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COPY NO./EXEMPLAIRE NO. 36

DATE/DATE 23 July 1980

ISSUE/DOCUMENT Assessment 7/80

**REPORT BY THE  
INTELLIGENCE ADVISORY COMMITTEE**  
**RAPPORT PUBLIÉ PAR  
LE COMITÉ CONSULTATIF  
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CHINA 1980: TRENDS AND PROSPECTS

LA CHINE DE 1980: TENDANCES ET PERSPECTIVES

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CHINA 1980: TRENDS AND PROSPECTS

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PART I - OBJECT

1. The object of this assessment is to survey recent events in the People's Republic of China, to examine current political, economic, military and foreign policies and to suggest likely developments over the next few years.

(CONFIDENTIAL)

(Version française au verso)

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Rapport d'évaluation du CCR 7/80  
Date d'approbation: le 23 juillet 1980

PARTIE I - OBJET

1. Le présent rapport d'évaluation a pour objet d'analyser les événements survenus récemment en République populaire de Chine, d'examiner les principes qui y sont actuellement appliqués dans les domaines politique, économique, militaire ainsi que dans celui des affaires étrangères, et d'avancer certaines hypothèses sur son évolution au cours des prochaines années.  
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PART II SUMMARY AND CONCLUSIONS

2. China has in recent years experienced a dramatic political transformation. This change has involved essentially a shift in emphasis from ideological to practical considerations as the basis for the formulation and implementation of government policies. It has been highlighted by the consolidation within the leadership of those favouring Vice-Premier Deng Xiaoping's pragmatic approach to economic development, a rejection of the radical tenets of later Maoism and an increased emphasis on collective leadership. It has also involved a restructuring of State and Party institutions so that they might better serve government policy and objectives. (paras 17-18)

(CONFIDENTIAL)

3. The posthumous rehabilitation of former Head of State Liu Shaoqi and the purge of four prominent "Maoists" from the Politburo in February, 1980, reflected the preeminent authority of Vice-Premier Deng Xiaoping. Although the power of Party Chairman and Premier Hua Guofeng has been circumscribed by these and other developments, he is likely to remain an important figure in the PRC leadership. (paras 19-21)

(CONFIDENTIAL)

4. The consolidation of the leadership has reduced the likelihood of severe factional disputes over political issues and has strengthened the prospects for continued political stability. There continue to be differences, however, over the treatment of the memory and legacy of Mao Zedong who remains the

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PARTIE II - RÉSUMÉ ET CONCLUSIONS

2. La Chine a subi ces dernières années une profonde transformation sur le plan politique qui consiste essentiellement en un passage des considérations idéologiques aux considérations pratiques au niveau de la formulation et de la mise en oeuvre des politiques gouvernementales. Ce changement s'est surtout manifesté par un rapprochement, au sein des dirigeants, de ceux qui favorisent l'attitude pragmatique du vice-premier ministre Deng Xiaoping à l'égard du développement économique, le rejet des principes radicaux de la fin du maoïsme et l'importance accrue conférée à la direction collégiale. Il s'est également manifesté par une restructuration des institutions de l'État et du Parti, de sorte qu'elles puissent mieux servir la politique et les objectifs gouvernementaux. (paragraphe 17 et 18)

(CONFIDENTIEL)

3. La réhabilitation posthume de l'ancien chef d'État Liu Shaoqi et le renvoi, du Bureau politique, en février 1980, de quatre éminents "maoïstes" témoignent de l'autorité prééminente du vice-premier ministre Deng Xiaoping. Même si le pouvoir du président du Parti et premier ministre Hua Guofeng se trouve circonscrit du fait de ces événements et d'autres, ce dernier demeurera vraisemblablement une figure importante parmi les dirigeants de la RPC. (paragraphe 19 à 21)

(CONFIDENTIEL)

4. Le rapprochement de la direction a réduit le risque de graves différends entre factions au sujet des questions politiques et a augmenté les perspectives de maintien de la stabilité politique. Des divergences subsistent toutefois à propos du traitement à accorder à la mémoire et à l'héritage de Mao Zedong, qui demeure la source de l'orthodoxie pour des centaines de millions de Chinois. Les dirigeants y ont réagi en abandonnant certains principes de base du maoïsme et en tentant de justifier leurs politiques actuelles en s'inspirant des premières oeuvres de Mao. Il subsiste un problème pressant d'opposition, au palier intermédiaire et inférieur, à l'intérieur du Parti. Une campagne de rééducation a cependant été entreprise; si elle est fructueuse, elle permettra de renforcer considérablement l'appui assuré au Parti à l'égard de la modernisation. (paragraphe 22 à 25)

(CONFIDENTIEL)

5. Il importe au plus haut point que la campagne de modernisation produise rapidement des résultats tangibles, c'est-à-dire une amélioration du niveau de vie. Même si elle ne peut prévoir ce résultat à coup sûr, la Chine prend des mesures pour asseoir son développement économique futur sur une base plus solide et garantir le maintien de son engagement à l'égard de sa ligne politique actuelle. (paragraphe 26 et 27)

(CONFIDENTIEL)

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source of orthodoxy for hundreds of millions of Chinese. The leadership has responded to this situation by abandoning certain basic tenets of Maoism and by selectively drawing on Mao's earlier writings to justify current policies. There continues to be a pressing problem of middle- and lower-level opposition within the Party. A campaign of re-education is under way, which if successful would significantly strengthen Party support for modernization. (paras 22-25) (CONFIDENTIAL)

5. Of great importance is the need for the modernization drive to produce early and tangible returns in the form of a rise in living standards. Although this result is uncertain, steps are being taken to put future economic development on a firmer footing and to ensure continuing commitment to present policies. (paras 26-27) (CONFIDENTIAL)

6. The "Four Modernizations" program first introduced in 1978 remains little more than a collection of vaguely defined production targets. Fundamental weaknesses in the economy led, in June 1979, to the adoption of a new three year program of "readjustment" during which stress is to be placed on agriculture, light industry and reform of the management system. (paras 28-33) (CONFIDENTIAL)

7. Fluctuations in agricultural production have in the past had a critical effect on the rest of the economy. Increased state investment and higher prices for farm produce appear to have stimulated production which reportedly increased over 8% in 1979. Grain yields however, remain low and efforts to raise them

