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THE PEOPLE'S REPUBLIC OF CHINA

LIKELY COURSES OF ACTION

CAN IAC 7-20 (73)

APPROVED 27 JUNE 1973

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China (Peoples Republic) Foreign Relations

DEPARTMENT OF NATIONAL DEFENCE



MINISTÈRE DE LA DÉFENSE NATIONALE

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23 July 1973

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THE PEOPLE'S REPUBLIC OF CHINA  
LIKELY COURSES OF ACTION

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*R.J.G. Weeks*  
R.J.G Weeks  
Brigadier General

for the Chief of the Defence Staff

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DOTC	24
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Commander, Air Transport Command	26
Commander, Maritime Command	27
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Commander, Training Command	30
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.../2

000161

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-2-

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CFA's

Australia	38
China	39
India	40
Japan	41
Malaysia	42
Pakistan	43
USSR	44

SECRET

000162

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CANADIAN IAC 7-20('73)(FINAL)

PRC: LIKELY COURSES OF ACTION

CONTENTS

	<u>Paragraph</u>
OBJECT . . . . .	1
CONCLUSIONS . . . . .	2 - 11
DISCUSSION . . . . .	12 - '74
General Statement . . . . .	12
Long-Term Internal and International Objectives . . . . .	13
Internal Objectives . . . . .	14 - 32
International Objectives . . . . .	33 - 55
China and Disarmament . . . . .	56 - 57
China and the United Nations . . . . .	58 - 60
China's Trade . . . . .	61
China's Aid . . . . .	62 - 65
China's International Transportation ..	66 - 67
Sino-Canadian Relations . . . . .	68 - 74

.../2

SECRET

SECRET

- 2 -

CANADIAN IAC 7-20(73)(FINAL)

PRC: LIKELY COURSES OF ACTION

OBJECT

To set forth those courses of action most likely to be followed by the Government of the People's Republic of China during the years 1973 to 1977.

CONCLUSIONS

2. The pragmatic approach to internal and economic policy that followed the Cultural Revolution has continued and intensified and shows no signs of being abandoned. In her foreign policy China has been strikingly successful in developing and improving relations with almost all countries and is quickly acquiring skill and self-confidence as a participant in the unfamiliar forum of the United Nations.

3. Domestically, the re-establishment of the Party organization was called in question by the purge of Lin Biao. It is safe to assume that the relationship between the Army and the Party was a key element in the split and that this problem has probably not been resolved even now. The failure to call a meeting of the National People's Congress suggests continuing difficulties and disagreements at a high level. The possible disappearance of Mao and Chou from the scene will present the most difficult problems in the next five years.

SECRET

.../2

000164

SECRET

- 3 -

4. Assuming that the pragmatic and relatively moderate economic policies prevailing since mid-1969 are continued, China's economy will continue to revert to the purchasing of whole plants from the West, apparently on credit.

5. China will continue seeking to avoid military confrontation with either of the super-powers and is expected to lay less emphasis on promoting Mao's doctrine of "people's war" as an important weapon in the overthrow of "imperialism".

6. In its foreign policy, Peking will attempt to resist encirclement and to retain a leading role in Asia. What the Chinese regard as the ostentatious re-entry of the U.S.S.R. and Japan into the political-economic life of East and South Asia has now become one of her main preoccupations, especially since there is a distinct possibility of closer cooperation in Siberia between the first two countries. India's emergence as the dominant power of South Asia and her close relationship with Moscow may also cause China some concern.

7. Despite the progress shown in resolving certain bilateral issues, there is little likelihood of a significant improvement in Sino-Soviet relations during the period under review. China's preoccupation with the Soviet Union will remain the most important single determinant in her foreign policy.

.../4

SECRET

000165



SECRET

- 4 -

8. The recent establishment of liaison offices in Washington and Peking has proven that Washington's continued support for the present regime in Taiwan will no longer prevent the expansion of Sino-American relations although it may preclude the establishment of full diplomatic relations between the two countries. Meanwhile, China can be expected to pursue an increasingly active policy of strengthening its relations with European, African, Middle Eastern and Latin American countries.

9. China has shown, since her admission into the United Nations, an unsuspected sense of responsibility and seems to have buried, for the immediate future, any desire to rock the foundations of the organization. To this point, she has sought membership into many of the UN international agencies and has adopted a "wait-and-see" attitude in the case of others.

10. China's trade in the next few years probably will continue its present steady growth with a favourable balance and increase at slightly accelerated pace, if the purchase of whole plants is continued at the rate of the first months of 1973. Further progress may be expected if China does adopt a more liberal policy on credit purchases. In general, agricultural products, textiles, simple consumer goods and raw materials will be exchanged for wheat, chemical fertilizers, steel, raw materials and machinery and equipment. Trade with developed countries of the West and particularly with Japan is likely to remain high. It is expected that there will be a modest increase in Sino-Soviet trade during the period (paragraphs 54 to 56).

.../5

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- 5 -

11. Since the establishment of diplomatic relations on October 13, 1970, Sino-Canadian relations have developed quite smoothly. A number of Ministerial level visits to both countries have taken place, the level of two-way trade has shown marked increases and a significant number of exchanges in scientific, technological, cultural, sports and artistic fields have taken place. Further development of bilateral relations is dependent, to a large extent, on the continuation of current Chinese policies and continued internal stability. Although future Sino-Canadian relations may not be characterized by a continuation of the "spectacular" developments of the past two years, they may expand in scope to cover a greater range of fields.

