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January 1967

THE SOVIET MILITARY POSTURE

Introduction

- I. The intelligence community has recently completed the annual review and up-dating of the package of National Intelligence Estimates which deal with the military capabilities of the Soviet Union.
- II. Each successive year, we are able to base these estimates on improved and more comprehensive evidence, and on more detailed and more sophisticated analysis.

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III. The Soviet military estimates can be summarized as showing another year of continued growth for both

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- C. Our estimates, then, show Soviet progress in both strategic attack and strategic defense.
1. We do not believe, however, that the Soviets themselves expect to be strong enough by the mid-1970's to convince the Kremlin leadership that it can successfully risk launching an attack on the United States.

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MRBM-IRBM FORCE

I. During the past year there have been no major changes noted in the Soviet MRBM/IRBM force of about 600 medium and 100 intermediate range launchers.

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A. While this force is capable of delivering a devastating attack on Eurasia--especially against European targets--it is also highly vulnerable because it is predominantly soft and concentrated.

B. Future developments in the MRBM/IRBM force will probably feature greater dispersion of missiles in hardened sites and mobile launchers. Mobile launchers could be concealed and moved at irregular intervals, making it difficult to determine their number and location. Mobile launchers could also be shifted to meet such contingencies as an increased threat from China.

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2. The strength of Soviet tactical aviation is concentrated primarily in the European U.S.S.R. and Eastern Europe.

VI. The Soviets continue to help the East European satellite forces to modernize and improve their military capabilities. Paradoxically, this improvement comes at a time when these countries are showing increased political independence.

A. The East European governments can contribute about one million men and 42 divisions for early commitment to Warsaw Pact needs.

B. Among the East European armed forces, Hungary has made the greatest qualitative jump in the past year. Of a total of six Hungarian divisions, four are now considered combat ready.

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THE SOVIET ECONOMY

Introduction

I now want to discuss the economy of the Soviet Union, but first I should probably apologize to those of you who are going to feel that this is the second or third time you have heard this briefing.

I can only offer you the explanation of the schoolboy who was accused of copying his brother's theme on the family pet--it's the same dog.

By and large, the Soviet economy has the same strengths, the same weaknesses, the same problems that it had a year ago, and two years ago, and three years ago. Only the figures have changed--to protect the jobs of our analysts.

I intend, therefore, to skip some of the detail that we have covered before, and concentrate on the highlights and the latest figures. There will have to be a certain amount of repetition, however, to give you a balanced and a comprehensive picture.

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THE SOVIET ECONOMY

I. The Soviet economy is somewhat less than half the size of the U.S. economy. The Gross National Product of the U.S.S.R. for 1966 is roughly 45 percent of the U.S. GNP. Industrial production lies in about the same proportion--somewhat less than half of U.S. industrial output.

A. The Soviets, however, do not allocate their output the same way that the pie is divided here in the United States. The Soviet consumer is way down in the pecking order, and winds up with barely more than half of the national product.

(CHART, US AND SOVIET GNP BY END USE).

B. As a result, as this chart for 1965 shows, Soviet expenditures for defense are able to approach our own. Outlays for investment are more than two-thirds those of the U.S.

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As for consumption, the Soviet population which is nearly one fifth larger than ours gets only about one-third as much in total consumer goods.

(CHART, US AND SOVIET NATIONAL POLICY EXPENDITURES)

C. Soviet economic policy is further illustrated by the comparison of a group of strategic components of GNP that may be termed national policy expenditures. They include defense, foreign aid, education, and industrial investment.

1. Although the total Soviet economy is less than half the size of ours, in 1965 they virtually matched our expenditures in these critical fields supporting foreign policy and the domestic economy.
2. They accounted for nearly two-fifths of total GNP in the U.S.S.R., but less than one-fifth in the United States.
3. The comparisons for 1966 will be quite similar.

II. Soviet GNP grew by 7 percent in 1966. This rate was well above the average 1961-65 growth rate of 4 1/2 percent.

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(CHART, US AND SOVIET AVERAGE ANNUAL GNP GROWTH RATES)

- A. In 1966 the U.S.S.R. had the largest grain harvest in its history because of favorable conditions. Net agricultural production rose by an estimated 7 percent in 1966 compared to an average annual rate of about 2 1/2 percent in 1961-65. Last year's rate of increase in agriculture cannot be maintained. Hence, the 7 percent rise in GNP in 1966 should not be interpreted as a return to the high growth rates of the 1950's.

(CHART, US AND SOVIET ABSOLUTE GNP)

- B. From 1951 to 1960 the Soviet growth rate averaged twice that of the U.S.--6 versus 3 percent. In this period the absolute gap between the two economies actually declined a little.
- C. Since 1960, however, both economies have grown at about 4 1/2 percent. The absolute increase in the U.S. has been twice that of the U.S.S.R. The gap between the two economies has therefore increased rapidly and steadily.

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(CHART, INDUSTRIAL PRODUCTION, US vs USSR)

D. The increase in Soviet industrial production in 1966 was above 7 percent for the first time since 1962. This rate is an improvement over the average annual rate of 6 1/2 percent for the early 1960's. On the other hand, it is below the 9 percent average increase of the 1950's.

E. Two factors explain most of the lower industrial growth rate of the 1960's.

1. First, the Soviets have not been able to maintain the rate of growth of investment in new plant and equipment.

2. Second, the defense and space programs have taken the high-quality resources needed to modernize industry.

III. Military and space spending remained fairly stable between 1962 and 1965. We estimate, however, that in 1966 outlays on military and space programs were up by 7 percent. Soviet plans for 1967 seem to include a further substantial rise. The resource commitment to defense will continue to act as a drag on the whole economy.

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(CHART, TOTAL DEFENSE EXPENDITURES and proportion devoted to exotics--R and D, advanced weapons procurement, etc.)

- A. Advanced weapons and space programs require the best and scarcest inputs of skilled scientists and engineers, new alloys and other high-cost materials, highly sophisticated electronics, and the most advanced industrial processes.

(CHART, SPENDING FOR R AND D, etc.)

- B. Soviet spending on military research and development, the space program, and the procurement of advanced equipment for missiles, radars, and nuclear programs are growing much faster than total military spending. They have more than doubled since 1958. Most of this increase has occurred as a result of the rapid growth of expenditures on research and development.
- C. The state budget for 1967 includes an increase of 1.1 billion rubles in the acknowledged defense budget. Additional spending on defense, however, is concealed in other budget allocations such as scientific

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research. Changes in these hidden expenditures may be more influential in determining the final size of defense spending than shifts in the explicit budget.

IV. The poor performance in Soviet agriculture since the late 1950's has been another major reason for the general slowdown in over-all growth of GNP.

A. The problems here are chronic--the inherent deficiencies of the collective and state farm system, some important limitations in soil and rainfall, the difficulty in training enough skilled farm managers and mechanics, and the basic problem of insufficient incentives for the farmers.

(CHART, TOTAL AND PER CAPITA AGRICULTURAL PRODUCTION)

B. Soon after Khrushchev's ouster in late 1964 the new leadership announced an ambitious and expensive program to boost farm output. On a per capita basis, agricultural production remained below the 1958 level until last year.

1. The new program calls for investment of \$80 billion in Soviet agriculture in

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1966-70, twice the rate of the preceding five years. This investment includes

- provision of large quantities of chemical fertilizers;
- drainage or irrigation of millions of acres;
- supply of thousands of additional tractors and other farm equipment; and
- construction of many new repair shops and farm buildings.

2. In 1966, this agricultural investment program already was showing signs of lagging. The program was huge to start with, and the good 1966 crops may have weakened the government's resolution to pour large resources into agriculture.

V. Aside from defense and agriculture, there is a more general reason for the slowdown of the Soviet economy. The Soviets must pay a high price for future technological advance.

