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PROBABLE DEVELOPMENTS IN TAIWAN THROUGH MID-1956

Submitted by the

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The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 14 September 1954. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, G-2, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant to the Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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PROBABLE DEVELOPMENTS IN TAIWAN THROUGH MID-1956

THE PROBLEM

To estimate probable developments with respect to the strength, stability, effectiveness, and policies of the National Government of the Republic of China through mid-1956.

ASSUMPTION

That US policy with respect to the National Government of the Republic of China and the scope and nature of US aid programs remain substantially unchanged during the period of this estimate.

CONCLUSIONS

1. The future fortunes of the Chinese National Government will be determined to a very large extent by US policy, and will depend increasingly upon the scale and character of US aid and support.
2. Should US aid continue at approximately present levels, the prospects of the National Government for maintaining domestic stability between now and mid-1956 appear good. Communist influence and subversion will probably continue to be vigorously suppressed, although sporadic cases of Communist infiltration and of defections may occur, particularly as time passes and there is growing disillusionment over prospects of a return to the mainland. Nationalist leadership will probably not succeed in creating any new and dynamic political program.
3. Although there will be some improvements, the fundamental economic weaknesses of Taiwan will probably become more acute by mid-1956. Because of a rising population and a leveling off of current expansion of industrial and agricultural production, Nationalist China by mid-1956 will probably be more dependent than at present upon US economic aid for its continued existence.
4. A return to the mainland will continue to be the central objective of the National Government and the focus of its foreign and domestic policies. The National Government will continue to believe that US support for such a return will not be likely unless and until other circumstances impel the US to engage Communist China or the Communist bloc in a major war. Nationalist leadership will almost certainly not become reconciled to an insular future, nor will it concentrate principally on the development of Taiwan.

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5. The National Government will continue to seek long-range US commitments. It probably will be generally responsive to US advice on economic and administrative matters, but will continue to ignore or circumvent certain types of military changes suggested by the US.

6. The Chinese Nationalist armed forces remain an important source of non-Communist military strength in the Far East. During the period of this estimate their combat capabilities will appreciably improve. However, they will remain greatly outweighed by those of Soviet-aided Communist China. Outside logistic, air, and naval support will continue to be required to defend Taiwan or the Pescadores against full-scale Communist invasion.

7. Nationalist China's international position will continue gradually to deteriorate. A few foreign states will probably recognize the Chinese Communist regime during the period of this estimate, and Nationalist China's right to membership in international bodies, including the UN, will come under increasingly serious challenge. In the face of a deteriorating international position and unimproved prospects for return to the mainland, the National Government's task of maintaining its own morale and that of its armed forces and the former mainlanders on Taiwan will become increasingly difficult.

8. Heavy Communist pressure against Taiwan, including threats and military demonstrations, will almost certainly occur, as a means of dividing the US and

other non-Communist states, furnishing the Peiping regime with a means of attracting additional domestic support, and, primarily, testing US intentions and discouraging long-range US commitments to the National Government. We believe that the Chinese Communists will not invade Taiwan or the Pescadores in force, because they probably believe that such actions would lead to war with the US, and that over the long run they can further their objectives with respect to the Chinese Nationalists by means not involving war. However, if the Chinese Communists should come to believe in the course of their tests of US intentions or otherwise that the US would not in fact defend Taiwan and the Pescadores, they would probably attempt to take over Taiwan by force.

9. Twelve million overseas Chinese are one of the few sources from which the Chinese Nationalists might draw additional support. However, little significantly increased support from among the overseas Chinese will be forthcoming during the period of this estimate, largely because of the probable relative power of Communist China and Nationalist China during this period.

10. If, beyond the period of this estimate, the adverse trends described above are not reversed, the strength and international position of the Republic of China will probably deteriorate, even assuming a continuation of US support at approximately present levels.

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DISCUSSION

I. PRESENT SITUATION

11. In many respects, the National Government of the Republic of China is an anomaly. It continues to exist only because of US support. Its present degree of political stability, economic well-being, and international stature is chiefly due not to its own strength and effort, but to the fact that the US defends it, provides it with economic support, and sustains it in the world's councils.

12. The National Government continues to be acknowledged by a majority of the states of the world as the legal government of China, yet it controls only a few islands and its international position is being eroded by the growing power of Communist China. Nationalist China is an armed camp, maintaining a disproportionately large military establishment and focusing its resources and its purpose on an invasion of the continent. Yet its economy is incapable of supporting this military establishment, and its armed forces are not capable by themselves of undertaking the desired invasion or even successfully defending the territories they now hold. There is no immediately visible prospect that its hope for an early return to the mainland will materialize; meanwhile its armed forces grow older day by day. It is supported by the US, yet the US has not to date underwritten its long-range aspirations. It is staunchly anti-Communist, yet it is an important source of dissension in the non-Communist world.