DISCUSSION

General Statement

12. The ~~next~~ five years will be dominated by renewed efforts to restore China's political and administrative apparatus from the setbacks encountered during the course of the Cultural Revolution, a process that the Chinese have been working on for most of the last five years. Outside, China's efforts will center on asserting that she is a friendly, independent and powerful country which harbours no super-power ambitions, but one that seeks to defend her own rights and those of the Third World against all brands of imperialism.

Long-Term Internal and International Objectives

13. Lin Piao's attempted coup revealed the divisions and disagreement that exist among the Chinese leadership. This is not to say, however, that there is wide disagreement on her major long-term internal and international objectives. Aside from this, the general feeling that the "moderates" now appear to be dominant within the Chinese leadership still prevails.

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SECRET

000167

SECRET

- 6 -

It remains true, finally, that the following long-term objectives are likely to influence Chinese domestic and foreign policies during the period under consideration:

a) Internal

1. To perpetuate in China a truly Chinese version of a Communist society.
2. To eliminate opposition and disunity within the Party, the Army, and the country, to strengthen central control of all China, and to develop an effective political organization throughout the country.
3. To develop the Chinese economy as a whole into that of a modern great power.
4. To maintain a sufficient level of military preparedness to ensure internal order and the security of the Chinese borders and territory.

b) International

1. To establish China's dominant presence in Asia by gaining the allegiance of Chinese minorities in other Asian countries, by undermining foreign influence, and by encouraging the coming to power of benevolent governments in neighbouring countries.
2. To gain international acceptance and recognition as a great power with world interests.
3. To gain a position of international leadership recognized by the Afro-Asian world and less developed countries in general.
4. To gain universal recognition for her contribution to the International Communist movement and to assume a leadership role within the Socialist movement, particularly in Asia.

.../7

SECRET

000168

SECRET

- 7 -

5. To encourage the development of Maoist revolutionary movements in all parts of the world by exploiting any situation involving Western (and particularly American) engagement in a protracted war with a third country or "liberation" movement, and any conflict, dispute or disagreement between any "super-power" and a middle-sized or small country.
6. To regain, if this is possible without resorting to military action, Taiwan and other lost Chinese territories.
7. To develop and deploy, as rapidly as economic and political constraints will allow, sufficient stockpiles of nuclear and strategic weapons to act as deterrent against potential aggressors and to give substance to China's assumption of great power status.

#### Internal Objectives

14. Party Apparatus. The chief domestic tasks now confronting China are to continue the forward movement of the economy - which has already recovered from the damage inflicted by the Cultural Revolution - to rebuild a network of political and administrative control throughout the country, and to re-establish the authority of the central administration over local managerial, political and administrative officials. Attempts are being made to re-structure the Chinese Communist Party apparatus so that it may again function as an effective national organization. The Ninth Party Congress met in April 1969 and drew up a new Party constitution as the first step in rebuilding the Party apparatus which disintegrated during the Cultural Revolution. The first Central Committee plenary session, which was held in April 1969, designated the standing committee of the Central Committee and its Politburo. Beginning in early December 1970, provincial Party committees were formed in all the provinces.

15. With the notable exception of the Shanghai Party Committee, which is headed by radical civilian leaders, the new Party Committees are dominated by the same combination of military figures and veteran Party cadres who headed the "Revolutionary Committees" formed during the Cultural Revolution. The younger leftist elements who had been an integral part of these "Revolutionary Committees" now do not appear to be represented to any significant degree in the new provincial Party structures. The leaders of the provincial Party Committees are senior men, many of whom are experienced political commissars within the PIA. All of the top provincial Party leaders have, or appear to have, close ties

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SECRET

- 8 -

with the Party nucleus in Peking and their appointments have been approved by the Central Committee of the Party.

16. National People's Congress. As a parallel to the reconstruction of the Party apparatus, nationwide preparations were underway for the convening of the 4th National People's Congress, which, according to most indications, was supposed to take place in the spring of 1971. The NPC, many of whose members were undoubtedly former members of the "revolutionary committees" spawned by the Cultural Revolution, was to convene to give approval to the Party's draft Constitution and the new Five Year Plan (1971-1975). The climax of this wide consultation was probably prevented by Lin's betrayal. Since then, it seems that the Party leadership was kept occupied with purging the Party and the Army of Lin's associates and had little time to devote to the 4th NPC. Its convening will depend on Mao's ability to reconcile

- 1) Lin's supporters to his line,
- 2) the radicals and the moderates within the party, and
- 3) some powerful provincial leaders to the Party Centre.

This will not be easy and an October 1, 1972 joint editorial in the Peking papers probably correctly warned that there was still a long way to go before party unity could be achieved.

17. Constitution. The second plenary session of the Party's Central Committee apparently adopted a draft revision of the 1954 Constitution which, once it is approved by the next National People's Congress, will give the rubber stamp of legal authority to the reconstruction of Chinese government that emerged from the Cultural Revolution. The draft of the new Constitution omits the 1954 provision for the election of the Head of State so that ratification of the draft will in effect constitute Mao's "election" as Head of State, in place of Liu Shao-chi, who was purged during the Cultural Revolution. Lin Piao, designated by the Ninth Party Congress in April, 1969, as the "closest comrade in arms and successor to Mao Tse-tung", was to become the official "deputy Supreme Commander of the Whole Army". His disappearance from the scene, however, clearly altered the spirit of the constitution and has delayed its adoption.