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- A. The easiest technological gains have been made, including those gains taken over lock-stock-and-barrel from the U.S. and Western Europe. Further technological gains will require more domestic R and D--and more resources.
- B. The system of management and incentives in industry places emphasis on physical output. Many known technological advances do not get put into industrial practice.
- C. Furthermore, the Soviet system is notoriously clumsy in meeting modern demands for a wider variety and assortment of products.
- D. As a result of all this, every percent of future growth is a little harder to achieve.



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SOVIET FOREIGN TRADE

(CHART, SOVIET FOREIGN TRADE)

VI. Total Soviet foreign trade has increased continuously, but the rate of growth has slowed down since 1962. The geographic distribution of trade has shifted, however, reflecting both economic and political considerations.

A. Soviet trade with the industrial West has been affected by the balance of payments problems.

1. Soviet leaders in 1964 and 1965 cut back imports of advanced equipment to make room for large-scale imports of Western wheat. These have averaged more than \$400 million annually over the last four years.

(CHART, THE HARD CURRENCY DEFICIT)

2. The Soviet Union has been unable to generate enough foreign exchange to buy large quantities of wheat, and at the same time maintain other imports.

B. Even with the reduction in non-grain imports, the U.S.S.R. had to sell \$1.5 billion worth

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of gold in 1963 to 1965. The gold reserve dwindled to about \$1 billion by the end of 1965--only about one-third of the peak level in the mid-1950s.

C. Medium-term credits (up to 5 years) helped to finance plant and equipment purchases from the West during the early 1960's. They lost their utility by 1964 or 1965 when the repayments began to offset the new credits.

1. In 1964 and 1965 the Soviet Union was offered \$700 million in long-term credits for six to 15 years.
2. The Soviet leaders chose to take up only about \$300 million, apparently because they were cautious about incurring a large burden of debt.

D. Last year, however, the Soviet hard currency deficit fell to roughly \$100 million, as exports rose with little or no growth in imports. The improvement in the Soviet balance of payments made large gold sales unnecessary, and the Soviet gold reserve increased

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by roughly \$100 million in 1966. (Domestic production of gold was about \$190 million in 1966.)

E. The improvement in the Soviet payments position in 1966 has been accompanied by a resurgence of new Soviet orders for Western plants and equipment.

1. Roughly \$750-800 million in new contracts were signed in 1966 with Western suppliers, including the Fiat deal with Italy. About three-fourths of these contracts involved long-term credit.
2. Imports of equipment in 1967 probably will not exceed the \$500 million average of the past two years, because of the long lead time for delivery. Imports of wheat in 1967 may fall to \$200 million. Consequently total Soviet imports from the industrial West probably will drop in 1967.
3. The Soviet regime probably will continue to hold the lid on imports in order to conserve foreign exchange and to rebuild its depleted gold reserve.

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(REPEAT FOREIGN TRADE CHART)

VI. Soviet foreign trade with the less-developed countries has been erratic--static in 1963-64, up sharply in 1965 and apparently up moderately in 1966.

A. This trade is largely sustained by deliveries under Soviet aid agreements and their repayment by the less developed countries. Growth will be sustained by large unspent aid commitments, and by a continuing Soviet interest in trade expansion.

B. Trade with other Communist countries continues to grow, but at a declining rate. These countries account for more than two-thirds of total Soviet foreign trade.

1. Soviet demands for higher prices for its raw material exports and East European requests for better terms of trade with the U.S.S.R. reflect increased economic self-interest by all parties concerned.
2. Both the U.S.S.R. and Eastern Europe have been looking more to the West, in order to acquire the modern equipment

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and technology needed to modernize industry and spur economic growth. Foreign exchange availability is one of the main limiting factors.

- C. The Sino-Soviet dispute has been reflected in the continual decline in Soviet trade with Communist China, from a high of \$2 billion in 1959 to about \$400 million in 1966.
- D. Cuba is still dependent on Soviet willingness to take sugar at a high fixed price; in turn, Cuba buys Soviet machinery, fuels, and raw materials.
- E. Yugoslavia's improved relations with the U.S.S.R. are reflected in rapidly growing trade. Cuba and Yugoslavia account for most of the rapid growth of trade since 1961 in the "other" category.

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SOVIET AID PROGRAMS

VII. Foreign aid programs continue to be one of the most active and far-ranging instruments of Soviet foreign policy.

A. Aid has been extended to nearly all other Communist countries, and to 35 less developed countries in the Free World. Both economic and military aid have been provided, and each is backed up by substantial technical support.

B. Soviet programs have been small in comparison to those of the United States. Nevertheless, the Soviets have proven themselves to be lively competitors--not only against us, but against the Chinese--when it comes to seeking goodwill through aid in the less developed countries.

1. The long-range Soviet motivation, of course, is to win friends and converts to Communism.

2. The U.S.S.R. appears equally alert, however, to exploit aid opportunities where the only prospective pay-off is the



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embarrassment of the West, or a temporary increase in Soviet influence.

Economic Aid

(CHART, SOVIET EXTENSIONS OF ECONOMIC AID)

VIII. Total extensions of economic aid in 1966 amounted to about \$1.2 billion, compared with the peak of \$1.9 billion in 1964.

A. This chart shows trends in Soviet economic aid since 1954. In general, the year-to-year fluctuations do not reflect changing Soviet policies, but merely changing needs and opportunities in the recipient countries.

1. The flow of aid extensions has been jerky, partly because of economic emergencies, partly because of periodic commitments to such major programs as five-year development plans.

B. Economic aid to Communist countries, amounting to \$7 billion, has been prompted by various special situations. Four countries, which have received more than \$1 billion each, account for two-thirds of the total.

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1. Cuba's trade deficits and the rehabilitation of its dislocated economy have required substantial Soviet aid.
 2. Another high priority has been assistance to East Germany, in its futile effort to compete with West German prosperity.
 3. Development requirements in two of the more backward Communist countries-- Bulgaria and Mongolia--also have led to large amounts of Soviet aid.
- C. Known Soviet economic aid to North Vietnam approximates \$400 million, most of which consists of credits extended during 1955-60. The amount of recent economic assistance to North Vietnam is uncertain but may be sizeable.
- D. Communist China is no longer a recipient of Soviet aid, but it received extensions of some \$500 million before the strain in Sino-Soviet relations ended the program in 1961.
- IX. Soviet efforts to aid the economies of less developed Free World countries have evolved into

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into a complex and varied program. Credits and grants of \$6 billion have been extended during the past 13 years. Extensions in 1966 reached nearly \$1 billion, or slightly less than the previous high in 1964.

A. Much of the Soviet aid to less developed areas is focused on the largest and most influential neutralist countries, and on a few countries situated along the Soviet Union's southern border. India, the United Arab Republic, Indonesia, Afghanistan, and Iran have received nearly two-thirds of total Soviet economic aid to less developed countries. More than one-half of the extensions in 1966 consisted of support for India's new five-year plan.

B. At the same time, the Soviet Union is losing few chances to extend its influence and make mischief for the West by extending economic aid in small chunks to many of the newer African countries. Even so, it is encouraging recipients to consider their capacity to absorb aid and to be selective in

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choosing among possible aid projects, so as to get the most out of this assistance.

C. The burden of these programs on the Soviet Union is smaller than appears on the surface.

1. Considerable time is needed to implement programs of project aid, and only about two-fifths of credits extensions to less developed countries have been drawn so far. Current deliveries are being offset by repayments on previously incurred debts.

2. Repayments, in fact, have already reached a level that is causing difficulty for some of the less developed countries. Several have recently received or requested a rescheduling of payments to ease the financial strain.

