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Intelligence Report

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RECENT DEVELOPMENTS AND PROBABLE TRENDS
IN COMMUNIST CHINA

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DEPARTMENT OF STATE

Office of Intelligence Research
and Analysis

Prepared by
Division of Research and Analysis for Far East
February 10, 1958

THIS IS AN INTELLIGENCE REPORT AND NOT A STATEMENT OF DEPARTMENTAL POLICY

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This report was prepared as the IRA contribution to NIE 13-58, "Communist China," and is distributed for background use.

This report is based on information available through February 10, 1958

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Abstract*

1957 was a year of considerable experimentation and adjustment in Communist China, as the regime faced problems arising from collectivization, socialization, and ideological regimentation, the forced pace of industrialization, and the aftermath of de-Stalinization and the Polish and Hungarian developments of 1956. Through Mao's "100 flowers" and "contradictions" formulas the regime attempted to institute a more flexible approach to problems of popular dissatisfaction, intellectual regidity, and party weaknesses, but reverted to more conventional authoritarianism when the relaxation elicited excessive criticism of basic aspects of the regime's program. Consequently the latter part of 1957 was devoted to a weeding out of "rightists" from the government, party, and other sectors and to a heightened program of ideological indoctrination of the populace, although the CCP continued its "rectification" effort to eliminate failings in the party and government.

In an attempt to streamline the gargantuan administrative and economic apparatus, Peiping at the end of the year began to transfer hundreds of thousands of cadres to lower echelons and to productive enterprises. In agriculture the regime, faced with considerable peasant opposition to the collective farms into which 97 percent of mainland China's peasants had been organized, attempted to find more effective methods of operating the collectives and of controlling the collectivized peasants and their product. In its economic program, adjustments were made to ease inflationary pressures, relieve industrial shortages, and to improve state collections of agricultural products. Industrial and agricultural output in 1957, the last year of the first Five-Year plan, was about 133 percent and 15-20 percent, respectively, above 1952.

In the field of international relations, the regime moved to recoup some of the losses it had suffered as a member of the bloc in 1956 as a result of the revelations concerning Stalin and the repression of the Hungarian rebellion. While retaining its initiative in making ideological formulations and maintaining its stature within the bloc, Peiping emphasized particularly its acceptance of Moscow as the leader of the bloc. Participating as the second-ranking bloc member after Moscow at the celebration of the 40th anniversary of the Bolshevik revolution, Peiping attempted to identify itself with Soviet gains during the year, and particularly with the Soviet launchings of two earth satellites. A notable feature of Communist China's relations with the non-Communist world was its sensitivity regarding the "two Chinas" concept, which it adamantly rejected as a US plot.

The Chinese Communist regime appears to be facing the second Five-Year plan beginning in 1958 with considerable confidence in the economic field, although the maintenance of economic expansion will be more difficult and costly than in the first plan. However, through stringent economies and harsh limitations on consumption increases, the regime will

* The conclusions of this paper are presented in somewhat more detailed form on page 144.

probably be able to maintain a rapid rate of economic growth, with national income rising about six to sever percent annually. During this period the population problem will become increasingly significant with the population expected to rise from 640 million to 720 million.

The regime will be faced with continuing and probably increasing dissidence among many sectors of the population, particularly peasants, intellectuals, and national minorities. Although the decrease in public support may hamper some of the programs, the regime's control apparatus will almost certainly be able to prevent any internal threat to its existence.

The present character of the Sino-Soviet alliance will probably be maintained, with Peiping and Moscow bound by ties of mutual dependence and a common view of world history and of the East-West struggle. Barring unforeseen shifts in bloc strategy or a major war, Peiping will probably continue its present tactics toward non-Communist Asia and attempt to exploit whatever non-Communist weaknesses may develop. Although these tactics may result in some increase in Peiping's influence and prestige, changes in its international position will be determined to a greater degree than in the past on the course of the conflict between the Communist and non-Communist worlds.

I. RECENT DEVELOPMENTS

By early 1957, the air of confidence and certainty which seemed to characterize the Eighth Congress of the Chinese Communist Party (CCP) in September 1956 no longer prevailed. This change can be partly explained by the fact that the Congress, the first in eleven years, could look back with justifiable satisfaction on the CCP's achievements; after the Congress, it was necessary to face the future, with its uncertainties and problems. More important, however, were certain domestic and international developments which created additional problems or underlined old ones. Foremost among these developments were the domestic repercussions of de-Stalinization and of the Hungarian and Polish affairs; a disappointing 1956 harvest and growing difficulties with a newly collectivized peasantry; increasing disillusionment, discontent and apathy; and the claimed "basic completion of the socialist revolution," which necessitated reconciling policy with ideology.

Accompanying this increase in problems was a more realistic recognition of the problems by the Chinese Communists. Thus in early 1957 they were engaged in reappraising the situation in order to adapt their policies to meet the problems.

Although specific developments prompted the CCP to undertake this reassessment, they were all manifestations of the fundamental problem inherent in Chinese Communism: how to mobilize the country's human resources and utilize its material resources in support of the regime and its programs, particularly its economic policy of forced industrialization. Unwilling to make any basic change in this economic policy, the Chinese

Communists sought the solution by attempting to improve their utilization of material resources and their method of mobilizing the people. Domestic developments in Communist China largely reflected this attempt.

During 1957, the Chinese Communists were largely successful in restoring the momentum of their economic program, but their attempts to devise new solutions to their political problems encountered unexpected obstacles. Thus at the beginning of 1958, their economic activities were characterized by a renewed air of confidence; in the political field, the regime having reverted to previous methods, the atmosphere was more one of firmness of purpose than of satisfaction and assurance.

A. Political and Social

1. Mao's "Contradictions" Formula. Available evidence strongly suggests that Mao Tse-tung himself, perhaps ignoring the apprehensions of some party leaders, devised the new formula for eliciting more positive support from the Chinese people. Mao presented the theoretical basis and the broad outlines of this formula in a speech to a Supreme State Conference audience of some 1,800 persons on February 27. The formula had two main components.

The first component was the thesis that contradictions -- i.e., problems and conflicts of interest -- continue to exist in a socialist society, partly owing to dialectic reasons and partly because of inexperience. These contradictions occur between the leaders and the people and within and between various groups, such as the workers, peasants, bourgeoisie, intellectuals, and minorities.

The second component of Mao's formula was a suggested method of handling these contradictions. He explained that there are two types of contradictions: antagonistic ones between the "people" and the "enemy," and non-antagonistic ones "within the ranks of the people." Using the concept of the "people's democratic dictatorship," Mao stated that dictatorial methods should be applied only to the antagonistic contradictions, while "democratic methods" should be used in handling contradictions "among the people." Most of Communist China's problems were of this second category, Mao explained, and they should be resolved by "democratic methods, methods of discussion, of criticism, of persuasion and education, not coercive, high-handed methods."

Mao's approach was a bold one with ambitious objectives. It apparently arose from his belief that it would be both feasible and desirable to rely less on repression and controls and more on voluntary popular support. The lessons of Poland and Hungary undoubtedly influenced his thinking, but domestic considerations were also important. The technique of repression, tight controls, and sudden spurts of "campaign" energy, previously effective in suppressing organized opposition and in establishing the institutional framework of a communist society, would be less productive in channeling the country's energies into the protracted effort of economic development. By arguing that problems were inevitable, even under communism, he apparently hoped to make the problems a common cause, thus reducing the blame laid on the regime. And he intended to reinvigorate the CCP by rationalizing the problems, by creating a better relationship between the party and the

people, by correcting the errors and weaknesses of party members, and by fostering a stronger sense of discipline and unity.

2. The "Rightist" Issue. The full impact of Mao's speech was not immediate. In mid-April, however, it became apparent that the regime had decided to use the speech as a basis for a major campaign, and at the end of April the CCP launched a party rectification campaign, to be "guided ideologically" by Mao's thesis on contradictions.[1]

This rectification campaign was described by the CCP directive as primarily an internal party matter with the objective of improving the party's "working style." However, the rectification technique emphasized the value of criticism as a means of identifying and solving contradictions, and in early May the CCP held a series of forums in which non-Communists -- primarily intellectuals -- were encouraged to voice their frank views. These forums led the rectification movement into the tangential and unplanned "anti-rightist" phase which constituted a fundamental change in the movement, and, it appears, in Chinese Communist thinking.

All evidence suggests that Mao's speech -- as delivered, not as eventually published -- was, for a Communist statement, remarkably liberalistic in both specific content and general tenor. In particular, it stressed the necessity of further encouraging and expanding the process of "blooming and contending" which Mao had advanced in 1956 for the more limited purpose of stimulating scientific and intellectual

1. A discussion of "rectification" is given in the section on "Party and Government," page 10.

activity. Reports that Mao specifically guaranteed that there would be no retaliation against those who voiced their views are partially substantiated and appear logical in view of the surprising frankness with which criticism were soon expressed.

a. Criticisms expressed. Long frustrated by enforced silence, and apparently hoping that they could in fact influence the CCP, the intellectuals voiced criticisms which, in total effect, challenged the CCP's monopoly of leadership and some of its important policies. The following criticisms, all published in the mainland press, indicate the vehemence and range of subjects:

> Relations between the CCP and the people have deteriorated because the party believes that it should control "everything under heaven." The demarcation between the government and the CCP should be clearer. The National People's Congress has no opportunity to discuss matters intelligently. A "political planning council," with large non-CCP membership and with broad authority, should be established. CCP members adopt an arrogant attitude toward non-party persons. Minor political parties are slighted. CCP committees in educational institutions should be abolished. The CCP is not qualified to "lead science." Newspapers should print news; intellectuals should be permitted to establish their own publications. A high-level body should be formed to review the injustices which occurred in previous mass campaigns. Former businessmen no longer need extensive ideological remolding. The tempo of socialization should be slowed down. China should not bear the full cost of the Korean war, should obtain more lenient loan terms from the Soviet Union, and should receive compensation for the equipment which the Soviet Union removed from Manchuria in 1945-46.

b. Number of "rightists." It is not clear how many people voiced such criticisms. The Chinese Communists claimed that of the intellectuals and former businessmen, only a small minority was involved. However, 54 "rightists" were deprived of their positions as deputies to the National

People's Congress in January 1958, and an incomplete count shows that about 500 persons have been attacked in the press. Whatever the number of persons who actively criticized the regime, the criticisms represented the opinions of a still larger group of persons. CCP spokesmen stated that the large majority of the intellectuals and "bourgeoisie" have not yet accepted the "socialist road" and are "unwilling to accept the leadership of the party and the proletariat." The Chinese Communists have attempted to minimize the extent of opposition sentiment among the students, workers, and peasants, but official press reports suggest that a sizable wave of criticism of the regime swept through the schools, and that dissatisfaction, not necessarily related to the "rightist" issue, was widespread among the peasantry. Moreover, the vehemence of the regime's counterattack -- a move which necessitated a major change in both the procedure and the tenor of the rectification campaign -- strongly suggests that the CCP was shocked by the prevalance of these views and concerned by the probability that the views would find a large receptive audience.

The persons charged as "rightists" ranged from some of the country's most prominent non-Communists -- several government ministers, university presidents, newspaper editors -- to obscure individuals. Almost all areas of intellectual activity were affected; the CCP secretary general, for example, listed "industrialists and businessmen, democratic

parties, educational circles, journalistic and publication circles, cultural and art circles, scientific and technological circles, health circles, many personnel of state agencies, college students, and so forth." In addition, "rightists" were found in the government, the army, the party itself, the Communist Youth League, in legal fields, and among the national minorities. Of the various groups, the minor "democratic parties," especially the China Democratic League, were charged with harboring the largest number of "rightists" in responsible positions.

c. "Rightists" accused of organizing. How much organization or liaison there was among these "rightists" is not clear. Two of the leading "rightists" -- Chang Po-chun and Lo Lung-chi, government ministers and deputy chairmen of the China Democratic League -- were accused of having formed a "conspiracy" with widespread contacts. It was said that the "rightists" had a "platform, organization, and plan." The Minister of Public Security stated that counterrevolutionaries, "influenced by the frantic rightists," established organizations, carried out armed revolt, and engaged in propaganda activities. It is probable that the CCP deliberately exaggerated the degree of organization, and it seems doubtful that most of the "rightists" were organizationally united. However, there was undoubtedly some liaison within certain groups. Some of the persons accused as "rightists" may have been seeking an opportunity to exercise an ameliorating influence on some of the harsher Communist policies for some years. After Mao's speech promising a more "liberal" phase in Communist policies,

these persons probably moved into action along the lines suggested by the Communist charges, attempting to "light fires" in non-Communist intellectual circles throughout mainland China. However, their objectives were probably not as ambitious as the regime charged, since it is improbable that they expected to usurp leadership of the country.

d. Counterattack against "rightists." The regime launched its counterattack -- the "anti-rightist struggle" -- in early June. Its technique was to make charges against the "rightists" in general, leaving to various other groups, such as the minor parties and professional bodies, the task of identifying the individual culprits and specifying the charges. A revised version of Mao's February speech was released, now including criteria by which proper and improper criticism should be judged. The principal criteria were acceptance of CCP leadership and support of socialism, and the broad accusations leveled against the "rightists" were that they were challenging the right of the CCP to lead the country and were attempting to restore the "bourgeois economic and political system."

Many of the prominent "rightists" publicly recanted; most initial confessions were rejected as superficial and unsatisfactory, and the "anti-rightist struggle" continued with heightened intensity and broadened scope. The regime laid the groundwork for severe punishment by using such phrases as "criminal activity," "the enemy," and "the same category as counterrevolutionaries." Of long-term significance was the modification of Mao's discussion of contradictions, to emphasize that there will be recurrent struggles "between the enemy

and people" for some years, even though those who resolutely oppose socialism are small in number.

Some "rightists" were expelled from their positions in government (including three ministers) and other organizations, in the CCP and the minor parties, and in the people's congresses at both national and lower levels, but none has been arrested as of mid-January 1958. It is possible that a few will eventually be charged with counterrevolutionary activity, but apparently the CCP hopes to avoid a reversion to widespread use of terror and physical punishment.

e. Ideological indoctrination stepped up. Perturbed by the signs of a more widespread dislike of communism than previously estimated, and hoping to derive some more positive benefit from the "anti-rightist" campaign, the CCP broadened its original plans and launched a nationwide rectification movement. Of even broader scope, although somewhat different in form, was the massive "socialist education" campaign conducted among workers and peasants with the stated purpose of heightening their belief in the superiority of socialism and inculcating a proper understanding of the relation between individual interests and those of the state. For students, courses for ideological indoctrination have been heavily emphasized. Meanwhile, toward the end of the year the CCP returned to its original program of party rectification, and thus all significant groups in the country were engaged in varying degrees in ideological indoctrination.

3. Party and Government. The rectification campaign produced most of the significant developments concerning the party and government during 1957.

Rectification is a unique CCP device of inducing, or if necessary enforcing, party "purity;" its major objectives are to create conformity, tighten discipline, correct failings, and reinvigorate the party. The CCP directive emphasized that harsh techniques were to be avoided; the process was to be one of persuasion and education. A central feature was "criticism and self-criticism" as a method of identifying and correcting "contradictions" or errors in party work.

It is natural that in the context of the rectification campaign, the more significant party and governmental developments during this period would highlight problems and weaknesses. However, there was little reason to believe that the party faced a critical internal crisis. The basic elements of its strength remained: a determined leadership, a large membership organized to act as an instrument of control and policy implementation, and an intention and ability to enforce a high degree of discipline and conformity.

a. Policy disagreements. At the beginning of 1957 it was apparent that some doctrinaire elements in the CCP were questioning the "blooming and contending" policy which Mao had advanced in 1956. His strong reaffirmation of this policy in his February speech was undoubtedly intended to silence these doubts, but there are indications that Mao's "contradictions" formula was in turn opposed by many party members, probably including some in the Politburo. Mao seems to have originated

the new approach, rather than merely using his authority to settle a debate, and it is not known how many party leaders genuinely favored Mao's formulations. It is possible that Liu Shao-chi and P'eng Chen argued against the policy; "rightists" were accused of making such allegations, and Liu took little publicized part in the initial phase of the movement. However, the subsequent modification of Mao's original policy, marked by the counterattack against the regime's critics, presumably provided considerable justification, to those who had questioned the policy, and it is doubtful that either those who supported Mao or those who disagreed with him have fallen into disfavor. Nevertheless, the debate may have at least temporarily sharpened divergent viewpoints within the party, and Mao's prestige as the infallible leader may have suffered slightly.

This probable disagreement among the leaders was reflected at lower party levels. Some members were labelled "rightist" for expressing views comparable to those of the non-party critics, while others, fewer in number, were called "leftist" for questioning the fundamental concepts of the "contradictions" doctrine and the rectification movement.

b. Rapid expansion of membership. In September 1957, the CCP claimed a membership of 12.7 million. Of these, 8.2 million had joined the party after it achieved control of the country in 1949, of which about two million were recruited since June 1956. During the rectification campaign, the CCP stated that many of the new members came from a non-proletarian background, were insufficiently grounded in communist theory, lacked revolutionary experience and fervor, and had been "steeled through labor."

c. Other party weaknesses. Explicit in the rectification campaign and in many party statements was a concern that party members did not have the proper close contact with the people. Thus one of the main objectives of the campaign was to combat the admitted growth of bureaucratism, which was stated to have led to the use of undesirable methods of administrative control or oppression in dealing with the people. The campaign was also intended to overcome sectarian tendencies (described as adopting a narrow, compartmentalized approach to questions) and subjectivism (a catch-all deviation arising from a failure to understand the reality of any situation). In addition, party members with an intellectual background were told to overcome vestiges of bourgeois thought and tendencies towards liberalism and individualism. Occasionally alluded to during the rectification campaign, and even more evident in early 1957, were the doubts and confusion which were aroused by the Polish and Hungarian affairs and not fully allayed by the party's official explanations.

d. Possible party purge. Although the policy of reeducating errant members was constantly stressed, and although the CCP will want to avoid a Stalin-type purge, at the beginning of 1958 there was increasing evidence that a significant number of party members might be expelled. A number of provincial party officials, including the governor of Chekiang and a number of deputies to the National People's Congress, were dismissed from the party for "rightist" activities; more party members, including officials of the judicial organs and the party's newspapers, have been attacked as "rightists." In a review of the rectification campaign at a Central Committee meeting in September 1957, the party's secretary general

stated, in reference to members who opposed the party on certain policy problems and adopted a "vacillating political stand," that "rightists" within the party "must be treated with severity," (apparently meaning expulsion). So far no persons of Central Committee level have been charged with rightism, although one member was dropped for dereliction of duty.

The rectification campaign itself, as distinct from the "anti-rightist struggle," had led a few if any expulsions, but it is possible that the leaders will use this opportunity for weeding out members of dubious reliability or ability.

The delay in convening the second session of the 8th Party Congress, previously scheduled for December, may be due to an intention to utilize the Congress to summarize and terminate the "purge" aspect of the rectification campaign.

e. Shift of cadres. An important change in the cadre assignments occurred during the period, again largely as a result of the rectification campaign. By the beginning of 1958, about a million cadres, perhaps half of whom were party members, had been transferred to lower levels, particularly to rural areas; large numbers were assigned to agricultural cooperatives. This major program seemed to have a number of objectives: retrenchment of non-productive personnel in party, government and industrial organs; reduction of bureaucratic tendencies in these organs; strengthening of the party network in the crucial agricultural field; inculcating members with an appreciation of manual labor; and punishment of errant members. The numerous exhortations to these cadres suggested that many disliked the shift, but the program still continues with the prospect that many more cadres would soon be affected.

f. Parochialism. The problem of antagonism between cadres of local origin and those sent in from other parts of the country -- a problem seldom mentioned in the past -- received considerable attention towards the end of 1957. The problem was more acute in certain areas, notably Kwangtung, where it was described as a serious obstacle to the party's programs. Reports indicated that resentment was directed particularly against the policy of assigning non-local cadres to the higher cadre jobs. Still the CCP indicated no intention of changing its assignment policies; instead, it called on cadres to demonstrate a more cooperative spirit and to emphasize their common devotion to communism.

g. Rural cadres. The problem of ensuring efficiency of action and orthodoxy of thought among rural cadres is not a new one. Chinese Communist statements during 1957 reflected the CCP's continuing concern, which was probably heightened by its more realistic appreciation of the difficulties of obtaining peasant support and of running the collectives smoothly. Some cadres were said to have identified themselves more closely with the peasants' interests than with the state's demands on the question of grain collection. In more general terms, they were criticized for having "bourgeois" tendencies and for having failed to realize that the class struggle, particularly on the political and ideological level, still continues in the countryside. To correct these weaknesses, the party stated that the "socialist education" movement was directed at the cadres as well as the peasants. The large-scale transfer of cadres to the rural areas undoubtedly had as one objective the expansion of the rural cadre system and, by increasing the number of cadres of urban origin,

the counteracting of undesirable tendencies among the rural cadres.

h. Decentralization. Peiping's state apparatus has been characterized by a high degree of centralization in planning and decision-making and by a related trend toward the growth of a large, top-heavy bureaucracy. As a result, local initiative has often been paralyzed, and local officials have been smothered under an avalanche of directives from central and provincial governments.

Chinese Communist leaders have shown increasing awareness of the need for streamlining their swollen bureaucracy and promoting a greater measure of local initiative. The problem of readjusting central-local relationships was one of the major topics discussed during the 8th Party Congress held in September 1956. In November 1957, after almost a year of preparation, the central government issued a series of new regulations providing for a gradual, limited and still experimental decentralization of some industrial, commercial, and fiscal controls.[1] This decentralization process may facilitate the concomitant efforts by the regime to streamline its bureaucratic apparatus and retrench excessive administrative personnel.

1. Although this move was similar in spirit to the Soviet economic reorganization measures, it differs considerably in scope and detail. The Soviet measures may have influenced the CCP's thinking, but the CCP did not copy the Soviet pattern.

4. Dissidence and Resistance. The Chinese Communist regime has been confronted with an increasing volume of popular dissidence and discontent among several sectors of the population, including the peasantry, students and intellectuals, and certain ethnic minority groups. This rising level of popular unrest appears to reflect a disillusionment arising from unfulfilled promises, as well as the stresses and strains involved in the regime's accelerated program of collectivization and industrialization. Continued efforts by the regime to impose stringent political and social controls and to modify deeply ingrained social customs have also been contributing factors.