18. Leadership Developments. The Cultural Revolution took its toll of Mao's colleagues. Since then, the eclipse of the ultra-leftist Cultural Revolution Group has been accompanied by a drastic reduction in the power and influence of its key members. Chen Po-ta has fallen from prominence and Mao's wife, Chiang Ching, now plays a much less visible role. An indication of their very residual

SECRET

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- 9 -

influence is certainly the very recent rehabilitation of their arch-enemy of earlier days, Teng Hsiao-ping, the former Secretary-General of the CCP. (The most prominent radical group now is based in Shanghai and includes Mrs. Mao's friends Chang Chun-chiao, Yao Wen-yuan and Wang Hung-wen.) Lin's demise has meant new purges, especially in the PLA ranks, and the Government apparatus and the State Council in particular are now in very poor shape with a number of ministers not yet officially appointed. Among the more moderate leaders, Chou En-lai and the PLA Acting Chief of Staff, Yeh Chien-ying, have become increasingly prominent in recent months. Both have succeeded in keeping their closest associates, who are in most cases, all moderates, or in recuperating old veterans who were casualties of the Cultural Revolution.

19. The fall from favour of top-level ultra-leftist leaders is reflected not only in the formation of the new provincial Party committees and in the selection of deputies to the National People's Congress, but also in the selective application of the nationwide "down to the country movement". This movement seems to have been efficiently used to relocate in rural areas many of the younger "revolutionary rebels" who so vociferously attacked the established Party apparatus and the PLA during the course of the Cultural Revolution.

20. Given his age and the recurring rumours about his health, the possibility that Chairman Mao will die in the period under review must certainly be taken into account. On balance, it appears unlikely that a violent power struggle will follow close upon Mao's death, above all if leaders like Chou are still in executive control. However they may have to give way to pressures from below as second-generation leaders press their claims for greater power and influence. It is quite possible, however, that Chou, Yeh, and virtually all the top leadership, will leave the scene in the course of the next five or ten years, which could present a serious leadership crisis.

21. The post-Mao leadership may be a cautious one unlikely to embark on any new Maoist-type adventure such as a second "Great Leap Forward". Without Chairman Mao's personal charisma, it is virtually inconceivable that the new leaders would be in a position to repudiate any of his doctrines unless, of course, Mao demonstrates a total inability to cope with a situation which might arise prior to his death. Failing that, the new leadership is likely to lean upon the authority of Mao's teachings to justify its policies: the former are sufficiently vague and varied, however, to permit considerable scope for changes in policy.

.../10

SECRET

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SECRET

- 10 -

22. The Army's involvement in civilian affairs, as reflected by the proportion of PLA men in key positions, that began with the collapse of the Party organization during the Cultural Revolution continued through and beyond the 9th Party Congress. Since then, a vigorous campaign to reassert the traditional authority of the Party over the Army has been launched. This may have been the reason for Lin Biao's attempt to overthrow the Party leaders. His failure and death were followed by a purge of his supporters still in the Army ranks, including the Chief of Staff and two of his deputies, and a power struggle ensued between the opposing factions within the Army. One year after Lin's demise, only two staff vacancies had been filled. As these nominations were only made public recently, it may indicate the recent attainment of a genuine compromise between the Party and the Army. (It, of course, may also point to the residual strength of Lin's group.)

23. As long as the "pragmatists" are dominant in Peking, they will (reluctantly) have to rely on the participation of military commanders in local administration. While the latter may demand some degree of autonomy in adapting central directives to their own local situations, it is most unlikely that any would go so far as to ignore direction from Peking as was the case in a few isolated instances during the Cultural Revolution. If the central leadership ever insisted that local administration power be given up by the PLA in circumstances where it felt this could only lead to anarchy, a conflict with the senior military leaders might then develop.

24. If the "moderates" continue to exercise dominant influence within the leadership, we can expect that high priority will be given to the development of the economy. To maintain popular confidence and support, the post-Mao leadership might find it necessary to accelerate the improvement of living standards.

25. Educational Developments. The debate over education during the Cultural Revolution focussed primarily on whether an educational system should serve its own needs and concentrate on the advancement of academic knowledge, or whether it must attend to more practical needs and "serve the revolution" and the masses.

26. Since the height of the Cultural Revolution, responsibility for the administration of lower and middle schools was transferred from the central bureaucracy to the local production brigade, which is the basic economic unit within the commune. This centrifugal development in the educational field is coupled with the requirements for rural labour on the part of middle school and university graduates. However, it will probably be some time before the country's universities, which virtually ceased to function during the Cultural Revolution, are restored to their former status. Among the first

.../11

SECRET

000172

SECRET

- 11 -

to have re-opened are a number of universities specializing in science and engineering. There is evidence of some concern over the hiatus in scientific and technical training that occurred in the past few years and the early re-opening of the technical universities may reflect priority interest in resuming technical education. The suspension of education for almost four years obviously caused a gap in the number of technically and professionally qualified graduates. The impact will eventually be felt in a number of areas, including the economy where there is already a shortage of the technological and managerial skills essential to accelerated economic growth. It can be expected that the universities will all be re-opened early in the period under review.