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6. Le programme des "quatre modernisations", lancé en 1978, ne demeure tout juste qu'un ensemble d'objectifs de production vaguement définis. Les lacunes fondamentales de l'économie de la Chine ont entraîné, en juin 1979, l'adoption d'un nouveau programme triennal de "rajustements", au cours duquel elle compte insister sur l'agriculture, l'industrie légère et la réforme du mécanisme de gestion. (paragraphe 28 à 33)

(CONFIDENTIEL)

7. Dans le secteur de la production agricole, les fluctuations ont eu, dans le passé, un effet néfaste sur le reste de l'économie. L'accroissement des mises de fonds de l'État et la hausse des prix des produits agricoles semblent avoir stimulé la production qui, au dire de certains, a augmenté de plus de 8 % en 1979. La production céréalière, toutefois, demeure faible, et pour l'accroître, il faudra entre autres que la Chine utilise davantage les engrais chimiques et l'équipement agricole. Elle devra, selon toutes probabilités, importer de grandes quantités de céréales pendant les années 80. (paragraphe 34 à 36)

(CONFIDENTIEL)

8. Dans le secteur industriel, un des objectifs du programme de rajustements consiste à orienter les mises de fonds vers des projets à forte concentration de main-d'oeuvre, afin de tirer rapidement des recettes des ventes réalisées au pays et à l'étranger. La Chine accorde également une attention spéciale à l'amélioration de son infrastructure industrielle. (paragraphe 37 et 38)

(CONFIDENTIEL)

9. Le rajustement économique de la Chine a modifié son tableau des importations à court terme. Ses importations de biens d'équipement visent principalement l'industrie légère à forte concentration de main-d'oeuvre et les projets d'infrastructure. La gamme des importations sera réduite par la capacité limitée du pays d'absorber et de payer des techniques de pointe et des biens coûteux. Pékin continuera vraisemblablement à faire preuve de prudence en ce qui concerne l'utilisation des facilités de crédit. Il faudra encore un certain temps avant que l'économie ne soit assez sûre pour subir une croissance rapide et équilibrée. (paragraphe 39 et 40)

(CONFIDENTIEL)

10. Un autre facteur limite le rythme du développement économique de la Chine: la qualité inférieure de la formation technique et de la recherche scientifique. Maintenant qu'elle tente de se doter d'un groupe de scientifiques, de techniciens et d'enseignants compétents, les considérations professionnelles prennent le pas sur l'idéologie. Néanmoins, il faudra un certain temps avant que les effets destructeurs de la Révolution culturelle ne soient anéantis. Dans l'intervalle, la Chine inscrit des étudiants dans les universités occidentales et envoie à l'étranger de nombreuses délégations techniques. (paragraphe 41 et 42)

(CONFIDENTIEL)

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will require, among other things, an increased use of chemical fertilizers and machinery. Sizeable food grain imports might well be necessary into the 1980's. (paras 34-36)

(CONFIDENTIAL)

8. In industry one of the objectives of the readjustment program is to shift investment to labour-intensive projects to provide an early return from domestic and foreign sales. Special attention is also being given to upgrading industrial infrastructure. (paras 37-38)

(CONFIDENTIAL)

9. Economic readjustment has altered China's near-term import picture. Capital equipment imports will be mainly for labour-intensive light industry and infrastructure projects. The scale of imports will be constrained by the country's limited ability to absorb and pay for advanced technology and costly goods. Peking will likely continue its current cautious policy in the use of credit facilities. It will be some time before the economy is on a sufficiently secure footing to support rapid, balanced economic growth. (paras 39-40)

(CONFIDENTIAL)

10. An additional factor limiting the pace of economic development is the inferior quality of technical training and scientific research. Professional considerations are now being given priority over ideology in China's attempt to develop a competent corps of scientists, technicians and teachers. Nevertheless, it will be some time before the ravaging effects of the Cultural Revolution are overcome. In the meantime, China is

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11. L'incursion de la Chine au Vietnam, en 1979, a fait ressortir les faiblesses de l'Armée populaire de libération, notamment en ce qui concerne les armes et le matériel. Néanmoins, la Chine s'oppose pour l'heure à la mise en oeuvre d'un vaste programme de modernisation de son matériel militaire, insistant plutôt sur l'amélioration de la formation et du professionnalisme militaire. (paragraphe 43 à 45) (SECRET)

12. Ses ressources limitées et d'autres facteurs obligeront Pékin à faire preuve de prudence pour ce qui est de ses programmes actuels d'acquisition de matériel de défense. Elle met l'accent sur la recherche et le développement, au pays même, ce qui pourrait aboutir à court terme à la production en série d'un nouveau missile sol-air, d'un chasseur et, peut-être, d'un char de combat moderne. Le récent lancement, par la Chine, d'un engin balistique intercontinental témoigne d'une importante amélioration qualitative de ses forces stratégiques, lui conférant une force de frappe à l'échelle quasi mondiale. (paragraphe 46 à 49) (SECRET)

13. Bien que la Chine ait attaqué le Vietnam, sa stratégie militaire demeure essentiellement défensive. Les officiers supérieurs de l'Armée populaire de libération semblent unanimes sur le fait qu'elle ne pourra pas procéder à une vaste modernisation militaire tant qu'elle n'aura pas renforcé sa base industrielle. Il est peu probable que l'écart entre les capacités de l'Armée populaire de libération et celles des forces armées soviétiques et occidentales se rétrécisse de façon appréciable avant la fin du siècle. (paragraphe 50 à 52) (CONFIDENTIEL)

14. La politique étrangère de la Chine demeure fondée sur la crainte et la méfiance profondément enracinées que lui inspire l'Union soviétique et qui se traduisent dans les mises en garde répétées de Pékin contre ce qu'elle qualifie d'"hégémonie mondiale de l'Union soviétique". Au cours des deux dernières années, la Chine s'est appliquée à renforcer ses relations bilatérales avec les États-Unis et d'autres pays industrialisés. Ses relations avec les pays du Tiers monde se sont vues, semble-t-il, accorder une moins grande priorité. Même si Pékin continue de soutenir qu'un conflit mondial est inévitable, son objectif stratégique déclaré est de s'assurer une période de paix et de stabilité internationales assez longue pour lui permettre de moderniser son économie. (paragraphe 53 et 54) (CONFIDENTIEL)

15. Autre élément important de la politique étrangère de la RPC: elle cherche à accroître ses relations économiques et techniques avec le monde industrialisé. Elle a essayé de faire en sorte que le monde extérieur perçoive davantage la Chine comme un membre stable, modéré et sûr de la communauté internationale (paragraphe 55) (CONFIDENTIEL)