D. In spite of occasional political setbacks for the Soviet Union in countries receiving aid--for example, the downfall of Ben Bella in Algeria and of Nkrumah in Ghana--the Soviet leaders apparently are convinced that the programs serve their long-term political

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aims. They almost certainly plan to continue a high level of aid activity, carrying forward existing programs and capitalizing on new opportunities that may arise.

Military Aid to Free World Countries

(CHART, SOVIET MILITARY AID)

- X. Military aid has been one of the most dynamic tools employed by the Soviet Union in its relations with less developed countries in the Free World. Such aid usually has had an immediate political impact, and has paved the way for closer economic ties.
- A. Since 1955, the Soviet Union has extended an estimated \$4.2 billion in military assistance to 18 less developed countries of the Free World. As the chart shows, extensions have not been as high recently as in the early 1960's, but deliveries have been continuing at a rate of several hundred million dollars annually. About 80 percent of military aid extensions already have been drawn.

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- B. Indonesia and the United Arab Republic account for about 55 percent of Soviet military aid to Free World countries.
1. Their armed forces, and those of Afghanistan, Algeria, Iraq, and Syria, are now equipped almost entirely with Soviet arms, and are trained in Soviet methods. These and other less developed countries now depend heavily on the Soviet Union for ammunition, spares, and technical support.
 2. This dependence gives the Soviets a certain amount of political leverage, which might be employed in a critical situation.
 3. The Soviets are cautious in using such pressures, however, because of the risk of endangering long-run political relations.
- C. The Soviets are well aware that the real power in many of the less developed countries is held by the armed forces. Thus, they have used military aid to establish contact and rapport with military leaders

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who--if they are not in the government themselves--are in a position to influence the government's composition and policies.

- D. Soviet objectives also have been served by the willingness of such countries as the United Arab Republic to re-export Soviet arms (with Moscow's concurrence) to third countries. In this way, Soviet arms have been channeled to such countries as Algeria, Cyprus, and Yemen, as well as to dissident groups in the Congo and other trouble-spots in Africa.
- E. Initially, the Soviet Union supplied largely obsolescent weapons from existing stockpiles.
1. Since 1961, however, it has increasingly provided Free World countries with advanced weapons such as MIG-21 jet fighters and surface-to-air missiles.
 2. Consequently, about two-thirds of the equipment delivered to date consists of types still in standard use in the armed forces of Communist countries. More than half of the equipment is of types still in production in the Soviet Union. These

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proportions should rise as deliveries
of advanced weapons continue.

F. Scheduled payments on debts of about \$2.4 billion arising from Soviet military aid have become a serious drain on the economies of some of these countries. The Soviet Union has further ingratiated itself with some of the countries by acceding to their requests for a rescheduling of payments. More than half a billion dollars in repayments already have been made. These repayments, made largely in goods, have resulted in a substantial reorientation of exports from traditional markets to the Soviet Union.

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THE OUTLOOK

XI. The goals of the new Soviet Five-Year Plan, running through 1970, show that the Brezhnev-Kosygin regime is making a determined effort to regain the economic momentum of the 1950's.

A. The plans provide for an average annual growth of 6 percent in GNP, 8 to 8 1/2 percent in industrial production, and 4 3/4 percent in agricultural production. We do not believe the regime will be able to achieve such high rates of increase, unless unexpected successes are scored in expanding agricultural production and in improving the efficiency of industry. We anticipate a continued drain of high-quality resources into military and space production.

B. In industry, the growth rate may improve slightly over the 6 1/2 percent average of 1961 to '65. The Soviet leadership is pinning many of its economic hopes on a series of reforms in industrial management. These reforms may ultimately improve the functioning of the system. In our judgment, however,

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they do not provide the essential flexibility and incentives necessary to a modern economy. Specifically, they do not solve the critical problem of introducing new technology and new products into industry.

- C. If the new regime's program of massive investments and financial incentives are implemented, agricultural production should rise by an average of 3 or 4 percent a year over the balance of the decade. Traditionally, programs for agriculture have fallen short, and this ambitious program is not likely to be carried on in full. Nonetheless, agricultural growth during the balance of the decade should show a marked improvement over the near stagnation of 1961 to 1965.
- D. The average rate of growth of Soviet GNP during the Five-Year Plan period should lie close to 5 percent. The Soviets will continue to run their economy at full capacity, and to experience periodic shortages and delays. Commitments to various programs are already being cut.

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E. A 5-percent rate of growth is entirely respectable by world standards. The Soviet economy will remain a crude but effective engine of growth. Its energies will continue to be concentrated on areas of critical concern to U.S. national security interests.

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THE U.S.S.R.

- I. The policies of the U.S.S.R. today are in an inverted phase, in the sense that Soviet thoughts these days are mostly about the internal scene and matters close to home.
 - A. The U.S.S.R. has not exactly withdrawn into a shell, but domestic concerns and the Chinese problem are its overriding considerations.
 - B. At home, many of the familiar economic problems remain as far from solution as ever. They may, in fact, be multiplying under the impact of technological change with its attendant political and social effects.
 - C. By the Chinese problem, I mean both the Sino-Soviet dispute in its bilateral aspect, and its impact on the Communist movement as a whole. In both aspects, the struggle has become more intense and more complex over the last six months or so.

SOVIET DOMESTIC POLICY

- I. The group which ousted Khrushchev more than two years ago has held together remarkably well,

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considering that the power which was traditionally wielded by a single individual now in effect lies with a committee which has to make up its operating rules as it goes along.

- A. Those who made the coup against Khrushchev in October 1964 had one thing in common, other than political ambition: dismay, even repugnance, at Khrushchev's radical swings in policy, and his unrealistic promises of achievement.
- B. Otherwise, they made a curious blend of interest and authority. In order to make a go of it, they needed the kind of undramatic middle-of-the-road policies--unlikely to offend grievously--which have been their hallmark. They needed the evenness and the gyroscopic stability of government-by-committee.
- C. There now seems to be a fairly formal mechanism at the Politburo level for decision-making, and a fairly rigid code of individual behavior to ensure collectivity.
- D. Only two aging members, Shvernik and Mikoyan, have left the Politburo. They were given honorable retirement--something of a novelty for the Soviet Union.

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- II. The present leadership, from necessity and enlightened self-interest, has accepted certain broad rules for its collective game. So far, however, it is anything but certain that it has designed a piece of political machinery with any staying power.
- A. There are necessarily controversial policies, such as economic reform, and these are bound to get mixed into the personal and political conflicts.
- B. It is questionable, too, how much longer this present set-up will remain "collegial" in any meaningful sense. There has been a steady enlargement of the position of General Secretary Brezhnev.
1. On a number of occasions, particularly at his 60th birthday in December, Brezhnev was given the kind of personal praise reminiscent of an earlier era.
 2. He now seems to have the most important voice--probably the final word--in the making of key assignments.
- C. The relationship between Brezhnev and Kosygin is crucial to the functioning of the current leadership.

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1. The relationship has stood up for more than two years, which is no small achievement in a system of divided authority.
 2. There is rather good evidence that the relationship is one of wary toleration, however. The extensive overlap of party and government institutions and interests inevitably produces strain.
- D. Other Politburo leaders have clearly suffered setbacks in the political struggle.
1. Shelepin had long been a favorite of Kremlin watchers, because of his ambition, his ties with the Committee of State Security (KGB), and his youth--he is still only 48. He has now lost some of the broad responsibilities he had in the early post-Khrushchev period, including his role in security affairs.
 2. Podgorny was kicked upstairs to the Soviet Presidency. He has since managed in a small way to enlarge the role of the Supreme Soviet; it serves as a sort of watch-dog over the government ministries, but without a full set of teeth.

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3. There is a second rank--from whom the successors to Brezhnev and Kosygin will eventually come. These men, with whom I would include Shelepin, hold important posts such as deputy premier, and some of them are relatively young (Polyansky is 49; Mazurov is 53).