27. Economic Developments. Assuming that the pragmatic and relatively moderate economic policies prevailing since mid-1969 are continued, and barring the emergence of a new period of upheaval during the next few years, China's economy will continue its steady expansion.

28. Details of China's Fourth Five Year Plan (1971-1975) have not been made public but from available evidence it appears to give agriculture continued priority and to call for support of that key sector by industry. The Plan encourages industrial development at the local level using local resources. Heavy industry probably will receive more attention over the next few years.

29. Agricultural development policy will likely be centered on (a) increased mechanization of farming, (B) increased supplies and use of fertilizers, (c) more water control through irrigation, water conservation and flood prevention and (d) greater use of improved seeds. Some slight de-emphasis of grain production and substitution of technical crops could take place during the period but grain will continue to be, by far, the highest priority commodity. It appears unlikely that further attempts will be made, during the next few years, to expand the commune system or to interfere with private plot cultivation; both have in the past reduced incentives and farm production. If the current trend continues incentives may well be marginally expanded and the dictum "to each according to his work and from each according to his ability" could lead to strengthened peasant initiative and increased production.

30. Industrialization remains a major goal of the Chinese and it is recognized that industrial expansion depends very heavily on increasing agricultural output. As mentioned above, industrial support for agriculture is a major tenet of the economic policy and is likely to remain so. Such support is principally at the local level, however, and emphasizes self-reliance. To some extent this reduces pressure on the country's large manufacturing complexes. During the past year heavy industry has received renewed encouragement, new capacity has been added and steel production probably again increased by about ten per cent. The quality of some special steels

.../12

000173

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SECRET

- 12 -

was also probably up. Over the period of the Plan, steel production capacity will almost certainly receive higher priority attention within the industrial sector as will the engineering industries. The more complicated precision tools, however, will likely continue to be imported for some time to come. After a break of almost seven years China recently resumed the purchase of whole plants from Western countries. During the first quarter of 1973 the PRC contracted to purchase about 250 million dollars worth of complete plants and this figure could well double by the end of 1973. China used trade credits to finance at least half of the recent whole plant purchase.

31. Industries in support of the nation's military development and the advanced weapons program are likely to continue to receive high priority throughout the period. For some years China has encouraged the decentralization of industry and this is likely to be continued. It is in line with developing regional independence as well as discouraging the further growth of large industrial complexes; both decrease vulnerability to attack. Some physical movement of plants from coastal areas may have taken place in recent years, but there have been countering pressures to increase existing coastal industries as bases from which to expand inland. The Fourth Five Year Plan probably will continue the emphasis of the past year or so on the extractive industries.

32. Overall planning in China should improve with more settled conditions and with greater stress upon systematic record keeping and improved accounting systems. As the swing towards greater use of professionals (as opposed to political cadres) in the economy accelerates, work performance will likely increase and some measure of quality improvement, especially in industrial output, is likely.

### International Objectives

#### General

33. After reaching two daring and sudden settlements with the United States and Japan and having been admitted at the United Nations, China will probably now pursue its foreign policy goals cautiously and lay more stress on the security of its unsettled northern border with the USSR. China will not seek a military confrontation with the latter but will probably not make great concessions to avoid one especially if the Chinese perceive their vital interests are threatened. Furthermore, with U.S.A. disengagement from Indo-China and the reduction of U.S.A. presence in Asia generally, there would appear to be little scope for any Sino-American confrontation. We can, however, expect the Chinese to be alert for and ready to encourage and exploit any situation that offers the possibility of greater Chinese influence advocating "people's war" as an important weapon in the complete overthrow of "imperialism", while stressing the necessity for "self-reliance" in revolutionary struggles. Thus far, in an effort to maintain its status as a world revolutionary leader, China has provided military equipment and training facilities to various countries on a highly selective basis.

000174

SECRET

.../13

SECRET

- 13 -

34. As China increases its contacts internationally, it would follow that the Chinese Intelligence Service (ChIS), which survived the Cultural Revolution intact, will also expand its activities. As a reflection of Chinese foreign policy priorities they will continue as in the past several years to be concerned with Chinese fears about a military attack from the Soviet Union and with countering Soviet influence in the Pacific and amongst Third World countries. With this pre-occupation, Chinese intelligence gathering in Western countries has been more limited than might otherwise be the case. However, we believe that the United States will receive a full share of ChIS attention, particularly with the establishment of Chinese missions in New York and Washington.

#### China-Asia

35. In seeking to establish a dominant role in Asia, the Chinese will concentrate their attentions on their neighbours, trying to discourage them from following policies inconsistent with Chinese wishes. For this purpose, China will not hesitate where necessary to use the card of her continued support for local revolutionary movements. At the same time, China will work towards diminishing the presence and influence of the United States and the Soviet Union in the area and keeping that of Japan and India from reaching unmanageable proportions. Her new respectability and the Nixon doctrine favour the attainment of her objectives. There are now indications that several of China's neighbours - Singapore, Malaysia, Thailand and Indonesia - are showing increased interest in various forms of accommodation with Peking.