Popular unrest on the China mainland has not been translated into well-organized and active resistance capable of threatening the stability of the regime. Active resistance activities have been localized, sporadic, and confined to small groups lacking effective leadership and organization. For the most part, popular dissidence has been expressed in passive resistance, apathetic resignation, or refusal to accept the doctrines disseminated by the regime. Nevertheless, dissidence constitutes an important obstacle to the successful implementation of the regime's political, economic, and social programs.

a. "Counterrevolutionary" moves. From the middle of 1955 to the fall of 1957, the regime carried out another nationwide drive against "counterrevolutionaries" comparable in scope and intensity to an earlier drive launched in 1951. During this movement, over 100,000 "counterrevolutionaries" were reportedly discovered within the party, government,

mass organizations, and state enterprises. About 5,000 of these were uncovered within the CCP itself and 3,000 in the Communist Youth League. According to official reports, some of these had "reached the innermost organs and had usurped important functions of the party and the state." In addition, more than 3,000 "reactionary cliques" were broken up, and "various schemes within the government smashed."

The part of the counterrevolutionary campaign aimed at the general population resulted in many arrests and reportedly in the surrender of some 370,000 "counterrevolutionaries" and criminals. Most of the specific cases of "counterrevolutionary" activity reported in the Communist press during 1957 have involved small-scale and localized instances of alleged sabotage, espionage, or assassination of Communist officials. There have been no reports of large-scale armed uprisings comparable to the Tibetan revolt of 1956.

While continuing their usual efforts to suppress counterrevolutionaries, the Chinese Communists attempted to devise more subtle methods of detecting and minimizing popular dissidence -- the "contradictions" and "rectification" movements mentioned above. However, the intensity and volume of the criticism revealed a residue of popular resentment and discontent which apparently alarmed the CCP leaders and prompted them to revert to more stringent control measures.

b. Disaffection of intellectuals. One significant fact emerging from the "rectification" campaign and drive against "rightists" is the extent of residual intellectual antagonism to the regime. Communist

leaders have been forced to admit that the majority of intellectuals remain "corrupted by bourgeois" ideas and that it will take another ten years or more to reform them thoroughly. Current trends toward a reimposition of party controls over cultural life will probably intensify existing discontent among the intellectuals.

The Chinese student group, traditionally volatile and politically articulate, has also shown signs of increasing disaffection and unrest. During 1956 and early 1957, student riots and demonstrations against the regime were reported at several schools and universities, with some Youth League members participating. Such activity may have been inspired in part by the impact of the Hungarian revolt on Chinese students; probably to an even greater extent it reflected growing student dissatisfaction with stringent Communist controls over the schools, restricted opportunities for higher education, and lack of adequate job opportunities.

c. Peasant discontent. During 1957 the regime encountered considerable dissidence and discontent from the peasants, comprising 85 percent of the population. Resentment against the collectives flared up at the beginning of 1957, and there were numerous spontaneous and unauthorized peasant withdrawals, leading to the disintegration of some collectives. Most were restored by administrative action, but reports of "civil disturbances" and counterrevolutionary activity by "rich peasants" and ex-landlords, suggest the use of force in a number of areas. The Communist leaders claim that only a small proportion of the peasants are actively hostile to the collectives, but admit that many

are "wavering" and not convinced of the collectives' advantages, while the large majority have specific grievances such as food shortages, malfunctioning of the collectives, and blunders in the farm development program. In addition, there was a decline in the effectiveness of rural cadres, whose morale has dropped sharply and who in many cases tended to sympathize with, rather than oppose, the "capitalistic" views of the peasants.

d. Tibetan resistance. The Chinese Communists, like previous rulers of China, have encountered special difficulties in dealing with the various ethnic minority groups who now compose about six percent of the population. The Communists have tried to placate these groups by promising them a measure of cultural and political autonomy and by occasionally delaying social and economic changes in minority areas. At the same time, however, the Communists have continued their efforts to integrate minority areas into a centralized pattern of administrative controls.

To date, the Communists have encountered the greatest measure of active resistance in Tibet and in the Tibetan areas of Szechuan. The well-entrenched Buddhist church in Tibet, commanding broad popular support, has been a serious obstacle to Communist efforts to carry out social and political change. The Tibetans have apparently resented CCP efforts to interfere with traditional religious customs and to indoctrinate Tibetan youth. Following the outbreak of armed uprisings in eastern Tibet in 1956, the Communists were forced to revise their timetable for Tibet and announced that projected social and economic reforms

would be postponed for six years. As a consequence, many Chinese cadres were withdrawn and the size and functions of the Preparatory Committee for the Autonomous Region were reduced. However, Chinese troops remained in Tibet, and Peiping did not abandon its objective in integrating Tibet more completely into the pattern established for the rest of the country. Towards this end, recruitment for the CCP and the Communist Youth League continued and other Tibetan cadres were being trained.

e. Difficulties in other minority areas. During the latter part of 1957 there were increasing indications that the Communists were encountering difficulties in other minority areas. During November and December, party and government conferences were called in several of the "autonomous" areas inhabited by minority peoples, including the Chuang areas of Kwangsi, the Miao and T'ung areas of Kweichow, and the Ili region of Sinkiang. The dominant theme at these conferences was the growing danger of "local nationalism" among ethnic minority groups, which was reportedly being expressed in resistance to Communist social reforms and in agitation for more real independence. This stress on the dangers of "local nationalism" marked a shift from the earlier CCP "line," which stressed the need to guard against "greater Han chauvinism." This earlier emphasis may in fact have encouraged the minority peoples to demand more autonomy than the CCP would tolerate.

Sinkiang, inhabited largely by Uighurs or Turki peoples, appears to be an area of particular concern. At a party conference called in December 1957, the local CCP leader, Saifuddin, revealed that local

minority groups had been agitating for the withdrawal of Han Chinese cadres and had been resisting Communist efforts to promote the study of Chinese. In Inner Mongolia, the Communist press reported that "rightist" elements among minority groups were trying to promote a "secessionist" movement.

Despite indications of mounting discontent among ethnic minority groups, Peiping has not abandoned its policy of granting nominal "autonomy" to minority groups while at the same time tightening its administrative controls over them. The regime announced plans to establish two new larger "autonomous regions" having an administrative status equivalent to provinces. One of these, the Kwangsi Chuang Autonomous Region, will include more than six million Chuang peoples, the largest single ethnic group on the Chinese mainland. The other, the Ninghsia Hui Autonomous Region, established in the northeastern part of Kansu province, will have a population of about 1.6 million, one third of which will consist of Hui -- a loosely defined group who are largely Muslim in religion, although Chinese in speech. In both of these new "autonomous areas" the ethnic minorities will be outnumbered by Han Chinese, thus facilitating a further tightening of Chinese control.

5. Education and Trained Personnel. During 1957, Communist China continued to emphasize the role of education and technical training in realizing the long-run objective of developing an industrialized economy.

Although the reduced rate of industrial growth resulted in a slight decrease in the total 1957 national budget when compared with the previous year, the portion allocated for education expenditures increased in both absolute and percentage terms from approximately 8.8 percent in 1956 to 10.2 percent in 1957.

Peiping's general review of its programs was reflected in its reassessment of educational capabilities. This resulted in a sharp reduction in new admissions, particularly in universities and colleges, although total enrollment continued to grow. Moreover, evidence of student unrest and the political unreliability of leading intellectuals revealed during the rectification campaign caused the initiation of measures designed to reestablish student discipline and doctrinal orthodoxy as well as reinforce the dominanance of CCP influence in educational circles.

a. School enrollment 1957-1958. The Chinese Communists state that about 65 million children were attending primary schools in 1957-58, representing about 80 percent of the total number of primary school-age children and an approximate 5 percent increase over those enrolled the previous year. Available data suggest that total enrollment in middle schools in 1957-58 was about 5,100,000, a drop of several hundred thousand from the 1956-57 school year. With respect to secondary vocational training, total enrollment in 1957-58 was about the same number (530,000) as in the previous year; however, unlike 1956-57, more attended the secondary normal

schools than the technical schools. Present university and college enrollment is said to be 443,000 as compared to the 1956-57 enrollment of 400,000. Though this represents an increase of 12.4 percent, the number of newly enrolled students dropped substantially from 180,000 in 1956 to 107,000 in 1957.

b. Educational problems. Peiping stated in early 1957 that fewer primary and middle school graduates would be permitted to advance to higher schools, and called for those students unable to advance to turn to manual labor, particularly in rural areas, owing to the limited rise in urban employment in 1957. The government recognized that in some specialized fields at the university level, incorrect pedagogical methods, aggravated by poorly qualified teachers and inadequate equipment, resulted in poorly qualified graduates. Consequently, courses of training were increased from four to five years. Furthermore, the regime announced that limited financial and material resources made it impossible to provide adequate school building facilities for the increased number of students who wanted to enter middle schools and higher educational institutions. In addition to these admissions of inadequacy, Peiping also found it necessary to reemphasize that university and college graduates would have to agree to work assignments made by the State.

c. Strengthened controls over students. The emergence of these educational problems coincided with additional problems arising from the rectification campaign. Some of the articulate critics of the regime proved to be university professors, and schools were one center of the resulting controversy. A number of student demonstrations were reported.

Wall posters and unauthorized publications on university and college campuses criticized such policies as work assignment and excessive study loads. These developments evoked sharp disciplinary measures by the state. Leaders and some school officials implicated in a middle school riot in Wuhan were executed. In July, Peiping published regulations requiring all university and college students to prepare anew complete biographies as a means of evaluating their political reliability. Further political control measures stipulated that if a graduate adamantly refused the work assignment given, the State would not provide alternative employment and he would be placed under security surveillance. Students suspected of "anti-socialist" leanings would be allowed to graduate, but would be placed on probation for one to three years and would receive no salary other than a living allowance. Although the number of graduates affected by these administrative measures will probably be limited, they do serve as sharp reminders to the rest that the regime intends to exercise strict control.

One of the principal criticisms made by the "rightists" was directed at the CCP committees attached to higher educational institutions. It called for the abolition of these committees on the grounds that the CCP members on these committees were incompetent and that they subordinated intellectual inquiry to political requirements. The regime reacted by strengthening its controls in the schools. Recent wholesale transfers of government officials to local administrative posts throughout the country included the assignment of large numbers of political officials to executive positions in many colleges and universities. In addition, Peiping decreed

in late 1957 that courses on "socialist education" for university and college faculties and students would be stressed as an integral part of the curriculum this academic year. These developments have increased the regime's preoccupation with the class background of the students. Peiping asserts that by now two-thirds of the middle school students are of worker-peasant background, but that at higher levels the proportion is much lower. Associating class background with political reliability, the regime has decreed that students with worker-peasant backgrounds be favored for admission to higher schools.

d. Basic program unchanged. Despite these political developments in Chinese Communist education, there has been no fundamental change in Peiping's program to create a larger reservoir of technically trained individuals. Of the 107,000 newly enrolled university and college students in the 1957 academic year, almost 35 percent will major in engineering courses and about 35 percent are scheduled for normal school attendance. Another 15 percent are distributed evenly between medicine and science, while the 15 percent remaining will study agriculture, economics, law, and the fine arts. These figures reflect continuing heavy emphasis on technical and teacher training.

Under the provisions of the Five-year Plan, from 1953 to 1957, 10,100 students were to be sent abroad, with 9,400 of these going to the Soviet Union and the remaining 700 to East European satellites and other countries. In addition, 6,200 workers, technicians, and factory administrators were scheduled to receive training in the USSR during this period.

These quotas have probably been largely fulfilled, but many of the students have admittedly been inadequately prepared for their courses. Recent decisions have included a greater emphasis on the sending of graduate students because undergraduates have shown themselves unable to benefit fully from their study abroad.

Communist China continued its campaign during 1957 to lure professionally trained overseas Chinese through attractive job offers and the appeals of dependents and relatives. Very few of this caliber have actually returned, although the recent efforts of Chinese Communist diplomatic representatives to contact the two Chinese-American Nobel prize winners is an example of their persistence in this direction.

6. Socialization. While primarily concerned with rationalizing and consolidating the newly socialist organization, the regime continued its drive to complete the socialization of the economy during 1957. At the end of 1956, 96 percent of peasant households had been organized, with 88 percent in collectives and 8 percent in "lower level" cooperatives. By the end of 1957, individual peasant households had been reduced to 3 percent, and most of these with the exception of Tibet and other exempted areas had been placed under the "guidance" of the nearest collective. Virtually all "lower level" cooperatives had been raised to full collectives. Although a considerable number of collectives reportedly were "dissolved" in early 1957, this apparently represented spontaneous action by angry peasants and was tolerated only until rural cadre forces could be strengthened. The principle of "voluntariness" was maintained in theory, but in practice it became virtually impossible for the peasant to escape collective control.

a. Adjustment to problems. During 1957 the regime showed concern over the inefficient operation of the collectives, the rise in peasant discontent, and the decline in the morale of rural cadres. The trend of 1955-56 toward ever larger collectives was reversed. The ideal size was placed at about 100 households, half the 1956 size, preferably to contain only one natural village, in order to simplify management and to reduce hostility within the collective between antagonistic groups. Cadres were directed to participate in manual labor in a concerted effort to reduce administrative overhead. In their analysis of peasant discontent, the regime noted that 15 percent of the households had been discriminated against in collective operation -- those with many dependents and those with high or special skills -- and were strongly opposed to collectives. These were largely the better farmers and the community leaders. Although the regime claimed that 70 percent of the households were "basically staunch supporters" of the collective system, even these had grievances and were "wavering," with an additional 60 to 80 percent of peasant households complaining of food shortages.

In mid-1957 the regime launched a campaign of "socialist education" employing standard techniques of indoctrination and intimidation to oppose "capitalist" tendencies in the collectives. Succeeding the landlords and rich peasants, the upper-middle peasants are now to be "struggled" against, although the regime, worried over the further narrowing of its base of support, is counselling caution, non-violence, and an attempt to establish "unity" with this group. At the same time, a program to send hundreds of

thousands of urban cadres to the countryside was inaugurated, in large part to provide the collectives with more able and resolute leadership. The morale of the rural cadres was said to be sliding and in some instances they sided with the peasants against the government.

b. Urban socialization. The regime apparently encountered lesser problems in its urban socialization program. The "blooming and contending" period revealed dissatisfaction among the former bourgeoisie, but the economic power of this class does not approach that of the peasantry and its dissidence was not a major problem. The chief flaw in the urban socialist system that became apparent during the year was the prevalence of small "underground" enterprises that had either been bypassed in the 1955-56 socialization drive or had sprung up subsequently to supply goods and services that the socialist enterprises could not adequately supply. During the fall of 1957 the regime began cautiously to move against some of these enterprises, recognizing that many of them performed essential services with relative efficiency even if they violated the principles of socialism. Consequently the regime issued regulations attempting to control some of these enterprises, while moving against others by a combination of ideological indoctrination, administrative controls, and business measures.

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B. Economic Developments

1. General. Economic policy in 1957 was aimed at restoring stability and balance to the economy after the over-exertions of 1956, while attempting to maintain much of the momentum of the 1956 program. The regime had made substantial achievements in 1956, increasing industrial output by 31 percent and state capital construction by 62 percent, collectivizing agriculture, and mobilizing the peasants on a grand scale for land improvements and the introduction of new, more intensive cropping practices. But by the end of the year an unbalanced budget and liberal credit policies had developed strong inflationary pressures, and unbalanced production with attendant goods shortages was affecting industrial output and construction and tying up resources in inventories. The urban population, up 7.6 percent was growing restive over shortages of housing and other facilities, foodstuffs, and other commodities. Rural resentment had flared up and hardened against the regime's program, as the peasants chafed under the new collective institutions, became embittered over apparent inequities and inefficiencies of their operation, and became sceptical and disillusioned as many of the technical innovations turned out to be failures.

A policy of "readjustment" in 1957 was therefore indicated, and the year opened on a note of uncertainty as the regime sought to determine the extent of necessary concessions and compromises. The budget called for a 2.3 percent increase in revenues and a 5.7 percent cut in expenditures, including a 20 percent reduction in capital construction, in order to achieve a fiscal surplus. At the same time, the rise in the annual

wage bill as a result of the wage increases and expansion in the labor force during 1956 was limited by rescinding some of the wage increases and providing for a small reduction in the labor force by the end of the year. The extension of credit to the newly formed collectives and cooperatives was cut back sharply, and efforts were made to promote urban and rural savings deposits. Commodities in short supply, such as grain, textiles, and coal, were conserved by more stringent rationing and distribution controls. By mid-year these measures had eased inflationary strain and reduced severe shortages.

By the end of the year the regime appeared more confident. Revenues had exceeded the budget estimates by 4.45 percent, providing a substantial increase in the fiscal surplus, while economies in other sectors had permitted the restoration of nearly half the cut in capital construction. Industrial shortages had been relieved, with a build-up in stocks and a substantial expansion in the production of basic materials, and a considerable amount of new industrial capacity had been brought into operation during the year. The harvest, despite serious floods and droughts, had improved over the previous year, and with more stringent controls, state purchases and stocks of grain, cotton, and other commodities rose significantly over the previous year.

With the economy in a stronger position, the regime is preparing for a resumption of rapid expansion in 1958 on the scale of the 1956 efforts. The peasants have been mobilized in the winter of 1957-58 for an agricultural development effort similar to that of 1955-56, and are again to be driven to expand irrigated crops, multiple cropping, and the

planting of rice, corn, and potatoes, with the target of increasing farm output by 6 percent. Industrial output, which increased only 6.9 percent in 1957 as a result of raw material shortages and market dislocations, is scheduled to rise by 14.6 percent in 1958, while capital construction is to rise by 17.8 percent, exceeding the high level set in 1956.

In contrast to the rosy optimism of the expansion effort of 1956, however, the regime in 1958 promises only "hard work and thrift" and tightening controls. The 1958 economic plan credits the proposed expansion to the new acceptance of socialism, following the intimidation and indoctrination of the rectification and "anti-rightist campaigns," and to administrative streamlining, which has removed wavering elements from positions of influence and has placed dedicated Communists in command of the shaky collectives and local governments. A ruthless retrenchment is under way among the favored groups of the bureaucracy, the students, and urban labor, with a new insistence on doctrinal loyalty and on the silent acceptance of sacrifice. It remains to be seen what response the economy will make to this increased reliance on the whip.

2. Finance. At the beginning of 1957 the regime was particularly concerned over bringing under control the inflationary pressures loosed in 1956. Fiscal operations in 1956 (see Appendix, Table 1) had resulted in a deficit on current account of ¥ 1.83 billion (US$ .7 billion), while loans to collectives and other newly socialized enterprises increased by ¥ 3 billion (US$ 1.2 billion), twice the planned increase. This credit expansion and a rise of ¥ 2.7 billion (US$ 1.1 billion) in the urban wage bill contributed to an increase of ¥ 6.3 billion (US$ 2.6 billion)

in total purchasing power, which rose to ¥ 46.5 billion (US$ 18.9 billion). The regime reduced state commodity stocks by ¥ 2 billion (US$ .8 billion) to withdraw currency from circulation, but even so the note issue expanded by ¥ 1.7 billion (US$ .7 billion)

The 1957 budget provided for an increase of only 2.3 percent in revenues, in view of the unfavorable economic outlook. Although the budget was ostensibly balanced, providing for a 3.9 percent reduction in expenditures, its deflationary impact was even greater. An allocation of ¥ .6 billion (US$ .2 billion) was made to state bank reserves, which in effect represented a fiscal surplus and indicated a real reduction in expenditures of 5.7 percent, while state capital construction was cut by 20 percent and increased working capital allocations allowed for a build-up of industrial and commercial stocks. The budget for economic, military, and administrative expenditures was cut by 14, 10, and 8 percent respectively, although the expanding education program forced a rise of 5 percent in scheduled social expenditures and expanding foreign aid and loan service obligations resulted in a 25 percent increase in miscellaneous expenditures.

Planned purchasing power was placed at ¥ 47.3 billion (US$ 19.2 billion), a rise of 1.8 percent over 1956. The urban wage bill was estimated to rise by ¥ 1.2 billion (US$ .5 billion) to ¥ 14.1 billion (US$ 5.7 billion) as the wage and employment increases of 1956 became effective over an entire year. In addition, peasant cash sales were expected to rise by ¥ 3 billion (US$ 1.2 billion) from increased marketings and from incentive price increases. However, the expansion of credit to collectives and other newly socialized enterprises was to be reduced to

negligible levels, while a drive was to be organized to promote private savings. The rise in personal purchasing power would thus be limited to ¥ 1.8 billion (US$ .7 billion) and would be partly offset by a reduction of ¥ 1 billion (US$ .4 billion) in market purchases by enterprises and government organs. The projected commodity supply, however, met only 98 percent of the estimated purchasing power, and the regime admitted that a balance would be achieved either by exceeding supply or savings plans or by price increases.

The official urban retail price index rose by 2 percent in the first quarter and by .2 percent in the second quarter, but by mid-year it appeared that inflationary pressures had eased and the most severe shortages of goods eliminated. The regime found that it had been able to make effective budget economies, and towards the end of the year felt its fiscal position was strong enough to make supplemental appropriations of ¥ 1.34 billion (US$ .5 billion), largely to restore postponed capital construction projects. By the end of 1957 the fiscal accounts showed revenues in excess of plan, rising 6.8 percent over 1956 levels, and resulting in a fiscal surplus (including reserve funds) of ¥ 1.8 billion (US$ .7 billion). Expenditures, excluding reserves, were 5.3 percent below those of 1956, or only slightly above budgeted levels. As compared with 1956, economic, defense, and administrative expenditures were reduced by 6.6, 10, and 12.7 percent respectively, while social and miscellaneous expenditures rose by 3 and 16 percent respectively.

The market supply of commodities and "social purchasing power" balanced at ¥ 47 billion (US$ 19.1 billion), slightly under planned levels.

Urban personal cash income appears to have been at planned levels, while rural personal cash income exceeded the target as a result of expanded crop purchases. However, a contraction of rural credit and an expansion of urban and rural savings held back the rise in "social purchasing power."

For 1958 the regime estimates the market supply of commodities at ¥ 50 billion (US$ 20.3 billion) and "social purchasing power" at ¥ 49.4 billion (US$ 20.1 billion). Urban wages are to rise by ¥ .55 billion (US$ 224 million), resulting in an increase of ¥ .5 billion (US$ 203 million) in the purchasing power of the urban population. A loosening of rural credit and increased crop purchases is scheduled to expand rural purchasing power by ¥ 2.2 billion (US$ .9 billion), while enforced economy measures are to reduce institutional purchasing power by ¥ .3 billion (US$ .1 billion). Despite the rise in the market supply of commodities, the supply of the two main staples, grain and cotton cloth, remains restricted. Total grain sales will be reduced by limiting the supply to rural areas in order to build up stocks, while the per capita supply of cotton cloth is to be held at 1957 levels, with most of the increase in production allocated to exports and to the rebuilding of commercial stocks.