III. Despite the inherent difficulty of decision-making by consensus, the present leadership has had some successes in dealing with the problems of a complex and highly structured society in a complex and increasingly unstructured Communist world.

- A. The 1966 harvest was the best in Soviet history, partly because of some sensible changes in policy, but partly because of good weather.
- B. In 1965, the leadership decided to test some aspects of a market economy in a few carefully selected industries.
 1. These changes might well have been as helpful as the changes in agriculture, but implementation has been slower than planned.
 2. This was partly because even limited change involves immense technical problems in the Soviet Union.

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3. It was also, as the Kremlin admits, because of bureaucratic inertia, if not downright obstruction.
- IV. This is a cautious regime in Moscow, and it is not prepared to venture beyond these small steps. It has not begun to face up to the larger problems.
- A. The basic question of how to allot economic resources among competing sectors is unanswered. This is one reason why the current Five Year Plan has not yet received final approval although the Soviet Union is already heading into the second year of that plan.
 - B. There is a very uneasy coexistence between the regime and the intellectuals. The regime is cracking down, as it did in the Sinyavsky-Daniel trial. The intellectuals are constantly testing the regime's permissiveness in literature and the arts.
 - C. In all things, the regime has tended to seek the middle way. It has hesitated to crack down hard on the unruly elements in Soviet society, but the trend has been, nevertheless, toward a tightening of discipline.

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1. The regime increased police powers and punishment, to deal with a growing incidence of crime and juvenile delinquency.
 2. The problem of dealing with minority nationalities may have been made worse by reversion to a more centralized management of the national economy.
 3. In education, steps to provide universal 10-year schooling, and to increase the capacity of higher education institutions, are going to look like halfway measures to the youngsters. The new generation looks on education--rather than the perfection of a Communist society--as the stepping stone to a better life.
- D. Behind all of these problems lies the major problem of how the Soviet Communist party can maintain its dominant place in a society where decisions must increasingly be based on technical soundness rather than ideology.
- E. The nature of the committee system minimizes the risk of major failures.
1. A major setback, however, would severely test the collective system.

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2. Even without such a setback, the present leadership has not yet proven that it has the imagination and decisiveness to manage a complex society in a complex world.

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SOVIET FOREIGN POLICY

- I. Soviet foreign policy is being made with China constantly in mind. The Russians now feel that they have the upper hand in the Sino-Soviet dispute. They are beginning to behave somewhat more boldly.
 - A. Tensions between Moscow and Peking have intensified markedly in recent months. The impact of the Vietnamese conflict and the upheaval inside China have helped to bring Sino-Soviet relations almost to rock bottom.
 1. Moscow's aid to the Vietnamese Communists has earned it large dividends in the dispute with Peking. This help has brought North Vietnamese expressions of gratitude, which the USSR has been able to use to good effect to undercut Chinese allegations of Russian double-dealing.
 2. The Russians have also made the most of Peking's outright rejection of Moscow's appeals for "united action" in support of North Vietnam.
 3. Moscow has been able to convince most foreign Communist parties that the Chinese

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are more interested in fighting Moscow than in helping Hanoi.

4. Most of the world's Communists have also been persuaded of the truth of Soviet charges that Peking is out to split the movement.

II. Khrushchev's successors can congratulate themselves on the results of their anti-Chinese tactics. They have paid out the rope, and the Chinese have proceeded to hang themselves.

A. China's recent setbacks are due in large part to Peking's own rigidity and clumsiness.

1. Advancing age, the pressures of their struggles with the Soviets, and frustrations over domestic and foreign reverses have all combined to give Mao and the other "true believers" around him an arrogant certitude that is shutting Peking in behind a new Great Wall.

2. The Chinese present themselves as the fount of all valid revolutionary experience. They call neutrality in the Sino-Soviet dispute "impermissible." By trying to force all Communists to choose sides, they have seriously damaged their

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relations with important parties which once leaned toward Peking.

- B. Three years ago, Peking appeared to be well on the way to building a bloc of Communist supporters that could meet Moscow on something like even terms. Now, although the Chinese still have a few backers, the preponderance of influence is so clearly in Moscow's favor that a significant challenge to Soviet authority no longer exists.
1. Peking can count with assurance on support only from Albania, the Communist Party of New Zealand, and a handful of tiny splinter groups.
 2. The Chinese have suffered their most serious setbacks in the Far East. The ruling parties of North Korea and North Vietnam have edged away from Peking, and the Japanese Communist Party can no longer be counted on for support. Furthermore, the Communist party of Indonesia--long one of China's supporters--was shattered in the wake of the unsuccessful coup attempt in the fall of 1965.

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3. China's relations with Cuba have also sunk to an all-time low, and Peking is no longer able to work through pro-Castro activists in Latin America.
- C. The so-called "cultural revolution" has helped immeasurably to discredit and isolate the Chinese. Red Guard excesses have provided a real windfall for Moscow's propaganda mill.
1. Early last year the Soviets began a rather discreet campaign aimed at vilifying the Chinese leaders through sarcastic, tendentious reporting of events in China.
 2. Pravda recounted, for example, the ludicrous episode of the Chinese who had been denounced for claiming that, if a man did not know how to climb a pole, a reading of Mao's works would hardly help him do it. This, reported Pravda, amounted to heresy in China, where it is official doctrine that "a study of Chairman Mao's works gives immediate results."
 3. Gradually, however, Moscow has moved toward more direct and authoritative criticism of Peking. Recently, top Soviet

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leaders have personally attacked Mao Tse-tung, claiming that his regime has forfeited the right to call itself Communist.

4. The Russians have gone so far as to align themselves openly with what they call the "growing opposition to Mao and his clique" inside China.

D. Moscow's decision last summer to switch back to open attack, after two years of ignoring Peking in public, stemmed primarily from a determination to capitalize on recent Chinese setbacks.

1. There is also, however, a significant element of genuine Russian concern over the excesses of the Red Guard upheaval, and what it may mean for the future.
2. Brezhnev's speech to the central committee meeting last December showed clearly that the Chinese problem remains the main preoccupation and most pressing foreign policy concern of the Russian leaders. The speech climaxed several

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weeks of vigorous personal effort by Brezhnev to drum up wide international support for Moscow's anti-Chinese campaign.

3. The Soviet Union has persuaded many foreign Communist parties to join in the public condemnation of Peking's policies.
4. Now Moscow is pushing the idea of a world Communist conference to adopt a formal, authoritative denunciation.
5. Some foreign parties are still strongly opposed to such a move, however, and if the Kremlin leaders push too hard, they might jeopardize the more effective inter-party working relationships they have cultivated since they threw Khrushchev out.

E. It is impossible to predict with any assurance when the final rupture between the USSR and China might take place, and under what circumstances.

1. A glance at the few ties that are left, however, shows how far the deterioration of relations has already gone.

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2. As far as relations between the two Communist parties are concerned, a break already exists.
3. Relations between governments have been maintained, but at the barest minimum. Embassies in both capitals have been left in the hands of the charges d'affaires. The main responsibilities now seem to be the exchange of protest notes, and ostentatious walk-outs from ceremonies at which their homelands are regularly assailed.
4. The Soviets clearly see little chance of any appreciable improvement. In fact, their ambassador to Peking has been re-assigned to the Russian UN mission, and a Soviet diplomat has stated in private that relations will have to improve considerably before Moscow will think about replacing him.
5. The embassies are probably regarded as worth keeping as listening posts, and as bases for clandestine operations. Each side is reluctant to accept the onus of being the first to make a final break.

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6. Over recent months student exchanges have been curtailed, with acrimonious charges, counter-charges, protest notes and counter-protest notes. More recently, Peking expelled three of the six TASS correspondents who has been reporting on the disorders in China.