#### China-Japan

36. The past year has seen significant changes in Chinese-Japanese relations. The departure of Prime Minister Eisaku Sato and the "new climate" produced by the USA detente with the PRC have facilitated, in great part, the normalization of relations between Peking and Tokyo. China has found it in its interests to establish diplomatic relations with Japan, partly out of its desire to rationalize its foreign relations, but also (perhaps more important in the short run) to prevent if possible the expansion of Soviet influence in Japan. In the near future, it is not expected that Japan will move closer to China politically. The Chinese do not really object to Japan's continued adherence to the US/Japan Mutual Security Treaty. However, Peking has raised a few objections to continued cultural and economic ties between Japan and Taiwan, which the Chinese clearly want reduced. The PRC has vociferously supported, and will undoubtedly continue to support, Japan's claim to the "northern territories" seized by the USSR after the Second World War. Perversely, such support could have the effect of making the Soviet Union even more intractable, because of the precedent which might be set by the return of the islands to Japan.

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SECRET

- 14 -

37. Japan is China's main trading partner and its leading supplier of goods. Bilateral trade is estimated to have reached a high of about \$1,100 million in 1972 when it accounted for about 20 per cent of total Chinese trade. Trade with Japan is likely to remain at a high level, principally because the Japanese can provide what the Chinese want at competitive prices, and could show a significant increase if the Chinese decide to accept Japanese export credits.

China-Taiwan

38. The meeting between President Nixon and Chairman Mao in the spring of 1972 has reduced the possibility that China will attempt to recover Taiwan by armed force. One now suspects that not long after Chiang Kai-shek dies, attempts will be made to reach some sort of compromise solution to bring about at least the formal incorporation of Taiwan into the Chinese People's Republic. China has recently made a few such conciliatory gestures towards Taiwan. Taiwan's resilience to this eventuality will have been by then significantly eroded if as is likely, she becomes more and more isolated.

China-India

39. China's attitude toward the countries of the Indian subcontinent, and specifically with India, will continue to be heavily influenced by the current Moscow-Peking rift. As a result of the 1971 Bangladesh crisis, India has now emerged as the dominant power in the region. Although China has the military capability to initiate and sustain a limited military offensive against India, it is unlikely that China would provide direct military support for Pakistan in any renewed conflict with India. Although Indian and Chinese leaders have expressed a continuing interest in improving relations, we see little prospect of this coming about in short order, especially if China remains suspicious that Indo-Soviet relations are essentially aimed against her.

China-Pakistan

40. China has since 1962 given considerable support to Pakistan on a number of matters affecting Indo-Pakistan relations. Although China had serious misgivings about the attitude adopted by the Pakistani leadership toward events in Bangladesh, this did not prevent the Chinese from providing significant diplomatic support as well as economic and military assistance to that country. China continued to support Pakistan, in the United Nations and elsewhere, on the question of Bangladesh and will keep providing Pakistan with limited economic and military assistance. Pakistan, in turn,

.../15

SECRET

000176

SECRET

- 15 -

appears to be more accommodating toward Peking's point of view as reflected in the recent recognition of North Korea and North Vietnam and Pakistan's withdrawal from SEATO.

China-Bangladesh

41. China has not recognized Bangladesh and is not likely to do so until Islamabad formally recognizes the new regime in Dacca, unless, and it is not unconceivable, the Chinese considered that the Pakistanis were unreasonably and unrealistically dragging their feet. The Chinese were clearly disturbed by events in Bangladesh during 1971 and Peking's support for the governments of Yahya Khan and Bhutto is deeply resented by the Bengalees. Although China no longer attacks the present government in Dacca as an appendage of India and while the Bengalees appear to be willing to establish a working relationship, the question of the return of the POW's will most likely remain a formidable obstacle in the eyes of Peking.

42. China-Hong Kong

Since China made no attempt to take over Hong Kong at the height of the Cultural Revolution during the summer of 1967, it is doubtful that it will do so as long as the Colony continues to be a major source of foreign exchange. This is likely to continue to be the case throughout the period under review. The business circles of Hong Kong have regained their optimism and are not afraid to invest large amounts to be recovered in ten years.

China-USSR

43. Sino-Soviet relations show little sign of improvement and there is no evidence that progress is being made in bridging the ideological differences between the two countries. Another factor in this controversy is Mao's personal animosity against Moscow. The USSR remains disturbed at the increase in the number of western countries which have established relations with Peking and the speed with which the Chinese have altered their policies and welcomed the representatives of these countries as friends. Competition for influence in the Pacific area and in the Third World continues. Concerned by the rapprochement between Japan, the United States and China and conscious of the possibilities resulting from a reduced American involvement as well as growing Chinese influence throughout the area, the Soviet Union has been recently giving renewed attention to the idea of creating an Asian collective security organization. Lengthy talks with China regarding border adjustments have failed once more. The PRC has already deployed two missile systems

.../16

SECRET

000177

SECRET

- 16 -

in limited numbers with capabilities of striking points in eastern USSR. A new missile system, which may become operational as early as 1974, is estimated to have a capability against the western USSR, including Moscow. In 1972 the USSR increased by three the number of divisions in those Military Districts along the border and in Mongolia (bringing to about forty-five the number of divisions in the area).