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enrolling students in Western universities and sending numerous technical delegations abroad. (paras 41-42)

(CONFIDENTIAL)

11. The 1979 limited incursion by China into Vietnam pointed up deficiencies in the People's Liberation Army (PLA), particularly relating to weapons and equipment. Nevertheless, China has decided against a large scale military equipment modernization program for the present, and is stressing improvement in training and military professionalism. (paras 43-45)

(SECRET)

12. Limited resources and other factors will oblige Peking to be cautious in existing defence equipment programs. Emphasis is being given to domestic research and development which could in the near term result in series production of a new surface-to-air missile, a fighter plane and perhaps a modern tank. The recent launching of an ICBM reflects a significant qualitative improvement in China's strategic forces giving that country a near-global strike capability. (paras 46-49)

(SECRET)

13. Despite its attack on Vietnam, China's military strategy remains essentially defensive. There appears to be a general understanding within the senior ranks of the PLA that extensive military modernization will have to await the development of a stronger industrial base. There is little likelihood that the gap between the capabilities of the PLA and the Soviet and Western armed forces will be appreciably narrowed before the end

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16. On assistera peut-être, au cours des prochaines années, à une certaine amélioration des relations bilatérales, actuellement médiocres, entre la Chine et l'Union soviétique, mais aucun rapprochement sino-soviétique plus fondamental n'est prévu pour l'instant. Il se pourrait bien, toutefois, que la Chine adopte une tactique très différente à l'égard de ses relations avec l'URSS si elle percevait un important revirement dans la politique actuelle des États-Unis à son égard ou à celui de l'URSS. (paragraphe 56) (CONFIDENTIEL)

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of the century. (paras 50-52) (CONFIDENTIAL)

14. China's foreign policy continues to be based on its deeply rooted fear and mistrust of the Soviet Union. This is reflected in Peking's repeated warnings against what it characterizes as "Soviet global hegemonism". Over the past two years, China has moved to strengthen bilateral relations with the United States and other industrialized countries. Its relations with the Third World have apparently been given reduced priority. Although Peking continues to insist that global conflict is inevitable, its declared strategic objective is to secure the prolonged period of international peace and stability required to modernize its economy. (paras 53-54)

(CONFIDENTIAL)

15. Another important element in PRC foreign policy is its drive to expand economic and technical relations with the industrialized world. It has attempted to enhance outside perception of China as a stable, moderate and reliable member of the international community. (para 55) (CONFIDENTIAL)

16. Although the next few years could witness a limited improvement in China's currently poor bilateral relations with the Soviet Union, there is no likelihood of a more fundamental Sino-Soviet rapprochement in the foreseeable future. However, China might well adopt a very different tactical approach to its relations with the USSR, if it perceived any major shift in current USA policy toward either itself or the USSR. (para 56)

(CONFIDENTIAL)

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PART III - INTRODUCTION

17. China, in the past few years, has experienced a political transformation of a scope that would have seemed scarcely credible at the time of Mao Zedong's death in 1976. Essentially there has been a major shift in emphasis from politics to economics; on many fronts ideological considerations have given way to practical results as the basis for the formulation and implementation of policies. The principal figure behind this shift has been Vice-Premier Deng Xiaoping and its development has by and large paralleled his gradual extension of authority. Political developments have been highlighted by the consolidation within the leadership of the position of those favouring Deng's approach to the "Four Modernizations" policy (agriculture, industry, science and technology and military). It has also involved a consequent rejection of the radical tenets of later Maoism and the removal from the Politburo of several prominent "Maoists". An additional factor has been the increased emphasis on collective leadership in contrast to Mao's clear pre-eminence and more personal style of rule. Peking has also undertaken a reorganization and re-orientation of State and Party institutions so that they might better serve its modernization goals.

(CONFIDENTIAL)

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18. These developments raise important issues about China's future such as:

- a) the likelihood of maintaining the political stability and long-term commitment required for the successful implementation of the modernization program;
- b) economic and social factors affecting the various policy objectives and the short term prospects for achieving these goals;
- c) the condition, role and future of the armed forces, and
- d) China's foreign policy and its relationship to domestic policy.

(CONFIDENTIAL)

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PART IV - DISCUSSION

Political Trends

19. The Fifth Plenum of the Central Committee of the Chinese Communist Party's 11th Congress, held in February 1980, concluded with three major announcements. The first concerned the posthumous rehabilitation of former Head of State Liu Shaoqi, the principal target of defamation during the Cultural Revolution and victim of what the plenum communiqué described as "the biggest frame-up our Party has ever known." The second involved the removal from the Politburo of four prominent "Maoists", including party Vice-Chairman Wang Dongxing, on charges of having committed "grave errors". The third was the re-establishment of a Party Secretariat, staffed by supporters of Deng Xiaoping, to supervise the implementation of Party policy. The rehabilitation of Liu had been "signalled" at the time of the fourth plenum the previous autumn. As for the "Maoists", they had been gradually stripped of effective authority over the preceding 18 months and their removal had not been unanticipated. The creation of a Party Secretariat appeared to be but a further advance in a process which over the past two years has seen most of the important positions in Party and Government go to people with close ties to Deng. The undramatic manner in which these changes took place, so remote from the violent shifts which characterized Chinese politics in

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the ten years preceding Mao's death, has tended to obscure their significance. Taken together, they highlight a process that in less than four years has brought about a break with the radical elements of Mao Zedong's legacy.

(CONFIDENTIAL)

20. The outcome of this process has not always been assured. The return of the twice-deposed, twice-restored Vice-Premier Deng Xiaoping to the Politburo in 1977 had raised the spectre of a possible reversion to the severe and open factional disputes within the leadership which had afflicted People's Republic of China (PRC) politics during the previous 20 years. The division was essentially over the Maoist legacy. Although there was general agreement within the leadership on the broad objectives of the Four Modernizations drive, this could not obscure differences over its implementation. Around Deng were grouped a number of veteran bureaucrats and military figures many of whom, like him, had fallen victim to the Cultural Revolution. They favoured the adoption of pragmatic economic policies, (many of which were derived from the pre-Cultural Revolution period) and opposed ideological considerations that would hinder this undertaking. Set against them were those who, largely unknown before the Cultural Revolution, had acquired high office during this period, often at the opposing group's expense and who, whether from political conviction or self-interest, resisted the abandonment of some radical Maoist principles.

