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Presidential Libraries Withdrawal Sheet

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December 1975*

President Ford

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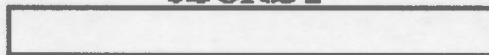
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DOMESTIC POLITICAL



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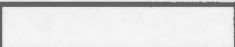


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November 21, 1975

THE CHINESE DOMESTIC POLITICAL SITUATION

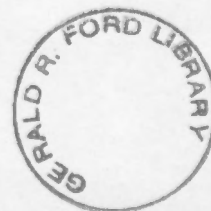
China has damped down the political ferment so evident last year and has made some progress toward defining a new structure of power in anticipation of the death of Mao Tse-tung and Chou En-lai. Last January's National People's Congress (NPC) restaffed the governmental apparatus and probably defined the political roles of several leading figures more clearly. However, deep cleavages remain in the body politic, evidenced by continuing unrest in several provinces, strikes in the industrial sector, and the emergence of a new campaign criticizing the 14th century novel "Water Margin." At this juncture political problems do not seem to have gotten out of hand, as they may have done in the spring of 1974, but despite repeated calls for "stability and unity," that goal has not yet been achieved in a meaningful sense.

Chinese politics continue to be dominated by the succession question. This is a problem of at least ten years standing, but in many respects it is still unsolved. Jockeying for position is more muted than last year, but it obviously continues just below the surface of events. Major political fault-lines remain a split between left and right within the party and a cleavage between civilians and important elements within the military. Within these major groupings personal cliques and political shadings almost certainly also exist. Despite the obvious gains associated with the NPC and its ancillary meetings, Vice Premier Teng Hsiao-ping recently admitted to a group of  journalists that the succession, when it occurs, is likely to be troubled.

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Teng himself has been a major gainer over the past year. As PLA chief-of-staff, he now holds a major position within the military hierarchy; he is in addition a vice chairman of the party and a member of the powerful Politburo Standing Committee. He is clearly slated to succeed Chou as premier and already runs China on a day-to-day basis. Over the past year Chou has remained a highly influential figure behind the scenes, but his recent relapse has almost certainly placed him on the sidelines for the moment. He could partially recover from his present illness, as he did late last year, but continuing bouts of illness are likely to make his role in decision-making a constantly diminishing one. His death, however, would not be as traumatic for China as it would have been a year ago or in an earlier period. Indeed, the regime can count as a major success its management of the transition from Chou to Teng of primary administrative authority.

Although Teng's central responsibilities are governmental, he has long been an advocate -- and a symbol -- of party supremacy in the management of the state. As his political fortunes have risen, not surprisingly the institutional balance of power within the regime seems to have shifted somewhat toward the party, partially at the expense of the military. The "rehabilitation" of party aparachiki disgraced during the Cultural Revolution has been going on for some time, but it seems to have accelerated since the NPC, and has included an increasing number of controversial party figures who were major targets of the 1966-1969 upheaval. Most of these figures have been close associates of Teng, and many have been reappointed to the very jobs they held prior to the Cultural Revolution. Revitalization of the party is far from complete, however. The important Central

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Committee secretariat, which went into limbo early in the Cultural Revolution, has not yet resurfaced. Moreover, given his close association with Liu Shao-chi before that "revolution" and his own fate during the upheaval, Teng is a far more controversial figure than Chou En-lai has ever been.

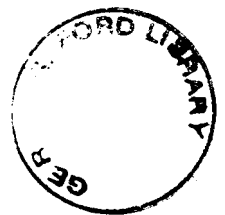
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As an advocate of the "rehabilitation" process and as the primary beneficiary of that policy, Teng is almost certainly regarded by the left wing of the party with some antipathy and apprehension. Signs of opposition to him have surfaced from time to time in domestic propaganda, and an attack on the "rehabilitation" policy appeared to be a major theme in the initial propaganda associated with the campaign criticizing "Water Margin." But the left does not appear to be doing well at this juncture.