44. Motivated, inter alia by these developments and what has been described as an almost pathological fear of China, the Soviet Union seems anxious to reduce if not eliminate military pressure in the West and is hopeful of achieving recognition of the status quo in Europe as well as the establishment of a beneficial working relationship with the USA. The Chinese have made it clear that they regard this policy of detente as a temporary device designed to release Soviet political and military energies for a confrontation with China. They see the approach as an attempt to establish a super-power relationship with the USA which would permit the Soviet Union to assert its strength throughout the globe and together with the Americans, to divide the world in two. The statements of the PRC representative before the General Assembly of the United Nations on the "no first use" as opposed to the "abolition" of atomic weapons emphasized this point of view. The uncertain consequences of military confrontation however, would appear to be such that neither the USSR nor the PRC are likely, in the period under review, to do more than indulge in a war of words, and at worst in new minor border skirmishes.

45. A more relaxed attitude prevails in the commercial field. Trade talks which began in Peking in April 1972 culminated in June with the signing of a trade and payments agreement for 1972, the third such agreement since 1970. The total trade turnover for 1972 is not yet known but may approach \$250 million (US) as compared to some \$154 million (US) in 1971 and \$47 million (US) in 1970.

#### China-Eastern Europe

46. It is still not clear how China's new role in world affairs may affect Albania's foreign policy. Although there are indications that the leadership of that country is moving cautiously towards broadening its bilateral contacts with the West, an identity of views with China is still being expressed.

.../17

SECRET

000178

SECRET

- 17 -

47. With the exception of Albania, Romania and Yugoslavia, relations with Eastern European countries remain cool. There has been some noticeable improvement in relations with Yugoslavia, as evidenced by the Yugoslav Foreign Minister's visit to Peking in June 1971 and the Yugoslav industrial exhibition that opened later that year.

48. The Romanians do not hesitate to take advantage of the Sino-Soviet dispute to make small advances in their own interests to the detriment of the Soviet Union, and this fully satisfies the Chinese. The Chinese regard and treat the rest of the Bloc countries as appendages of the Soviet Union.

#### China and the EEC

49. The Chinese were delighted with British entry into the EEC and with the recent Summit agreement to work toward European union. In the Chinese view, a united Europe would not be a super-power, but would nevertheless provide a counterweight to the two super-powers, both of which are disliked by China. In addition, they are counting on Britain to keep the EEC trade and economic policies liberal and outward-looking.

#### China-U.S.A.

50. China-U.S. relations have improved markedly since the formal visit by President Nixon. Despite the continuance of U.S.A.-Taiwan relations, the expanding dialogue between Peking and Washington has made the establishment of liaison offices in both capitals necessary. In the meantime, trade, commercial, cultural and scientific exchanges appear to have got off to a good start. The strong Chinese interest in high technology and gradually expanding commercial exchanges seems to be reflected in the establishment of direct air links in the not too distant future). One should not expect, however, that both countries can totally ignore the existence of Taiwan. It is highly unlikely that diplomatic relations between China and the United States could even be seriously considered as long as the problem of Taiwan remains outstanding.

#### China-Africa

51. The last two years have been a period marked by a flurry of Chinese activity in Africa as Peking has expanded its presence through new diplomatic ties, cultural accords, military pacts and bilateral aid agreements. Diplomatic relations have been established with Ethiopia, Nigeria, Senegal, Chad, Togo, Cameroon, Sierra Leone, Equatorial Guinea, Rwanda,

.../18

SECRET

000179

SECRET

- 18 -

Tunisia and the Malagasy Republic as well as with Ghana, which broke off diplomatic relations with China in 1966 (when Nkrumah was ousted while in Peking), and Zaire, long resentful of Chinese subversive activities during the turbulent period following independence.

52. The diversification of Chinese economic and military assistance has meant that her relationship with Tanzania has declined in relative importance. Although Tanzania is still a very important aid recipient, the largest single African recipient in 1971 was Somalia, followed by Ethiopia, both of which received loans for road and agricultural development; Algeria, Sudan, Sierra Leone, Mauritania and other African states also received aid. Congo-Brazzaville is receiving military assistance to develop the Army.

53. These new Chinese-African ties have not entirely precluded contacts with the Nationalist Chinese government. In Senegal, a formula has been worked out whereby the PRC maintains a full-scale diplomatic mission in Dakar, but the Nationalist Government is permitted to operate trade and aid offices.

#### China-Middle East

54. China doubtless will continue to broaden its currently limited influence in the area. It recently established diplomatic relations with Kuwait and Lebanon. China can be expected to support popular liberation movements such as the Palestine Liberation Organization as well as revolutionary groups in the Gulf area and the Southern Arabian peninsula but not necessarily the terrorists and the more radical elements of the PLO.

#### China-Latin America

55. China is taking a greater interest in Latin America as part of its programme to restore normal relations with many other countries. In addition, China has been attracted by the strong Latin American position on maritime rights, which is in line with the Chinese policy. There are a number of small Marxist splinter parties in Latin America which at best have a tenuous affiliation with the Chinese brand of communism. China has largely neglected them in the past and is not expected to change this policy in the immediate future. Consistent with its recognition of Cuba and the recent opening of diplomatic missions with Chile, Peru and Mexico, China will most likely attempt to establish diplomatic relations with other more liberal Latin American countries.