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SOVIET RELATIONS WITH THE UNITED STATES

- I. To turn from the Sino-Soviet dispute to the Soviet relations with the United States--it is clear that the U.S.S.R. wants to keep some lines of communication with Washington open, despite the strains imposed by Vietnam and some Kremlin sensitivity to Chinese charges of Soviet-American collusion.
- A. The Kremlin leaders realize that if there is going to be any meaningful progress along the lines of their national interests in European security, arms control, and East-West trade, sooner or later they are going to have to resume the dialogue with the United States.
1. Moscow puts the complete blame for the Vietnamese war on the United States. This is a necessary assumption for their policy lines, but it may also be a matter of conviction.
 2. In private, however, Soviet leaders have emphasized that they want to avoid any showdown between Moscow and Washington over the Vietnamese issue. Whenever they have a chance to make the point

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quietly, they indicate that they hope to preserve and develop relations with the US.

3. Ambassaodr Kohler talked to President Podgorny and Deputy Premier Polyansky before he left Moscow. Both of them emphasized their interest in increased trade and scientific and technical exchanges.
4. The recent civil air and space agreements show that limited cooperation--not affecting Vietnam--is still possible. There are also, of course, encouraging signs that a nuclear nonproliferation treaty may soon be signed.

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OTHER FOREIGN POLICY LINES

- I. The U.S.S.R. is working hard to erase its old image in Western Europe. The familiar Soviet policy of intimidation, threat, and ultimatum--to which we have become so accustomed--has been laid aside, or at least placed in reserve.
 - A. Moscow seems to feel that American pre-occupation with Southeast Asia provides a grace period in Europe for the building of Soviet diplomatic, economic, technological, and scientific contacts.
 - B. Moscow has made much of its rapport with De Gaulle, hoping that other West Europeans--particularly members of NATO--will borrow a leaf or two from the French book.
 1. But talk about a Franco-Soviet alliance is overwrought. We doubt that even the French have many illusions, but we are reasonably sure that the Russians are not much interested in the French for their own sake.
 2. They do see a chance to use De Gaulle against both the US and Germany.

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- C. Concurrently, Moscow never ceases to play on distrust of the Germans. Soviet propaganda compares the professed reasonableness of the Soviet Union with their picture of West German and American "militarism and intransigence."
 - D. All this is contributing to the obvious growth of unease among Western Europeans who are eager to depart from old, cold-war formulas which they feel do not now serve their national interests as well as they used to.
 - E. The Soviets will probably remain wary of risking a serious confrontation--for instance, over Berlin--which might prove counterproductive by reviving the obvious reasons for Western unity.
- II. In the less developed areas, the Soviets now seem to be placing greater reliance on the tools of traditional diplomacy. They are treating local revolutionaries with considerably more circumspection.
- A. Latin America is a good case in point. Throughout the Southern Hemisphere, the Soviet accent now is on improved state-to-state contacts, more trade, more cultural exchanges, and the like.

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1. The Soviets have certainly not abandoned local Communist parties, nor stopped giving encouragement to assorted dissident forces. It is clear, however, that aid to such antigovernment elements is being given with increased caution, especially if these elements have only a questionable revolutionary potential.
 2. This is a sore point between the Soviets and Castro. The Cuban dictator has made plain his contempt for what he considers Moscow's half-hearted view of Latin American revolution.
- B. In the Near East, the Soviets have been making a special effort to court a number of pro-Western states.
1. Premier Kosygin's visit to Turkey last December--the first by a Soviet premier in 43 years--capped a series of friendly exchanges between the two countries. These are largely in the realm of atmospherics, but Moscow obviously hopes the future will bring something of substance.

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2. In Iran, the Soviet steel-mill agreement of 1965 was followed last August by a sale of limited military hardware. There are signs now that a deal in oil and gas may be in the offing.
 3. While Moscow's closest Arab friends--Egypt and Syria--have been fostering the overthrow of Jordan's King Husayn, the USSR has remained remarkably restrained. Moscow even refrained from attacking Husayn when he publicly accused the Soviets of being at the root of all his troubles.
 4. Egypt and Syria are at best a mixed blessing for the Soviets. Friendship with Egypt turns out to have a pretty high price tag in terms of wheat and foreign exchange. In Syria, the Soviets probably have their hands full dealing with an unpredictable and adventurist government.
- C. In Africa, the Soviet Union would probably like to follow its Latin American policy of a trend toward reliance on more normal relations. The aggressive Chinese Communist presence in

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Africa, however, keeps pressure on Moscow to keep working with African radicals, providing training, weapons, and funds for the so-called "freedom fighters."

1. Military aid remains one of Moscow's most effective tools, but its use also carries risks. Increased aid to Somalia, for instance, has aroused suspicion and resentment in Kenya and Ethiopia.
2. Soviet military shipments to Algeria have caused uneasiness in Morocco. Moscow has tried to placant the Moroccans with an offer of economic aid.
3. Elsewhere, the Soviets are trying to establish normal diplomatic relations with Mobutu's Congo as well as with Ivory Coast, Upper Volta, and Niger. The Soviets have only a toehold in the Brazzaville Congo, and are so concerned about Chinese influence there that some Russian diplomats have expressed interest in cooperating with the French to combat it.

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- D. On the Asian subcontinent, the Soviets have tried hard to cash in on Kosygin's considerable diplomatic success in mediating the Kashmir crisis. Both India and Pakistan have received sizable Soviet aid packages for their five-year plans.
1. The Soviets have managed to give India primary attention without losing much ground in Pakistan, where Chinese influence probably causes Moscow some concern.
 2. Although favoring India, Moscow has shown dissatisfaction with the orientation of Mrs. Gandhi's government. It has been working quietly to bring about a coalition of leftist forces for the February elections in India.
- E. In Southeast Asia, Moscow has maintained a cautious step-by-step campaign to increase its influence in countries where the U.S.S.R. has not traditionally been very active. Russian determination to compete effectively with both Washington and Peking in this area has been manifested in various ways.

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1. Numerous Philippine government and press officials have been invited and well received in the Soviet Union.
 2. A TASS office and a trade office has also been established in Singapore.
 3. TASS officials in Malaysia have been proposing the establishment of diplomatic relations between Moscow and Kuala Lumpur.
 4. A new military aid agreement with Cambodia, signed last year, indicated continuing Russian interest in enhancing Soviet influence in Phnom Penh.
- F. Moscow has watched events in Indonesia with cautious optimism. The Soviets are always glad to see the Chinese take it on the chin.
1. Soviet propaganda has dutifully deplored the persecution of Communists in Indonesia, but in private, Russian officials stop just short of gloating over the destruction of the Indonesian Communist Party, which had sided with Peking against Moscow.
 2. In talks with foreign Communist parties, the Soviets have made Indonesia a horrible

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example of what can happen to Communists who follow Peking's adventuristic and dogmatic line instead of the Moscow gospel.

- III. To sum it up, the new Russian leaders recall that Khrushchev's often frantic initiatives tended to lead the Soviet Union up blind alleys abroad. They have adopted more cautious lines of foreign policy.
- A. They seem to recognize that it is difficult enough to shape history in the turbulence of the underdeveloped countries--let alone to re-shape this history into the dogmatic patterns predicted for the world in Marxist dialectics.
- B. The Kremlin appears to have decided instead to concentrate on its own internal interests and on the affairs of the world Communist movement, and has managed to stick to this decision for more than two years.

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January 1967

BRIEFING PACKAGE

EASTERN EUROPE

- I. Eastern European governments today are no longer the subservient, slavish puppets of Stalin's day. For the past four or five years, they have been weighing their own national interests against the suggestions from the Kremlin. They sing their own tunes in the international Communist concert.
 - A. Over the past year, however, the Sino-Soviet dispute and the Vietnamese conflict have increased the pressures for greater conformity and unity with the U.S.S.R.
 - B. Moscow has cleverly used the issue of support for North Vietnam, a fraternal Communist country subjected to "imperialist" attack, to emphasize a necessity for unity.