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Although not entirely identified with it, Party Chairman and Premier Hua Guofeng shared a number of common characteristics with this group. Balancing these opposing groups was a third led by elder statesman Ye Jianying, in composition similar to the first with the difference that its members had survived the Cultural Revolution with careers more or less intact. Although naturally inclined towards Deng's policies, they were opposed to any precipitate changes which could lead to an open split. They tended to view the mantle of legitimacy which Hua Guofeng had successfully claimed from Mao Zedong, as discouraging a leadership struggle and thereby assuring the future political stability required to implement the modernization programs. (CONFIDENTIAL)

21. From the fall of 1978 Deng Xiaoping increasingly held the upper hand with the result that by the spring of 1980, the Maoists had been largely reduced to an ineffective rump group. Hua Guofeng, on the other hand, shifted ground and has kept in step with the Deng-inspired Party line on modernization although differences in emphasis over the relative merits of economic incentives versus political and moral encouragements have recently resurfaced. While Hua remains head of both Government and Party, his power has clearly been circumscribed by numerous appointments to the Politburo, and other senior positions, of figures with close ties to Deng. Of particular significance in this regard were the re-establishment of the Party Secretariat headed by a

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recent Politburo appointee Hu Yaobang and the appointment of Zhao Ziyang as Vice-Premier in charge of the day to day work of the State Council. Both are prominent Deng protégés but closer to Hua in age. This development is in line with the Party's emphasis on collective leadership, a policy that Hua has supported despite the limiting of his formal pre-eminence that it entails. The possibility that Hua may be obliged to relinquish one of his positions, probably the Premiership, in the not too distant future, appears increasingly likely. There appear to be no grounds, however, for believing that his elimination from the leadership is imminent. Indeed, as a convert to modernization such a move could well undermine Government efforts to secure greater commitment from the rank and file to its policies. (CONFIDENTIAL)

22. The consolidation of the leadership has reduced the likelihood in the short run of severe factional disputes over political issues. One such issue, however, that has yet to be fully resolved and that could give rise to future differences is the treatment to be accorded the memory and legacy of Mao Zedong. (There are now some indications that an explicit evaluation of Mao's role in the Cultural Revolution has been generally agreed upon and will be announced at a forthcoming plenary session of the Central Committee.) Related to this is the problem of middle- and lower-level cadres who continue to harbour radical sympathies and to resist the central leadership's modernization policies, policies which represent

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an almost total repudiation of the radical Maoism of the post 1966 period. The problem is compounded by the fact that Mao Zedong remains the symbol of the Revolution for hundreds of millions of peasants and the source of ideological orthodoxy for many of the over 17 million cadres (about half the current total) that joined the party during the Cultural Revolution.

(CONFIDENTIAL)

23. The leadership has acted along several lines to weaken the conflict between the heritage of radicalism left by Mao and the moderate, pragmatic policies of the modernization program. For one, it has virtually turned its back on certain basic tenets of Maoism. Foremost among these is the concept of class struggle. Following the death of Mao, the focus of this drive was narrowed considerably and redirected against the "Gang of Four" and its followers. In June 1979, however, Hua Guofeng announced abruptly that, as class contradictions no longer existed in China, there was no further need for "large-scale and turbulent class struggle waged by the masses". This declaration came but a few short months after the "restoration of the national bourgeoisie" which saw this group (now deemed to include engineers, technicians and intellectuals generally), regain property rights, higher salaries and social status. The way had been prepared by the earlier introduction of material incentives for workers and increased incomes for peasants and workers aimed at stimulating production. Although numerous ideological justifications were advanced, these could not

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obscure the fact that the restoration of the "national bourgeoisie" would eventually tend to sharpen class differences.

(CONFIDENTIAL)

24. While abandoning the more radical strains of Maoism, the Government has drawn extensively on Mao's earlier writings to give legitimacy to current policies. At the same time, however, it has moved to reduce the stature of the "Great Helmsman" to more human dimensions. In a 1 October 1979 speech marking the 30th anniversary of the PRC, Ye Jianying declared that "Mao Zedong thought", was not the product of Mao's wisdom alone but rather the crystallization of the collective wisdom of the Communist Party as a whole. The significance of this formulation lies in the fact that it provides a means of incorporating current and future policy changes into "Mao Zedong thought" which is thereby reduced to little more than a codeword for the Chinese brand of marxism. Ye also made reference to "errors" committed by Mao, which had resulted in major set-backs for the Party, notably the Great Leap Forward and the Cultural Revolution. This statement went well beyond earlier Party pronouncements on the subject although they stopped short of addressing the question of Mao's precise role in those national misadventures. Deng Xiaoping's recent call for an early trial of the "Gang of Four" (which may take place this autumn) suggests that he is intent on pushing further in this direction. Such an event would not only entail a more direct examination of Mao's

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involvement in the Cultural Revolution, but would also focus attention on Hua Guofeng's meteoric rise and as such is undoubtedly a subject of some debate in the Politburo, (although, if recent reports that the trial will take place this year are accurate, it would imply that a consensus has now been reached). Although Deng's motives may be mixed, it is probable that he sees an explicit critique of the Cultural Revolution mainly as a means of overcoming lower-level Party resistance and as a hedge against a future relapse into radicalism.

(CONFIDENTIAL)

25. Opposition by radicals to political reforms and the modernization program has been the subject of extensive press commentary and the focus of continual central leadership debate for more than two years. This resistance has apparently also demoralized and immobilized local Party leaders otherwise sympathetic to current policies, thereby further impeding their implementation. The danger inherent in this situation has two aspects. In the short term it limits the Government's ability to implement policies intended, at least in part to satisfy heightened popular expectations of the benefits to flow from modernization. Were this situation to persist, it could over the long run undermine the régime's credibility and create conditions for a possible reversion to radicalism. Deng Xiaoping's repeated calls for an intensive Party purge of "leftists" has probably been resisted by Hua Guofeng and Ye Jianying on grounds that such a drive would

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present greater immediate danger to the stability and unity required for modernization. The decisions announced at the Fifth Plenum, however, suggest that Deng has again attained the upper hand in this debate although the current "rectification campaign" places stress on winning over, rather than replacing, recalcitrant or otherwise hesitant lower level cadres. The removal of the Maoists from the Politburo and the rehabilitation of Liu Shaoqi has clearly strengthened Deng's hand in this matter as has the Party's adoption of a series of "guiding principles" governing Party membership which stress technical and functional competence over ideology. The campaign for party renewal is expected to last from three to five years and if successful would significantly strengthen party support for modernization. The composition of the Twelfth Party Congress, expected to be convened either late this year or in early 1981, will provide a clearer indication of the extent to which "leftist" elements have been removed from influence.