.../19

SECRET

000180



SECRET

- 19 -

China and Disarmament

56. Since its first detonation of a nuclear device in 1964, China has been actively engaged in the development of nuclear weapons systems, which while they will not become a significant threat to the USA or the USSR for several years, already provide a limited deterrent capability against the USSR. Meanwhile, Chinese spokesmen defend their nuclear weapons programme as necessary to meet the threat posed by the super-powers, which find it convenient to belittle China's "backward" efforts in this field.

57. Against this background, the PRC has developed an attitude to arms control and disarmament which is in sharp conflict with that adopted or at least professed by most states, including Canada. China is strongly opposed to the major arms control treaties agreed upon thus far, which it describes as shams designed to consolidate Soviet-American nuclear monopoly, and assist them to maintain their nuclear threat against weaker states. China's own proposals for disarmament consist of three fundamental elements: (1) a declaration by all nuclear states that they will not be the first to use nuclear weapons; (2) the prohibition and complete destruction of all nuclear weapons; (3) the withdrawal of all military forces from foreign territory. The Chinese have shown little interest in non-nuclear arms control, except to indicate that they view limits on conventional arms as being discriminatory against non-nuclear states. Of disarmament proposals discussed by the UNGA, only those for nuclear free zones or zones of peace have obtained a measure of Chinese support, (witness the announcement in Peking of April 1973 that China subscribes to the establishment of a Latin American nuclear free zone). The present Chinese leadership is unlikely to enter into any international commitments which would oblige China to restrict the development of its military power at least as long as the PRC considers itself inferior to the super-powers in nuclear and conventional arms.

China and the United Nations

58. On October 25, 1971, the General Assembly of the United Nations decided to restore all its rights, and to recognize the representatives of the Government of the People's Republic of China (PRC) as the representatives of China in the United Nations. Since the October 1971 decision, a number of specialized agencies of the United Nations have taken action to seat the PRC. No similar action has yet been taken in the IMF and the World Bank Group (IBRD, IFC, IDA). At the same time, the PRC has not demonstrated an interest in occupying its seat in any of these four agencies.

.../20

SECRET

000181

SECRET

- 20 -

59. The PRC adopted a fairly low profile during its first two years in the United Nations. Its delegation participated only in those deliberations about which it felt very strongly and where it thought its voice should be heard from the outset. It has maintained a very reserved, indeed hostile, attitude to United Nations peacekeeping.

60. The Chinese have adopted a position opposed to "Super-Power hegemony" and of being a self-proclaimed friend of the Third World. On the first issue they have taken every suitable opportunity to attack and embarrass the USSR and there is every reason to believe they will maintain this stance. On the second, China has often demonstrated its support for developing countries in the U.N., except on the important question of U.N. membership for Bangladesh. In the future, this support will, of necessity, have to be balanced with a strong Chinese self-interest. China has taken a largely positive attitude towards the work of the U.N. and has not, so far, proved to be the disruptive force that some expected.

#### China's Trade

61. Over the next few years China's foreign trade turnover should show a modest increase, rising along with the overall level of economic activity. Trade will continue to be a function of the availability of goods for export with the level of exports and imports staying roughly in balance. Japan, Hong Kong, Canada and Western Europe will continue to be China's major trading partners but the United States and the USSR, which presently account for only a small part of Chinese trade, should increase their shares. The likelihood is that over the next five years or so China's exports will continue to come mainly from the agricultural sector; it can be expected however that clothing and fabrics exports will increase significantly as a result of China's purchase of whole plants to produce synthetic fibres. In addition, China will gradually increase its sales of petroleum to Japan. We see no reason why China is unlikely to continue to import grain during the next few years although the amounts will vary with the annual harvests. Imports will likely continue also to be heavily weighted in favour of iron and steel, and equipment; imports of fertilizers are expected to decrease as China will depend more and more on domestically constructed and imported plants. Although China's policy of self-sufficiency discourages the acceptance of very large amounts of foreign credit, she is unlikely to again deny herself the advantages of some credit arrangements. Purchases of transportation equipment should continue to be an important part of China's trade plan.

.../21

SECRET

000182

SECRET

- 21 -

### China's Aid

62. China's economic aid programme declined during the Cultural Revolution as new offers decreased to \$50 million in 1967-68, and disappeared in 1969. In more recent years, however, China's foreign aid has increased dramatically. In 1970, China was the largest communist donor, pledging over \$700 million. It should be noted, however, that actual amounts disbursed fall considerably below the level of pledges.

63. From 1956 to 1973 China has extended more than 2.8 billion dollars of economic aid to less-developed countries (LDC's) - over 65 per cent of it between 1970 and 1973. Both the large amount of aid extended and the increasing number of recipient countries have been the two most important trends in Chinese economic aid in the last three years. Total extensions of economic aid amounted to 708 million dollars in 1970, 553 million dollars in 1971, and 558 million dollars in 1972. Four countries (Chile, Ethiopia, Iraq and Peru) received Chinese aid for the first time in 1971 and there were eight "first-timers" (Burundi, Dahomey, Guyana, the Malagasy Republic, Malta, Mauritius, Rwanda, and Togo) in 1972.

64. Approximately 6 per cent of China's extension of 558 million dollars of new aid in 1972 was provided as grants. More than 45 per cent went to the Middle East and South Asia and nearly 40 per cent to Africa. Aid to Latin America still was modest, but a 63 million dollar credit to Chile was China's largest commitment in 1972. China's aid continued to emphasize construction of roads and light industrial facilities and to provide commodities to be sold in LDC's to generate currency to cover the local costs of Chinese aid projects".