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1. Peking is made to appear the obstacle to a concerted Communist effort.
- C. Moreover, the fantastic Red Guard phenomenon in China has made it difficult for some of the East European countries to stick to their line that there can be no conference to determine a common Communist line until the two giants of Communism have reached agreement.
- II. Moscow can count on the support of all the East European countries except Albania on most international issues, although this support is not automatic, and occasionally requires a selling job.
- A. The heads of all these states, except Albania and Yugoslavia, have met twice in the past year for a joint consideration of policy matters.
1. When they met last July as the political consultative committee of the Warsaw Pact, three Soviet policies they endorsed were:
(1) further aid to Vietnam, including volunteers if requested; (2) denial of nuclear weapons to West Germany; and (3) convocation of a European security conference.

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2. These same heads again demonstrated their togetherness when they met in Moscow in October, though no policy announcements were made at that time.
- III. Not surprisingly, therefore, there have been no dramatic assertions of independence vis-a-vis the U.S.S.R. in the recent past, but neither has there been any back-tracking on the part of those East European states which have assumed divergent positions.
- A. Albania has staunchly maintained its alliance with China. It shows no inclination to abandon Stalinism internally.
 - B. Tito kept alive the idea, if not the substance, of his nonalignment by holding a summit meeting with Nasir and Mrs. Gandhi last October.
 - C. And Rumania has again made clear that it opposes any, new international Communist meeting.
 1. In November, Rumania's party chief Ceausesco (cho-sess-ku) even compared notes on this subject with Tito, another staunch opponent.
 - D. Poland is perhaps among the most interested in maintaining good relations with the United States. In January, 1966, Warsaw undertook peace soundings

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in Vietnam at Ambassador Harriman's request.

In recent months Poland has been particularly reasonable in working out bilateral problems.

IV. There has been a proliferation of issues, moreover, on which the East European states do not agree among themselves.

A. The possibility that West Germany may seek to establish diplomatic relations with East European states, for example, has been welcomed by Rumania and Hungary, but has disturbed Poland and East Germany.

B. In recent months, Hungary has criticized Rumania over the interpretation of an historical event, while Yugoslavia and Bulgaria have revived their traditional territorial dispute over Macedonia.

C. Even the UNITED NATIONS meetings have become the scene of competition among the East European states for election to UN offices and for pre-eminence in UN committees.

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- V. The regimes of Eastern Europe are all stable at present.
 - A. The peoples of most of these countries are generally resigned and apathetic, concerned primarily with bettering their own individual economic lot.
 - 1. For example, the authorities in Budapest were nervous last October about the 10th anniversary of the Hungarian revolution, but it passed without incident.
 - B. During the past year, the Communist parties of Albania, Bulgaria, Czechoslovakia, and Hungary all held congresses which demonstrated there is no serious challenge to the present leaders from within the ruling elites.
- VI. There has, nevertheless, been a revival of factionalism within most of the regimes of Eastern Europe.
 - A. The more moderate leaderships are trying to undertake economic reforms which involve a decentralization of economic decision-making. This has political overtones.
 - 1. Party members are not certain how, precisely, they are to continue exercising control under the changed circumstances.

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2. Conservatives in these regimes see a threat to the retention of their positions of authority, while liberals get frustrated by conservative obstructionism.

VII. In Yugoslavia, the liberal-conservative split has presented Tito with his greatest crisis since Milovan Djilas was purged in the early 1950s for attacking the "new class."

A. The crisis was precipitated last summer when Tito deposed his heir-apparent, Aleksander Rankovic, the darling of the conservatives.

1. Rankovic had moved too far too fast in attempting to ensure his eventual succession, even to the point of bugging Tito's residence and office.
2. Rankovic was the leading Serb in the regime, so his purge also had overtones of being directed against the country's largest nationality group.

B. Tito has set out to make sure another Rankovic can't emerge.

1. The secret police, who were under the control of Rankovic, are having their authority curtailed and decentralized.

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2. In October, Tito began a thorough re-organization of the party and a de-centralization of political power within it.
 3. The government is also slated for a shake-up; regional authorities are to receive greater power.
- C. These events have produced indiscipline and confusion within the regime.
1. Some party leaders have gone so far as to call for an approved opposition within the Communist party.
 2. And parliamentary bodies have become more aware of their political prerogatives.
 3. Committees no longer rubber-stamp proposed laws.
 4. When a house of the Slovenian parliament refused to pass a draft bill in October, the cabinet of the republic resigned.

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EAST EUROPEAN ECONOMY

VIII. The highly industrialized countries of Eastern Europe are not doing as well on the economic front as their neighbors who are less developed.

A. The less developed East Europeans have better prospects for growth because their non-agricultural work force is still growing.

1. Over the next five years, for instance, the increase in non-farm jobs will range from nearly five percent in Rumania, down to perhaps one percent in Czechoslovakia and virtually zero in East Germany.

B. Foreign trade also affords brighter prospects for the countries which export raw materials, particularly foodstuffs and wood products.

1. They can still find growing markets in both East and West.

2. The industrialized countries have just about reached the limit in selling processed manufactures in the West, and are running into growing competition, and a preference for Free World products, when they try to sell their goods within the Bloc.

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- C. In the first half of this decade, East-West trade increased by about 50 percent, but the rate of growth is slowing down. The East European countries remain interested in Western machinery, and particularly in Western know-how, but are finding it increasingly difficult to hold up their end of the trade balance.
- D. Economic relations with the Soviet Union are under new strains, to some degree because the U.S.S.R. now seems to be reciprocating the new East European fashion of measuring deals by the yardstick of self-interest.
1. The new Soviet leadership concluded in 1965 that trade with East Europe involved a substantial cost to the Soviet Union, which must not be increased, and should be reduced if possible.
 2. This decision is reflected in new trade agreements negotiated over the past 18 months.
 3. The Soviet Union has been sending raw material to the Czechs and East Germans, and to a lesser extent to Poland and

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Hungary, in exchange for machinery and finished goods. Now Moscow has determined that it costs Russia more to produce the exported raw materials than it would to produce the additional machinery at home.

4. As a result, the East Europeans found when the new trade agreements were negotiated that Moscow was insisting on much better terms, and being more selective about the goods it wanted.
- E. The Soviet Union, however, still accounts for 45 percent of total trade for the industrialized countries of East Europe, and the Soviet Union remains a key element in their economic plans.

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BRIEFING PACKAGE

January 1967

CHINESE POLITICAL DEVELOPMENTS

- I. Communist China is being racked by the greatest political convulsions since Mao Tse-tung took control in 1949.
 - A. Mao, aging, sick, and more and more inflexible, is concerned about where Communism is heading in China, and about who is going to succeed him.
 - B. Around Mao, the men who aspire to take his place have the same concerns.
 - C. The result has been a naked struggle for power, accompanied by a drive to re-shape the Communist Party, or to replace it with a younger version with the old revolutionary zeal.
 - D. That is what is behind the phenomenon of the so-called "cultural revolution" and the Red Guard today.

- II. Any attempt to determine where this revolution stands today, or who is likely to come out on top, is like trying to pick a winner when a bunch of cats are fighting under a rug.

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A. The cultural revolution has already turned on some of the leaders who ostensibly started it. The Red Guard is split, and rival units battle each other or fight with workers in the streets. There have even been some posters attacking Mao himself.

(PHOTO CHART, COMMUNIST LEADERSHIP).