This is particularly true of the chief spokesman for that wing of the party, Chiang Ching, who appears to have been eased out of her sensitive position as overseer of cultural and educational affairs.

In fact, the symbolic importance of several of the cultural bureaucrats is such that their restoration to grace tends to undercut the entire rationale of the Cultural Revolution itself.

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The legitimacy of the 1966-1969 upheaval still remains a political issue in China, and one in which Mao's own prestige is engaged. But he now may be prepared to suffer losses on this score in order to make gains in other quarters. The newly-rehabilitated cultural figures were advocates of literary policies which the Chairman opposed for many years, but those policies include an effort to create a more popular and less overtly propagandistic cultural milieu. Mao may hope to broaden the base of support for policies he currently considers to be of overriding importance by cultivating China's influential intelligentsia. Moreover, some of these newly-rehabilitated bureaucrats are close personal friends of Teng Hsiao-ping. Mao now seems prepared to rely on Teng and on the strength the vice premier commands through his ties and contacts in the party and government apparatus even if this means giving way on minor policy issues and tolerating personnel appointments he might abjure in ideal circumstances. This approach roughly parallels that which he took with Lin Piao and Chou En-lai in the mid-1960s and the early 1970s respectively.

It may well be that at this point the Chairman feels it necessary to co-opt strength where he can find it. The past year does not seem to have been an easy one for him. The problem of the succession is as much on his mind as it is on the minds of his subordinates, and he appears to be far from certain that the policies he has been pushing most strongly for the past several years -- in particular unremitting opposition to the Soviet Union -- will be pursued with equal vigor after his death. Circumstantial evidence suggests that he would have preferred last year's anti-Confucius campaign to have continued somewhat longer than it did -- perhaps until it had claimed several significant victims. There were almost certainly aspects of last

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[REDACTED]

January's National People's Congress about which he was unhappy -- his absence from the congress and the party meeting immediately preceding it was a telling and unmistakable gesture of disassociation. More interestingly still, Mao in the past year seems to have been subject to personal criticism unparalleled since the difficult days following the collapse of the Great Leap Forward.

This criticism has not been widespread or concerted, but it is obviously significant. The Chairman appears to have been vulnerable on two counts. On the one hand, he has been accused of choosing his lieutenants (particularly Lin Piao) unwisely, of shifting domestic policies erratically, and of undermining the prestige of the regime by encouraging the ferment associated with the Cultural Revolution and the anti-Confucius campaign. On the other hand, Mao has also been accused of being too rigid in his opposition to the Soviet Union. [REDACTED]

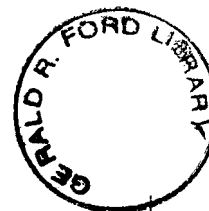
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Finally, a call to criticize the Chairman on unspecified grounds appears to have been embedded in at least one of the initial articles associated with the "Water Margin" campaign.

Mao seems to have reacted to this criticism in two ways. As noted above, he appears to have attempted to mollify and co-opt his critics on the right by further disassociating himself from his wife and from the Cultural Revolution itself. These moves undoubtedly have not set well with the left wing of the party, and the cry to oppose the "emperor" which sounded at the outset of the "Water Margin" campaign was probably a leftist reaction to them. On the other hand, Mao has continued to dig in his heels on the issue of opposition to the USSR. He is obviously obsessed on this subject and is probably prepared to sacrifice a good deal to gain his way on this issue.