(CONFIDENTIAL)

26. Of greater importance, however, is the need for the modernization program to produce early and tangible results in the form of a rise, however minimal, in living standards. The long-term prospects for this are uncertain. Expectations were dampened in March 1979 when it was announced that the economic program initiated the previous year aimed at quick and massive modernization, was to be scaled down. In its place a three year "readjustment" period was initiated entailing, among

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other measures, a greater emphasis on agriculture, light industry and the production of consumer goods. The reasons for the retrenchment were sound since China was incapable of implementing such an ambitious program of economic development. Nevertheless, the need to "readjust" created considerable embarrassment for the leadership. The figure playing perhaps the key role in this shift in policy was Chen Yun, a veteran administrator who had been restored to the Politburo only three months earlier. He was subsequently placed at the head of the revived economic and financial commission charged with overseeing the "readjustment", a task similar to one he performed following the dislocations of the Great Leap Forward.

(CONFIDENTIAL)

27. Developments in China over the past two years have clearly strengthened prospects for continued political stability at the national level. Such differences as exist within the central leadership relate essentially to the pace and scope of policy implementation and in themselves are unlikely to give rise to severe factional disputes. Steps are also being taken to ensure the continuation of the present policy line once the current leadership passes from the scene. Principal among these is the emphasis being placed on collective leadership which, by highlighting the broad political commitment to modernization, would impede the possible future rise of a Mao-like figure leading a swing back to radicalism. Of similar significance have been the moves

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towards the adoption of a legal code and the establishment of a judicial system. Of more immediate importance have been the appointments of Hu Yaobang and Zhao Ziyang to senior positions in Party and Government. Hu currently heads the Party Secretariat, an extremely influential position, while Zhao, it is speculated, is being groomed to succeed Deng himself. In addition there have been suggestions by Deng of the possible establishment of a senior advisory council composed of elderly Politburo members who would be relieved of day-to-day duties but retain responsibility for providing direction in general policy questions. Such an arrangement, if adopted, would clearly ease the transition to a new generation of leaders and ensure the political stability required to achieve China's modernization goals. (CONFIDENTIAL)

General Economic Considerations

28. The current Four Modernizations program was first announced by Premier Zhou-Enlai in 1975. In general it called for a restructuring and expansion on a broad front of all major sectors of the economy with particular attention being given to agriculture, followed by industry, science and technology and national defence. The program was adopted as official policy following the death of Mao Zedong and had as its objectives the development of "a modern, powerful socialist China" by the year 2000. The first stage of the program, hastily introduced in February 1978, was a revised version of an earlier Ten Year Plan (1976-85) which, because

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of the political dislocations and social disorder of the time, had not been implemented. It was mainly a collection of production and construction targets rather than a workable economic plan that gave a detailed indication of how its objectives were to be met. By the end of 1978, it became apparent there had not been adequate preparation for such an intensive long-term drive. Chinese planners began to realize that not only were the various production targets over-ambitious and improperly coordinated but that a fundamental restructuring of the economy was necessary to place future development on a firmer footing. Moreover, it also became apparent that a shorter-term approach to economic planning was also required in order to achieve a more efficient allocation of China's limited resources. (CONFIDENTIAL)

29. This led in June 1979 to the adoption of a new three year (1979-1981) program devoted to "readjusting" the economy. As a central feature of this new program, investment is being cut back in favour of consumption, and priority in the allocation of resources is being accorded to agriculture and light industry at the expense of investment in heavy industry. Readjustment, which implies a slowdown in economic growth, involves more realistic and coordinated planning in order to bring investment, output and foreign trade targets more into line with the new set of priorities dictated by economic necessity. At the same time, the Chinese leadership is also engaged in reforming its management system in an

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attempt to raise the overall level of economic efficiency and productivity of labour and capital. (CONFIDENTIAL)

30. The acquisition of Western capital goods, technology and finance is a key element in Chinese plans to improve overall economic efficiency, although the role of these items during the readjustment period is vaguely defined. China's ability to absorb capital imports and rapidly expand capital construction projects is constrained by bottlenecks in key sectors, particularly transportation, energy and construction materials. These constraints not only hamper the country's ability to absorb new resources but also retard expansion in the growth of exports in order to pay for imports.

(CONFIDENTIAL)

31. The economy's performance in 1979 suggests some success has been achieved in altering the system's priorities. The output of both field agriculture and light industry is reported to have shown surprising improvement. If such improvement is real, it would be gratifying for the leadership since it is precisely in these two areas that the system must show improvement if the present regime's economic policies and programs are to succeed. In the event that agriculture and light industry can be expanded quickly, state financial revenues will rise and will provide the means to develop the human and material resources required for growth in heavy industry, science and technology and the defence sector.

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32. Current official comments on economic planning are an attempt to provide a general, if imprecise, program of development for 1981-1985 and to set out what amounts to a limited array of plan targets for 1986-1990. The Chinese realize that they must attempt to produce some coherent outline of development covering the 1980s if expansion is to proceed in a balanced and systematic manner. Such planning will necessarily be tentative inasmuch as the performance of the system this year and next is vulnerable, given the ad hoc direction currently being given the economy by central authorities. China's deep-seated economic problems of management, low levels of technical skills, and "bottleneck" sectors will probably require the introduction of relatively modest and realistic economic plans and targets for the next plan period. (CONFIDENTIAL)

Economic Reforms

33. Chinese leaders are reforming their entire system of economic administration, from central planning organs to low level management, including the introduction of a manageable mix of market forces, such as price, profit and interest on bank loans, in the allocation of resources. Numerous state firms and farms in various parts of the country are being encouraged, as part of controlled experiments, to expand their financial and production responsibilities. In the past, excessively rigid control by bureaucrats of the manufacturing industry in particular has tended to depress the initiative of plant

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managements and reduce productivity. Chinese authorities hope that greater control by local plant managers will have a positive effect on both initiative and productivity. In order to improve the initiative and productivity of the labour force at large, living standards are to be raised by tying wage increases to productivity gains, by building more residential housing, and by increasing food supplies.

