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CENTRAL INTELLIGENCE AGENCY

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15 June 1951

SUBJECT: NIE-32: EFFECTS OF OPERATIONS IN KOREA ON  
COMMUNIST CHINA (Discussion as revised  
by IAC representatives at meetings on  
8 and 15 June)

DISCUSSION

I. EFFECTS ON CHINESE COMMUNIST POLITICAL STABILITY

6. We have no reliable evidence that reverses in the Korean war have created a rift among the higher Chinese Communist political and military leaders. Rumors suggest, however, that dissatisfaction with the course of events in Korea may have accentuated differences of view that already existed among them. There is fairly reliable evidence that military and political figures of secondary importance have become uneasy over China's involvement in Korea and its isolation from the West. On the other hand, several factors have tended to insure party solidarity, such as the lifelong isolation from non-Communist Western influences and the common ideological conditioning of most Chinese Communist leaders, the mutual interest

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they have in maintaining a united front among themselves and with the Soviet Union and the strength of party discipline.

7. The initial Chinese popular reaction to intervention in Korea appears to have been one of pride in victory, and even the later holding actions were viewed as triumphs when compared with the long series of Chinese humiliations in the past. As the war has gone on, popular dissatisfaction with the regime, already in evidence before the struggle began, has been intensified by heavier taxes and levies, <sup>in kind</sup> increased conscription and militia duties imposed on an already war-weary people, purges, further disruption of the traditional Chinese family system, and other harsh repressive measures. In addition, there is evidence from reliable sources that among certain of the more educated groups, including some ardent supporters of the regime, misgivings have developed about the regime's relations with the USSR and the USSR's intentions with respect to China and Korea.

8. The decline of popular support and the apparent necessity to impose greater restrictions and demands upon the home front, have resulted in the regime's speeding up its efforts to consolidate further its control of the country. Terroristic measures to suppress "counter-revolutionary activity" have been reinforced by

- 2 -

~~TOP SECRET~~

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TOP SECRET

positive steps to strengthen the public security system, to centralize and expand militia units, to increase membership in Communist-directed "people's organization," and thus supplant the conventional organization of Chinese society. The regime has also been required and probably will have to continue to maintain large military forces within China to assist in preserving order. While the control measures have thus far been successful in checking the development of an effective opposition, their harshness has lost to the regime the willing cooperation of at least some community leaders, educators, engineers, and others whose prestige, training, and technical skills the regime has regarded as essential to the furtherance of longer range political and economic planning. In the long run, these developments might have serious effects on the stability of the regime.

## II. ECONOMIC EFFECTS OF THE KOREAN WAR

9. There is insufficient evidence upon which to base a complete estimate of the effect of the Korean conflict on the Chinese Communist economy, which, though it has to support an urban population of 60 million, is undeveloped industrially and preponderantly agrarian. It is entirely possible that any such effect would not be apparent within as short a period as

- 3 -

~~TOP SECRET~~

CONFIDENTIAL

TOP SECRET

has elapsed and it is improbable that satisfactory statistical evidence of such effects would be quickly or readily available to us.

10. Although such evidence as we have does not suggest that the Korean conflict has as yet posed a critical threat to the economic stability of the Chinese Communist regime, the Korean war has <sup>forced</sup> ~~placed~~ the Chinese Communist <sup>to modify their program of long-</sup> economy on a war footing, <sup>range & economic development and to limit their</sup> has subjected the nation to economic sanctions imposed by the Western world, and is likely to increase the economic difficulties of the government during the next year.

*within usual inflation*

11. It seems almost certain that the demands of the Korean war have limited the Peiping regime's reconstruction efforts to those projects requiring only the investment of labor, such as the building of dykes, irrigation systems, air fields, and roads.

12. Although the regime has been successful in preventing the prices of domestic goods from rising sharply, inflationary pressures have built up since mid-1950, and Western trade restrictions and rising world prices have resulted in precipitous price rises for certain imported strategic raw materials and manufactured products.

- 4 -

~~TOP SECRET~~ **CONFIDENTIAL**

TOP SECRET

13. The industrial sector of the Chinese Communist's economy operates virtually on a day-to-day basis, both in terms of raw materials and plant maintenance. Although foreign trade with the West remained at high levels during early 1951, there have been shortages for some months of petroleum for civilian use and of certain fairly important specialized industrial items. Very recently as a result of raw cotton shortages textile mills have shut down. The Communists admit that these shutdowns are related to import difficulties as well as to the failure of the cotton collection program in China itself.

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14. Announced industrial output goals for 1951, <sup>however</sup> indicate only modest increases over 1950, <sup>1950</sup> during which industrial output expanded greatly <sup>mainly in military</sup> except in the case of purely civilian-type goods. In spite of reports of plant dispersals and raw material shortages, the munitions industry <sup>is</sup> believed to be producing at capacity and to be expanding.

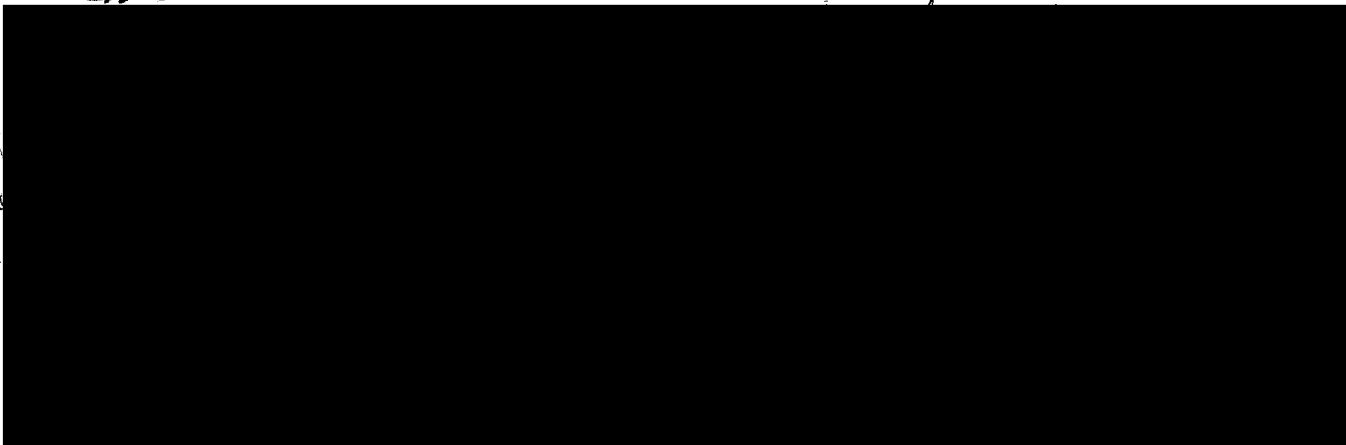
15. During the large initial troop movements northeastward in the summer and autumn of 1950, there were <sup>serious</sup> interruptions in the rail movement of non-military goods throughout China. Since that time, although military traffic has presumably interfered with the general distribution of goods in China, there have been <sup>no</sup> indications that <sup>no</sup> the movement of essential non-military items <sup>particularly in Manchuria, and although</sup> has been interrupted. <sup>individual shipments</sup> <sup>There is no evidence available</sup>

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16. The Korean war appears to have had little effect thus far on the over-all food situation in China, and present indications are that the food crop in 1951, despite the withdrawal of draft animals and manpower, will be at least as high as in 1950.

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