B. The prime mover at present is Defense Minister Lin Piao. (Lin Byaw)

1. He was proclaimed second man in the leadership, and Mao's chosen successor, when the cultural revolution began last summer.
2. Since that time he has been engaged in a drive to unseat any potential rivals.
3. His immediate targets are the two men who have been at the top of the party machinery, Chief of State Liu Shao-chi (Lyew Shao-chee), and the general secretary, Teng Hsiao-ping. (Dung Shaw-ping)

C. For the past couple of months, Lin's drive appeared to be stalled. There was some reason to believe that a group headed by Premier Chou En-lai (Joe En-lye) does not want to see the party machinery completely shattered.

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1. The role of Mao Tse-tung (Mao Dzeh-dung) during this period was obscure. It appeared that he was giving general support to Lin Piao (Lin Byaw), but was reluctant to condone extreme action against men as close to him as Liu (Lyew) and Teng (Tung).
 2. Despite violent public and private criticism, Liu and Teng still showed up at major rallies. In the new alignment of the hierarchy, Liu had dropped from second to eighth, but still acted as chief of state. Teng dropped a notch or two, but still ran the party machinery.
- D. Early in January, the leadership struggle apparently entered a more critical phase.
1. Newspapers and Red Guard organizations have published authoritative reports of a bitter personal attack by Mao himself on Liu and Teng.
 2. According to these reports, Mao charged that the two men had been working ever since 1958 to push him aside and take over the country.

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3. This involvement of Mao's personal prestige could only be taken as the signal for a showdown.

E. There was an almost immediate reaction from the party old-timers around Liu and Teng. Organized groups of workers in Nanking and elsewhere were reported fighting pitched battles with the youngsters in the Red Guard.

1. It remains difficult to determine from day to day which element of the hierarchy is backing which mass organization.

2. It has been apparent in the past, however, that the extremist faction of the Red Guard which is probably most responsive to Lin Piao is the one which has staged the most violent attacks on factory workers, on party headquarters, and on government ministries.

3. If these street battles spread much farther, the situation is going to border on civil war.

III. The final destruction or dismissal of Liu Shao-chi and Teng Hsiao-ping would be only a first step

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for Lin Piao. His goal all along has been to accomplish a major reorganization of the party.

A.



B. Many of the party leaders owe their careers to Liu and Teng, who have dominated the party machinery for more than a decade.

1. If Liu and Teng go down in disgrace, Lin will be able to use their past associations to demote or dismiss large numbers of party officials in key positions.

C. Nobody appears to be above the reach of the purge.

1. In January, Peking began recalling its diplomats. At least 150, from 13 major

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capitals, were called home, presumably for questioning and reindoctrination.

2. Tao Chu (Taow Joo) last fall was promoted from lower levels of the leadership to the Number Four spot, and put in charge of the party propaganda department. He was also named one of the directors of the cultural revolution.

3. Now Tao Chu is himself under attack. Mao's wife and the chairman of cultural revolution committee say that Tao Chu is a bourgeois reactionary who supports Liu and Teng.

D. There are rival Red Guard organizations which raid each other's headquarters.

1. There are counterfeit Red Guard organizations organized by party leaders in the provinces trying to protect themselves from attack.

2. Schools have been closed for the year in China to let the students take part in the cultural revolution, and this makes masses of volatile, irresponsible enthusiasts available for the various

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Red Guard organizations. Some of them are more aptly called children than students.

3. Initially an effort was made--particularly by the more practical governmental leaders around Chou En-lai, to keep the Red Guards from disrupting the harvest and the factories. Now, however, the Red Guards have a charter to go everywhere in the name of instilling new revolutionary fervor and destroying the foes of Mao.

IV. When and how will the turmoil in Peking finally be resolved?

A. We have no idea. The opposing forces, judging by the protracted struggle, must be quite evenly matched.

1. Some days, it looks as though they are digging in for a long winter of political trench warfare.
2. The next day, a war of movement and a showdown may appear imminent.
3. I would say it is still too early to speculate usefully on the outcome.

B. There are two points, however, which we can make.

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1. First, as long as China's leaders are pre-occupied with this internal wrangling, they will find it difficult to reach agreement on any new policy lines. So we do not expect any radical departures from existing policies.
2. Second, whoever wins, we can see no reason for suspecting that there will be any dilution of Peking's implacable hostility to the United States. Chinese policy might become somewhat less aggressive if the winner turns out to be one of the more practical leaders--for instance, Chou En-lai.

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BRIEFING PACKAGE

January 1967

CHINESE COMMUNIST FOREIGN POLICY

- I. Chinese Communist foreign policy is designed to serve the ambitions of the Peking leaders to extend their military reach and political sway in Asia.
 - A. As Communists, they want to spread Communism, but they are also Chinese. Their sense of history invokes the ancient China known as the "Middle Kingdom," to which the surrounding lands paid tribute.
 - B. That was far in the past. And with the current troubles besetting Peking, the Chinese must realize that any significant movement toward a restoration of that hegemony is probably many years off in the future.
 - C. In the past year or so, Chinese fortunes in the outside world have sunk to a new low. Or, as Peking puts it: there have been many "twists and turns." For the time being, the regime will have to seek comfort in Mao's words--that the path to victory follows a twisting course.

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II. The Chinese have suffered their most humiliating defeats in Africa, where their heavy-handed pressure tactics have alienated a number of important Afro-Asian leaders.

A. These leaders are increasingly aware that Peking could as easily support their opponents against them. China's diplomats have been largely unsuccessful in assuring the continent's leaders that African nationalism is being supported for its own sake and not for ulterior Chinese motives.

1. Early last year the Central African Republic and Dahomey broke relations with Peking.

2. The successful coup in Ghana deprived the Chinese of another major base of operations.

3. In Kenya, too, there has been mounting pressure to throw the Chinese out. Several Chinese intelligence agents have already been expelled.

B. The Chinese have always viewed Africa as an area where over the long run they could score significant gains at the expense of the US, the USSR, and Nationalist China.

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1. Their present policy, however, appears to be to keep new commitments to a minimum and fight what amount to holding actions.
 2. At one briefing, Chinese press officials were told that Peking would have to be "realistic," and take current conditions into account.
- III. Of all China's reverses abroad, probably the most serious has been the elimination of pro-Communist elements from positions of power in Indonesia.
- A. The Indonesian Communist party, one of Peking's staunchest and largest supporters in the world Communist movement, has been so badly hurt that it will take years to recover.
 - B. In the past, Peking often used the Indonesian government as a front man in such international enterprises as the Afro-Asian movement. Now they appear to have written off Sukarno, and must look elsewhere for someone to give a non-Communist camouflage to their maneuverings among the international front groups.
- IV. There are a few areas where the Chinese may feel they have scored some measure of success in 1966.

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- A. The main Chinese victory was over the tiny Portuguese colony of Macao, across the Canton estuary from Hong Kong.
 - 1. Communists fanned a minor disturbance in Macao into serious rioting, and Peking made this a pretext for threats which extracted a wide range of concessions from the new Portuguese governor.
 - 2. They included, for instance, the surrender to the Communists of a number of Chinese Nationalist agents who had taken refuge in Macao.
 - 3. With a sort of gun-boat diplomacy, Peking demonstrated that Macao exists only at China's pleasure. This was supposed to repair Peking's image as the protector of Chinese living under foreign rule, and also serve as a warning to Hong Kong.
- B. The Chinese also probably enter Pakistan on the plus side in their diplomatic ledger.
 - 1. Peking has continued to supply aircraft, tanks, and artillery to Pakistan. China's willingness to provide MIG-19s, its most modern fighters, shows the value Peking puts on its ties with Rawalpindi.

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2. Actually, the relationship is little more than a marriage of convenience, based on mutual hostility to India and on Pakistan's need for a new source of weapons after the fighting over Kashmir. The Chinese welcome anything that disturbs the Indians, and adds strains to Pakistan's ties with the U.S.