(CONFIDENTIAL)

Agriculture

34. Official concern over agriculture's long-term poor performance was a key factor promoting a thorough reassessment of China's developmental effort. Over the past 20 years, China's agricultural growth rate has been far below that of industry and has barely kept ahead of population growth. Although agriculture's share of GNP is probably now not much more than about 25 per cent, fluctuations in agricultural production have had a critical effect on the rest of the economy. Poor harvests, because of their effects on domestic consumption and export opportunities have slowed the pace of national economic development. Recognizing that the basic problem in agriculture is the low level of capital inputs, the leadership has decided to rectify this situation by boosting annual state investment allocations for agriculture. According to the present three-year program, state investment in agriculture is to rise gradually from 11 per cent of the total state investment budget. It is evidently intended that

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the share should rise to between 15 and 20 per cent over the next few years. Larger state investment in agriculture in 1979, and improved incentives for peasants in the form of higher prices for their products, appear to be among the factors which have helped raise farm production. While gross farm output in 1979 was expected to grow by four per cent, the Chinese claim that it has actually risen by more than double this rate. Grain production alone is said to have increased by nine per cent, boosting output to over 332 million metric tons. If Chinese reports are to be believed, grain production in the two year period 1978-1979 has risen by 50 million metric tons, a quantity equal to Canada's total annual grain production. Although grain production has evidently risen significantly in the past two years and greater stress is being placed on increasing the output of oilseeds, cotton and other cash crops, increased grain production remains a basic objective of current farm policy. Underlying this new policy is the hope that through the use of improved incentives, the agricultural sector will be induced to increase output for domestic consumption as well as for export -- an important consideration since farm products currently account for some 33 per cent of the value of total exports.

(CONFIDENTIAL)

35. China's prospects for attaining its agricultural growth targets will depend to a large extent on the rate at which productivity on existing land can be increased. This in

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turn will depend on China's ability to mobilize and organize its resources across economic sectors which supply inputs to agriculture. Greater quantities of fertilizers and pest control chemicals will be needed along with improved seed strains, an enlarged irrigation network and an increase in the level of farm mechanization. However, the incentives now given to increasing the production of cash crops could tend to reduce the growth rate of grain production and require higher levels of grain imports. In addition, rising incomes will increase demand for all agricultural products. Annual foodgrain imports of roughly ten million metric tons might persist well into the 1980s. It is possible that any extra costs of grain imports may be offset somewhat by increased exports of higher value-added agricultural products.

(CONFIDENTIAL)

Industry

36. The present policy of retrenchment, and programs geared to readjusting and restructuring industry, are aimed at reducing investment in costly and in some cases inefficient heavy industrial divisions, including steel and portions of the engineering industry. Agriculture and light industry, which use relatively less capital per unit of output, are to be the chief beneficiaries of these initiatives. A main goal of this shift of investment policy within industry is to develop rapidly projects which can be completed relatively quickly and thus remove bottlenecks. (CONFIDENTIAL)

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37. Light industry, particularly textiles, has been singled out for rapid development. Investment in this relatively labour-intensive sector, which is to be largely financed by local funds, is vital to the development of the Chinese economy. It could help solve China's growing unemployment problem, provide an important market for agricultural products and yield quicker returns than investment in much of the country's capital-intensive heavy industry. Of key importance is the fact that development of light industry will increase the supply of consumer goods for domestic consumption as well as for export. Since light industry generates some 20 per cent of state revenues in the form of tax on profits, and accounts for some 35 per cent of the value of total exports, its expansion could aid in the future financing of industrial development.

(CONFIDENTIAL)

38. Investment in heavy industry was supposed to be reduced to about 47 per cent of total state investments in 1979 compared to roughly 55 per cent in 1978. Heavy industry construction projects that are not assured of required materials and energy supplies were to be scaled down or postponed. Investment in major essential infrastructure and energy projects however are to be given high priority in the allocation of resources. Coal mining, oil production, power, transportation, communications and building materials are all to receive special attention. Chinese officials expected

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industrial output to expand, and production apparently grew by more than eight per cent in 1979 compared to 10 per cent for the Ten Year Plan and 13.5 per cent for 1978. The rate of industrial growth attained in 1979 represents a considerable achievement in view of China's present parlous economic situation. Economic readjustment, in addition to implying a slowdown in economic growth, also implies a move towards an intermediate level of technology which will set the stage for progress into more advanced technology at a latter date. The readjustment will postpone many targets originally outlined in the 1976-1985 Plan to well beyond 1985.

(CONFIDENTIAL)

Foreign Trade

39. The Government's decision to reduce investment in heavy industry in favour of agriculture, light industry and infrastructure development, has altered China's import pattern over the near term. Imports for certain key sectors will continue. For the economy as a whole, however, emphasis is to be given to developing industry by domestic inputs as opposed to improving the industrial base through imports. Future imports of capital equipment are to be better suited to the country's immediate needs. Capital goods for labour-intensive light industry will increase somewhat and imports of plant for steel mills will decrease or will be stretched out over a longer period of time. The bulk of imports of heavy industrial plant and equipment will be directed towards

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"bottleneck" sectors such as infrastructure and energy. The scale of imports will, however, be constrained by the country's ability to absorb new resources and to finance its development program. Although China has lined up some US \$27 billion in credits, financing of such debt in the short- to medium-term would require a rapid growth in foreign exchange earnings from key sectors such as oil. This will be difficult to achieve. During the economic adjustment period China will likely continue to follow a cautious policy regarding the use of existing credit facilities. Preference will probably be accorded the use of long-term concessional loans to finance the import program. China will also probably step up measures to stimulate greater foreign investment, particularly in the area of counter trade arrangements. Japan-PRC trade and financial dealings will likely continue to prosper and remain a key element of China's international economic relations. The low transport and associated costs which reflect the short distances between major economic zones in each country and a long history of economic relations place Japan in a particularly strong competitive position in the China market.

(CONFIDENTIAL)

40. Although the leadership has demonstrated an ability to reassess quickly and to revise China's economic policies, considerable time will be required to put the economy on a firmer footing. While the Chinese have referred to three years of adjustment and four years of development between 1979

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and 1985, the period of adjustment is likely to extend well into the following period of development, during which the Chinese clearly had hoped to achieve rapid expansion of the economy on a broad front. The problems of modernizing China's backward economy are not amenable to rapid solutions. The system is still poor in terms of many of the most elementary components required to build a modern economy. Adequate infrastructure, capital resources, skilled workers and trained management are either lacking or in short supply and are likely to remain so well into the 1980s. The institutional changes proposed under the new policies, which call for decentralization of management, profits from enterprises, and worker incentives, are far-reaching in their implications and expectations and will encounter considerable resistance. The changes proposed and the long lead times required to bring new infrastructure and additional resources into productive operation make it unlikely that the constraints to rapid economic growth can be overcome in the short period of time envisioned by Peking.