In 1958 the regime expects a rise of 7.7 percent in current fiscal revenues resulting from the expansion of industry and trade, while further economies in military and administrative expenditures are projected (9.2 and 13.9 percent respectively). Social expenditures are to be held to a 2.9 percent increase over 1957 levels, allowing a 17.3 percent increase in

economic expenditures. Reserve funds were placed at ¥1.9 billion, (US$.8 billion), the highest level in recent years, to provide a balanced budget.

Outside of the budget, state stocks were increased by ¥5 billion (US$2.0 billion) in 1957, owing in large part to the heavy crop purchases at the end of the year, necessitating increased credit to state industry and commerce of ¥4 billion (US$1.6 billion) over plan. Support from the fiscal surplus was about ¥1 billion (US$.4 billion) over plan, while agricultural credit was reduced ¥.6 billion (US$.2 billion) below the target, and urban and rural savings deposits exceeded expectations. Nevertheless, this left a deficit of about ¥2 billion (US$.8 billion), which the regime has been able to immobilize temporarily by paying the collectives by check for their surplus crops and controlling the disbursement of these credit balances.

The regime is faced in 1958 with the problem of managing these credit balances while carrying out its plan to increase industrial and commercial loans by ¥2 billion (US$.8 billion) and agricultural loans by ¥.4 billion (US$.2 billion). An allocation of ¥.8 billion (US$.3 billion) to bank reserve funds is carried in the budget, and past fiscal experience suggests that this item will in practice be considerably larger. Private savings may rise sharply, approaching ¥1 billion (US$.4 billion), in view of the regime's forced savings plan for the 3,000,000 workers and staff to be sent to rural areas. In addition, the regime has raised the limitations on the proportion of collective income which may be allocated to reserve funds, and expects these reserve funds to total

¥ 3 billion (US$ 1.2 billion) in 1958. Although a large part of these reserve funds is to be utilized to finance the agricultural investment program of the collectives, the regime probably also expects that some of the funds will be left to absorb a portion of the outstanding credit balances. Thus, the regime in 1958 plans to increase sharply the savings mobilized outside of the budget, and particularly to test the effectiveness of the collective organization in mobilizing resources for the regime's program.

3. Agriculture. In 1956 the regime inaugurated a very ambitious program of agricultural development, aimed primarily at raising the productivity of existing acreage and predicated on the mobilizing of under-employed peasant labor to carry out land improvements and to introduce more intensive cropping practices. The program was rigorously carried out, and in the winter of 1955-56 irrigation facilities were provided or improved on one-tenth of the cultivated land. While cultivated land increased by 1.5 percent, the expansion of multiple cropping raised the crop area by 5.4 percent to 159 million hectares. The high-yield crops of rice, corn, and potatoes were promoted, with rice acreage rising by 15 percent and potato acreage by 10 percent. As a result of these developments, the regime claimed that food output, despite serious floods, typhoons, and drought, rose 4.4 percent over the bumper 1955 crops.

However, this "crash" program with limited technical direction resulted in many blunders. A large portion of the new irrigation facilities was poorly designed or constructed, resulting in inadequate irrigation. For example, 40 percent of the wells were inadequate, and the usefulness of the remainder was limited by failure to prepare the land and by lack of equipment for lifting and distributing the water. In many localities the new cropping patterns were unsuccessful, owing to shortages of water, fertilizer, or labor, while in others the new crops or new seed strains proved ill adapted to the soils or climate. Some areas produced more potatoes than the inadequate storage facilities and limited market demand could absorb. In other areas the shift from kaoliang to corn resulted in fuel and fodder shortages, owing to the reduced supply of the by-product

kaoliang stalks. An ill-fated program to mass-produce 5,000,000 improved plows for the peasants was halted in mid-year with an unsold inventory of 850,000, as the featured 2-wheel, double share plow proved too unwieldy for small plots and in hilly areas, too large to be operated in heavy soils or by the light and weak Chinese draft animals, and too difficult to maintain in repair. Moreover, the pre-emption of peasant labor adversely affected livestock production and other subsidiary output normally conducted in the off-season.

As a result of these mistakes and the reaction to them, the program was temporarily slowed. Much less development work was accomplished in the winter of 1956-57, the regime having called earlier for a limit to the proportion of collective income allocated for investment and for the provision of adequate free time for livestock and other subsidiary production. The regime apparently permitted some local determination of crop plans, with local cadres instructed to review the program in the light of experience and to accept the advice of older, experienced peasants. In consequence, cultivated acreage remained constant, while a reduction in the multiple cropping index reduced crop acreage by 2 percent, with some cutbacks in rice, corn, and potato acreage. Flood and drought affected crops in 1957, although possibly to a lesser extent than in 1956, and the regime claimed that improved yields increased food crops 1.5 percent over the 1956 level.

The reliability of the regime's crop estimates is open to some question. In 1956, with near-complete collectivization, the regime attempted to base its crop estimates on complete enumeration, compiling

returns from all collectives. However, reporting was late and, as later marketing experience showed, was seriously biased upward. Sharp downward revisions in the estimates were made in early 1957, but the final estimates may still overstate the crop. The state grain levy (tax and purchase) was reduced by nearly 1,000,000 tons husked grain, with concessions to eight calamity-hit provinces only partially offset by increased levies elsewhere. In these eight provinces the state, through reduced levies and increased sales, provided an increase of 5,000,000 tons over the previous year, allegedly matching the decline in production. The regime claimed that in the remaining provinces the net grain supply rose by 15 million tons husked grain, involving a per capita increase of 42 kilograms or nearly 20 percent in food supplies. However, the regime admits that 60-80 percent of the peasants complain of food shortages, which it attributes to deterioration in quality and forced shifts to unfamiliar and unpalatable foods as a result of changing crop patterns, to the over-high expectations of the peasants of their income from collectives, to the concealment of grain supplies by some peasants, and to the influence of small but articulate groups whose income has tended to be reduced (large labor-short families unable to earn adequate work points, and peasants with high or special skills not adequately rewarded under the work point system). These factors are relevant and may justify a 1956 crop estimate at or slightly above the 1955 level, but do not seem to support fully the final crop estimates.

In 1957 the regime attempted to improve its crop reporting, turning again to earlier experiments in sample surveys which, though they had also tended to show an upward bias, had been more reliable than the 1956 methods.

The initial food crop estimate, 1.5 percent over 1956, probably reflects both an exaggeration in the 1956 estimate and a more realistic 1957 estimate. With possibly less severe natural calamities and the correction of many of the mistakes of 1956, it is not unlikely that production in 1957 was appreciably higher than in 1956. This view is in part supported by the increase in state purchases and the decrease in sales and the consequent rebuilding of stocks, although this change also reflects a firmer policy than in 1956 when the regime was attempting to appease the peasants and absorb purchasing power.

The regime is proposing to mobilize again a large-scale development effort in the winter of 1957-58. The limitations on the investment allocations from collective income have been lifted, and the rural cadres are being reinforced by students and urban cadres, who may be more enthusiastic and doctrinaire than those who have been through the program of 1955-56 and faced the wrath of the peasants. The regime has called for caution and increased technical leadership in formulating the program, but the emphasis is on mobilizing an effort similar to that of the winter of 1955-56.

It is claimed by the regime that 100,000,000 peasants, nearly the whole of the rural male labor force, have been mobilized for developmental projects, that in the four months since October 1957 irrigated land has increased by 7.8 million hectares, irrigation facilities have been improved on 3.7 million hectares, drainage canals have been dug to protect 5 million hectares, and measures to check erosion have been carried out over an area of 45,000 square kilometers. As in 1956, multiple cropping and the planting

of rice, corn, and potatoes are to be expanded, with the hope that experience and better preparation and organization will reduce blunders and enable an expansion of 6.1 percent in farm output.

4. Industry. During 1956 gross industrial output had expanded by a phenomenal 31 percent to ¥58.7 billion (US$23.9 billion). (See Appendix, Table 2). Of the ¥14 billion (US$5.7 billion) increase, ¥2.7 billion (US$1.1 billion) came from the machine-building industry, ¥5.8 billion (US$2.4 billion) from other capital goods industries, and ¥3.5 billion (US$1.4 billion) from consumers goods industries. Among the major factors contributing to the increase were: 1) the organization of mass-production methods in the machine-building industry, 2) the completion of substantial new capacity in the iron and steel industry, 3) the increase in the output of building materials as a result of accelerated capital construction, and 4) the recovery of the textile industry as a result of ample supplies of raw cotton from the 1955 harvest.

However, by the end of 1956 serious imbalances in industrial output were evident. The growth of the fuel and power industries was inadequate to support this rate of expansion, and steel shortages developed despite the rise in output, owing to the even greater increase in machine-production and capital construction. In the steel industry itself ore and pig iron capacity began to limit output. The specialization and standardization required for mass production had been overdone for Communist China's limited market, resulting in surpluses of some products and shortages in others. Thus, the steel shortage was in selective shapes and qualities, while other items were in surplus, enabling exports of 210,000 tons (40% of

steel imports) and a 5 percent increase in stocks to 1,728,000 tons during the year. In the machine industry there was surplus capacity and production of farm and textile machinery, borers and lathes, and small diesels. The abortive farm machinery program consumed 280,000 tons of steel, as against 70,000 in 1955.

With inventories and production unbalanced, it was necessary to readjust industrial output in 1957 and slow the rate of expansion. A growth of 4.5 percent was planned, involving a 4.4 percent decline in machine building, an 11 percent increase in other capital goods, and a 1.1 percent increase in consumers goods. The decline in machine building reflected both material shortages and the cutback of surplus production. The small increase in consumers goods output reflected a ¥1.44 billion (US$.6/ billion) decline in the cotton textile industry as a result of the poor 1956 cotton harvest; small increases in other textile industries, the food industry, and other consumer goods industries barely offset this decline.

Industrial output exceeded the plan, rising by 7 percent. Production of consumers goods and capital goods other than machinery rose by 2 percent and 12 percent, respectively, both slightly over planned levels. However, machinery output did not decline as planned, but rose 10 percent, reflecting both the opening of new plants and an increased effort to work out production schedules. During the year industrial inventories rose, reducing the more severe shortages, while a better balance was achieved in output.

During 1956 and 1957 a substantial amount of industrial capacity was brought into operation. (See Appendix, Table 3.) During the 1st Five-Year Plan work began on 825 major industrial projects, of which 449 were completed and placed in operation. Of the latter, one-fifth were completed in 1956 and two-fifths in 1957.

During 1958 a slightly greater number of major industrial projects than in 1957 are to be completed, and industrial output is to rise by 14.6 percent. Machinery output is to increase by one-fifth and other capital goods production by one-sixth, reflecting the expanded plant capacity. The output of consumers goods is to rise by one-tenth, resulting primarily from the expanded supply of agricultural raw materials.

5. Foreign Trade and the Balance of Payments. In the face of disappointing harvests in 1957, Peiping for the first year since it came to power was forced to cut its exports, and placed its 1957 export plan at ¥5,200 million (US$2,114 million) or 6.6 percent less than in 1956. (See Appendix, Table 6.) This reduction reflected sharp cuts in scheduled exports of vegetable oils, grain, and pork-commodities in short supply on the domestic market. An increase in Peiping's foreign-aid program and service on foreign debt and a decrease in Soviet loans, totalling in all a reduction of ¥200 million (US$81 million) in foreign exchange, contributed to an even greater decline in scheduled imports, which were placed at ¥4,755 million (US$1,933 million) or 10.2 percent below 1956 levels. In 1956 Peiping admitted it had not met its export commitments, presumably to the USSR, and in early 1957 an agreement with the USSR was announced, providing for postponing of certain export commitments until 1958.

Although the Chinese Communists recently stated that total trade in 1957 slightly exceeded their plan, they gave no indication about the relative amounts accounted for by exports and imports. An earlier announcement regarding trade through October indicated that imports were running about three percent above the 1957 plan and exports lagging about three percent below plan. This lag in exports behind imports would reduce the trade balance by ¥320 million (US$130 million), but since exports are usually heavy at the end of the year, it is possible that the trade balance will be no less than planned. Partial trade returns from non-bloc countries suggest that Communist China's trade with the free world continues to account for about one-quarter of its total trade, with imports about 10 percent above the 1956 level and exports registering a slight decline. The increase in imports resulted primarily from greater direct purchases from Western Europe and increased imports of Indonesian rubber and Egyptian cotton.

An increase in trade by 8.6 percent is planned for 1958, which would bring the total back to the 1956 level. On the basis of improved crops and collections in 1957, Peiping should be able to expand its exports substantially. Although there was no increase in the amount budgeted for foreign aid, the absence of foreign loans, coupled with an increase of 16 percent in the servicing of the foreign debt, will severely limit an expansion of imports. In addition, Peiping may have to settle its postponed Soviet export commitments. At the end of 1957 an agreement was announced on the "readjustment of mutual settlement of non-trade payments" which could reflect some easing of Peiping's obligations to the USSR, but probably merely represents a normal year-end settlement of accounts.

The foreign trade difficulties of 1957 have apparently not been regarded by the Chinese Communists as a temporary phenomenon, and have led to important alterations in the planning for the second Five-Year Plan. Reports of planning developments during the year indicated that the regime was not planning to increase exports of basic foodstuffs, but was directing its attention to possibilities for increasing export production of ores and minerals, manufactures, and other products and for reducing the import requirements of its industrial program.

6. Labor. During 1957 the regime was attempting to restore an orderly and coherent labor policy after the sharp increase in employment and wages in 1956. At the beginning of 1956, when the regime was optimistic over its resources, it decided to raise wages to improve morale and productivity. Since 1952 money wages had risen only 14.7 percent and real wages only 6.9 percent, and labor was getting restive. More important, the wage structure had remained relatively static since the days when wild inflation levelled all incomes to subsistence levels, and did not provide adequate incentives to skilled workers and technicians, or sufficient prestige and authority to such groups as teachers and low-level government officials. Accordingly, it was decided to extend a wage increase averaging 14 percent which would be applied selectively among various groups, some effective April 1 and others July 1. During the year the regime failed to calculate non-agricultural labor requirements accurately or to control hiring sufficiently, and annual average wage employment under the state plan rose by 2.3 million -- nearly three times the planned increase -- to 21.2 million, and reached 22.4 million at the end of the year. Total wage earners at the end of the year, including those not under the state plan, were estimated at 24.2 million.

In 1957, to ease the inflationary impact, it was planned to reduce employment by 140,000 by the end of the year, although average employment over the year would still exceed that of 1956 by 4.7 percent. Measures were taken to rescind or limit some wage increases. Rural officials, originally favored, were to have their incomes brought back in line with peasant incomes. Advancement of apprentices was suspended, and other

promotions were to be carefully scrutinized and justified. Despite such actions, average wages were expected to rise by 4.2 percent in 1957 (to ¥53 or US$22 monthly) as the modified 1956 increases became effective over an entire year. The total wage bill would thus rise 9.4 percent to ¥14.1 billion (US$5.7 billion).

The regime reported average employment in 1957 at 23,973,000 and the wage bill at ¥15.25 billion (US$6.2 billion). However, the state plan now apparently includes all wage earners, and these figures appear to be consistent with the planned figures. In the plan for 1958, total wage earners will number 24,392,000, and the wage bill will increase to ¥15.8 billion (US$6.4 billion). Of the increase in the wage bill, ¥300 million (US$122 million) represents the wages for the 419,000 additional workers while ¥250 million (US$102 million) covers wage increases from promotions or minor adjustments in the wage structure. The figures for total wage earners include those to be sent to rural areas, since these persons will apparently be carried on the rolls of their original organizations for at least the first two years.

The limited rise in employment during 1957 and planned for 1958, numbering about 300,000 over the two year period, has intensified the problem of maintaining student and worker morale. In the expansion of the educational system during the First Five-Year Plan, a subsidized education was provided for all students who were able to advance at all grade levels. By the 1956-57 academic year, however, the educational system had filled out to the desired pyramidical structure. Whereas formerly the educational system had furnished limited numbers of college

and vocational school graduates to the labor force which were largely offset by the numbers drawn out of the labor force to fill college and middle school enrollment quotas, in June 1957 the educational system released 55,000 college graduates, 90,000 senior middle school graduates, 800,000 junior middle school graduates, several hundred thousand vocational school graduates, and 4,000,000 primary school graduates. These numbers will increase in June 1958, and it appears that in the two years the educational system, excluding primary school graduates, will have released to the labor force eight to nine times the increase in urban workers and staff. The students are thus faced with the dual realization that educational advancement will be extremely competitive and limited and that employment prospects on completion of their education are very restricted.

At the same time the regime faces a problem in organizing the urban labor force to absorb the numbers turned out by the educational system. The rapid expansion in the urban labor force in the past eight years has resulted in the promotion of large numbers of poorly educated and trained personnel to administrative, technical, and managerial posts. This group is regarded as incompetent by the young graduates, and in turn regards the latter as a threat to its position and status. In early 1957 the regime appeared ready to demand higher standards of performance and gradually to weed out incompetents. However, as the extent of "rightist" sentiment in the country became known, the regime supported the status quo, since the existing leadership cadres owed their position to the regime and could be counted on to be loyal to it.

The current campaign to send some 3,000,000 workers and staff to rural areas and "lower levels" appears in part to be an attempt to ameliorate this problem. The campaign is aimed primarily at young school graduates and will temporarily remove them from competition for administrative posts. The regime expresses the hope that the differences between the old cadres and the young intellectuals will disappear after the latter have been "steeled through manual labor," but the program appears to be a stopgap rather than a permanent solution. It seems likely that the problem will remain as a major source of friction and an obstacle to the smooth and efficient organization of the urban labor force.

The effect of the wage increases of 1956 has been increasingly dissipated in 1957, and this trend will probably continue in 1958. During 1956 the urban population rose by 7.6 percent, resulting in severe shortages of housing and other urban facilities and services. The urban retail price index rose 2.3 percent in the 12 months ending March 31, 1957, and this index probably understates the real rise in prices. Foodgrain prices, which are heavily weighted in the index, remained stable while subsidiary foods and household goods prices rose sharply, with vegetable prices rising 27.7 percent. By mid-1957 the regime had reduced severe shortages and price fluctuations, but at the cost of increasingly stringent rationing. The wage earner thus has had his real wages undercut by rising prices and, facing crowded urban conditions and limited market availabilities of basic staples, probably does not consider himself materially better off.

7. Demography. In 1957, with a more realistic approach to its problems, Peiping evinced increasing concern over its demographic problems and growing determination to undertake corrective action. While a tentative decision to encourage birth control appears to have been made as early as 1953, it has been difficult for the Communists, who traditionally have opposed neo-Malthusianism for ideological reasons, to provide unequivocal authoritative leadership to such a program. At the beginning of 1957 additional detailed population estimates were released, and the short-term and long-range implications they had in the regime's economic program and the people's standard of living were discussed in less equivocal terms. Subsequently an increased effort to encourage birth control was organized, which not only sought to provide and explain contraceptive devices but to indoctrinate certain selected groups for increased acceptance of birth control. Restrictions on abortion and sterilization were liberalized, while youth organizations were directed to indoctrinate and exert social pressure on youth to postpone marriage, with the implied threat of an eventual increase in the legal minimum marriage age if this was not effective. These programs were still cautious and experimental, and as yet have evidenced no notable success, but they suggest that the regime is facing up to the problem and may take more aggressive measures. At the same time, the regime is still hampered by the dilemma of reconciling a birth control program with the traditional Communist rejection of neo-Malthusianism, and during the year sharp warnings were made not to utilize the population problem to advocate either alteration or postponement of any of the regime's programs.

The regime was also faced with the more immediate problem of controlling urban growth and migration. The urban population has reportedly increased from 58 million in 1949 to 99 million in 1956, rising by 7.6 percent during 1956. Despite an attempted cutback in urban employment in 1957, there was extensive rural migration to the cities during the winter of 1956-57 and again in the autumn of 1957, owing to the food shortages in the rural areas. Since employment opportunities were limited, the migration in these periods consisted largely of dependents. In Tientsin, of 205,000 rural migrants during this period, half were women, while three-quarters of the males were either aged and infirm or children. With urban unemployment rising, public security bureaus reported increasing concern over the rise in begging and petty crime.

The regime has long had control over migrations, requiring registration and permits for all population movements. However, rural officials were reluctant to limit emigration, which would relieve pressures in the countryside. In early 1957 controls were tightened, centralizing hiring and thus limiting employment offers as a cause of migration. However, dependents were able to justify visits to friends and relatives, and migration remained large. The regime subsequently instituted paid vacations for urban workers with families in rural villages, apparently to justify refusal of travel permits to dependents. The public security bureaus also scrutinized the urban dependent population closely, and pressures were exerted on those with alternative homes in the countryside and on those not in the immediate family to return to rural villages. In December the regime, alarmed over continuing migration, issued a directive to tighten

controls. Special offices are to be established to enforce the program in the five provinces covering the North China plain and the Huai and lower Yangtze rivers, where the problem is serious owing to dense populations, unceratain crops, good transportation, and many large cities. Inspection of permits was tightened at rail stations and other transfer points; begging and unlicensed peddling were prohibited, penalties were imposed on urban organizations failing to hire through the labor department, urban ration permits were more tightly controlled, and unemployed peasants in urban areas were being rounded up and employed in public works until they could be escorted in groups back to their original collectives or assigned to new collectives.

8. Transport. Transportation facilities have been a limiting factor in Peiping's industrial program. During 1956, with the expansion in industrial output, construction, and urban needs, freight carried by modern means of transport increased by 25 percent, leading to severe traffic congestion on the railways in North and Central China and parts of Manchuria as well as in the Yangtze River ports. (See Appendix, Tables 4 & 5.) With the pace of economic expansion reduced in 1957, freight tonnage increased by only 9 percent. At the same time, there was a sharp increase in the investments allocated to expand facilities on the strained portions of the transport system. Thus the regime was able to meet its 1957 requirements satisfactorily, but the system is operating with little reserve capacity.