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The suggestions that Mao was overly rigid on this question surfaced shortly after the National People's Congress, and it is entirely possible that the Chairman came under some pressure to modify his Soviet policy at the congress and in the months preceding it. It would appear, however, that he has subsequently attempted to turn the tables on his critics. The key moment may have occurred last spring when, after nine continuous months in the provinces, Mao suddenly reappeared in Peking. His reappearance in the capital coincided almost exactly with the fall of South Vietnam, and it is likely [redacted]

[redacted] that the Chairman seized on this event to argue that the Soviets, with greater influence than China in Hanoi, were in a good position to "surround" and isolate China -- and that consequently his policy of unyielding opposition to Moscow was the only reasonable course to follow. Subsequent events -- Moscow's renewed interest in an Asian security pact, Mrs. Gandhi's [redacted] in India, and large-scale Soviet exercises in Siberia -- could only have reinforced this argument. In any event, following Mao's return to Peking Chinese propaganda against Moscow hardened noticeably, relations with Hanoi deteriorated markedly, Peking grew more rigid on the issue of the anti-hegemony clause in the proposed Sino-Japanese treaty of peace and friendship, and for the first time in two years Peking began to stress the possibility of a Soviet attack on China to domestic audiences.

If these signs represent a tactical victory for the Chairman, there is no indication that the fundamental issue has been resolved. Chinese propaganda continues to inveigh against possible backsliding and eventual compromise with Soviet "revisionism." [redacted]

[redacted] the "Water Margin" campaign is designed

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to immunize the country against this possibility, and in fact the emphasis on the propaganda connected with the campaign has shifted from an initial attack on the evils of "amnesty" -- i.e., rehabilitation -- to the terrors of "capitulationism," a shorthand phrase for compromise with Moscow. While this strongly suggests that the debate has not been stilled, the propaganda presents the possibility of Chinese leaders knuckling under to Moscow not so much as a clear and present danger, as was the case during the anti-Confucius campaign, but rather as a danger in the period after Mao's death.

It is, however, much easier to identify the outlines of the debate on the issue of relations with Moscow than to identify specific individuals who may be arguing for a less antagonistic policy toward the Soviets. Those Chinese officials who have commented on opposition to Mao's rigid approach to this issue have suggested that this opposition included a number of disparate elements; [REDACTED]

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[REDACTED] at least some members of the foreign ministry may question current policy -- not surprisingly, since diplomats would be likely to see the disadvantages of unrelenting antagonism to Moscow in the context of the Sino-US-Soviet triangular relationship. But the core element arguing for a change in current policy is almost certainly the military. Traditionally the PLA, or at least some portions of it, have seen advantages in a greater degree of cooperation with Moscow; both of China's former defense ministers, Peng Te-huai and Lin Piao, were accused of preparing to "sell out" to the Soviets. Moreover, propaganda connected with the anti-Confucius campaign, while not identifying specific individuals, seemed to indicate that opposition to current policy was centered among the powerful regional military commanders.

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the appeal for greater professionalism was made in the context of the need to prepare for a possible Soviet attack on China.

This line, which, as noted above is being fed to the general populace [] represents a departure from that which was dominant last year, when Chinese propaganda appeared to argue that neither compromise with the Soviets nor a step-up in development of advanced weapons was necessary since Moscow was planning to attack in the West, not the East. Although the possibility of a Soviet attack is now conceded,

[]

[] Recent propaganda indicates, however, that while modernization of China's conventional weapons armory is contemplated, no crash advanced weapons program is likely to be undertaken. This essentially is the "Maoist" position established in last year's anti-Confucius debates.

This half-a-loaf policy coupled with the effort further to diminish the PLA's prestige undoubtedly does not recommend itself to at least some elements within the military. Indeed, the issue of the army's prestige was raised directly in several articles connected with the opening phase of the "Water Margin" campaign; these articles harked back nostalgically to the palmy days of Lin Piao and appeared to defend and praise Lin for the glory he reflected on the army. Like the apparent leftist harping on the "amnesty" issue which occurred at the same time, these articles suggest that China's current political "outs" -- the left and the military -- attempted to capture the new campaign, much as they attempted to divert the anti-Confucius campaign in the spring of 1974. An authoritative People's Daily editorial on September 4, however, appeared to turn back this challenge, and the campaign has subsequently subsided into a relatively low-key affair.