C. Tanzania is another of the few places where China's position has improved over the past year.

1. President Nyerere has come to rely more and more on Peking for military assistance, and the Chinese have a large mission training the Tanzanian police force.
2. The Chinese are also talking about building a railroad from the Tanzanian coast into Zambia, which would be useful for bringing out copper.
3. The Chinese find Tanzania particularly valuable as their main point of contact with rebel forces operating in the southern half of the African continent.

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China will probably increase its support for subversive efforts against Mozambique and Rhodesia.

V. Vietnam remains at the center of Chinese foreign policy. Public Chinese commentary on the war has dropped off sharply since last spring, but there has been no softening of Peking's opposition to a negotiated settlement.

A. In the most recent statement, on December 20, an authoritative newspaper editorial repeated Peking's familiar position that it is necessary for the Vietnamese to keep fighting until all U.S. forces are driven out of Vietnam.

1. The Chinese Foreign Minister told the French Ambassador last November that U.S. troops would have to be pulled out of Vietnam before there could be any negotiations at all. This is stiffer than Hanoi's position.

B. Peking will almost certainly continue to denounce any proposals for a compromise settlement and any new U.S. pause in the bombings as a US "peace plot" aimed at forcing the Vietnamese to capitulate.

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- C. The Chinese continue to promise the North Vietnamese all necessary support, but their public pronouncements reveal an increasing degree of caution.
1. Peking has made no mention of "volunteers" for Vietnam since the fall of 1965, except for a brief flurry of statements just after the U.S. bombing of POL storage facilities around Hanoi and Haiphong.
 2. The Chinese continue to emphasize that the Vietnamese must bear the primary responsibility for the fighting.
 3. Chinese comments about the "inevitability" of war with the United States have dropped off from the high level they reached in mid-1965; they are now infrequent.

VI. The Chinese apparently believe that time, at least, is on their side in Vietnam. Peking's efforts are concentrated on keeping the Vietnamese Communist forces in the field, in the expectation that the U.S. will eventually grow weary and pull out.

- A. The Chinese are providing a steady flow of military and economic assistance to

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North Vietnam--and in addition maintain a sizeable military presence in the northern part of the country.

- B. Peking is probably willing to increase its logistic support if necessary to keep the Vietnamese in the war.
- C. But the Chinese obviously prefer to fight the war by proxy. The crunch will come if the Hanoi leaders should decide to negotiate, and the only Chinese alternative is to use its own forces to keep North Vietnam at war.

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BRIEFING PACKAGE

January 1967

CHINESE ECONOMY

I. The Chinese economy has regained only a part of the ground lost as the result of the disasters of 1959-61, and prospects to recover the momentum of the 1950's appear remote.

A. Nevertheless, the regime has made progress in some special areas, particularly in its program to develop advanced weapons.

B. The regime claims it is beginning the second year of the Third Five-Year Plan, but we have had no indication that a genuine plan exists.

1. China's leaders are probably too preoccupied with political matters to devote themselves to thorough economic planning.

2. To be realistic, such planning would have to acknowledge the collapse of the "Great Leap Forward."

3. Instead, the regime has just issued highly exaggerated claims of economic accomplishments in 1966--especially for agriculture.

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4. There are even indications that the economy may be pushed into a new try at a Great Leap Forward, not because there is any better chance of success, but because Mao regards it as a means of re-igniting the revolutionary fanaticism he feels the Chinese are losing.
- C. There has not been time for the political turmoil to show up in the economic statistics, but workers who are battling with Red Guards certainly cannot be maintaining production at the same time.
- II. Stagnation in agriculture is still the chief obstacle to a resumption of adequate economic growth, and prolongs the persistent threat to economic stability. The regime has formally claimed a record harvest, but hasn't even bothered to hide the evidence to the contrary.
- (CHART, FOOD/POPULATION GROWTH IN CHINA)
- A. For the fourth successive year, grain production has failed to increase. Output in 1966 was actually somewhat lower than the preceding year, and below the level of

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10 years ago, when there were about 130 million fewer people to be fed.

- B. Food rations during 1966 were cut in many areas because adverse weather reduced the local harvests below average. Even in areas which were not affected, per capita consumption remained well below the levels of 1957 but still above the level of the "lean" year of 1960.
 - 1. The rations could be kept above the "lean" year of 1960 because China imported more than 5 million tons of grain from the Free World in 1966. The below-average harvest of 1966 will probably require substantially increased purchases in 1967.
- C. The regime has made little progress in long-term solutions for the food-population problem.
 - 1. The birth control program has not been pushed with enough vigor--particularly in rural areas--to have a sharp effect on population growth.
 - 2. Nor has the regime shown any intention of coming up with any practical "big push"

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for agricultural production--for example, greatly increased use of chemical fertilizers, and seed stock that responds well to such fertilizer.

- III. These major deficiencies in agriculture, which limit new investment, constitute the principal reason for believing that industrial growth also will be slow at best during the next several years. Other important obstacles to industrial expansion are the scarcity of trained manpower, and the concentration of the best of China's limited industrial resources on advanced military programs.
- A. Industrial production during 1966 was above 1958, when the "leap forward" collapsed, but still well below the high level of 1960.
1. Following a sharp drop in 1961-62, there has been some recovery in industrial production since 1962, with much of the increase resulting from greater use of existing plants. This expansion slowed down in 1966, largely because heavy industry has now reached a stage where additional production must come primarily from new or expanded facilities.

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- B. Top priority has been given to developing modern weapons. However, a few select non-military industries have been favored.
1. China has become almost self-sufficient in petroleum products, including jet fuel, at the present low level of consumption. Some imports of some high quality lubricants and additives continue, however.
 2. Output of chemical fertilizer has doubled compared to 1960, to an estimated 5 million tons. Availability of chemical fertilizer, including imports, is still less than one-fourth of China's needs, estimated conservatively.
- C. Production of light industrial products continues to be restricted by shortages of agricultural raw materials. Average cloth rations in 1966 are believed to have increased slightly, to three or four meters per person.

(CHART, CHINESE FOREIGN TRADE)

- IV. Since 1960, the regime has pointed with pride to its policy of "self-reliance" and its freedom from dependency upon the Soviet Union; nevertheless,

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foreign trade--in particular, trade with the Free World--is playing an increasingly important role in China's economy.

- A. Total trade in 1966 probably reached \$4.1 billion, almost equalling the peak year of 1959. However, the character of China's trade has undergone a major reorientation since 1959.
1. In 1959 almost 70 percent of trade had been with the Communist Bloc countries. In 1966, more than 70 percent of trade was with the Free World.
 2. Trade with the Soviet Union, which reached a level of almost \$2 billion in 1959, fell to about \$400 million in 1966. Japan replaced the U.S.S.R. as China's chief trading partner.
- B. This sharp shift in the direction of trade has taken place largely because of the need to import grain, which could be obtained only in the Free World, and because of the Sino-Soviet dispute, which moved China to reduce its economic and technological dependence on Russia.

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C. China's deliberate turn to Japan and Western Europe as its principal source of foreign technology takes the form of imports of complete plants, imports of small but highly important commodities--for example, precision instruments and machine tools--and an increasing exchange of trade missions and industrial exhibitions.

V. Economic problems at home have not prevented China from continuing its program of economic and military aid to selected foreign countries. Until 1963, most of Peking's aid commitments to Free World countries were in Asia. Since then, Peking has also directed its attention toward Africa and the Middle East.

A. The Chinese have emphasized their support for revolutionaries in the less developed countries, but direct military aid has not been large.

1. The chief recipients of arms aid have been Algeria, Cambodia, Indonesia, and Pakistan.
2. Since the fall of 1965, Peking has become the principal supplier of military aid to Pakistan.

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3. In addition, China has delivered small amounts of arms aid, including some military training, to dissident groups in Africa, particularly in the Congo (Brazzaville), and to exiles from Angola, Mozambique, and Portuguese Guinea.

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