Investments in new rail lines were reduced in order to increase investments for improving the capacity of the existing network. Construction

of the line to Foochow, chiefly of military significance, was postponed for a year, and only 36 kms. of track were laid on the Sinkiang line. While 1,747 kms. of new track were laid in 1956, only 535 kms. were laid in 1957, including the restoration of the Kunming-North Vietnam line, continued construction of the high-priority Paotou-Lanchou line, and a number of industrial lines in the Wuhan and Paotou areas in preparation for the erection of large steel mills at these sites. At the same time, double-tracking was to be increased by over 600 kms. as compared with 210 kms. in 1956, and 14 railway yards were to be expanded. Because of limited production capacity, only 160 locomotives and 6,800 cars were to be added to rolling stock, holding the planned increase in rail transport to four percent. However, by hauling heavier trains and reducing turn-round time for cars, rail freight transport rose by 10 percent in 1957 over 1956.

Water transport freight tonnage rose by 24 percent in 1956 and 8 percent in 1957 over the proceeding years, keeping pace with the expansion of total transport tonnage. The rise in Yangtze river traffic accounted for most of the increase, and there was a much smaller expansion of coastal and other river traffic. The regime is looking toward a sharp expansion of Yangtze River traffic and Yellow Sea coastal shipping to relieve strain on important north-south and east-west sections of the rail system. During 1957, 108 vessels aggregating 110,000 tons were added to the coastal and river fleets, and there was considerable investment in port facilities, particularly in congested Yangtze ports.

Truck transport increased sharply in 1956, but remained at the 1956 level during 1957 as imports of motor vehicles and petroleum were cut back. The regime appears to be curtailing its plans to develop motor vehicle transport as a means of opening up isolated rural areas, in order to conserve scarce foreign exchange. Instead, native transport -- junks and carts -- is to handle such needs. Truck transport, however, will continue to be important in servicing the sparsely inhabited peripheral areas such as Tibet, Sinkiang, and Inner Mongolia.

In 1958 traffic requirements will again rise sharply, reflecting particularly the sharp rise in coal and steel production and in the capital construction program. Railway investment plans are 19.4 percent over the 1957 outlays, although this increase largely reflects a resumption of new line construction. New track to be laid is placed at 1,290 kms., more than double that of 1957, while double-tracking is scheduled at 157 kms., one-quarter of the 1957 target. Additions to rolling stock will be increased as a result of expanded production facilities, and include 200 locomotives, 600 passenger cars, and 9,000 freight cars.

TABLE 6. ESTIMATED BALANCE OF PAYMENTS OF COMMUNIST CHINA
1956 - 1958
(million US$)

	1956	1957	1958
Payments			
Imports (c.i.f.)	2,150	2,030	2,100
Debt repayment	242	267	310
Foreign aid expenditures	164	185	185
Total payments	2,556	2,482	2,595
Receipts			
Exports (f.o.b.)	2,265	2,115	2,370
Remittances from overseas	70	60	55
Foreign loans	48	9	0
Total receipts	2,383	2,184	2,425
Deficit, including errors and omissions	∠173	∠298	∠170

C. Military and Public Security

1. Developments in Military Policy and Organization. Chinese Communist military policies during 1957 have continued along lines established in previous years, with major emphasis on 1) the modernization of the armed forces and the establishment of a regular reserve; 2) the maintenance of party controls over the armed forces; and 3) the continuing development of a defense industry. The CCP has claimed continuing reductions in military expenditures and in the size of its armed forces. Efforts to promote greater economy in the military establishment have reflected the need to achieve a balance between the regime's short-term military program and its ambitious long-term plans for industrial expansion, including military support industries. Economy measures, however, have not been permitted to reduce the military effectiveness of the regime. In fact, through modernization, more efficient recruiting and better training, this effectiveness probably increased during 1957.

While the regime continued its previous efforts to modernize its armed forces, it claimed continuing reductions in military costs during the year. Annual expenditures for military defense, as stated in the 1957 national budget, totalled 5.52 billion yuan (US$2.3 billion at the official exchange rate), representing 18.85 percent of the total budget. This would indicate a reduction in budgeted military expenditures of about 10 percent from 1956 and 16 percent from the peak year of 1955. This leveling off reflects the receipt in 1955 of unusually large quantities of Soviet military equipment, possible modest reductions in personnel, and economies in overhead expenses.

Thus during 1957, efforts were made to reduce military costs in the field of logistics. Early in the year the Rear Services Department announced that operating expenses would be cut by one-third; subsequent directives issued by the People's Liberation Army (PLA) stressed the need for greater economy in the use of food, fuel, and other materiel. In January 1958, the director of the Rear Services Department claimed that over 70 million yuan had been saved during 1957 through economy measures.

a. Recruiting policies. In an effort to create a more effective military establishment, the regime has continued its previous policy of rapidly replacing aging and less educated PLA personnel with younger recruits conscripted under the Military Service Law of 1955. During the winter of 1956-57, the regime carried out a third draft, concentrating chiefly on the 18-year-old age group. Former liberal deferment policies were tightened up, and certain types of exemption for government personnel were removed. Official figures on the total number conscripted have not been released. On the basis of very fragmentary data, it has been roughly estimated at 400,000 to 500,000. A fourth draft call, begun in December 1957, is scheduled for completion in February 1958.

During 1957 the regime made continuing improvements in the general quality of new recruits inducted into the PLA, reflected in higher standards of education, physical fitness, and political reliability. Greater efforts have been made to induct youths having some middle school education. According to official claims, over 60 percent of the new recruits have had some education beyond the level of primary school, and a like percentage reportedly belongs to the CCP or the Chinese Communist Youth League.

The government also continued its policy of demobilizing preconscription veterans of the PLA. Original targets for the 1957 demobilization announced in November 1956 totalled 800,000. In July 1957 the regime announced that 620,000 had been demobilized. CCP leaders have claimed that the number of veterans demobilized in 1957 exceeded the number of new recruits inducted, resulting in a new reduction in the overall strength of the PLA.

Communist statements on demobilization suggest that more than 90 percent of the enlisted personnel on active duty prior to 1955 have now been replaced, leaving only a small core of experienced personnel. Such a rapid rate of turnover in personnel would inevitably result in some reduction in efficiency. However, this has probably been more than counterbalanced by the replacement of illiterate older veterans by younger and better educated recruits and by improvements in training.

Peiping has been gradually formalizing and regularizing procedures for demobilization. New regulations issued by the Ministry of Defense in January 1958 provided that all men discharged from the PLA in the future should be given indoctrination, prior to demobilization, in such matters as agricultural policy, relations with civilians, and participation in militia work. Upon demobilization they are expected to register for reserve service with their local governments.

b. Military reserve system. As part of its modernization program, the government has been in the process of creating a permanent military reserve. The original blueprint for this reserve system set forth in 1955 called for the establishment of two reserves -- a first reserve

consisting of officers and men who have completed tours of active duty, and a second reserve consisting of men and women between the ages of 18 and 40 who have not had military experience. Registration for the reserve was carried out on a localized and limited basis during 1955, but the reserve system as a whole appears to be still in the formative stages.

Training for reservists has been limited to short-term military drills for selected age groups. In August 1957 the PLA announced that reserve training would henceforth be combined with militia training. In some areas, at least, the reserve appears to be very closely related to the existing militia organization. To date, however, the militia has remained a separate organization, having local defense and public security functions.

c. Party control of army. Chinese Communist leaders have continued to emphasize strongly the need for maintaining strict party control of the armed forces. This was one of the major themes stressed at the August 1 Army Day celebrations. Subsequent comments by CCP leaders concerning Marshal Zhukov firmly endorsed the existing system of party committees and dual leadership by military and political officers in the PLA.

Since 1956, military men have assumed an increasingly prominent role in the highest levels of CCP leadership. Seven of the ten marshals of the PLA are now members of the Politburo and about one-third of the new Central Committee members elected in 1956 are military men. However, there has been no indication that the military group in the party hierarchy constitutes a separate "vested-interest" group competing with the civilian leaders of the party. All of the military men who have risen

to high rank in the CCP are veteran Communists who have long been associated with Mao Tse-tung and who are well indoctrinated in Communist doctrine.

During 1957 there were a few changes in the assignments of high-level military leaders. Most of these, however, appear to be routine personnel shifts lacking political significance. Two of the marshals of the PLA, Lo Jung-huan and Liu Po-ch'eng, were relieved of some of their operational responsibilities, presumably because both have now been elevated to Politburo status and have acquired more important policy-making functions. Lo was replaced as head of the Political Department of the PLA by T'an Cheng, now a member of the party Secretariat. Liu was replaced as director of the PLA Training Department by Hsiao K'o, another veteran general.

Among the rank and file personnel of the PLA, the percentage of CCP members and members of the Youth League has continued to be high. An estimated 75 to 80 percent of the officers and men of the PLA belong either to the CCP or to the Youth League. This would suggest that the PLA remains one of the most politically reliable groups on the mainland. Despite a reduction in preferential treatment during 1957, morale apparently remains high.

The regime's 1957 rectification program was extended to the PLA, where it was aimed primarily at improving relations between officers and men and at promoting better relations between the PLA and the civilian populace. Official reports on the results of this movement indicated that a small number of "rightists" had been discovered in the PLA, but that the great majority of army personnel were politically reliable.

Other efforts continued to be made during 1957 to improve relations between the PLA and the people. During February and March, military units carried on "love the people" drives, marked by "fraternization" meetings between military personnel, government officials, and local inhabitants. Military officers took part in manual labor, and army units continued to participate in various economic activities such as land reclamation, railroad construction, and harvesting of crops.

The continued dependence of Communist China on the USSR in the military field was underlined by the sending of a high-level military delegation to Moscow in November 1957. The agenda and results of these high-level military talks have not been revealed.

2. Internal Security. The Chinese Communist regime has continued to maintain a very large and effective security and police organization. The chief elements in this security network are the Public Security Forces, which are an integral part of the regular military establishment, and the People's Armed Police, which operate under the Ministry of Public Security. The operations of the security and police forces are reinforced by a large militia, which has local defense and security functions, and by a system of local residents' committees, which are linked up with the lower levels of the police and security organization. The regime's controls over the population are further reinforced by a network of mass organizations, which provide a means of controlling and manipulating various social and occupational groups.

Since 1949, the regime has carried out a series of nationwide drives against counterrevolutionaries which appear to have destroyed most

of the effective centers of organized resistance to the regime. The most recent of these drives, begun in 1955 and completed in 1957, resulted in the exposure of almost 500,000 persons, most of whom were labelled "counter-revolutionaries." In early 1957, the regime took the position that counter-revolutionary activity had been virtually eliminated. Following the "anti-rightist" phase of the rectification campaign, however, there was renewed emphasis on the continuing need for periodic drives against counterrevolutionaries for an indefinite period.

During the latter half of 1957, the regime issued several new regulations which further formalized and systematized its internal security system and provided additional evidence of renewed emphasis on police state methods.

In June, the central government issued a series of comprehensive regulations defining the "people's police" as a "state security force having the character of an armed force." Its chief functions will include the maintenance of public order, the arrest of counterrevolutionaries, the guarding of prisons and important government buildings, and the direction of local security committees.

In August, a series of new regulations concerning "labor custody" was promulgated. These permitted administrative instead of judicial procedures to deal with troublemakers and people not engaged in regular occupations. The regulations provide that such people can be assigned work by local government agencies. The "labor custody" system differs from the existing system of "labor reform" in that it applies to people who have not been convicted of crimes and provides compensation in the form of wages.

In September another method for controlling petty criminals and troublemakers was officially proposed. This involves the drawing up of communal pacts by villages and rural cooperatives which place restraints on such people. It was further suggested that habitual troublemakers in the cities would be assigned to agricultural cooperatives and forced to work under surveillance.

In October 1957 the government issued new security regulations covering minor breaches of public order not sufficiently serious enough to be dealt with under ordinary criminal law. The prescribed penalties range from fines to short periods of detention. At the same time new regulations were adopted concerning disciplinary actions against government officials guilty of maladministration and other illegal actions.

In January 1958, the central government issued a new series of regulations regarding the maintenance of population registers, which further standardized a system of household registration already in existence for some time. Under these new regulations, population registers are established for each household and placed under the control of local security agencies. The registration system will enable the public security agencies to maintain strict surveillance over the population and to establish tighter controls over freedom of movement. One of the stated reasons given for the promulgation of these regulations at this time is the need to restrict the migration of peasants to urban areas, as well as the migration of population to areas designated as "national border defense areas."

D. Sino-Soviet Relations

1. General. Developments in the relationship of Communist China to the USSR and the bloc during 1957 affirmed existing trends. Peiping attempted at every opportunity to underscore its support of Moscow as the leader of the bloc and to emphasize its overriding concern that the strength and unity of the bloc vis-a-vis the West should not again be jeopardized. At the same time Peiping manifested an independence of thought and an increased initiative in ideological formulations which enhanced its influence through the bloc. These developments underscored the acceptance of Peiping within the bloc as the senior Communist power next to Moscow. Communist China's increased stature attained during the period of de-Stalinization and the Polish and Hungarian crises in 1956 was clearly not a temporary gain during a phase of Soviet adversity, but persisted even at the post-sputnik celebration of the 40th anniversary of the Bolshevik Revolution, the high point of Soviet post-Stalin prestige. Welcoming Peiping's underlying support throughout the year, the USSR demonstrated considerable tolerance for Communist China's ideological views and enhanced position. Moscow publicized Mao's theoretical formulation on "contradictions," and incorporated formulations that were identifiable as of Chinese Communist origin in the main address at the 40th anniversary celebration.

Beneath the surface of developments reflecting these trends was the continuing critical dependence of Peiping upon the USSR as a source of supply of essential equipment, economic and technical assistance, and military aid, including the military guarantees inherent in the Sino-Soviet

alliance. Peiping's economic relations with the USSR and other bloc states continued to be close, although officially Communist China remained an observer rather than a member of the Council for Economic Mutual Assistance (CEMA). There were, however, indications that Peiping was attempting to scale down some of its import requirements as a result of foreign exchange shortages, aggravated by increasing commitments for repayment and service on Soviet loans obtained in the period 1950-1955.

Peiping's dependence on the USSR was further underscored during the year by the highly publicized achievements of the USSR in the fields of science and weapons development. Communist China has been engaged since the Korean war in a crash program to "modernize" its armed forces, but as Peiping uses the term, modernization refers largely to conventional armaments. In this program Peiping has made great progress with Soviet assistance and is hoping gradually to achieve a greater degree of self-sufficiency; but if Peiping is planning ultimately to modernize beyond this level by equipping its forces with nuclear weapons and long-range missiles, it undoubtedly recognizes that it will be altogether dependent upon the USSR for a much longer period.

2. Peiping's Position Clarified. 1956 closed with the announcement from Peiping that Chou En-lai would interrupt his South Asian tour for a visit to Moscow, Warsaw, and Budapest. Prior to this visit, Peiping on December 28 released its definitive "Marxist" explanation of de-Stalinization and the situation in Poland and Hungary, to clarify its position on these developments. This statement placed Peiping on record as supporting Soviet actions

in Hungary but maintained Communist China's latitude in criticizing past "errors" in Soviet policy, whether these had previously been admitted by Moscow or not (for example, Peiping cited Stalin's sometime tendency toward "great nation chauvinism" -- an "error" that had not previously been mentioned by Moscow sources). However, Peiping laid down what it regarded as the essential elements of Marxism that could not be challenged even in "comradely" criticism: i.e., the Leninist organization of the party, the necessity for revolutionary struggle and for the establishment of the "dictatorship of the proletariat," planned socialization and economic development, and opposition to "imperialist aggression." It made clear that it would not countenance criticism of the USSR or the Soviet system such as that made by Tito or actions such as those taken by Nagy that brought these principles into question, that threatened the solidarity of the bloc, or that seemed to lose sight of the common enmity of the bloc to the West, to which Peiping demanded that all family squabbles be subordinated. The December 28 statement included an elaboration of a point Peiping had previously raised in regard to Stalin's "errors" -- that these constituted reflections of "non-antagonistic" contradictions such as inevitably arise even under socialism, and must not be confused with the "basic" or "antagonistic" contradiction between socialism and Western capitalism-imperialism.

After the December 28 statement, Chou's visit to Moscow, Warsaw, and Budapest was something of an anti-climax. Chou stressed on every occasion the necessity for solidarity among Communist states. He did not

further publicly elaborate on Peiping's criticism of Moscow's past actions, in line with what appeared to be the primary purpose of his trip -- to help reestablish the bloc's common front against the West. Instead, Chou stressed Peiping's acceptance of Soviet leadership in the bloc. Ever the diplomat, however, Chou En-lai subtly tailored his formulations to local prejudices, consenting to the omission of any reference to Soviet leadership in a communique issued jointly with Gomulka (Chou later explained that "if no unanimity can be reached for the time being, it would also be normal to reserve the differences while upholding our solidarity").

3. New Light on "Contradictions." After Chou's trip the emphasis in Peiping's policies shifted to the situation within China. In his "secret" speech of February 27, 1957, Mao Tse-tung restated the thesis of "antagonistic" and "non-antagonistic" contradictions in terms of current Chinese Communist domestic problems, which he sought to alleviate through a period of "blooming and contending." Although Mao's speech was intended to meet an internal crisis in Communist China, it was cited in various partial versions by "revisionist" and anti-Soviet elements in Poland and elsewhere as offering a new "liberalized" Marxism, notwithstanding the fact that the December 28 statement had already laid down the limitations on free criticism.

In the initial February 27 version of the speech, Mao reportedly restated the Chinese Communist position in regard to Eastern European developments, elaborating on the criticism of past Soviet policy contained in the December 28 statement. However, in the editing of the speech for its official public release on June 18, most of the discussion of Eastern

Europe was deleted, presumably to underscore the domestic preoccupation of the speech and to avoid its misuse by anti-Soviet elements. At the same time, Mao inserted his "six criteria" for permissible criticism, probably because the original version had occasioned "excessive" criticism within China and misinterpretation of Mao's position elsewhere.

The revisions in Mao's text, while motivated primarily by considerations of domestic policy, reflected also Peiping's desire that ideological matters should not undermine the Sino-Soviet alliance and bloc solidarity. Moscow for its part made a similar effort, deleting from the published version of a television interview by Khrushchev a remark that the "contradictions" thesis did not apply in the USSR. Mao's "contradictions" thesis was first published in the USSR in the form of an April 13 People's Daily editorial reflecting the original unedited text, and the Soviet press carried the final revised version of June 18. Mao's theory was presented to the Soviet and Eastern European audience as a definite contribution to Marxism-Leninist theory of general interest, although developed for the particular circumstances of China and not necessarily of general applicability.

4. Popular Attitudes Toward USSR. Aside from the ideological implications of Mao Tse-tung's "secret" speech, domestic political events in Communist China apparently had no direct impact on relations between the USSR and Communist China. However, the criticism of the regime that was permitted to be published during the "blooming and contending" period revealed significant hostile attitudes toward the USSR among some sectors of the Chinese intelligentsia. It was clear from Mao's speech and from

discussions published in Chinese Communist magazines and newspapers that Chinese intellectuals and students accepted the official Communist version of the Soviet intervention in Hungary only with reservations. More significantly, serious questions and even an unfavorable comparison with the US seem to have arisen in connection with Soviet economic policies toward Communist China. At the height of the "blooming and contending" phase, Lung Yun, former warlord of Yunnan province and a vice-chairman of the Chinese Communist National Defense Council, stated that it was unreasonable for Communist China to bear the entire expense of the Korean war. Unlike the US which had cancelled some wartime loan repayments, the USSR was requiring repayment for loans, and that it was doing this despite the uncompensated Soviet removals from Manchuria after the war. Lung Yun's views were described as "absurd" by Peiping, and in early 1958 he was expelled from his positions in the NPC and the National Defense Council. However, his criticisms probably struck a responsive chord among many people, probably including some CCP members.

5. Official Visits. As in previous years, Peiping engaged in an extensive exchange of delegations with the USSR and other countries of the Communist bloc. In addition to the usual exchanges of "unofficial" visitors and the customary trade and cultural delegations, an unusual number of bloc states were represented repeatedly in Peiping by high-level but largely ceremonial governmental, parliamentary, or military delegations, including an unprecedented number of heads of state. Prominent bloc visitors to Communist China during the year included Soviet President Voroshilov (April and May), Czech premier Siroky (March), President Cyrankiewicz (April) and Defense Minister Spychalski (September and October) from Poland, Hungarian premier Kadar (September and October), and Yugoslav Vice President Vukmanovic (September). Of the Asian Communist leaders, both Ho Chi Minh and Kim Il-sung passed through Communist China several times.

Peiping reciprocated these and other bloc delegations to Communist China with Chou En-lai's trip in January to Moscow, Warsaw, and Budapest (and his talks in Moscow with other bloc officials, particularly the East Germans), Mao's attendance at the November celebration of the anniversary of the Bolshevik Revolution, and P'eng Chen's parliamentary delegation to Eastern Europe. However, despite a publicly announced invitation, Mao did not reciprocate Polish President Cyrankiewicz' visit, possibly because he did not want to detract from the prominence accorded the USSR in the November anniversary celebration by visiting Warsaw, a capital that by no means saw eye to eye with Mao in regard to the deference to be paid to Soviet leadership within the bloc.

Some of the bloc delegations toured Communist China during the height of the "blooming and contending" and "rectification" period. In a number of cases, the Chinese Communist press publicized the extent to which the visiting delegations were given glimpses into these Chinese Communist activities. Voroshilov and members of his delegation were particularly quoted as engaging in good-natured banter with Chinese Communist officials about the rectification drive and the danger of estrangement between the party and the masses. In a different vein, Hungarian Premier Kadar was quoted at the time of the "anti-rightist" phase of the rectification movement as underscoring the importance of suppressing "rightism" in order to avoid a Hungarian-type uprising. In advertising these unique Chinese Communist programs to the visiting delegations from other bloc countries, Peiping appears to have displayed considerable pride of innovation and discovery. (The same note was touched in November by Mao himself in Moscow, when he described for the benefit of his Supreme Soviet audience the rectification process as a Chinese Communist development of Leninism.)

6. Sino-Soviet Relations Viewed Through 40th Anniversary Celebration. The various strands of Sino-Soviet and bloc relations were further clarified at the 40th anniversary of the Bolshevik Revolution, celebrated shortly after the spectacular launching by the USSR of two earth satellites. Mao Tse-tung, on his second known trip outside of China, participated in the Supreme Soviet meeting as the ranking international Communist leader after Khrushchev. According to the German Communist

Ebert, the Chinese Communists were co-drafters with the Soviets of the declaration issued by the bloc Communist Parties on November 21. Although no new major formulations came out of the meetings in Moscow, the permanence of Peiping's increased stature within the bloc was made evident. At the same time, the Chinese Communists stressed that, in Mao's words, "the socialist camp must have a leader and that leader is the Soviet Union; the Communist and workers' parties of all countries must also have a leader and that leader is the Communist Party of the Soviet Union."