65. The increase in political stability and continuing economic development in China can be expected to lead to a continuant Chinese involvement in the provision of development assistance.

### China's International Transportation

66. China is expanding its international air services and has negotiated, and is continuing to negotiate, bilateral air agreements with a number of states. However, it is not considered likely that China will be able to operate more than a few of the new routes for some time, even though a number of modern inter-continental aircraft have been bought and more purchases can be expected.

.../22

SECRET

000183

SECRET

- 22 -

67. Merchant ship construction slowed during the Cultural Revolution but recovered in 1969 to a mid-50's level. Though under pressure to reduce the country's dependence on foreign chartering, China's merchant ship building industry is constrained by factors such as its low capacity to supply large marine engines. While China is likely to continue to purchase second-hand tonnage for some time, it has also shown a marked interest in purchasing new ships in the 10-25,000dwt class. Some 25 ships are now on order abroad. Chinese officials let it be known to the representatives of the Canadian shipbuilding industry at the solo fair in Peking in August that they were interested in a number of designs shown by Canada. This interest in relatively large scale purchase of both new and second-hand ships at this time seems to stem from not only new requirements, but also from the need to replace some 428,000 tons of older vessels which the Chinese intended, reportedly, to scrap.

#### Sino-Canadian Relations

68. Since the establishment of diplomatic relations between Canada and the People's Republic of China on October 13, 1970 and the subsequent opening of Canadian and Chinese embassies in January and February 1971 respectively, Sino-Canadian relations have developed fairly smoothly. The Secretary of State for External Affairs, Mitchell Sharp, visited China in August 1972 and Prime Minister Trudeau has accepted, in principle, an invitation to visit China.

69. Canadian-Chinese economic relations advanced further following the June-July 1971 visit to China of an economic mission headed by the then Minister of Industry, Trade and Commerce, Jean-Luc Pepin. This mission succeeded in obtaining from the Chinese an undertaking to consider Canada first as a source of wheat as well as agreement by both sides to hold commercial exhibitions, exchange trade missions and participate in annual trade consultations. Chinese wheat purchases having a total value of approximately \$480 million were made in September and December 1971, and June and November 1972. In 1971 two-way trade reached a record high of \$307 million with Canada becoming China's third largest trading partner and its second largest supplier. The efforts to create closer commercial relations continued through 1972 and featured the Canadian Solo Fair in Peking, the Chinese Commercial Exhibition at the Canadian National Exhibition and the visit to Canada of China's Foreign Trade Minister. Moreover, substantial numbers of Canadians continue to attend the twice-yearly Canton trade fairs which have resulted in the negotiation of significant trading deals. In 1974 a Canadian scientific solo fair is planned for Peking.

.../23

SECRET

000184

SECRET

- 23 -

70. There have also been significant advances in scientific and technological cooperation. Chinese missions to Canada in 1972 included groups specializing in mining and metallurgical techniques and petroleum development, as well as medical doctors and scientists in the fields of physics, computer technology, electricity and nuclear energy. In return, a Canadian mining and metals mission, a petroleum mission and a delegation from the Canadian Medical Association have recently visited China and will be followed, in a few months, by a delegation of agricultural scientists.

71. There have also been a large number of cultural exchanges. A Canadian table tennis team visited China in April 1971 and a December 1971 agreement between the Canadian Sports Federation and the All-China Sports Federation provided for exchanges in table tennis, badminton, basketball and swimming. Plans are underway to send a Canadian hockey team to China. In the arts, exchanges have included an exhibition of Chinese arts and handicrafts at Man and His World and, recently, an Eskimo art exhibition in Peking and Shanghai. A modest student exchange programme has just begun.

72. More negatively, the next few years may see a further development of Chinese Intelligence Service (ChIS) activities in Canada. The recently established PRC Mission in Washington will provide a base for operations in the United States which may have the effect of permitting the Ottawa Embassy to concentrate on activities in Canada.

73. The rapid development of Sino-Canadian relations in the commercial, scientific and cultural fields is attributable, in large measure, to the outward looking policies of the current attitude towards economic development has resulted in rapid expansion in Chinese purchases abroad including in Canada. The particular emphasis on agriculture affords good sales possibilities to Canadian producers of fertilizers, improved seeds and agricultural machinery. The further development of our relations is dependent, to a large extent, on the continuation of the current policies and continued internal stability.

74. Internationally, the expanding role of China as a world power should not affect significantly the pattern of our relations with other countries of the world nor our attitude to most of them for the exploitation of the expanding Chinese market, and in this way China's emergence on the world scene will have some ramifications for Canadian commercial interests. More generally, major nations would suggest that, by force of circumstances, Canada will occupy a lesser place in China's order of priorities than it has in the recent past. Nonetheless, if Sino-Canadian relations will not attract as much public attention as in the past two years, they might expand in scope to cover a greater range of technical fields.

000185

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Assistant Deputy Minister (Police & Security), DSG	185
Secretary	186-190
IACLO (London)	191
IACLO (Washington)	192
British JIC	193-212
USIB	213-238
DIA	239-268
NIC Australia	269-278
JIC New Zealand	279-287
Australian High Commission	288
UKLO	289
USALO	290
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Representative, Department of Industry, Trade & Commerce	294

SECRET