13. The National Government is superimposed upon a native Taiwanese population from which its interests often diverge, and which outnumbers the mainlanders eight million to two million. The National Government claims to speak for the Chinese people everywhere, yet its leadership and political programs have not attracted significant support from among mainland or overseas Chinese, and the Taiwanese, themselves of Chinese descent, have no effective voice in the determination of national policies.

14. Within the context of these considerations and due in large measure to US aid and advice, certain improvements on Taiwan have been achieved. Taiwan's economy, though weak, is in better condition than at any time since 1949. Improvements have been made in political stability, administrative efficiency, and Chinese-Taiwanese relations. Nationalist China is making generally effective use of US military aid, and steady improvement is being made in the capabilities of its armed forces. Most importantly, Nationalist China's continued existence constitutes a constant military threat to Communist China, and contests the Peiping regime's claims to legitimacy.

Nationalist China's Objectives and Strategy

15. Nationalist China's primary objective is to return to the mainland and recover power from the Chinese Communist regime. Nationalist leaders feel that to renounce this objective would be to accept as final and absolute the destruction of Chinese society and culture by alien and barbarian forces. This objective underlies all of Nationalist China's policy considerations and behavior, Generalissimo Chiang Kai-shek is himself dedicated to this aim, and it is held in greater or lesser measure by all members of the National Government. However, though continuing to call for an early invasion, Chiang and his government probably consider that US support for a return to the mainland is not likely unless and until other circumstances impel the US to engage Communist China or the Communist bloc in a major war.

16. Until such time as an invasion of the mainland can be realized, the principal interim objectives governing the domestic and foreign policies of Nationalist China appear to be: to preserve its existence and its identity as the legal government of China; to develop a Chinese state on Taiwan which will become an increasingly strong and attractive anti-Communist base; to stimulate and participate in

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collective defense pact arrangements in Asia, and to obtain a long-term and binding commitment of US support.

17. Chiang and the Chinese Government have long held that the mainland was lost largely because US support was withdrawn from them. They have been dissatisfied with what they believe to be a too restricted mission for the US/MAAG on Taiwan, and too limited US commitments to Taiwan. Over the last year these dissatisfactions on the part of the Chinese Government, as it has witnessed Asian developments, have almost certainly created a sense of uncertainty as to ultimate US intentions with respect to Taiwan. In the Chinese view, the US should give more concrete evidence of long-term support for China than it has done thus far, i.e., it should conclude a mutual defense pact.

18. To this end, the National Government is currently endeavoring to be included in a regional security system in the Far East. It strongly fears that any system excluding Nationalist China would compete with Taiwan for US military aid.

19. The 12 million overseas Chinese are one of the few sources from which the Chinese Nationalists might draw additional support. However, Nationalist China's efforts to gain increased support from among them have thus far met with only indifferent results. Considerable revulsion against Communist China has occurred among the overseas Chinese in recent years, but this increased anti-Communist sentiment has not to date resulted in any equivalent or even substantial growth in support for the Nationalist cause. Many overseas Chinese are disillusioned with Communist China, yet they continue to view the National Government as defeated and discredited, as not offering any significantly new and attractive political program, and as very unlikely to re-establish itself on the continent. The overseas Chinese are watching the fortunes of Taipei and Peiping, and for the most part have not as yet overtly committed themselves to either camp.

20. Chinese Nationalist prospects for gaining support in the international field have been

adversely affected by world trends and events of the past year. In particular, the growth in Chinese Communist power and prestige and the growing sentiment in Asia and Europe for dealing with the Peiping regime have served still further to isolate the National Government.

Internal Situation

21. The Nationalist leaders continue to focus their energies upon a return to the mainland, and accordingly consider that their military and political policies should be designed not to achieve the greatest immediate efficiency or to attract wide popular support, but to prepare for eventual extension of Nationalist control to all China. They also realize that Nationalist China's own capabilities are too modest to accomplish a return to the mainland and that US support and participation will be necessary, but they are uncertain as to whether the US intends ultimately to underwrite such an undertaking, and in addition are uncertain as to what role the US desires Nationalist China to play in Asia in the meantime. As a result, Taipei appears to be meeting its many problems by such compromises and interim policies as it considers best designed to satisfy present requirements, without sacrificing future possibilities.

22. *Political Situation.* The Chinese national constitution, adopted in 1946, provides for a representative republican government. In theory, the highest government body is the popularly elected, 3,000-member National Assembly. This body does not legislate but meets at least once every six years to elect the President and Vice President. It also has the power to amend the constitution. In practice, the National Assembly has served as a rubberstamp for the Nationalist Party leadership. Normal functions of government are vested by the constitution in the five councils or Yuan (Legislative, Executive, Judicial, Control, and Examination) which comprise the Central Government.