Mao reportedly took a similarly strong pro-Soviet position in off-the-record discussions with bloc delegations in Moscow. One report stated that Mao's dogmatism on the question of Soviet leadership in the bloc and on "revisionism" led to strained relations between the Yugoslav and Chinese Communist delegations. Another report indicated that Mao had taken a stronger position than the Soviets in advising Polish premier Gomulka not to accept economic aid from the US. While these reports cannot be confirmed in detail, the position said to have been taken by Mao is consistent with the Chinese Communist public position on these questions, and may account in part for Mao's failure to follow his visit to Moscow with a tour of Eastern Europe.

A total of at least five separate Chinese Communist delegations were in Moscow at the time of the anniversary, including six politburo members. Virtually every element of the Chinese Communist Government and party was represented. It is probable that Peiping used the occasion for initiating negotiations with the USSR on a number of issues, some of

which may have been held in abeyance during the period when Peiping was attempting to help Moscow reestablish its hold over the bloc after the Polish-Hungarian crises of 1956. Two scientific delegations discussed questions of Soviet scientific and technical assistance to Communist China. A major military delegation, called to Moscow after Mao's arrival, without prior public notice, held discussions with Soviet military leaders. Economic discussions may have been started on trade and other questions. Mao and some of the military and foreign office specialists who accompanied him may have discussed a revision of the 1950 Sino-Soviet treaty with their Soviet counterparts, many provisions of which were outdated by the reestablishment of relations between the USSR and Japan. It is possible that the question of Chinese Communist participation in Soviet disarmament proposals and in possible East-West negotiations was also discussed.

On January 18, 1958 Peiping and Moscow announced the signing of a five-year scientific agreement providing for cooperation and joint research on 122 otherwise unspecified scientific and technical projects. There have been no other announcements or reliable reports of any results of the negotiations that undoubtedly took place in Moscow. Rumors that the military negotiations led to Soviet agreement to supply Communist China with modern nuclear weapons and missiles or to station Soviet units equipped with such weapons on Communist Chinese territory have not been substantiated. Peiping has announced that an agreement was signed on December 30, 1957 providing for a "readjustment of mutual settlement of

nontrade payments" between Communist China and the USSR, but no substantive details were published. There bas likewise been no information on possible Communist decisions in regard to Chinese Communist participation in East-West negotiations; generally the issue has been given purely perfunctory lip service by the USSR and avoided altogether by Peiping. (An appendix to Bulganin's January 8, 1958 letter to President Eisenhower stated that questions directly concerning Communist China that might arise subsequent to settlement of the major points raised by the USSR could be negotiated only with the participation of Peiping, but it was not suggested that Communist China should be an initial participant in the summit conference.)

E. Policy Toward Non-Communist Countries

1. General. There were no major shifts in Peiping's policies toward the US and other non-Communist countries during the year. There were, however, some propaganda and diplomatic indications that Peiping had concluded that some aspects of US policy are susceptible to change and increasing weaknesses are developing in the anti-Communist position throughout the world, although the US remains committed to oppose Communist expansion by force in Asia. This possible conclusion has not been reflected in major tactical or strategic changes in Chinese Communist policy, but may have led to a reinforcement of previous policy trends. At the same time, it may have led Peiping to expect somewhat greater returns from some of its policies and may therefore be related to the hardening of the Chinese Communist attitude toward some of the countries associated with the US, particularly the UK and Japan. However, Peiping's initial preoccupation in attempting to exploit these weaknesses was the negative one of attempting to forestall wider acceptance of the status quo (typified for Peiping by the slogan of "two Chinas").

Three major developments may be cited among those that may have contributed to a possible shift in Peiping's appraisal of US strength and prospects in Asia:

a. The Taipei riots. The Taipei riots of May 24 appears to have convinced Peiping that there were anti-American potentialities even in areas that seemed to be firmly aligned with the US. The riots were treated in Peiping propaganda as part of a world-wide struggle against US "aggression and imperialism." Chiang Kai-shek, who in recent years had been treated with remarkable leniency in Peiping propaganda, was castigated for "subserviently" apologizing to the US for the damage. Peiping may have believed that the riots indicated not only an anti-American undercurrent in Taiwan but also a serious weakness on the part of Chiang Kai-shek.

b. The Red Cross Conference. Peiping appeared to be impressed with the fact that an official US delegation participated in the meeting in New Delhi of the International Committee of the Red Cross, despite the fact that a Chinese Communist delegation was present (until its walkout on November 7 in protest against the seating of the GRC delegation). On November 15 Chou En-lai summoned the chiefs of foreign diplomatic missions in Peiping to an unprecedented two-hour conference, at which he put forth the thesis that the US actions in New Delhi indicated that the US had adopted a "two Chinas" policy in recognition of the impasse its previous China policy had reached. Chou stated that the US hoped to ease its own ultimate recognition of Peiping by obtaining additional international recognition for the GRC. Chou termed any such development entirely unacceptable to the Peiping regime, and proclaimed that henceforth Communist China would not participate in any conference to which the GRC had also been invited.

c. The Sputniks. Capitalizing on the Soviet ICBM announcement and satellite launchings, Peiping stated that the balance of world power had shifted to the USSR and the Communist bloc. Mao made much of this point at the Moscow 40th anniversary celebration, stating that the East wind now prevailed over the West wind. Although the Peiping regime was probably previously apprised at least in general terms of Soviet scientific and weapons developments, the worldwide reception accorded the dramatic Soviet gestures must have impressed the Chinese Communist leaders, possibly more than any advance information they may have possessed.

2. Policy Toward the US. Whatever reappraisal may have been initiated in response to the above developments, Communist China's policy toward the US remained static during the year. Peiping thus made no moves during the year to ease its relations with the US, nor did it take major actions to exacerbate these relations. The Chinese Communists seconded Soviet calls for East-West negotiations after the sputnik launchings, but at their own principal point of contact with the US, the Geneva ambassadorial talks, no progress was made during the year. Instead the talks were used to present the Chinese Communist propaganda position on a variety of issues. No US prisoners were released prior to the expiration of their sentence, although four were released upon completion of their prison sentences. When the US announced on August 22 that it would permit US journalists to travel to Communist China, Peiping failed to act on visa applications on the ground that the US was refusing to make a reciprocal agreement regarding Chinese Communist newsmen.

However, three other journalists and a group of 41 youths who had applied for visas prior to the relaxation of the US travel ban, were granted entry without mention of reciprocity, as were four relatives of imprisoned Americans and an American lawyer seeking evidence for the defense in a sedition trial. Peiping refused to recognize the passports of the relatives, the first Americans to travel legally to Communist China since the Korean war, and visas were as usual issued on seperate pieces of paper because the "incorrect" passports were "not the fault" of the individuals concerned.

The offshore island situation remained militarily quiescent throughout the year, with only occasional artillery exchanges between Communist and Nationalist batteries. The only significant military indident between the US and Communist China during the year occurred on June 12 when some aircraft of the carrier Hornet came within range of Communist antiaircraft fire. Even this incident, however, led to only routine propaganda exploitation.

Peiping's propaganda treatment of the US during the year continued along standardized lines. The Chinese Communists seconded all Soviet propaganda campaigns, particularly those relating to alleged US aggressive intentions in the Middle East. US defense moves in the Far East, particularly the announcement in May that US Matador units would be stationed on Taiwan and the proclamation in June by the UN command in Korea that modern weapons would be introduced into that country, brought the customary charges of US aggression, without further public follow-up outside of the propaganda field. In regard to US policy toward

the GRC, Peiping continued, except briefly after the Taipei riots, to charge that the US was an unreliable ally for the GRC and that it was seeking to displace the present GRC leadership with "liberals" or with advocates of Taiwanese independence. The Chinese Communists continued subtly to encourage rumors that negotiations between them and GRC leaders were in process or about to be initiated, and on several occasions Chou En-lai and other spokesmen renewed previous offers of a vaguely-described "high position" for Chiang Kai-shek, if he would subordinate his regime to that of Communist China. Perhaps because of the current lack of international publicity for the Geneva ambassadorial talks, Peiping's propaganda failed during the year to press strongly for a US-Chinese Communist foreign ministers' meeting. Chinese Communist charges of US subversive activities were generally linked to charges of GRC subversion and seemed to bear less on US-Chinese Communist relations than on domestic developments, such as drives against "counter-revolutionaries," or on relations with other countries, such as Great Britain, which was repeatedly accused of permitting Hong Kong to be used as a base for US and GRC subversive activities and espionage.

3. Relations with Other Non-Communist Countries. Peiping's international (non-bloc) activities were, as in the past, directed primarily at the Far Eastern area. The Chinese Communists, while moderately active in the Middle East, did not attempt to match the more dramatic Soviet moves. For example, they played a distinctly secondary role at the Cairo Asian-African Solidarity Conference, in contrast to the preeminent role played by Chou En-lai at Bandung in 1955. In regard to Western Europe Peiping similarly followed the Soviet lead. Peiping expressed its approval of each Soviet move in regard to disarmament, NATO, and other issues, but initiated no moves of its own. There were no significant developments in Chinese Communist relations with Western European states, other than a deterioration of relations with the UK because of a series of relatively minor incidents and protests relating to Hong Kong, and because of Peiping's increasing sensitivity to what it interpreted as British espousal of the "two Chinas" thesis.

Peiping's tactics toward the non-Communist countries were those developed in the post-Korean period. There were few innovations possibly because of Peiping's domestic preoccupation during the year. At the end of 1956 and the beginning of 1957, Chou En-lai attempted further to exploit the favorable personal impression he had created at Bandung in a tour of seven South and Southeast Asian non-Communist countries: Cambodia, India, Burma, Pakistan, Afghanistan, Nepal, and Ceylon. (Chou also visited North Vietnam). Chou's trip was followed up with the usual exchange of delegations of all degrees of prominence between Communist China and non-Communist countries, including such figures as Vice President

Radhakrishnan of India, Premier Daud of Afghanistan, Anti-Fascist People's Freedom League head and present Premier U Nu, Chief Justice U Myint Thein, and Deputy Premier Kyaw Nein of Burma, Vice President Hatta, Nationalist Party Chairman Wilopo, Deputy Chief of Staff Subroto, and Speaker of Parliament Sartono of Indonesia, the Crown Prince of Yemen, and the by now customary succession of Japanese politicians, newsmen, military figures, and other groups.

Despite Peiping's critical foreign exchange situation, the Chinese Communists made five major offers or grants of economic aid and loans: a grant of US$15,750,000 to Ceylon in September, a loan offer of US$4,200,000 to Burma in December, a loan offer of US$20,000,000 to Indonesia in September, an interest-free loan of US$16,000,000 to Yemen in January 1958, and, apparently, an indirect offer of some US$70,000,000 to Laos in February 1957. (A reported offer of US$14,000,000 to Jordan in June has not been confirmed.) These aid offers were in addition to those previously granted: US$22,400,000 to Cambodia, US$12,600,000 to Nepal, and US$4,700,000 to Egypt during the Suez crisis.

In addition to the aid offers, Peiping negotiated a number of trade agreements with non-Communist countries during the year. However, Peiping generally took a more moderate position than previously in regard to the potentialities for expansion of trade. Several trade delegations were told that the tightness of foreign exchange and the still very tentative nature of some of the second five-year plan targets made firm trade offers impossible at this time. In propaganda aimed at Japan and the UK, the Chinese Communists attempted to rationalize this situation

by pointing to the partial nature of the relaxation of trade controls by the UK and Japan and to continuing restrictions on certain categories of items that Peiping was most anxious to obtain.

As in past years, Peiping attempted to extend its influence in the Asian area also through covert use of local Communist movements and overseas Chinese. However, the Chinese Communists were not overtly active in the two most critical situations in the non-Communist Far East during the year -- the Lao and Indonesian crises. Offers of economic aid were made but did not figure importantly in either crisis. Peiping otherwise confined itself publicly to propaganda support for a coalition government in Laos and for the West Irian campaign in Indonesia, and sought particularly to identify the US as an obstacle to Lao and Indonesian aspirations. The Lao and Indonesian crises nevertheless created opportunities for the expansion of Communist Chinese influence through its connections with indigenous Communist movements and through its espousal of the "peaceful coexistence" and "Asian-African solidarity" line. The Indonesian crisis may have expedited Indonesian ratification of the Indonesian-Chinese Communist treaty on the status of overseas Chinese, pending since April 1955.

Despite the prominence of some of the Chinese Communist activities during the year, no new diplomatic recognition was accorded Peiping. Overtures for the establishment of diplomatic relations with Ghana, Malaya, and Tunisia were not reciprocated by those countries. Ambassadors were exchanged for the first time with Ceylon, stemming from the recognition of Peiping by Ceylon in 1950 and from a September 1956 agreement

to exchange representatives. Similarly, the Treaty of Friendship signed with Yemen on January 12, 1958 -- the first such formal treaty by Peiping outside of the Communist bloc -- reaffirmed a previous (1956) agreement between Yemen and Peiping to exchange diplomatic representatives.

In fields other than recognition, Peiping's achievements during the year were likewise limited. Chou En-lai's reception in the cities he visited on his Asian tour, although generally favorable, was marred by Peiping's unqualified backing for Soviet intervention in Hungary. This was dramatized by the sudden interruption of the tour for the trip to Moscow, Warsaw, and Budapest, which necessitated a rearrangement of the second half of his itinerary on very short notice to the host governments. Chou's trip led to a joint communique in every country but India; the omission probably reflected the divergent views on Hungary, underscored the gap that exists between Communist China and non-Communist Asia whenever Peiping reveals its overriding adherence to bloc as distinct from Asian aspirations.

There were some other differences between Peiping and the non-Communist countries that were not altogether obscured by Peiping's propaganda and diplomacy. A tour of India by the Tibetan Dalai Lama coincided with Chou's Asian tour and led to Chinese Communist charges that the Dalai Lama had been subjected to improper US pressure in India not to return to Tibet. Peiping has charged also that India has permitted Kalimpong to become a center of subversive activities aimed at Tibet. Relations with Pakistan continued to be affected by Pakistan's pro-West orientation and by Peiping's closer relations with India.

Relations with Burma were aggravated by the unresolved border question, which despite all Burmese efforts seemed no nearer to solution at the beginning of 1958. Peiping's relations with a number of countries suffered from Communist China's ties with local Communist movements and overseas Chinese; Chou was questioned sharply on both issues by local journalists during his tour.

Chinese Communist relations with Japan deteriorated during the year, despite a continuing flow to Communist China of Japanese delegations representing all political viewpoints and despite the fact that Japan had followed the UK lead in freeing a large number of commodities previously embargoed under Chincom regulations for export to Communist China. Peiping has been particularly adroit in practicing "people's diplomacy" with Japan and has succeeded in promoting trade and other relations through unofficial contracts, frequently involving Japanese politicians of both major parties. The Chinese Communists have generally stressed a "reasonable" line in such contacts, taking the position that Japan initially need not alter its relations with the US and the GRC in order to improve relations. However, Premier Kishi's trip to Taiwan in June and other expressions of friendliness for the GRC, as well as indications of widespread support in Japan for a "two Chinas" formula have led to a substantial sharpening of Peiping's comments regarding the Japanese Government. On the Japanese side, meanwhile, there has been some disillusionment in recent months on trade prospects, and the uncritical enthusiasm of earlier years for the "experiment" on the mainland has perceptibly lessened.

Chinese Communist relations with the UK have similarly deteriorated. On a number of occasions during the year Peiping complained through diplomatic and propaganda channels of Britain's alleged "unfriendly" attitude in connection with Hong Kong. Peiping sought to obtain permission to establish an official representative in Hong Kong -- a request that the British reportedly intend to reject as they have done when it was raised in previous years. Other issues raised repeatedly included Britain's alleged excessively lenient treatment of anti-Communists involved in the 1956 Hong Kong riots and alleged improper resettlement of Chinese residents of an area of Hong Kong that was being redeveloped. In addition, Peiping on several occasions leveled charges at the British of permitting Hong Kong to be used as a base for GRC and US subversive and espionage activities, as indicated above.

Probably a more basic issue than the minor incidents in connection with Hong Kong was Peiping's apparently increasing irritation at Britain's stand with the US on many Far Eastern issues. Repeatedly since mid-1957 Chinese Communist propagandists purported to see indications in various British actions (such as permitting a Chinese opera troupe from Taiwan to perform in the UK) of an espousal by Britain of a "two Chinas" formula, and Peiping formally protested on one occasion regarding this issue. In a sharply-worded interview in January 1958 with Reuters correspondent David Chipp, Chou En-lai stated that relations between Communist China and the UK should have improved after the 1954 Chou-Eden talks in Geneva but that instead Britain had "even retreated, toeing the American line in every matter." Chou complained that Britain's position

was not "consistent," that while it had recognized Communist China, it was engaged in "creating two Chinas," and that this was the "most unfriendly attitude of all." Chou demanded that if Britain (and Japan) could not "free themselves from US control" and vote for Peiping's admission to the UN, then they should abstain from voting, in order to maintain at least "the present level of our relationship."

II. FUTURE TRENDS

A. Political and Social

Peiping's objectives in domestic political and social matters have undergone no significant change in the last year. These fundamental objectives are to consolidate control of the country; to mobilize the country to contribute more effectively to the ambitious economic and military programs; and to complete the process of transforming the institutional patterns and the thinking of the people along Communist lines. Towards these ends, the Chinese Communists are attempting to strengthen the party, governmental, and security apparatuses; to increase the degree of positive popular support; and to build up a large corps of professionally capable and politically reliable persons to fill the pressing needs of industry, agriculture, science, education, government, and party.

1. The Party. Crucial to the Chinese Communists' future prospects is the strength and vigor of the party itself, which in turn depends on the effectiveness of its leadership and the effectiveness of the rank-and-file members.

a. Effect of policy disagreements. For years the CCP leadership has demonstrated a unity and vigor seldom found in other communist parties. Developments during 1957 suggest that at least temporarily there was fairly serious disagreement among the leaders over Mao's "contradictions" approach. Whether or not the disagreement followed or created any factional pattern is not clear. Whatever the nature

and extent of the disagreement, the challenge of the criticism from the "rightists" and the resultant modification of policy probably did much to efface and perhaps resolve the dispute. At the same time, the partial failure of a policy apparently originated by Mao may have resulted in some lessening of confidence in him among other party leaders.

However, all of the CCP leaders undoubtedly realize the importance of maintaining a high degree of unity and of avoiding any action that might jeopardize the advantages accruing from Mao's personal prestige and influence. Therefore they will probably subordinate whatever differences have occurred or may occur to their common devotion to fundamental objectives. This, together with the bond of past association in both hardship and success, will probably preclude any leadership cleavages of sufficient proportions to affect significantly the party's ability to control the country during Mao's lifetime.

However, the question arises whether the apparent reemphasis on orthodox solutions will impose any limits during the next few years on the leadership's ability to devise realistic and effective methods of coping with the problems it will continue to face, particularly those related to popular response. It is probable that the shift in emphasis was more than a tactical expediency and that, for example, the reversion to the theme of continuing and prolonged class struggle both reflected and influenced doctrinal thinking. Thus some lessening of flexibility of approach may occur, with the possible effect of reducing the regime's ability to elicit popular support. On the other hand, recent developments have probably resulted in a clearer understanding by the leaders

of the problems and a firmer determination to prevent any problems from giving rise to uncontrollable situations.

It appears unlikely that the gradual growth of professional elites in military, industrial, and administrative fields will constitute a challenge to party leaders during the next five years, even if Mao were to die. Such groups, with backgrounds different from those of present party leaders, will not develop for some years. Moreover, the CCP is undoubtedly aware of this latent problem, and will continue to take all possible steps to ensure that the emerging elite groups remain responsive to party policy and control.

b. Probable situation should Mao die. It is not unlikely that Mao, now 64, will die during the next five years. If this should happen, party authority would probably pass at first to a collective group comprising, under present circumstances, Liu Shao-chi, Chou En-lai, Teng Hsiao-p'ing and Ch'en Yun, with Chu Teh becoming titular head of state. However, as recent developments in the Soviet Union again demonstrated, a genuine collective leadership cannot last long in a Communist totalitarian state. It is thus likely that both policy disagreements and power rivalries would become more pronounced and that Chou, Liu or Teng -- perhaps in that order of probability -- would maneuver himself to the top. Furthermore, with Mao's death, the CCP would be deprived of his marked abilities and his great prestige, both domestically and in the Communist bloc. All of these factors would significantly reduce the CCP's capability to formulate and implement effective policies, although the problems would probably not become so acute as to jeopardize the party's

existence or its physical control of the country.

c. Problem of party consolidation. The party's ability to weld the huge rank-and-file membership into a more vigorous and effective group is questionable. The developments of 1957 suggest that the party leaders face more problems with respect to this group than had been previously discernible. The launching of the rectification campaign indicates that the leaders recognize these problems, but the success of their efforts to solve them is still problematical. The current campaign will undoubtedly tighten discipline, put a brake on some undesirable tendencies, and probably weed out some of the less capable and reliable members. Comparable but perhaps less intensive drives will probably be carried out periodically. However, one fundamental problem is that of instilling more vigor and a heightened sense of dedication in party members, and some aspects of the party's tactics -- the massive shift of cadres of lower levels, the implied threat of expulsion, the exposure to criticism, the demand for austerity -- may aggravate rather than solve the problem. Future progress of the regime's programs will be gradual rather than dramatic, and the exhilaration of rapid achievement will be lacking. Furthermore, many members are caught in the middle between the party and the often discontented public, and blame is directed at them from both sides.

During the next five years there is little likelihood that these cadre problems will become so intense that a serious party crisis will arise. It is likely, however, that this situation will adversely affect the regime's efforts in such matters as the agrarian program and popular support to some degree.

2. Popular Response. The Chinese Communists are committed to an economic program which at best will provide during the next five years only slight material benefits to the people; they are also committed to a political and social program which creates more antipathy than goodwill. Peiping is unlikely to make any fundamental changes in these programs, and both factors will continue to impose severe limitations on the regime's ability to elicit a more positive response from the Chinese people.