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ECONOMY



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November 18, 1975

THE CHINESE ECONOMY IN 1975

Peking has undertaken a reallocation of resources giving strong impetus to agricultural development. Some segments of industry and transportation, most notably those producing and moving petroleum, are also being given prime consideration. By 1980, Peking hopes to have agriculture on a sound footing so that the scope of China's economic modernization can be widened and the tempo accelerated.

In 1975, the economic situation is much improved over last year when political instability contributed to problems in factories and mines. China's industrial production this year is likely to be 10 percent above the level of 1974, and the grain harvest should top the 255 million tons of last year. In foreign trade, China continues large imports of plant and equipment while holding back on less essential imports in order to keep this year's trade deficit within reasonable bounds.

The many fundamental problems of economic development facing China -- which include modernizing agriculture, correcting structural imbalances in industry, and upgrading a relatively primitive transportation system -- do not lend themselves to overnight solutions. Chou En-lai noted these problems in his report to the National People's Congress last January and the problems are being attacked. Chou declared that China is committed to the attainment of "front rank" status in the world economy by the end of the century.

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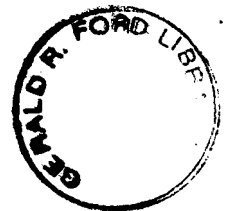
Industry

China's industry has made a strong recovery from the slow growth achieved in 1974. Apparently the disruptive effect of the anti-Confucius campaign has been overcome through a concerted effort on the economic front and the judicious use of the PLA to control local factionalism and labor unrest. Nevertheless, substantial imbalances exist within industry, many of which can be traced to fundamental planning and investment deficiencies over the last decade.

The petroleum industry continues to be the shining star in China's industrial growth -- output increased by 25.5 percent in the first eight months of 1975 over the same period in 1974. Electric power also did well, with a growth of 15.7 percent. The oft-troubled coal and iron and steel industries apparently fared poorly. Coal output is claimed to have overfulfilled its goal for the first nine months of the year but the goal probably called for only modest gains. The iron and steel industry will have difficulty improving on its performance in 1974 and may not reach the peak level of output achieved in 1973.

In the early 1970s the Chinese began a concerted drive to construct new capacity. Construction starts reached a peak in 1970-1972, and some of the plants are beginning to come on line. A major factor in this industrial construction is the complete plants imported from the West. Since 1970, China has signed contracts for 110 plants worth nearly \$2.2 billion, more than seven times greater than the value of plants imported from the West in the 1960s. Most of these plants are intended to boost output of (a) essential consumer goods such as synthetic fibers

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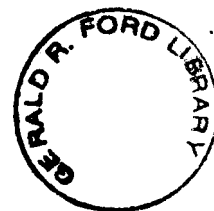
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and foods and (b) key industrial products such as finished steel and electric power. Japan and Western Europe are supplying 90 percent of these plants while the United States has 10 percent of the business. In addition, the United States is receiving royalty payments for US-developed technology embodied in many of the Japanese and European plants sold to China.

Barring major political disruptions, the outlook for China's industrial growth appears good. The chemical fertilizer and synthetic fiber industries will increase output sharply in the next few years as the imported plants come on line. These plants will enable the output of nitrogen fertilizer and synthetic fiber to double and quadruple, respectively, by 1980. Output of petroleum will continue to expand rapidly with recent equipment purchases indicating a concerted effort in Pohai Gulf production and in ocean exploration during the next few years. In addition to providing energy and feed materials for China's industry, larger quantities of petroleum will be exported enabling the Chinese to purchase additional capital equipment for industrial growth.

At the same time, the Chinese will begin to correct some of their long-standing industrial deficiencies. The steel finishing sector, for example, is being vastly improved with the facilities now being built by Japan and West Germany at Wu-han. And new emphasis is being placed on coal and mineral extraction and beneficiation. Rail terminals and pipelines are being expanded and improved, especially to support internal movement and exports of petroleum. China will continue to require sizable quantities of machinery from the West; priority imports are

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likely to include additional petroleum exploration equipment, computers, electronic equipment for communications and industrial processing, machine tools for the automotive industry, and mining and ore dressing equipment.