(CONFIDENTIAL)

Science, Technology and Education

41. One of the essential components of the modernization program has been the upgrading of academic standards and the quality of scientific research. This has in the past also been an area of considerable controversy since it touches on one of the more conspicuous aspects of radical Maoism. The debate over "red" versus "expert" (that is, the role of

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ideology and the Party in China's economic development) has clearly been resolved in favour of the latter largely by redefining the nature of commendable political conduct. As a result, professional considerations are now given priority in China's attempt to develop a competent corps of scientists, technicians and teachers. For their part, China's scientists and technicians, at a scientific congress held in March 1980, have called for emphasis on the need to make S&T education popular and to publicize the role scientists and technicians have as the "key and central link" in the modernization program. (CONFIDENTIAL)

42. The modernization task is a formidable one. The Cultural Revolution not only destroyed much of what had been built up during the preceding two decades, it also left China saddled with a generation whose formal education had been seriously disrupted and whose technical training is particularly weak. As a consequence, the base upon which China is obliged to rebuild its education system is itself seriously deficient, particularly at the secondary level. There are relatively few qualified teachers, a lack of schools and a shortage of books and equipment. In addition, the curriculum has yet to be adapted to meet the requirements of the modernization program. With the reintroduction of entrance examinations, the situation at the university level is somewhat brighter. Thirty-five new institutions of higher learning have been established since

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1978, and now total 633, with an enrolment of 10.2 million. The process of raising the education level is long and involved and it will be some time before the benefits are felt. In order to move ahead more quickly, China has over the past two years sent close to 1800 officially-sponsored students abroad, mainly to universities in the West and Japan, for advanced studies. (Approximately 200 are currently in Canada.) A large number of privately sponsored students are also studying abroad. In addition, numerous PRC delegations have visited Canada and other countries to investigate industrial development, technical training facilities and methods and other matters related to modernization. Despite Peking's commitment to rapidly raising its academic standards and the quality of its scientific training and research, it is clear that weaknesses in this sector will continue for some time to be a factor restraining economic development.

(SECRET)

Military

43. In its war with Vietnam in February-March 1979, the Chinese People's Liberation Army (PLA) fought a major, though short and limited, war on foreign soil for the first time in nearly three decades. While the conflict failed to produce decisive strategic results, the PLA apparently accomplished most of its limited goals without suffering any serious tactical reversals. In doing so it demonstrated a number of strengths, including the ability to move a large number of

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troops fairly quickly. Notable weaknesses, however, included "poor low-level tactical coordination of infantry, armour and artillery. In addition, weapons and equipment were found wanting in some instances. The lessons learned from the war will not be lost on the PLA; nevertheless, the Chinese leadership has decided against a large-scale military equipment modernization program for the present, and has relegated defence to fourth place in the order of priority. Thus a number of costly corrective measures will be deferred until the economy improves. (SECRET)

44. Individual academic, technical, command and staff training is being improved and expanded, although this trend pre-dates the China-Vietnamese hostilities. Field training will certainly improve, becoming more realistic and stressing better cooperation of arms of service on the battlefield. To compensate for their lack of experience in sophisticated mobile, mechanized war, the Chinese are drawing on foreign military doctrine and experience. While training improvements will not yield early fruit, in the long run they should result in a better understanding of the modern mechanized battlefield. (CONFIDENTIAL)

45. The increased stress on military professionalism will be at the expense of political training. Even political commissars will, as part of their qualifications, be expected to display greater military skills than in the past. Despite this shift in emphasis away from politics, however, the PLA is

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still expected to adhere closely to the Party line. The thrust is thus for an army which is more professional but no less loyal to the Party. Aside from its purely professional duties, the PLA will be expected to provide support in other areas of modernization and will continue to be used for a variety of economic tasks. As well, some defence industries will continue to produce non-military goods.

(CONFIDENTIAL)

46. The improvement in the professional skills of the PLA, coupled with detailed technical knowledge of foreign military equipment, will put the PLA in a better position to set weapons development priorities, and to decide what foreign equipment is best to buy. It is not, however, as yet in this position: scarcity of resources and lack of tactical and technical knowledge will oblige Peking to be cautious in its defence equipment programs. Thus rapid, widespread and costly weapons and equipment modernization, is not anticipated at this time. Major foreign arms purchases, in particular, will be limited to a few critically required items, such as anti-tank guided missiles.

(SECRET)

47. The Chinese appetite for technical data and specimen items will not diminish, their ultimate objectives likely being the acquisition of advanced technology and licenced production rights. This is reflected in the agreement whereby the British Spey aircraft engine is currently being manufactured in China, and recently in a contract signed with

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Aerospatiale of France for the licensed production of the Dauphin helicopter. (SECRET)

48. New emphasis is being given to domestic research, development and production. In the near term, this should result in the series production of a new surface-to-air missile, a fighter aircraft and perhaps a modern tank. Quantities are expected to be limited for some time, however.

(SECRET)

49. Chinese strategic forces are experiencing significant (though quantitatively limited) improvements. The CSS-X-4 ICBM, two of which were launched to the South Pacific in May, 1980 will probably become operational in late 1980 or early 1981. Two silos for this ICBM are in the late stages of construction. When operational the ICBM will be capable of striking targets on a near-global basis. The next generation of Chinese ICBMs may be planned for late 1980s deployment. The PRC is probably also constructing one, and perhaps two, nuclear ballistic missile submarines (SSBN). The associated nuclear missile (SLBM) is still in the early stages of development, however, and the entire system is not expected to be operational until the mid-1980s. These weapons systems will likely be targetted primarily against the USSR, although probably originally conceived also as a deterrent to the USA. They will continue to have a capability, albeit limited, against North America. (SECRET)