The Chinese Communists recognize their problem, and have solved one aspect of it by creating a strong security system which is capable of preventing a popular uprising of sufficient dimensions to threaten the existence of the regime. A considerable number of cases of sporadic but isolated and small-scale active resistance will probably continue to occur during the next five years, particularly in rural and ethnic minority areas. The regime will probably be able quickly to quell these minor revolts, and such repercussions as they might have are likely to be of a local rather than national nature. While it is highly unlikely that discontent will seriously threaten Chinese Communist control of the country during the next five years, disaffection will continue to hamper some of the regime's programs.

a. Probable attitude of peasantry. A key group is the peasantry, on which the regime's economic program largely rests. During 1957 there was more evidence of discontent among the peasantry than was discernible during the process of establishing cooperatives in 1956. Poor crop years could seriously aggravate the situation; even in good years, it is

unlikely that the regime will permit the peasants to retain appreciably more of their production than at present. Nor is it likely that the Chinese Communists will make institutional changes in the collective system which would placate the peasantry. On the other hand, the collectives will be managed more efficiently; the peasants will probably become more accustomed or resigned to the system; the increase in the number of cadres in collectives may strengthen the system; constant Chinese Communist propaganda may have some affect. On balance, it is perhaps only possible to estimate that the peasantry's response to the regime will not become appreciably more favorable during the next five years, and in certain contingencies could deteriorate. This attitude will probably be a handicap to the efforts to increase agricultural production, although it is impossible to estimate its effect in quantitative terms.

b. Intellectuals disillusioned. The events of 1957 further disillusioned many, if not most of the non-Communist intellectuals and former businessmen, and it is unlikely that this disillusionment will disappear. Their talents will not be entirely lost to the regime during the next five years, but the lack of a more positive support from this group will limit the regime's ability to fill the gap between the regime's need for trained personnel and the number of professionally capable young persons trained and indoctrinated under the Chinese Communists. Even within this latter group, the party will continue to face some problems of morale and enthusiasm.

Among workers, a group vital to the regime's economic plans, the

problems may be less acute than in other sectors. However, the regime's current emphasis on psychological rather than material incentives will probably continue with minor modifications over the next few years, and there is little likelihood of a marked improvement in worker morale.

c. Anti-Chinese feeling in minority areas. The regime will probably continue to face acute problems in minority-inhabited areas. There were indications in the fall of 1957 that the regime was shifting its policy away from the cautious, conciliatory line followed since 1956 to a new emphasis on imposing Communist control and programs. The shift in policy probably reflects a combination of factors, including a concern that conciliation might permit anti-Chinese and anti-Communist feelings to become more vocal and better organized, and perhaps renewed confidence in its ability to handle dissidence that might flare into minor rebellion. During the next year or so, Peiping will probably under the guise of combatting "narrow nationalism" attempt to rout out or suppress dissidence in minority areas. There are some indications that the new, harsher line will be applied also to Tibet, but Peiping will almost certainly be forced to proceed more cautiously in that area than in the minority areas that have been longer under Communist rule and that are more accessible to the application of Communist force. It seems probable that no matter how Peiping balances force and persuasion in its minority policies, the historical anti-Chinese feeling among minorities will continue to manifest itself in periodic minor disturbances and, in Tibet, possibly in renewed widely scattered outbreaks that might necessitate protracted and fairly large-scale Chinese Communist military operations.

3. Trained Personnel. During the period 1958-62, Communist China plans to graduate about 500,000 students from its higher educational institutions -- a reasonable estimate in view of the current enrollment of 443,000. Together with the approximately 370,000 that have been previously graduated, this will provide a force of some 870,000 persons -- disregarding attrition -- who have completed their university-level education under the Chinese Communists. Currently, about one-third of the students are enrolled in teacher-training courses -- an indication of the regime's planned expansion of primary and middle school education. Another one-third are enrolled in engineering courses, and seven to eight percent in each of the fields of science, agriculture and forestry, and medicine. It is probable that proportions approximating these will be maintained over the next five years.

Despite these impressive figures, the regime will experience difficulty in meeting the industrial and scientific needs for persons with advanced training and experience. In 1955-56, 4,800 students were receiving post-graduate training, largely in technical fields. Some 10,000 students have been sent abroad since 1949, the large majority to the Soviet Union, and an unknown percentage of these have received advanced training. These programs will probably be accelerated, particularly in the scientific field, in view of the regime's ambitious objective of approaching the most advanced levels attained in the world in many important fields of science.

By 1962, the regime plans to double the enrollment in primary and middle schools, hoping to approach the goal of universal primary

education in 1967. Whether or not this target is reached, it appears that the previous problem of an insufficiency in the number of persons qualified to enter the higher institutions no longer exists. This expansion is leading to a broadening of the base of the educational pyramid and is creating the problem that the expectations of many primary and middle school graduates cannot be met -- a prospect hardly brightened by the claim that these students will comprise the "first generation of cultured workers."

Despite the planned increase in the number of graduates, the regime's need for trained personnel will not be fully met by 1962. There will be a particular inadequacy in highly trained and experienced personnel in the more advanced scientific and technical fields. The problem is aggravated by the regime's apparent feeling that many pre-Communist intellectuals cannot be expected to give loyal and enthusiastic support and therefore should not be given positions of responsibility.

Qualitatively, the regime also faces problems which will make it difficult to achieve its stated objective of building up a large group that is both "red and expert." Earlier pedagogical methods have been declared unsatisfactory and are under revision. There is a shortage of qualified teachers. Events in 1957 will further reduce the vigor of academic activity. Political indoctrination courses have been increased, cutting into the regular curriculum; also, it appears that such courses have been resented by at least a portion of the students. Dislike of the system of assigning graduates with little regard to their preferences has been countered by an expressed determination to enforce rather than modify the system.

B. Economic Prospects

1. The First Five-Year Plan. In assessing Communist China's economic prospects, it is useful to review the character of its development in the eight years since the regime gained political control of the China mainland. The initial three years were described by the regime as a "rehabilitation period," characterized by a stabilization of the economy, an extension and consolidation of the regime's political controls, and the expansion of production with relatively little fixed capital investment. The economy, which had been depressed and fragmented by over a decade of war and civil war, responded favorably, and by 1952 the regime had sufficiently expanded its fiscal revenues and improved its statistical apparatus to undertake planned economic development. During 1949-52 the regime claimed increases in the gross output of industry and handicrafts from ¥14 billion (US$5.7 billion) to ¥34.3 billion (US$13.9 billion) (in constant 1952 prices) and in gross agricultural output from ¥32.6 billion (US$13.3 billion) to ¥48.4 billion (US$19.7 billion). This expansion is almost certainly greatly overstated and reflects improved statistical coverage as well as real increases in output. The actual rise in total output is estimated at about 20-25 percent, a very rapid rate of expansion but well under half of what is indicated by the regime's data.

The first Five-Year Plan (1953-57) could be termed a "reconstruction period," during which the regime directed much of its investment towards restoring the previously existing productive plant and derived most of the increase in output from such investment and from more intensive

utilization of existing plant. A considerable investment in new facilities was made during 1953-57, however, much of which would be brought into production during the second Five-Year Plan (1958-62). Because of the opportunities to increase output with relatively little investment, total production continued to rise rapidly, and the regime claims that national income during 1953-57 increased about 50 percent in constant 1952 prices, as follows:

Sector origin	National Income [a] (In ¥ billions) 1952	1957 [b]	% of Increase
Agriculture	¥36.2	¥44	25%
Industry	9.2	22	40%
Other [c]	15.7	35	35%
Total national income	61.1	93	100%

a. The national income is calculated by Soviet concepts, excluding certain services not connected with material production.

b. National income estimates have been reported for 1952 and 1956, and the 1957 data are projections based on the expansion of gross output in industry and agriculture in 1957.

c. Including construction, trade, transport, and handicrafts.

This claimed increase in national income should be somewhat discounted. Not only is agricultural expansion considerably overstated, but growth in national income has also been exaggerated, owing to the undue importance the 1952 price structure has given industry, the fastest growing sector. Compared with 1936 prices, agricultural and industrial

prices in 1952 had advanced two and five times respectively, while the price of imported goods in terms of the over-valued yuan exchange rate had risen only by half. Nevertheless, the real increase in national income is probably 70-80 percent of what is claimed, indicating a rapid growth of 35-40 percent over the five-year period.

a. Industry. The growth in industrial output was sharply oriented towards heavy industry, and the expansion of gross output by industrial sectors during the first Five-Year Plan was as follows:

	(In billion yuan) 1952	1957	Percent Increase
Machinery	¥ 1.4	¥ 6.3	350%
Other capital goods	9.3	26.4	184%
Consumer goods	16.3	30.1	85%
All industry	27.0	62.8	133%

This rapid growth was due largely to the reconstruction of existing plant, particularly the stripped Manchurian industry, and to an increase in its utilization. In 1956 the regime estimated that new industrial plant completed after 1952 would contribute 15 percent of gross industrial output in 1957 and 50 percent in 1962. These estimates would indicate that the plant existing in 1952 had nearly doubled its output by 1957 and had contributed nearly three-quarters of the increase in industrial output; by 1957 it was approaching maximum utilization, since an increase of only 5 percent in its output was projected for 1962.

Fixed investment in industry during 1953-57 was reported at ¥27.8 billion (US$11.3 billion), or nearly three-fifths of total state capital construction. Although this figure should be discounted because of the high prices of machinery and equipment -- which accounted for 38 percent of total state capital construction costs -- it still represents an impressive development effort. This investment was concentrated in heavy industry; the fuel and power industry absorbed about one-quarter and the iron and steel and machine industries each about one-eighth of industrial capital construction expenditures.

i. Fuel and power. In the fuel and power industry, coal output rose from 63.5 million tons in 1952 to 122.4 million tons in 1957, with about two-thirds of the increase resulting from the reconstruction and expansion of existing mines. Existing mines absorbed one-third of the capital construction expenditures in the coal industry, and their investment cost per additicnal annual ton of coal production was about half that of the new mines. Despite the rapid rise in output, the increase in demand was even greater, and by 1957 coal was distributed under stringent ration procedures, affecting household consumption in particular.

Electric power output rose from 7.3 billion kwh in 1952 to 19 billion kwh in 1957, with a doubling in generating plant from 2,000,000 kw to 4,000,000 kw. A part of the increase in plant represented the restoration of Manchurian power facilities removed by the USSR in 1945. Five turbine-generators aggregating 350,000 kw were re-installed in the Tafengman Dam, and the large thermo-plants at Fushun and Fuhsin were rebuilt. Power

output per kw of capacity rose 30 percent, reflecting in part the development of power networks and in part the regulation of demand in order to reduce peak loads.

Although the petroleum industry contributes only a small part of the energy resources, it is important to the regime's hopes for industrial expansion, and a large investment has been made in exploration and development of resources. Crude oil production rose from 436,000 tons in 1952 to 1,445,000 tons in 1957, of which about two-thirds were obtained from natural oil deposits and the remainder from oil shale and coal distillation. Despite the regime's efforts, production has lagged behind the target, and apparently hopes are fading for the discovery of many large and easily exploitable oil deposits. In its long-range plans the regime is now calling for the substitution of other energy sources for petroleum wherever possible and, despite its high cost, for building new facilities for extracting oil from shale and coal.

ii. Iron and steel. Iron and steel production was sharply expanded during the first Five-Year Plan, with pig iron output rising from 1.9 million tons to 5.9 million tons and crude steel from 1.35 million tons to 5.24 million tons. Most of this increase has been obtained from reconstructing previously existing facilities and through raising the output per unit of capacity by various technical measures. At the Anshan plant, which produces about half the iron and steel, eight of the former nine blast furnaces had been restored by 1957, together with both of its steel plants. Production rose far above previous levels as a result of careful

selection and preparation of materials and other measures designed to maximize the physical output per unit of capacity.

iii. Machinery and equipment. In Manchuria and the port cities a considerable engineering industry had been built prior to 1949, designed to provide repair and maintenance services to existing industries. It is largely this plant, re-equipped and reorganized and provided with a guaranteed home market, which has enabled the industry to increase its output 4.5 times during the first Five-Year Plan. Mass production of certain simpler products within the capabilities of the equipment and technology of various factories enabled a rapid rise in output, but by 1957 market limitations for these items were restricting output. However, there has been considerable investment in new plant, most of which will come into production during the second Five-Year Plan. Once in production these new facilities will enable increased domestic production of the heavier and more complex types of equipment.

b. Agriculture. Agricultural growth claimed during the period is largely the result of more intensive production on existing farms. Cultivated land rose 4 percent to 112,000,000 hectares, while crop area rose 11 percent to 156,000,000 hectares, owing to increased multi-cropping. Food output rose 20 percent to 185,000,000 tons grain-equivalent, with the food crop area rising 7.3 percent to 120.5 million hectares and per-hectare yields rising 12 percent. Shifts to more intensive crops, i.e., rice and sweet potatoes, account for about one-third of the increase in yields. Other crop developments include a 9 percent increase in major oil crop area (soybeans, peanuts, and rapeseed) to 16.8 million hectares and a 3 percent increase in yields; a 4 percent increase in the cotton area to 5.8 million hectares and a 21 percent increase in yields; and a 61 percent increase in miscellaneous crop area to 12.9 million hectares. The claimed increase in agricultural productivity was even greater than these figures indicate, for 1952 was a bumper crop year while 1957 was a mediocre or ordinary crop year. There was also a 10 percent increase in labor animals to 84,000,000 head, of more than one-third in hogs to 125,000,000 head, and of three-fifths in sheep and goats to 97,000,000 head.

The main factor to which this agricultural expansion is credited has been the mobilization of idle and underemployed rural labor for increased cultivation work and land improvements. Irrigated land reportedly rose by one-fifth to 37,000,000 hectares, and extensive flood control and soil conservation measures were undertaken. In addition, chemical fertilizer supplies were raised from 333,000 tons to a peak of 2,000,000 tons in 1956, providing a small but important addition to soil fertility. Rural coal

supplies were more than tripled to a peak of over 25,000,000 tons in 1956, permitting greater use of straw and other by-products as feed and fertilizer. Improved seeds were developed and by 1957 were sown on 40 percent of the grain acreage, 80 percent of the cotton acreage, and 30 percent of the oilseed acreage. There has also been an increase in the supply of farm tools, and some progress was made in controlling crop pests. Among offsetting factors, there has been a sharp decline in draught-animal power per crop-hectare, resulting from a decline in the quality of the animals and from the fact that the increase in numbers has been largely in the nomad grassland areas. Another unfavorable factor was collectivization which has upset the production and market organization in the farm areas and has adversely affected the production of certain subsidiary products which were marginal peasant enterprises.

Although information is inadequate to assess accurately the consistency of the claimed increase in productivity in relation to the production measures taken, it seems likely that the regime has overstated the rise in farm output. It has admitted that its agricultural statistics, although improving, are still imperfect. Chinese officials, in discussions with Indian agricultural missions, have indicated that the data prior to 1952 were clearly incomplete and that, while data since 1952 is generally comparable, the possibility of a small bias from improved statistical coverage could not be ruled out. At the same time, marketing data indicate that the production estimates assume that the peasants have been retaining and consuming much larger quantities of grain, cotton, and oilseeds, an assumption which seems at variance with the facts. It is of interest to note that

Dr. J. L. Buck's study of Chinese agriculture in 1929-33, which challenged the official data of that day, describes an agricultural plant very similar to that indicated by the 1957 data, with a comparable rural population, cultivated area, irrigated area, multiple crop index, and livestock population. This may suggest that much of the expansion of the past eight years largely represents a recovery to prewar levels.

c. Foreign trade. Foreign trade has been an important factor in Communist China's first Five-Year Plan, and has supplied the military equipment, capital goods, and essential raw materials required by the program. To obtain the necessary imports, the foreign trade policy was to expand exports as rapidly as possible in order to finance a greater volume of imports, and to limit imports to essential commodities not produced in sufficient quantity in the Chinese economy. During 1953-57, balance of payments pressures have been growing, reflecting the cessation of Soviet loans, a rise in foreign debt service, continuing high foreign-aid commitments (chiefly to North Korea and North Vietnam), and declining receipts from foreign expenditures in China and from overseas Chinese remittances. As a result, although exports approximately doubled between 1952 and 1957, imports rose by only a third.

The composition of Communist China's imports and exports during the first Five-Year Plan is estimated approximately as follows:

(In ¥ billions)

Imports		Exports	
Consumer goods	¥ 2.5	Agricultural products	¥ 17
Raw materials, fuels	7.5	Other	6
Capital goods	10-11		
Military supplies	4-5		
Total imports	25	Total exports	23

Over three-quarters of Communist China's trade has been with the Soviet bloc during the first Five-Year Plan. The Soviet bloc has supplied all of the military supplies, most of the capital goods, as well as certain raw materials and fuels under Western trade controls, e.g. petroleum. Most of the imports from non-Communist countries have consisted of consumer goods and raw materials, although some capital goods have been received, including uncontrolled items and those shipped in evasion of trade controls. The Soviet bloc has absorbed a rapid increase of Chinese exports, although by the end of the period Communist China appeared to be directing its attention to export markets in non-Communist countries, presumably intending to utilize its export surpluses with the latter areas to settle import deficits with the Soviet bloc.

d. Population, manpower, and consumption. During the first Five-Year Plan the regime estimated from its 1953 census, its population registration figures, and its collection of vital statistics in selected areas, that its average annual population growth was 2.2 percent during 1953-57, and placed the mainland population at 575,000,000 at the end of 1952 and 640,000,000 at the end of 1957. Urban growth was about twice as rapid as total growth, and the urban population rose from 72,000,000 to 92,000,000 during the period. However, because of the small relative size of the urban population, it absorbed less than one-third of the total population increase.

The population engaged in farming increased by 10 percent from 482,000,000 to 530,000,000 while the non-farming population increased by 18 percent from 93,000,000 to 110,000,000. Employment in government and

state-controlled enterprises (excluding the armed forces) rose from 10,000,000 to 24,000,000. Part of this increase reflected the nationalization of private enterprise, and the net increase in staff and workers, i.e. wage-earners, is estimated at 5,000,000 - 6,000,000. The remaining non-farm labor force included the armed forces, personnel in service occupations and handicraft cooperatives, and a few unassimilated peddlers and tradesmen.

Despite the rapid growth in population, the regime claims that the even more rapid growth in production has permitted the needs of the development program to be met and has provided substantial increases in living standards, as indicated by the following data in constant 1952 prices of per capita consumption taken from its national income estimates:

	1952	1956	Per cent Increase
Peasants	¥ 72	¥ 81	12.5%
Workers	151	180	19 %
Total, including others and social consumption	84	100	19 %

However, it is believed that the regime has over-estimated the growth in its agricultural output and thus exaggerated farm retentions, which constitute about three-fifths of peasant consumption. Further, while peasant cash income and consumption of textiles and other manufactures have increased, the peasant preference is to spend the increased income for food which has been prohibited by the regime's controls over the distribution of the crops. Moreover, the measurement of consumption in 1952 prices, when farm prices were low and industrial prices high, has tended to exaggerate the

rate of growth of consumption. Thus, it is believed that real peasant consumption has increased very little and that the peasants, in view of the controls over their consumption and the additional work required of them, consider themselves worse off in 1957 than in 1952.

Real urban per capita consumption has undoubtedly risen during 1953-57, probably close to the officially claimed rate of 4 percent annually. However, urban consumers have had to accept increasingly stringent rationing of basic commodities such as foodstuffs, textiles, and coal, as well as overcrowded housing and urban utilities. The rise in total per capita consumption includes "social" consumption, such as military, health, and education expenditures, which has increased more rapidly than personal consumption.

2. The Second Five-Year Plan. At the 8th Party Congress in September 1956, an initial working outline of its second Five-Year Plan was presented by the regime. Compared with the 1957 goals of the first Five-Year Plan, this plan projected by 1962 a doubling of industrial output and an increase of 35 percent in agricultural output which were to contribute to a 50 percent increase in the national income. It was calculated that the expenditures would increase at a somewhat more rapid pace than national income, and that state fiscal expenditures during 1958-62 would rise by three-quarters over that planned for 1953-57. With the expansion in fiscal resources, state capital construction was to be doubled, with the shares allocated to industry and agriculture rising slightly to 60 and 10 percent respectively. Fiscal expenditures during 1958-62 were indicated to be as follows:

	Plan 1953-57	Plan 1958-62
	(In ¥ billions)	
Economic and social expenditures	¥ 72	¥ 132-154
Military and administrative expenditures	41	44
Debt service, foreign aid, other expenditures	15	44- 22
Total fiscal expenditures	128	220
Of which: State capital construction	45	90
Industrial	26	54
Agricultural	3	9
Other	16	27

Capital accumulation was to represent a slightly higher proportion of national income than in the first Five-Year Plan, but still was to permit a rise in consumption comparable to that during 1953-57.

During 1957, as the regime attempted to work out the details of the plan, important modifications were made in the program, reflecting a recognition of the limited resources available. While the regime has not summarized the effects of these changes, it appears to be attempting to maintain the projected expansion in total output through a more effective utilization of available resources and by stretching out its timetable for constructing a modern capital goods industry.

a. Agriculture. In September 1956 the 1962 farm targets called for a 35 percent increase in agricultural output over that planned for 1957 including an increase in grain production to 250,000,000 tons, in cotton production to 2,400,000 tons, and in the hog population to 250,000,000 head. During 1957 it was recognized that these goals were too ambitious, and the grain target was lowered to 240,000,000 tons, the cotton target to 2,150,000 tons, and the hog target to 220,000,000 head. At the same time, the proposed agricultural development effort was increased, notably by raising the chemical fertilizer production target from 3,000,000 - 3,200,000 tons to 5,000,000 - 7,000,000 tons. In early 1958 long-range provincial targets were being raised sharply under the slogan, "advance by leaps and bounds." However, as in 1956, such targets appear to serve as a propaganda background supporting an agricultural program which calls for widespread changes in cropping

practices, and as yet do not appear to have altered the national targets.

During the second Five-Year Plan, the emphasis will continue to be on increasing the productivity of existing farmland rather than expanding cultivated acreage. The regime claims it has surveyed and found suitable for reclamation some 35,000,000 hectares in Manchuria, and in northwest and south China, but admits that the costs of drainage, irrigation, and other development preclude bringing more than 7,000,000 hectares into production during 1958-62. About half of this will be reclaimed by state farms producing soybeans in Manchuria (1.3 million hectares), cotton in the northwest (.7 million hectares) and tropical crops in south China (1.2 million hectares). The balance is to be reclaimed by peasant resettlement programs and by bringing into production unused lands in the vicinity of the various collectives. Much of these new lands will be of marginal productivity, but the regime estimates that the program will increase production by the equivalent of 10,000,000 tons of grain.