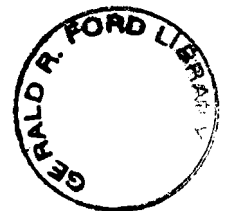
Agriculture

The objective of Chinese agricultural policy in the 1970s has been to boost output while maintaining a balance between local and central investment, between modern and semi-modern inputs, between grain and essential nongrain crops, and between collectively controlled activities and those permitted to function outside the collective sphere. Agriculture continues to be dominated by traditional, labor-intensive techniques of cultivation despite accelerated investment in modern industries that support agriculture. And the size of the harvest in any given year continues to depend largely on weather conditions.

Since 1967, the increase in grain output probably has fallen somewhat short of the growth in population. Nevertheless, China's agricultural sector has demonstrated considerable resiliency. For example, grain output in 1974 recovered from mediocre harvests in 1972 and 1973, thereby allowing Peking to cut grain imports from about 7 million tons in 1974 to less than 4 million tons this year.

Grain output is expected to be up again this year. Output of wheat and coarse grains in north China -- the region dependent upon imported grain -- was exceptionally good. Rice and other crops in south China have not fared as well due to prolonged periods of rainy, cloudy weather during much of the

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growing season. The damp weather has also retarded the growth of cotton, output of which may fall short of the record 1974 harvest.

Peking has not imported grain from the US this year. Canada and Australia are firmly established as China's main grain suppliers, and together with Argentina (which supplied minor quantities of wheat and corn), account for all of this year's imports by China. In 1976, China is obligated to purchase from 2.5 million to 4.8 million tons of grain under the third and final year of three-year agreements with Canada and Australia.

China is making headway in raising the production of grain, but self-sufficiency in the output of both grain and essential nongrain crops is still some years away. Peking has recognized this and will continue to give high priority to the development of agriculture in the upcoming Fifth Five-Year Plan (1976-1980).

No major increase in output is expected until the 13 large chemical fertilizer plants purchased from the West come on stream in the next two to three years. If the Chinese can make the necessary improvements in water management and in the supply of other complementary inputs, rapid increases in agricultural output will be achieved by the end of this decade.

Foreign Trade

China is not a major trading nation by world standards. In 1974 Chinese trade totaled only \$14 billion compared with \$209 billion for the United States and \$12.5 billion for Taiwan. Trade, however, is a major factor in stabilizing and developing China's domestic economy, providing goods that are in short supply or that the Chinese cannot produce themselves. Since 1960 the bulk of China's trade has shifted to the non-Communist countries; in 1974 trade with the West accounted for 85 percent of the total.

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Peking has placed increased emphasis on foreign trade. China's trade has more than tripled in dollar value since 1970, and, in real terms, probably was roughly 75 percent higher in 1974 than the level of 1970. Import growth has been led by purchases of agricultural products and capital goods. Beginning in 1973, crude oil sales to Japan and Southeast Asia have been an important addition to Chinese exports.

Continuing recession in the non-Communist world, lower prices for some major export and import items, and Peking's desire to redress its trade deficit suggest that the value of China's trade in 1975 will rise only slightly above the \$14 billion level of 1974. In the past, China has reacted to large trade deficits -- such as the \$1 billion deficit last year -- by cutting back imports the following year to bring trade back into balance. The size of the deficit will be reduced in this manner this year to ease the tight foreign exchange situation that cropped up late last year. Use of credits, however, for purchases of grain, complete plants, and Japanese steel and fertilizer will permit China to run another sizable trade deficit in 1975 -- at least \$500 million.