50. Until training improvements take hold and new weapons

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are introduced in quantity, Chinese conventional strategy, like its nuclear strategy, is likely to remain defensive in nature, notwithstanding the limited incursion into Vietnam. The defence strategy of "People's War" seeks advantage from China's two greatest military assets, manpower and geography. By "luring the enemy deep into China" in circumstances of massive invasion, these assets would increasingly offset an enemy's technical superiority, and therefore increase enemy vulnerability to PLA counter-attack, although there remains the difficult problem of defending key border industrial centres against limited enemy attacks. To deal with this danger, new weapons and equipment may be allocated at first to special formations in order to make them sufficiently powerful and mobile and thus better able to defend forward of these centres. The currently favoured expression "People's War under modern conditions", seeks to describe this and other selective modernizations, and is no doubt seen as preferable to total renunciation of the People's War strategy, which would logically require in its place an economically crippling crash modernization program. (CONFIDENTIAL)

51. While a number of senior PLA leaders may disagree with the low priority accorded military modernization, there is no direct evidence to suggest serious civil-military differences on this issue. The concurrent appointment of a number of leading PLA figures to senior positions in the Party and Government ensures that the military point of view is given a

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hearing at the highest level. The leadership supports its policy with the argument that extensive military modernization is impossible without a firm economic base, and that (contrary to earlier statements) inevitable world war is not necessarily imminent. (CONFIDENTIAL)

52. At present, there is a significant gap between the capabilities of the PLA and the Soviet and Western armed forces. There is little likelihood this gap will be narrowed appreciably, let alone closed, before the end of this century, although strong economic improvement would no doubt hasten military modernization. Nevertheless, the costs and problems are immense, and will probably take at least a generation of sustained effort to overcome. (CONFIDENTIAL)

Foreign Policy

53. China's foreign policy continues to be based on its deeply rooted fear and mistrust of the Soviet Union. In this regard it has not deviated significantly from the orthodox Maoist line. Domestic political revisions have all but divested the Sino-Soviet dispute of its ideological content while placing in clearer relief a conflict centred on more traditional concerns of national interest and power. Although such an ideological derivation is no longer emphasized, developments in Chinese foreign policy over the past two years can be viewed in part as an extension of Mao Zedong's "theory of three worlds". First introduced in the mid-70s, Mao's "three worlds" theory was essentially a rationalization of

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China's preoccupation with the Soviet threat in that it permitted cooperation with "lesser enemies" including the USA (which along with the USSR constitutes the First World), against what Peking characterizes as "Soviet global hegemonism". To counter Moscow's influence, Peking has advocated a "united front of all Third (developing) World and Second (industrialized) World countries."

(CONFIDENTIAL)

54. There has been little recent reference to "lesser enemies" while calls for a "united front" have been replaced by general warnings of Soviet international intentions. Chinese recollections of past grievances against the USSR, coupled with a perception of threatening Soviet actions in nearby countries, and elsewhere in the world, encouraged Peking to develop and strengthen bonds with a number of other countries including Japan the United States and countries of Western Europe. Rapprochement with Japan, begun in 1972, culminated in a major new link (in August 1978) with agreement on a Peace and Friendship Treaty. This was followed by a development of fundamental importance, the normalization of relations with the United States. Hua Guofeng's 1979 visit to Western Europe served to highlight mutual strategic concerns while, closer to home, common opposition to Moscow-backed Vietnamese expansionism in Indochina has enhanced Peking's standing with its non-Communist, Southeast Asian neighbours (although suspicion of long-term PRC

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intentions remains). Similarly, China is currently attempting to benefit from India's concern over the presence of Soviet troops in Afghanistan by proposing improved bilateral relations. In the wake of the USSR's move into Afghanistan and the potential threat posed to Iran and Pakistan, Peking's persistent warnings about the expansionist nature of Soviet foreign policy and the inevitability of global conflict have been reinforced. China's declared strategic objective, however, is to secure the prolonged period of international peace and stability required to carry out its modernization program, something it insists can only be assured by a strong and forcible response to "Soviet expansionism" such as its "punitive" attack on Vietnam in 1979. (CONFIDENTIAL)

55. Another important element in PRC foreign policy is its desire to expand economic and technical relations with the industrialized world in support of its modernization programs. To this end it has attempted to enhance outside perceptions of China as a stable, moderate and reliable member of the international community. Of particular significance has been China's recent accession to membership in both the International Monetary Fund and the World Bank. Peking has also displayed an degree of flexibility on the long-contentious issue of Taiwan (although eventual reunification with the mainland remains the ultimate goal). This approach has clearly taken priority over the international revolutionary messianism of earlier times. The

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Chinese Communist Party's moderate stance has been reflected in the re-establishment of Party relations with its Yugoslav counterpart and more recently with the Italian Communist Party. China has over the past two years hosted a significantly increased number of commercial and scientific delegations from abroad and has sent an equally large number of groups to other countries to study industrial and technical facilities and methods. Peking's commitment to modernization will continue for the foreseeable future to have an ameliorating influence on its relations with the industrialized world. On the other hand, China's relations with the Third World have clearly acquired a lower priority.

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56. In April 1979, Peking gave notice of its intention to terminate its 30-year Treaty of Friendship and Cooperation with the Soviet Union. At the same time, however, it called for bilateral talks "to resolve outstanding differences and improve relations". These talks got under way in Moscow in September but were postponed on Peking's initiative following the Soviet invasion of Afghanistan. China has recently indicated an interest in resumed negotiations and there is a possibility this could take place despite the continuing strident propaganda line followed by each side against the other. Renewed talks could conceivably lead to a limited improvement in bilateral relations. Both communist powers share an interest in formal arrangements governing their

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relations with foreign countries and will at some point be seeking a replacement for the now-lapsed 1950 Treaty of Cooperation. Such an agreement could help to reduce the possibility of war between them and could provide a basis for expanded economic exchanges. Peking might also view it as a means of strengthening its leverage in dealings with the West. There is, however, virtually no likelihood of a more fundamental Sino-Soviet rapprochement in the foreseeable future. Historical, racial, and territorial factors, as well as political and ideological considerations, are at the root of contemporary differences and disputes between the Soviet Union and China. Current perceptions of its national interests seem unlikely to lead China towards sustained or substantive reconciliation, although it might well adopt a very different tactical approach to its relations with the USSR, if it perceived any major shift in current USA policy towards either itself or the USSR. Peking is also aware that the economic modernization course it has set itself will be better served by good relations with the West than with the USSR. Deng Xiaoping confirmed during a recent interview that China's relations with the West, and in particular with the United States, were based on long-term strategic considerations and should not be viewed as simply a tactical manoeuvre.

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