Despite the new lands, per capita farm land will decline further from .19 hectare in 1952 to .17 hectare in 1962. To increase the land's productivity, the regime proposes to mobilize additional rural labor, expand irrigation, and improve fertilization in order to increase yields and to introduce more intensive cropping systems. During the second Five-Year Plan the irrigated area is to be expanded by 17,000,000 hectares and irrigation facilities improved on 7,000,000 hectares now under irrigation. The regime hopes also to increase the chemical fertilizer supply to 7,000,000 tons, which it estimates will increase grain output by 15,000,000 tons and cotton production by 300,000 tons.

Despite the cutback in targets and the increase in development effort, the farm program still appears to be over-optimistic. The program has assumed that the merging of uneconomically small farms into large collective units would mobilize a substantial amount of farm labor for land improvements and additional field work. This assumption is warranted by pre-World War II studies which show that Chinese peasants were idle one-sixth of the year and engaged in marginal off-farm tasks one-fifth of the year, while those on the larger farms accomplished half again as much work per man as the average on all farms. However, in the first two years of collective operation these labor savings have been dissipated by high administrative overhead and the inefficient use of labor. The regime ascribes this failure to inexperience in 1956 and timidity in 1957, and its 1958 plans call for mobilizing substantial additional labor. However, the consolidation of the collectives seems likely to be a long-term process during which the labor potential will not be realized, owing to large administrative overhead, inefficient management, and reduced peasant work incentives.

With experimental and extension facilities to develop and test new techniques necessarily limited, the program for rapid changes in cultivation practices is bound to result in costly errors, as in 1956. The regime admits this but justifies the program on the grounds that net production is to be increased. It has urged its rural cadres not to think--like one who has hit his thumb with a hammer--of the finger which has been hurt but of the nine which have not been hurt. The individual peasant, however, cannot afford to take gambles with his crop, and it is

likely that local resistance to the program will increase.

At the same time, the regime is likely to be disappointed in its expectations of increases in farm productivity. Cultivation practices are already highly intensive, and the peasants well aware of the advantages of irrigation and maintenance of soil fertility. Increased local efforts alone are likely to result in only marginal increases in output, and major expansion will depend on introducing new factors, such as chemical fertilizer or machinery. While such new factors are included in the program, they do not constitute the major part of the planned expansion.

The cutback in the major targets has probably involved a reduction in the goal for expanding agricultural output from 35 percent to between 25 and 30 percent. In view of the difficulties facing the regime's program, however, it seems probable that the increase will not exceed 20 percent.

b. Industry. Under the second Five-Year Plan working outline, gross industrial and handicraft output in constant 1952 prices was to rise to ¥ 130.6 billion (US$53.1 billion) by 1962, or double that scheduled for 1957 under the first Five-Year Plan. Actually, at the time the 1962 target was announced, the regime was confident it would overfulfill the 1957 target by 10 percent, so that the actual increase projected for 1962 was 80 percent over the 1957 level. The ratio of capital goods to consumer goods was to be raised to 50:50 in 1962, as compared with the ratio of 38:62 targeted for 1957 under the first Five-Year Plan and the ratio actually achieved in 1957 of about 45:55. While the expansion of capital goods output would still be more rapid, the disparity in the rates of growth between the two sectors would be reduced in the second Five-Year Plan, with consumers goods output rising by over half and contributing two-fifths of the total increase in output.

During 1957 numerous changes were made in the second Five-Year Plan industrial program. Part of these adjustments resulted from changing views of requirements and natural resources. Of more importance, however, are the indications that the regime found its resources inadequate to carry out the program it had outlined. As the various ministries worked out the details of the program, it became clear that the plan to increase the concentration of investment in modern industrial plant -- dear to the heart of every Communist regime -- left a wide gap between the targets and their means of achievement. A number of factors appear to have been involved in this reassessment. One surprise apparently resulting from the

calculations was the sharply rising investment cost per additional unit of production projected for the second Five-Year Plan, reflecting the necessity to rely on new investment for increased output rather than plant reconstruction and intensified use of industrial assets. In addition, the long lead time between investment and the realization of production involved in the construction of large modern industrial plants apparently had not been adequately recognized, and it was found that part of the projected increase in output would not actually be realized during the second Five-Year Plan. Further, the agricultural targets were found to be unrealistic, with the prospect that the expansion of consumers goods output would be limited by shortages of agricultural raw materials. Again, foreign exchange resources were found to be inadequate to support the foreign exchange requirements presented by the program (see Section c, Foreign Trade, below).

To bring the plan into balance, the regime has increased the proportion of investment allocated to small industrial plants, which it is calculated will reduce the investment and import requirements per unit of capacity as well as the lead time between investment and realization of production. At the same time it is hoped that by scattering these plants in medium-sized cities, which have not as yet felt the main impact of urban expansion, the existing labor force and urban supporting facilities can be utilized, and "non-productive" social overhead investment in housing and urban utilities may be slashed sharply. The existing industrial plant is being re-examined for opportunities to intensify further its utilization or to increase its productivity chiefly through

extensions or complimentary investments. This review has led to abolishing the separate management of arsenals, the surplus capacity of which is now to be utilized to produce machinery and equipment for the civilian economy. Development of coastal industry which has been relatively neglected for strategic reasons is to be emphasized where it can show large potential returns on investments. In addition, productive investment is to be economized through the acceptance of lower standards of construction and serviceability and the elimination of less essential facilities.

The lag in agriculture is forcing increased industrial support of the farm program. The 1962 target for chemical fertilizer production, placed at 3.0-3.2 million tons in September 1956, has been subsequently raised to 5-7 million tons, with the stipulation that most of the equipment is to be produced in Communist China. In addition, it is proposed to develop the production of agricultural machinery designed primarily to increase total farm output rather than mere labor productivity. At the same time, the tractor program appears to have been cut back in view of its high import requirements for equipment and petroleum. As yet, this program of industrial assistance to agriculture appears to be in the formative stage, with many of the details remaining to be worked out.

In 1957, following the shortages of coal, power, and basic materials in 1956, it was decided to raise initial targets in the second Five-Year Plan for these materials to provide a margin of safety. The 1962 target for coal production was raised from 190,000,000-210,000,000 tons to 230,000,000 tons, apparently with the expectation that most of the increase

would come from developing small local mines with relatively little investment and relying primarily on manpower. Coal deposits are widespread in Communist China, and many outcrops are mined on a small scale for local use. The 1962 target for electric power output was increased from 40-43 billion KWH to 44 billion KWH and later to 50 billion KWH. The initial target involved the addition of about 3,800,000 KW to the 4,000,000 KW plant existing in 1957, and the later revisions suggest that a further 1 million KW of capacity is now included in the plan. The additional capacity will apparently be obtained from increased domestic output of power generating equipment and be partly financed by investment economies on the plants originally planned. On the other hand, petroleum targets were cut back by an unstated amount from the 5,000,000-6,000,000 ton level in recognition of the inadequate resources.

The 1962 iron and steel targets were raised to 12,000,000 tons of ingot steel, the upper range of the former target of 10,500,000-12,000,000 tons. The steel centers at Wuhan and Paotou, each with a projected annual output of 1.5 million tons steel, are to be completed, although the investment allocation has been lowered by reducing standards and eliminating auxiliary projects. Some 18 small iron and steel plants are to be built with an annual aggregate capacity of 1.8 million tons, with the expectation that they can be completed more quickly and at an investment cost per ton of capacity of less than two-thirds that of the larger mills. At the same time, existing steel plants will be expanded, increasing their output about 2,000,000 tons over their 1957 output of 5,200,000 tons. Cement

production targets for 1962 have, however, been lowered to 12,500,000 tons, the lower range of the former target of 12,500,000-14,500,000 tons, presumably reflecting a reduction in building construction following the cut in "non-productive" investment.

Investment in machinery plants has apparently been cut back significantly, reflecting in part a cut-back in certain programs, such as tractor stations, and in part a postponement in the timetable for developing domestic production of heavy and complex equipment, which is now imported. However, the Chinese Communists hope that, with the investment program now emphasizing less complex facilities, mass production of simpler products can be further organized and enable more intensive use of existing facilities.

As a result of all these adjustments in the industrial program, it seems likely that production of capital goods at about the levels projected in September 1956 is now a reasonable prospect, and is based on investment requirements approximating available resources. On the other hand, consumers goods output is likely to be reduced as a result of lowered agricultural targets, and will probably be reflected in lowered consumption targets. In early 1958 industrial goals were being raised rapidly, particularly at the local levels, but this appears to reflect an attempt to activate local planning rather than a realistic raising of industrial sights.

c. Foreign trade. Although no foreign trade targets were mentioned in September 1956, it was indicated in 1957 that the limited volume of imports available during the second Five-Year Plan would necessitate changes in the program, particularly a reduction in the proportion of

investment in large modern plant in which import requirements formed a greater share of total costs. This change may reflect in part a more pessimistic view of the balance of payments problems. However, it seems likely that import requirements were not fully known until the various ministries had worked out the details of allocating the doubled capital construction funds; as these calculations were completed in 1957 it became apparent that the import needs presented were beyond Communist China's capacity to meet.

The balance of payments pressures developed at the end of the first Five-Year Plan suggest that there will be no great increase in imports during the second Five-Year Plan. During 1953-57 net receipts from non-trade items financed a ¥ 2 billion (US$.8 billion) import balance, but for 1958-62 it is estimated that an export surplus of ¥ 3 billion (US$1.3 billion) will be used to finance net expenditures from non-trade items, as shown in the following table:

	1953-57	1958-62
	(In billion yuan)	
Trade balance	-2.0	+3.0
Foreign credits	+3.1	0.0
Foreign expenditures in China and Overseas Chinese remittances	+2.9	+1.0-1.5
Foreign debt service	-2.0	-3.0
Foreign aid	-2.0	-1.0-1.5

Exports reached a peak in 1956 and fell off slightly in 1957. According to the regime, exports during 1958-62 will increase much more slowly than during 1953-57. The export of foodstuffs, constituting about half of current exports, is to be held constant or reduced slightly; further expansion of exports will depend on increased exports of minerals, industrial products, handicrafts, and subsidiary agricultural products. Despite the planned reduction in export expansion, it is estimated that total exports during 1958-62 may exceed those during 1953-57 by about 40 percent, reaching a level of ¥ 32 billion (US$13 billion). This level of exports would permit an increase of 16 percent in imports to ¥ 29 billion (US$11.8 billion).

With the development of the economy, the regime has indicated that import requirements for raw materials, fuels, and essential consumer goods will rise during the second Five-Year Plan. At the same time, it seems likely that military imports may decline somewhat as the military forces begin to shift from a rapid build-up to a maintenance and replacement phase. It seems probable therefore that capital goods imports can be increased to some degree. However, with capital construction expenditures being doubled it is clear that imports must form a much smaller proportion of total investment costs than in the first Five-Year Plan. In September 1956 it was stated that the machinery industry would supply 60 percent of the machinery and equipment requirements during the first Five-Year Plan and 70 percent in the second Five-Year Plan, while in 1957 the latter percentage was raised to 70-80 percent, suggesting either that other import needs had proved greater than expected or that the estimate of total import availabilities had been revised downward.

d. Population, manpower, and consumption. During the second Five-Year Plan, total population is expected to increase at a rate similar to that during the first Five-Year Plan, and rise from 640,000,000 at the end of 1957 to 720,000,000 at the end of 1962. Although a birth control program is to be promoted during 1958-62, the regime estimates that in view of declining mortality its effect will be to prevent an increase in the rate of growth rather than to decrease the rate. During the first Five-Year Plan there was an estimated migration of 8,000,000 from rural to urban areas, constituting about 40 percent of the urban growth. In the second Five-Year Plan it is hoped to reduce such migration sharply through population controls. However, the urban population in 1962 will probably reach 105,000,000-110,000,000.

Although the population growth is expected to exceed 15,000,000 annually, this growth will be concentrated in the group below working age, since the population structure is changing from that of a stationary to a growing population. Nevertheless, it is estimated that the annual growth in the labor force will be about 5,000,000, of which 4,000,000 will be located in the rural and 1,000,000 in the urban areas. The 1962 goal announced in September 1956 provided for an increase in workers and staff in government and state-controlled enterprises from 24,000,000 in 1957 to 30,000,000-31,000,000 in 1962, although this goal may have been increased somewhat as a result of the subsequent adjustments in the plan emphasizing labor-intensive rather than capital-intensive projects. Other non-farm employment is expected to increase but little; thus about three-quarters of the 25,000,000 increase in the labor force will have to be absorbed in agriculture.

The 1962 goals announced in September 1956 provided for increases of 25-30 percent in average wages and in total peasant income, which apparently would allow for per capita consumption increases at slightly greater rates than claimed in 1953-57. However, agricultural targets have since been lowered, and are still believed to be unrealistically high. Thus it is estimated that at best peasant per capita output will rise by only eight to nine percent, a large part of which will be extracted by the regime for its own purposes. With the agricultural and consumer goods industry targets reduced, the margin for increasing consumption will be limited on a per capita basis to something like 1.5 percent annually. While wage-earners will probably be favored over peasants as in the past, rising peasant discontent or successful subversion of the regime's controls in the rural areas could alter the regime's allocation.

3. Communist China in 1962. In 1962 Communist China will have been through a difficult period. More than 80 percent of its population will still be engaged in agriculture, which will have consolidated to a certain extent the collective revolution and will be in the throes of a technical revolution involving great changes in its cultivation practices. Peasant discontent will have been high throughout the period, reflecting rural resistance to change, little improvement in living standards, and the increased hazards to farm output from promoting new and untested cultivation practices. However, the regime will probably have improved its control over the collectives and devised means to enforce compliance with its directives.

Industrial expansion will have been rapid, and by 1962 capital goods production will have more than doubled over 1957, providing a basis for a

very high rate of investment and development. The expansion of consumer goods output, dependent on agricultural development, will be far less rapid, and will provide for little increase in living standards. Urban morale is likely to be low, with a minimal rise in living standards and diminishing prospects for advancement as the growth in urban employment slows down and positions are frozen in a stable bureaucracy. Student groups will probably be disillusioned over their prospects and restive. The problem of the "old" and "new" cadres will probably remain. In a period of social strains the regime will probably continue to maintain the politically reliable but untrained old cadres in their present leadership positions, while the colleges and high schools will provide several million new cadres to the labor force who will have little respect for the abilities of their superiors.

By 1962, then, the regime will have greatly enlarged its industrial base at the cost of reduced political support and by resorting to harsher controls. Although this development is not likely to threaten the regime, it may tend to reduce the flexibility and effectiveness of its policies. However, the regime's long-run prospects may be increasingly overshadowed by its population problem. It has only recently faced this question with some realism and is promising that despite a rural-based population and limited agricultural land resources, its policies of technical reforms in agriculture and of birth control will increase agricultural output at a faster rate than the population growth and will in several decades reduce population growth to manageable proportions. By 1962 these claims will have had a partial test. If the prospects are unfavorable, they may have a corrosive effect on the unity and self confidence of the Party.

C. Military

Chinese Communist military policies over the next five years will continue to be shaped and influenced by the regime's aspirations for national strength and great power status. The regime will continue its present efforts to create a modern military establishment and will probably seek, with considerable success, to achieve greater self-sufficiency in the production of conventional weapons. However, it will continue to be dependent on the USSR for many military items, particularly for more complex equipment.

Equally important is the fact that the Chinese Communists will undoubtedly continue to view the broader aspects of the Sino-Soviet alliance as the major deterrent against external attack, particularly by the US, and as an essential element in Peiping's ability to project its power position into world affairs. This view was almost certainly underlined during the past year by demonstrations of Soviet weapons and scientific achievements, and by Peiping's clearer recognition of the role that nuclear weapons and missiles are likely to play in any future major war. Nevertheless, Peiping will continue to emphasize a large and effective standing army. On the one hand, it cannot duplicate the Soviet military pattern; while on the other hand, it probably believes that such an armed force will continue to be a decisive factor in any limited hostilities and that it will continue to constitute an important psychological instrument against the non-Communist Asian states.

Levels of military expenditure projected under the second Five-year Plan do not portend any sizable increase over present levels of military spending, and Peiping apparently intends to allocate most of the increase in domestic resources to its ambitious industrialization program. However, current levels of expenditure are sufficient to promote further strengthening of its military forces, and continued emphasis on the expansion of heavy industry will contribute to the improvement of military potentials.

Chinese Communist aspirations for a great power status may eventually impel the regime to develop some token evidence of nuclear capabilities. Peiping is developing a program of nuclear research, using Soviet equipment and technical assistance. However, in view of critical shortages of technical personnel and the competing demands of its industrialization program, Peiping is unlikely to carry out a program involving the large-scale production of nuclear weapons. Over the next five years Communist China's indigenous nuclear capabilities will probably be largely confined to non-military uses of atomic energy, from which the regime can reap propaganda advantages.

Peiping's efforts to modernize its armed forces may eventually produce a new generation of "technical" officers whose interests and outlook are more purely military, and who are less closely bound to the CCP. Such a development might tend to weaken party control over the armed forces. This, however, is unlikely to become a serious problem during the next five years. CCP leaders appear to be aware of this danger and will seek to maintain a tight party control over the PLA. The percentage

of party and Youth League members in the armed forces will probably continue to be high, and the PLA will probably continue to be a well-indoctrinated group loyal to the regime.

If present trends continue, the general quality and effectiveness of the PLA may gradually improve. The addition of better-educated younger recruits to the PLA will facilitate training in modern weapons.

The regime will continue its present efforts to develop a permanent military reserve. The development of such a reserve on a nationwide basis, coupled with the emergence of revised military concepts in bloc strategic thinking, may permit the regime to effect some reductions in the size of its regular armed forces.

D. Sino-Soviet Relations

1. Objectives. During the next five years Peiping will almost certainly continue to believe that the military guarantees of the Sino-Soviet alliance constitute the principal deterrent against attack by the US. Peiping will continue to rely on the USSR and the bloc as its principal source of imports, aid, and technical assistance. Furthermore, Peiping will continue to share Moscow's ideology and view of history. Peiping's first objective in its relationship with the USSR will therefore be to maintain and strengthen the Sino-Soviet alliance and the bloc as a military, diplomatic, and economic force in order that the bloc might fulfill what Peiping believes to be its historic destiny and in order to maximize bloc assistance for Peiping's domestic program.

On certain issues Peiping's objectives may differ somewhat from those of the USSR despite the identity of long-range interests and objectives. Peiping's interests are more immediately involved than those of Moscow in certain Asian questions, particularly the status of Taiwan; on these issues Peiping may therefore take a more adamant stand than the USSR. Similarly, Peiping may make demands for its domestic economic program that Moscow could meet only at some expense to its own economy; in these cases differences could arise in spite of probable Sino-Soviet agreement on maximizing the economic strength of the bloc as a whole. Again, Moscow is more deeply involved in East European affairs and might in some cases believe that its authority must be imposed at whatever cost, while Peiping from its more detached viewpoint might feet that greater flexibility would strengthen the bloc vis-a-vis the non-Communist

world. In this connection Peiping will almost certainly wish to maintain its status of independence within the bloc, while Moscow probably does not view Chinese Communist independence as an end in itself but only as a contributing factor to the effectiveness of Sino-Soviet cooperation. However, in all such conflicts of objectives, both Peiping and Moscow will probably subordinate occasional differences to the wider interests of commonly held objectives and ideology.

2. Probable Developments. Peiping will probably continue to play a role in the bloc second only to that of the USSR, and its recently increased interest and influence in general bloc policies will probably be maintained. Chinese Communist foreign and domestic policies and statements will, as they did in 1956-57, have considerable impact in other Communist regimes and movements. However, it is unlikely that Peiping will in the near future issue another ideological pronouncement that will arouse as much varied interest as the "contradictions" thesis. In fact, Peiping may attempt to minimize the international implications of its domestic activities in order not to appear to be undercutting Soviet leadership.

The variations of objectives underlying the basic identity of Sino-Soviet interests will create occasional differences and disputes, such as arise in any alliance. Peiping and Moscow will make every effort, however, to prevent such problems from materially reducing the effectiveness of Sino-Soviet collaboration. The degree to which the efforts to subordinate disputes will succeed will depend in part upon the personal relationship of the Chinese Communist and Soviet leaderships

to each other. So long as Mao remains active, his seniority and tremendous prestige will continue to permit Peiping to exercise considerable flexibility in accepting Soviet leadership without seeming to impair its independence; if Mao were replaced by lesser leaders, the problem of building prestige and gaining face might make Peiping a somewhat more difficult ally for the USSR. At the same time, however, lesser leaders in Peiping might be more dependent upon Soviet support in any domestic struggle and might therefore be more prepared to compromise on some issues with the USSR. Leadership developments in the USSR will similarly influence Sino-Soviet relations. If a delicate balance of political power should arise in the Kremlin, Peiping might exert some influence to tip the scale, despite the apparent Chinese Communist reluctance to become involved in Soviet internal politics. Furthermore, any leadership instability in the USSR that Peiping might interpret as a sign of Soviet weakness or indecision would make Peiping less prepared to follow the Soviet lead and more adamant in insisting on its own views and objectives.

Among the problems in the Sino-Soviet relationship that are probably uppermost in immediate importance is that of economic relations. Peiping's receipts under Soviet loans have ceased and commitments to service loans obtained previously are now creating foreign exchange difficulties. It may attempt to obtain from the USSR an additional loan or at a minimum a postponement of service and repayment obligations for past loans. It is also conceivable that as Peiping's import requirements increase and its ability to increase certain exports, such as foodstuffs, remains restricted, the USSR may be reluctant to supply in full Peiping's needs or accept in payment the exports Peiping has to offer.

Another pressing problem likely to arise during the next five years is that of redefining the Sino-Soviet military relationship in the nuclear and missile age. Peiping will continue to be heavily dependent upon the USSR for military aid in conventional weapons and may in the next few years wish to acquire some capability in the missile and nuclear fields. The USSR would probably be reluctant to provide more than token quantities of modern weapons for Communist China, and would in any case seek to maintain more control over such weapons than it has retained over conventional arms. This might introduce an element of Soviet control in the Chinese military establishment that Peiping has so far avoided.

Another problem in Sino-Soviet relations may involve the relationship of Moscow and Peiping to the Asian bloc countries: Outer Mongolia, North Korea, and North Vietnam. Peiping's influence in each of these areas is substantial, although Soviet control remains predominant in Outer Mongolia and in North Korea. Outer Mongolia, North Vietnam, and North Korea are areas of traditional Chinese encroachment in which Peiping may have ambitions that conflict with Soviet interests. Peiping and Moscow appear to be cooperating in providing guidance and assistance to these countries, but this cooperation could, during the period of this estimate, assume increasingly competitive aspects, particularly if problems such as pan-Mongol feelings in Inner and Outer Mongolia complicate the issue.

