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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
27 July 1962

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CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: The Domestic Impact of Communist China's
Economic Crisis

1. China's economic slump has engulfed Peiping in domestic problems so grave that it is legitimate to ask whether the regime--or at least the current leadership--can survive. Not only is the population becoming increasingly restive as it experiences the decline in living standards, but there is evidence of increased doubts and uncertainty among officials who must administer constantly shifting regime policy. As the various palliatives which Peiping has applied have proved ineffectual, the range of alternative policies open to the Chinese leaders has narrowed. At least in some regions it has now become necessary to make an open show of force. There are three main aspects of the problem: the rise in public unrest; official reaction and policies; and the current situation.

2. Popular reaction. The following stages of public reaction to the decline in living standards have been noted:

a. Secret dissatisfaction. This began with the scant harvest of 1959 but the people kept their feelings to themselves for fear of punitive action. This attitude continued through most of 1960.

b. Open grumbling and complaints. By early 1961 there were many reports of peasants criticizing cadres, of slowdown strikes in the fields and of widespread apathy toward regime directives.

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Instances of petty corruption, thievery, and anti-regime sloganeering began to appear. The change to more vocal expressions of discontent was stimulated in part by Peiping's decision to curtail use of oppressive measures, directing the cadres to use persuasion instead. Regimentation of the peasantry and urban dwellers was no longer enforced to the same degree as before. Foreign observers reported that they saw small informal groups working in the fields, rather than the huge martial-like brigades of a couple of years before. These concessions were welcomed by the benefited groups, but it is doubtful if they really served Peiping's purpose. First, because the economic situation continued to deteriorate the "Small Freedoms"--as they were termed--did not satisfy the population and probably whetted its appetite for more. Secondly, Peiping's concessions seriously hurt party esprit and prestige. Cadres had to reverse policies constantly and became discouraged and confused. There were some resignations from the party.

c. Limited open defiance and search for individual solutions. By the spring of 1962 public security had become a serious problem. Many individuals, including low level party officials, were placing their personal well-being and that of their families above everything else. Corruption, black marketeering, and thievery had become quite common. There were even reports that some persons believed "the mandate of heaven" had been withdrawn from Mao--to quote one Kwangtung peasant, "Heaven will not allow a ruthless and cruel government which kills people by starvation to last too long." In May there was the influx of refugees to Hong Kong, a spontaneous mass movement taking advantage of indecision and confusion among officials on the local level. There is no question that Peiping was shocked by the refugee movement. It may have marked a turning point in the regime's attitude toward the populace, particularly toward the population in Kwangtung.

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3. Official reaction and policies. There is good evidence that Peiping was vitally concerned over its loss of public support by the fall of 1960, and this concern has continued.

a. Chinese army documents [redacted] detail high level investigations made in certain units concerning the state of army morale in late 1960 and early 1961. Both men and officers had been affected by tales of the hardships suffered in disaster areas by their families. Peiping evolved a two-pronged policy to make sure it did not lose the army's loyalty: the men were to be subjected to extra propaganda doses to convince them that things were really better than in the "bad old" KMT days, and also they were to be treated leniently in all possible respects and not criticized for their doubts. Officers, and particularly political cadres, on the other hand were to be investigated carefully, and only the most faithful retained in positions of responsibility. According to the documents substantial improvements in morale were achieved.

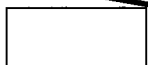
b. The Peiping regime inaugurated or revived a number of policies in 1961-62 which were designed to conciliate wavering elements of the population and to extend production incentives. The "hundred flowers" concept of permitting a modicum of free discussion of nonpolitical subjects was resurrected and the regime for all practical purposes dropped its insistence that "politics must take command" in technical, scientific and professional spheres.

4. The current situation. Peiping's apparent belief that Chiang Kai-shek, backed by the US, might really attack the mainland this summer lent a new urgency to its public security problem. The recent troop movements into Southeast China may have actually been intended to serve a dual purpose. Although primarily aimed at strengthening coastal defenses, an

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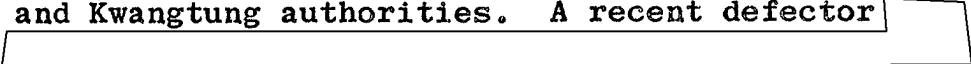
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important by-product was to demonstrate military might before a restive populace. Certainly the regime could justify a crackdown on disgruntled elements under the cloak of war hysteria.

a. Public discipline may be weakest in South China; open public defiance appears more common in Kwangtung Province than elsewhere. Kwangtung has always been a troublesome area for the central Chinese authorities and is proving so again for the Communists. Communist provincial secretaries were sacked there in 1958 for "parochialism," and there have been some reports of current differences between the central and Kwangtung authorities. A recent defector



states that an investigation of the loyalty of public security personnel [redacted] was made in August 1961. The investigators reported that 20 of the 38 employees either were "restive," wanted to emigrate to Hong Kong, or were dissatisfied with the Chinese Communist Party. There have been several clashes between mobs and the Communist authorities in Canton and its environs. For example, a riot occurred on 2 June at the Canton railway station which had to be put down by troops.

b. Around the first of June Canton was placed under something akin to martial law. Army patrols now are a common sight in the city, decrees are being issued jointly by the mayor and garrison commander and house-to-house searches have been conducted for "unreliable" elements. These searches have reportedly resulted in the arrest of several thousand persons. On 1 July the party boss for Central South China, Tao Chu, told a gathering of party officials that strong measures must be taken against counterrevolutionaries because the "criminal activities" of these internal enemies had in fact become "outstanding." They were, in short, endangering internal security. Tao Chu also instructed party officials to develop the

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masses' "anti-enemy struggle enthusiasm"--an intimation that Peiping has doubts about is popular support.

c. [redacted]

[redacted] Occasional reports from Shanghai, [redacted] suggest that conditions may not be much better there. Articles are published regularly in the Peiping press which document the concern of the central authorities over the pull of centrifugal forces in China. Serious warnings have been issued against those who may dream of establishing "independent kingdoms" and constant criticism is leveled against those who put local interests above the nation's. An article in the 16 June issue of Red Flag, the party theoretical journal, inveighs against cadres who appoint friends and lackeys rather than men of ability to positions of responsibility.

5. Public unrest and open expressions of dissatisfaction with the regime are likely to increase if the economic situation does not improve, and there are no signs that it will in the near future. However, the central authorities have massive machinery at their disposal to quell riots or resistance. A Chinese Communist Army officer, [redacted] indicated his belief that, despite lowered morale, the troops would support the government in suppressing trouble. The rapidity with which the army closed the Hong Kong border in late May, once the decision was taken to do so, is testimony to the continuing effectiveness of the public security apparatus. The situation may, however, be moving into a new stage. The relatively passive nature of popular disgruntlement in the past permitted the regime to adopt a kid-glove approach. Unrest has become more active and less possible to ignore, (e.g. the Kwangtung refugees and Canton riots) and in such instances the authorities have shed their gloves. As shows of force become more general, the major question will be just how the Chinese people--ill-fed, ill-clothed, ill-housed and increasingly disposed to blame the Communists --will react.