Peking's largest cut in imports will be in agricultural products, which may be down by \$800 million from last year's record level of \$2.1 billion. China will benefit from lower world prices for steel, nonferrous metals, and fertilizer while maintaining or increasing the imports of these commodities. Imports of machinery and equipment, however, will exceed last year's level of \$1.6 billion. Equipment for complete plants and aircraft are major items this year, and oil drilling and mining equipment are also being given priority with less essential purchases being deferred.

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Japan remains far and away China's leading trade partner. Sino-Japanese trade is expected to reach \$3.5 to \$4 billion this year with a Chinese deficit of over \$1 billion. Deliveries of machinery and equipment under 1973-1974 complete plant contracts will be the major factor in boosting imports from Japan. Delivery of 8 million tons of oil worth almost \$700 million will account for all of the growth in exports to Japan this year, as non-oil exports are declining.

Despite continued purchases of US industrial products, sharp cutbacks in agricultural commodities will reduce Chinese imports from the United States to about \$250 million. Machinery and equipment consisting largely of equipment for the Kellogg ammonia plants, oil exploration equipment, and construction and mining equipment will be the major components. Deliveries of US steel scrap and aluminum will be important items in the second half of the year. Chinese exports will rise to about \$150 million, and China's trade deficit with the United States will be sharply lower than in 1973 and 1974. Major Chinese exports will be nonferrous metals, textiles, chemicals, and foodstuffs.

Policies for Economic Development

Since 1972 Peking has taken a hard look at its long-term economic goals and concluded that even gradual progress toward these goals required some fundamental shifts in both tactics and priorities. Key elements of the new strategy are a much greater reliance on Western equipment and technology and an apparent scaling down of military programs in favor of increased attention to agriculture, basic industries, and transport facilities.

The new policies hold promise for the future but will have little impact on China's troubled Fourth Five-Year Plan, which ends this year. The current plan seems to have fallen further

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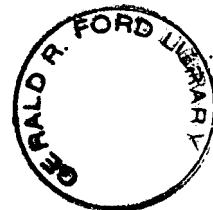
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and further behind schedule -- thrown back by the sluggish growth of agriculture, deficiencies in industry, and a succession of disorderly political campaigns following the demise of defense minister Lin Piao in 1971.

Thus economic growth in 1975 will not provide the momentum with which Peking had hoped to launch the Fifth Five-Year Plan (1976-1980). An inhibiting factor -- and one which Peking has yet to cope with -- is the problem of incentives for increased labor productivity. Rather sooner than later, Peking will have to yield to mounting demands for increased urban and rural incomes and in so doing will have to divert more resources to expanding the consumer goods industries.

Looking further ahead, we think Peking is moving in a direction that -- perhaps in a decade -- should establish an economy capable of sustained and fairly rapid growth. By then, China should have made substantial progress in agriculture and have developed the necessary talent and resources for other objectives the leaders wish to pursue. This is not to say that China will become an economic superpower in the 1980s. It will still be a large but poor nation, with only the potential in manpower and resources for superpower status. Its national output will be large enough to support continued expansion of industrial capacity, maintenance of the population at slowly rising levels of well-being, and the continued modernization of the armed forces with a growing quantity and variety of strategic and tactical weapons. This relatively optimistic projection assumes, of course, that China will not suffer a major weather disaster, chaotic domestic upheaval, or serious military setback.

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CHINA: KEY ECONOMIC INDICATORS

	<u>1965</u>	<u>1970</u>	<u>1974</u>	<u>Preliminary</u> <u>1975</u>
Grain (Mil. metric tons)	210	240	255	260
Cotton (Mil. metric tons)	1.9	2.0	2.5	2.2
Crude steel (Mil. metric tons)	12.5	17.8	23.8	24.0
Crude oil (Mil. metric tons)	10.8	28.5	65.3	80.0
Coal (Mil. metric tons)	220	310	389	400
Electric power (Bil. Kilowatt-hours)	42	72	108	115
Exports (Bil. US dollars)	2.0	2.1	6.5	7.0
Imports (Bil. US dollars)	1.8	2.2	7.5	7.5

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