A similar possibility that cooperation may be affected by competition exists in the field of Sino-Soviet activities in non-Communist Asia and Africa, including relations with the indigenous Communist

movements. Although Peiping has made gestures such as the registration of "volunteers" for Egypt during the Suez crisis in 1956 and the granting of a loan to Yemen in January 1958, the Chinese Communists have not attempted so far to match Soviet moves in the Middle East; in any event, it has consistently declared its strong support of Soviet policies in the area. In the Far East and South Asia, Communist China, as an Asian state, has often been more effective than the USSR. In all of these cases, Peiping and Moscow appear to have exploited openings for increasing Communist influence through aid, trade, and other tactics, without necessarily intending to abridge the influence of the other. However, with the continuing development of Sino-Soviet activities in the Asian-African area, it is possible that conflicts may arise over spheres of influence or over the specific tactics to be followed.

There has been much speculation concerning possible Sino-Soviet competition and disagreement in the ideological field. It is probable that during the next five years Peiping will maintain and possibly increase its ideological stature within the world Communist movement. However, Peiping's pragmatism and flexibility that have in the past created differences between its approach and that of Moscow to ideological matters will also enable Peiping to adjust its formulations (as was done in Mao's "secret" speech) to minimize the disruptive effect on Sino-Soviet relations.

The above and other similar problems may within the next five years reduce somewhat the effectiveness of Sino-Soviet cooperation in specific fields. However, neither Peiping nor Moscow is likely to permit these problems to assume proportions that would seriously reduce the strength of the Sino-Soviet alliance or detract from its posture of solidarity against the West.

E. Policy Toward Non-Communist Countries

1. Objectives. Peiping's preoccupation with its domestic programs, particularly its industrialization plan, does not preclude a dynamic view of its foreign policy objectives. The Chinese Communists will undoubtedly continue to believe that the bloc, with Communist China as its most important component after the USSR, cannot remain static but must move ahead of the West in all respects, including international influence, in order to fulfill the destiny outlined for it by Marxism-Leninism. Thus even during its period of domestic preoccupation, the Chinese Communists, as dogmatic Communists, will be constantly and intensely conscious of their long-range world objectives, including the ultimate communization of all of Asia. The question of feasibility, rather than any weakening of desire or intent to achieve these objectives, will be the restraining element in Communist China's foreign policy. It is this restraint which makes it unlikely that Peiping will resort to the use of military force as a principal foreign policy tactic, barring a major shift in Soviet policy or a softening of free world opposition.

The US represents for Peiping the chief obstacle to the achievement of its short-term and long-range objectives. The effort to reduce US influence in Asia, to weaken US determination to resist Communism in Asia, and to undermine US bilateral and multilateral security arrangements will therefore continue to be a dominant feature in Peiping's policies during the next five years.

A concomitant short-term Chinese Communist objective is to increase its own influence, particularly in Asia and to a lesser extent in Africa, both by exploiting all possible opportunities with countries which have accepted it as a member of the Asian-African community and by seeking wider acceptance. Toward this end, the Chinese Communists will probably strive for the more limited objective of pro-Communist neutralism rather than demanding more positive alignment with the bloc. Since the Chinese Communists undoubtedly recognize that Japan constitutes a power rival in Asia, they will make a strong effort to weaken Japan's alignment with the West. They will also concentrate on relations with India, since an unfavorable policy shift by this leading Asian neutralist country could have serious repercussions for Peiping throughout the area.

During the next five years it is probable that Peiping will also become more impatient to play the major role in international affairs outside of Asia to which it believes it is entitled. Accordingly, it may attempt to become more active on matters of broad international import, even if it does not secure entry into the UN.

Elimination of the GRC will continue to be an important corollary to the objectives listed above. It is probable that the passage of time, even during the next five years, will accentuate rather than reduce Peiping's intention of removing this challenge to its international position, although the Chinese Communists will probably not resort to military action against Taiwan so long as the US demonstrates a determination and ability to prevent a military seizure of the island.

2. Peiping's Tactics. There appears to be relatively little likelihood at present of a major shift in Chinese Communist tactics toward the non-Communist world. During the next five years, Peiping will probably continue to emphasize non-military tactics, utilizing themes such as "peaceful coexistence" and "Asian solidarity" that are designed to extend Chinese Communist influence at the expense of the West. Peiping will continue to attempt to project an image of itself as a dynamic Asian country rapidly solving its social and economic problems, but this effort will probably be hampered by the continuing necessity of relying on strict controls rather than popular support.

Peiping may attempt to negotiate with the West, particularly the US, over such issues as the status of Taiwan, Korea, or Indochina, but there is little prospect of a settlement of these issues and any concessions will be marginal, leaving unchanged the basic Chinese Communist hostility toward the West.

A reversion to Peiping's earlier tactic of military action and encouragement of insurrectionary activity by other Communist movements is unlikely to take place unless Peiping comes to believe that Western and particularly US determination to resist Communism has been materially reduced, unless a major shift in bloc strategy should call for military or insurrectionary activity in the Far East, possibly for diversionary purposes, or unless Peiping came to believe that its vital interests or the existence of a neighboring Communist regime could be preserved only through such activity.

Despite the probable emphasis on "peaceful" activities, Peiping will attempt to exploit any opportunity for political or economic penetration

of Asian and African nations. Thus it will almost certainly not sever its relations with Communist movements in various Asian countries. Through its connections with those movements and with the overseas Chinese communities in several countries, Peiping will continue to supplement its "peaceful" activities with subversive activities.

The obstacles which face Communist China have led it to adopt a foreign policy which contains a considerable element of flexibility, combining a "patient," moderate approach to some problems with great intransigence on other issues. Thus, when prevented from gaining general diplomatic recognition or admission to the UN, it has employed considerable ingenuity to develop alternate devices, such as "people's diplomacy"; when unable to extend outright Communist influence, it has advocated neutralism. At the same time, it has not compromised on the basic issues involving the status of Taiwan or the remaining US prisoners. Peiping will probably continue to demonstrate some flexibility during the next five years, with its chief concern to prevent a situation from becoming frozen -- hence, the present and probably continuing sensitivity on the "two Chinas" issue.

However, impatience with undramatic progress in certain fields or indications that the status quo is gaining wider acceptance despite Peiping's protestations may lead to less rather than more moderation in Peiping's policies, and may on some questions create a quite inflexible stand. Peiping may attempt to realize somewhat greater returns from some of its activities, particularly since it probably estimates that US strength and prestige will decline during the next five years while bloc strength

and prestige will rise. Peiping may expect that countries judged susceptible to its blandishments should adopt a less neutral or less pro-American stand than heretofore, and it may in some cases resort to threats and bluster to attain this end. Without abandoning its "peaceful" line, Peiping may for example attempt to force the UK and Japan to abandon what it interprets as support for a "two Chinas" situation. This tactic could lead to recurring crises over such questions as the status of Hong Kong or to difficulties in regard to Japanese fishing rights and trade. Similarly, if Peiping believed that it was making little progress in arresting the trend toward development of a status quo in the Taiwan Strait, it might revert to a policy of periodic military action in the Strait, including attacks on the smaller, less defended offshore islands, in an attempt to increase pressure on the GRC, the US, and the latter's allies, in order to keep the Taiwan issue alive and in a state of crisis just short of major military action.

3. Probable Achievements. Through its various activities Peiping will probably be able, during the next five years, to increase its influence slightly in the non-Communist world through official and unofficial contacts, propaganda, and astute but necessarily limited applications of trade and economic aid. It is possible that several countries which do not recognize Peiping now may do so within the next five years, but most will refrain from recognizing Communist China while the latter is neither admitted to the UN nor recognized by the US. Peiping's principal sphere of action will be among the countries of Asia, although its activities in Africa and the Middle East will probably increase in prominence in the course of the five-year period.

In a period of less than a decade, the Chinese Communist regime has made substantial progress in extending its influence and making its impact felt in Asia and the world. It has gained recognition from 17 non-Communist countries, fought the UN in Korea, participated in truce negotiations in Korea and in the Geneva conference on Korea and Indochina, gained acclaim at the Bandung Conference, and generally exerted its influence in much of Asia and Africa. However, much of this impact is attributable to factors which have already had their major effect on Communist China's status; such as the sudden emergence of a Communist China, its economic achievements, anti-colonialist sentiment in Asia, and the theme of Asian solidarity. These factors are still relevant, but the increments to Communist China's international position resulting from these factors will not be as great as in the past. It is thus highly doubtful that Peiping will be able by its own efforts during the next five

years to approach its past record. Instead, future improvements in its position will be increasingly dependent on overall Communist bloc achievements.

One of the problems facing Peiping in the next few years will be that of transforming "coexistence" into meaningful gains for Communism. From the Communist viewpoint the danger is that prolonged coexistence may lead to widespread acceptance of the status quo (or, as Peiping puts it, of "two Chinas") or even to stabilization of trouble spots, reducing the potential for Communist exploitation. It is doubtful that such gains as Peiping can make through its own efforts during the next five years will solve this problem, the final outcome of which will be determined primarily by developments in the broader aspects of the East-West struggle.

Table 1. EXPENDITURES AND REVENUES - COMMUNIST CHINA
(In billions of yuan)

	1952	1953	1954	1955	1956	1957	1958[a]
Expenditures:							
Economic construction	7.63	8.65	12.36	13.76	15.91	14.86	17.55
Social construction	2.28	3.36	3.46	3.19	4.60	4.74	4.90
Defense	4.37	5.68	5.81	6.50	6.12	5.51	5.00
Administration	1.73	2.12	2.16	2.15	2.66	2.32	2.00
Other	.78	1.68	.84	3.75	1.28	3.12	3.62
Total	16.79	21.49	24.63	29.35	30.57	30.55	33.20[b]
Revenues:							
Taxes	9.77	11.97	13.22	12.74	14.09	15.43	16.50
Receipts from enterprises	5.73	7.67	9.96	11.20	13.43	14.22	15.72
Loans	.19	.49	2.35	2.36	.72	.67	.63
Other	1.87	1.63	.71	.90	.50	.37	.22
Total	17.56	21.76	26.24	27.20	28.74	30.70	33.20[b]

a. Budget figures.
b. Totals include ¥ .13 billion unallocated supplementary appropriations.

Table 2. Industrial Production, Communist China, First and Second Five-Year Plans

Product	Unit	1952	1957	1962 Targets		
				Sept/1956	Later Revisions (1957)	Early 1958
Coal	million mt	63.5	122.4	190-210	230	
Elec. power	billion kwh	7.26	19.03	40-43	44	50
Steel ingot	000 mt	1,349	5,235	10,500-12,000	12,000	
Cement	000 mt	2,861	6,683	12,500-14,000	12,500	
Chem. fert.	000 mt	194	750	3,000- 3,200	5,000-7,000	
Crude oil	000 mt	436	1,445	5,000- 6,000	a	
Cotton yarn	000 bales	3,618	4,620	8,000- 9,000	b	
Metal cutting machines	000 units	13.7	29.0	60-65	a	
Paper Machine-made	000 mt	372	890	1,500- 1,600		
Sugar all	000 mt	451	850	2,400- 2,500		3,000
Ed. Veg. all Oil	000 mt	891	1,450	3,100- 3,200		3,100
Salt all	million mt	4.9	8.26	10.0-11.0		14.0
Wine & spirits	000 mt		730	870		1,200
Timber	million cu mts	10.0	26.58	31.0-34.0		
Aluminum	000 mt	0	10 (est)	100-120		

a. The regime has indicated that these targets have been reduced.

b. Will probably be revised downward to about 7,500,000 bales as cotton crop targets have been lowered from 2.4 to 2.1 million tons.

Table 3. Communist China, Claimed Increase in Industrial Capacity, Selected Industries 1953-1957 and planned 1958

Industry	Unit of measure	1953-57 [a] FYP	1953-57 [b] Actual	1958 [f]
Coal	Million m.t.	53.85	52.0	24.4
Electric power	Million kw	2.05	2.0	0.9
Pig iron	Thousand m.t.	2,800	2,800	1,880
Steel ingot	" "	2,530	2,200	1,380
Rolled steel	" "	1,830		762
Cement	" "	2,360	2,400	833
Crude oil	" "	1,520	c	
Sugar	" "	428	436 [d]	345
Cotton spindleage	000 units installed	1,650	1,300 [e]	500 [g]

a. Published first Five-Year Plan; includes all plants.
b. FBIS 1/7/58; may include major plants only.
c. Probably not achieved.
d. NCNA 1/3/58; includes all mills.
e. Also given as 2.4 million spindles -- NCNA 12/31/57
f. FBIS 2/13/58; includes all plants.
g. Estimated on basis of given capacity increase of 387,000 bales of yarn.

Table 4. FREIGHT HANDLING BY VARIOUS MEANS OF TRANSPORT IN COMMUNIST CHINA, 1956

Mode of Transport	Tonnage (percent of total)	Ton-Km (percent of total)
Railways	33.0	78.70
River shipping	14.60	12.10
Larger shipping	4.70	8.50
Native junks	9.90	3.60
Coastal shipping	1.50	5.70
Motor vehicles	10.7	2.30
Carts and pack animals	40.2	1.20
Total	100.0	100.0

Source: Rechway Transport, Moscow 10/57

Table 5. VOLUME OF FREIGHT TRANSPORT[a], COMMUNIST CHINA 1952-1957

(In thousands of metric tons)

Mode of Transport	1952	1955	1956	1957 (Original Five-Year Plan)	1957 (Estimated actual)	Percentage over Plan
Railroads	132,100	202,200	246,050	245,500	270,000	10.0
Shipping	15,172	37,331	46,270	40,325	50,000	3.5
Coastal	5,765	10,303	10,850	11,461		
Inland	9,407	27,028	35,420	36,864		
Highway	20,718	58,776	79,130	67,493	80,000	18.5
Air	2.0	4.7	5 est	5.6	n a	n a
Total	167,992	298,312	371,455	361,324	403,200[b]	11.6

a. Excluding native transport (e.g. junks, carts) which carry about half of total freight burdens on the China mainland.
b. Given as 140 percent over 1952.

III. SUMMARY AND CONCLUSIONS

Present Situation.

1. The basic objectives of the Chinese Communist regime continue to be: a) to establish and maintain control over all territory which the Chinese Communists regard as having been under traditional Chinese control; b) to transform an underdeveloped country into a dynamic, industrialized state; c) to establish the social attitudes and institutional pattern of a communist society; d) to achieve a position of political, economic, and military dominance in Asia and the status of an acknowledged world power; and e) to promote the objectives of the international Communist movement.

2. The Chinese Communist Party, numbering about 12,750,000, continues to be an effective apparatus for controlling the country. However, certain internal party problems arising from possible policy disagreements and questions of reliability and efficiency among the rank-and-file members have hampered the implementation of some of the party's programs, and the leaders are currently engaged in a major effort to reinvigorate the party and government bureaucracy.

3. Popular dissidence has increased over the last few years, particularly among the peasants, the students, the non-Communist intellectuals, and the ethnic minorities. An effective public security apparatus, reinforced by a large and loyal military establishment, prevents dissidence from threatening the existence of the regime. The regime's attempt in 1957 to devise a new method of eliciting a greater positive response from the people largely failed, forcing it to revert to orthodox control and indoctrination measures.

4. The regime virtually completed the socialization of agriculture, commerce, and industry during 1956 and 1957. It has claimed that 97 percent of the peasants have been organized, nearly all in agricultural collectives. Private business has been almost completely eliminated. Despite the initial success and relative ease of this tremendous transformation of Chinese society, it has been followed by a rise of popular dissatisfaction, particularly among the peasants.

5. During the first Five-Year Plan the Chinese Communist economy expanded rapidly, with an estimated average annual growth in its national income of seven to eight percent. Industrial output rose 133 percent with a three-fold increase in capital goods and a rise of four-fifths in consumer goods. The increased industrial output was obtained largely from the reconstruction and more intensive utilization of existing plant, although a considerable investment was made in new plant which is to come into production in 1958-62. Farm output rose significantly, although the increase was probably 15-20 percent rather than the 26 percent claimed by the regime. While development and technical improvements played a role in agricultural expansion, a large part probably reflected a recovery to pre-World War II conditions.

6. The population rose rapidly from 575,000,000 at the end of 1952 to 640,000,000 at the end of 1957, as social stability and rudimentary public health measures reduced mortality while fertility remained high. The urban population rose from 72,000,000 to 92,000,000, absorbing 8,000,000 migrants from rural areas. State-controlled employment of staff

and workers rose from 10,000,000 to 24,000,000 involving the nationalization of 8,000,000-9,000,000 in private enterprise and a net increase of 5,000,000-6,000,000 wage-earners. By the end of 1957 nearly 97 percent of the 530,000,000 farm population were in collectives and most of those producing handicrafts were in cooperatives. By 1957 the expanded educational system provided formal training for about 80 percent of the children at the primary level, 12 percent at the junior high level, three percent at the senior high and vocational level, and one percent at the college level.

7. The regime successfully captured a large share of production increases for the support of its programs, and during 1953-57 both fiscal expenditures and total net investment approximately doubled. Per capita consumption rose very little, if any, in rural areas, but possibly as much as four percent annually in urban areas. In the rural areas, crop controls and collectivization have led the peasants to regard themselves as much worse off, while even in urban areas stringent rationing, crowded conditions, and job dissatisfactions have left the people restive.

8. The Chinese Communist leaders continue to view their close alliance with the Soviet Union as the keystone of their foreign policy. Peiping's active participation in bloc matters during the last two years has increased its prestige and influence within the bloc; at the same time the Chinese Communists have strongly reemphasized their support of the principle of Soviet leadership of the bloc.

9. The Peiping regime is recognized by 18 non-Communist countries, 14 having extended recognition during the first year of the regime's existence. 45 non-Communist states continue to recognize the GRC. Despite the disparity in these figures, Communist China has achieved considerable success, particularly in Asia, in portraying itself as a dynamic country whose impact on world affairs will probably increase, although many countries view this prospect with concern.

Future Trends.

10. There are at present no identifiable trends within Communist China which would indicate that the regime's physical control of the country will be effectively challenged during the next five years. However, in view of the regime's program, any increase in material or psychological incentives granted to the people will necessarily be minimal. Thus some decrease in public support appears likely, which will tend to hamper the achievement of the regime's domestic objectives.

11. The Communist Party will probably remain an effective apparatus for controlling the country, but some decrease in its ability to formulate and implement policies may occur as a result of morale problems among the rank and file and possible disagreements among the leaders. If Mao dies, authority may pass temporarily to a collective group; but with the loss of Mao as a unifying factor, rivalry for power and policy disputes would probably grow with considerable rapidity until power was seized by one man. These developments, coupled with the loss of Mao's abilities and his domestic and international prestige, would appreciably weaken the party.

12. Economic expansion will be more difficult and costly in the second Five-Year Plan, for increased output can no longer be obtained primarily through reconstruction and intensified utilization of capacity, but rather will depend on new investment and technical innovations. In September 1956 a working outline of the 1955-62 plan was issued, projecting capital construction at three-quarters over that achieved in 1953-57 and a rise in industrial and agricultural output of 80 percent and 32 percent, respectively. As the various ministries filled in the details of the plan in 1957 and early 1958, it became clear that the outline was over-ambitious and would have to be re-shaped to available resources. Despite increased investment in agriculture, farm targets have been lowered, necessitating reductions in consumer goods industry goals. Stringent investment economies and a greater emphasis on small plants requiring less investment and imports per unit of capacity have, however, maintained industrial targets for capital goods, and apparently the regime hopes to maintain its investment goals while cutting its consumption targets.

13. During 1958-62, then, the regime will probably maintain a rapid economic growth, with national income rising about six to seven percent annually or somewhat less than in 1953-57. The revised industrial goals appear feasible, although the cut-back farm targets still seem to be over-optimistic. The economic growth, therefore, will probably be associated with harsher controls over the population, in the absence of significant material incentives, and, as in 1953-57, is likely to be uneven, depending on the fortunes of the crop weather. The population problem is likely to become more significant. The population is expected to grow from 640 million

to 720 million, with three-quarters of the increase to be held in rural areas through control of population movements. By 1962 the degree of success the regime will achieve in slowing population growth through birth control and in increasing farm output through technological change is likely to influence its confidence and unity and be an important factor in shaping its future prospects.

14. The regime's overall military potential will probably be increased by its modernization program, improved training, and a further development of the military reserve system. Party control over the armed forces will continue to be strong. The regime may develop greater self-sufficiency in the production of conventional military weapons, but will continue to be dependent on the USSR for much of its heavy military equipment and for nuclear or missile capabilities.

15. The mutual dependence of Communist China and the Soviet Union is so crucial to both countries that Peiping and Moscow will continue to subordinate any differences that may arise between them to the overriding consideration of maintaining the doctrinal, political, economic, and military bonds which constitute their alliance. Communist China will probably continue to exercise the influence in bloc-wide matters which it has recently achieved. While it will continue to defer to the Soviet Union on crucial questions of bloc policy, it will also continue to play a major role on questions of Communist policy in Asia.

16. Barring any significant shift in Communist bloc strategy, it is unlikely that Communist China will make any major change in its foreign policy objectives or tactics. Its basic hostility to the US will remain,

and Peiping will attempt to exploit what it apparently believes are elements of weakness in US policy in Asia. Toward this end, it may intensify its efforts to convince other nations that it desires a rapprochement with the US, but marginal concessions that it might offer would exclude resolution of such basic issues as the status of Taiwan, Korea, and Vietnam. On the other hand, the Peiping regime probably will not use military force to resolve these issues so long as it remains convinced that the US would react effectively. However, Peiping is determined to keep the Taiwan situation from becoming frozen, and might step up military activity in the offshore island area to maintain fluidity and pressure.

17. The Asian area will continue to be the major target of Communist China's foreign policy activities, and its present tactics of stressing "peaceful coexistence" and "Asian solidarity" will probably be maintained. Communist China will probably become increasingly impatient to achieve a position where it can participate more actively in matters of broad international import. Frustrated because its policies have not been more successful in certain areas, there may be a trend toward a harder attitude toward such countries as Japan and Britain, although Peiping will maintain a flexibility of approach in order to exploit all opportunities.

18. Peiping may achieve some successes in increasing its influence and prestige, particularly in Asia and Africa. However, to a far larger extent than in the past, any change in Peiping's international position and its impact on the international situation will be determined by the course of the broad conflict between the Communist and non-Communist worlds. Communist

China will be a major protagonist in this conflict and its action will thus influence the outcome, but Peiping's role in Asian and international affairs will be increasingly dependent on factors which are not subject to Peiping's direct manipulation.