c) bandits; (d) members of traditional secret societies, and (e) minority racial and religious groups. The most active and effective units are those in categories (a) and (e).

4. Guerrilla forces suffer from a total lack of central direction and coordination, from a relative lack of organization, quite often from lack of knowledge of proper guerrilla warfare tactics, from serious deficiencies in arms and ammunition, and, perhaps most importantly, from an almost total lack of communication facilities. In addition, guerrilla forces subsist on submarginal food, clothing, and medical levels.

C. Their Motivation and Allegiance

5. Economic considerations generally outweigh political, and the basic motivating force behind guerrilla activity at the present time is the struggle for existence and self-reservation.

6. Despite Nationalist and independent claims, the Chinese guerrillas are likely for the most part to follow whatever leader and whatever political group can support and maintain them.

7. Such organization and centralized direction as does exist is primarily that now being exercised by Taiwan. The Chinese Nationalist guerrilla effort, however, remains largely ineffectual because of the hindrances of internal Chinese Nationalist politics.

8. Independent elements continue to claim a substantial guerrilla potential in Kwangsi and Kwangtung. It is believed that the claims of

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one of these elements to sizeable guerrilla assets in being are valid, but this group does not have the resources to maintain itself without outside support.

D. Their Continuing decline in Strength and Effectiveness

9. Chinese Communist countermeasures against dissident elements have been most successful; and, with the further consolidation of control by Peiping and the forming by Peiping of an effective anti-guerrilla militia throughout China, guerrilla strength and activity under present circumstances will probably continue to decline.

10. The perhaps surprisingly low figure of only 175,000 guerrillas should not be ascribed wholly to the successes of the Chinese Communist anti-guerrilla program because this figure is the result also of more accurate US knowledge concerning anti-Communist resistance in China.

E. Their Present Capabilities

11. Anti-Communist guerrillas have at the present time the capability for:

- (a) Sporadic raids;
- (b) Occasional sabotage operations;
- (c) Raids, feints, and diversions against the mainland from the Nationalist-held offshore islands;
- (d) Providing intelligence concerning Communist China, and
- (e) Providing a nucleus for a resistance movement in mainland China.

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12. The guerrillas at the present time do not have the capability to:

(a) Delay or disrupt the movement from one front to another of the Chinese Communist armies;

(b) Seriously interdict Chinese Communist lines of communications or logistic support;

(c) Attract to their ranks substantial numbers of defectors from the Communists;

(d) Significantly aid military operations should a Nationalist invasion be launched in the near future.

13. Guerrilla capabilities are unlikely to increase without sizeable outside support and a revitalization of the Chinese Nationalists.

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