23. However, Nationalist China is in essence a one-party state; authority is centralized in the hands of a few, and ultimate political power resides in the hands of the leader of

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the Kuomintang Party and head of the government, Chiang Kai-shek. He continues to dominate Nationalist China through his legal authority, his prestige, and the personal loyalty of key personages in the government.

24. The Generalissimo dominates the political scene not so much through direct fiat as through indirection and the skillful balancing of personalities and cliques within the government. His traditional and skillful practice of divide-and-rule is probably responsible in large measure for Taiwan's present degree of political stability. At the same time Chiang's methods are largely responsible for such continuing Nationalist shortcomings as the retention of incompetents in high positions, a general failure to delegate authority to subordinate political and military officials, and factionalism within the ruling circles.

25. The struggle among traditional mainland factions for political influence has persisted, but political rivalry centers at present chiefly around Vice President Ch'en Ch'eng and the Generalissimo's Moscow-educated elder son, Chiang Ching-kuo. The power of these two figures is believed to be approximately equal at the present time. Chiang Kai-shek has thus far appeared to keep the influence of his son and of Ch'en in balance.

26. Antipathy is not strong at present between the native Taiwanese and the Chinese mainlanders on Taiwan. Earlier native bitterness has abated, owing in part to the improvement of Nationalist administration, some increase in Taiwanese participation in local government, and a general lack of sympathy among the native islanders for Communist China. However, Taiwanese resentments remain. In short, the native islanders tolerate the National Government and wish it every success in its efforts to return to the mainland.

27. Within the foregoing limitations, the National Government has made administrative and political advances on Taiwan. Communist activity and influence have been reduced to negligible proportions. With US assistance and advice, there has been some degree of progress in expanding public services, improving educational opportunities, simplifying government structure, expanding

local self-government, and lessening corruption. Police actions have grown less arbitrary, and court procedures have slowly improved. The Kuomintang Party has cleansed itself of many unreliable elements, has broadened its popular base, and has become more responsive to public opinion. Some freedom of expression is permitted, provided it is circumspect in its treatment of fundamental policies and key officials.

28. *Economic Situation.* Owing to wartime and postwar dislocations, Taiwan no longer has a viable economy. Between 1895 and 1940 the Japanese integrated the Taiwanese economy with that of Japan and raised the productivity of the island in selected economic sectors to a high level through large-scale investment programs. This process of economic expansion was interrupted between 1940 and 1945 as a result of wartime destruction and military priorities. Since 1945, economic development of the island has been largely neglected because of the National Government's preoccupation with political and military affairs. At the same time, the population, which had doubled between 1895 and 1940, increased by 75 percent between 1940 and 1954, partly because of a high annual natural increase, and partly because of an influx of two million mainland Chinese. With little rise in total output during this latter period, per capita output has declined sharply, and resistance by the Taiwanese population to reductions in the standard of living has greatly limited the margin of total output which can be mobilized for nonconsumption purposes. Gross investment has been little more than adequate for replacement capital and clearly insufficient to arrest the long-term decline in productivity.

29. Taiwan's economy is basically agrarian, with nearly 60 percent of the population engaged in agriculture, while only about five percent are engaged in industry. About two million acres are under cultivation of which 62 percent is irrigated, and the farm land is close to its cultivable and irrigable limits. The prospects for agricultural expansion are therefore limited and lie primarily in the development of more intensive techniques of

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cultivation. Undeveloped resources outside of agriculture are also limited. The sparsely inhabited, mountainous interior contains some potential timber and grazing resources, and the waters around Taiwan contain excellent untapped fishing resources. Known mineral resources are meager, although coal production meets the island's current needs and could be expanded to support a growth in industry. Water power potential is considerable, and Formosa could greatly expand its hydroelectric facilities. The development of any of these resources, however, would require heavy initial investments.

30. The National Government has not seriously attacked its long-term economic problems, partly because of its preoccupation with immediate problems and partly because of its unwillingness to accept the prospect of a long exile on Taiwan. There has been no real attempt to institute a program of economic expansion whether by state or private interest. Government enterprises, which account for two-thirds of all activity in industry, mining, and transport, have in many instances operated at a loss, even though subsidized by the government, because these enterprises have padded their payrolls to provide employment for mainland refugees. Moreover, they have not developed uniform and reliable accounting techniques which would establish standards of efficiency and productivity. The government itself has failed to maintain reliable and comprehensive compilations of resource data on which to base a sound program of economic expansion. Domestic private investors have received no real encouragement, while foreign private investment has been limited by legal provisions, which discriminate against and severely restrict the activities of foreign firms. Moreover, in its efforts to control inflationary pressures the government has followed financial policies which have tended to decrease production. Export industries have been hampered by the government's maintenance of an artificially high exchange rate. The prices of farm products have also been held at an artificially low level in order to limit the rise in

the urban cost of living and to hold down raw material costs. These policies have discouraged investment in agriculture and have reduced farm marketing. Increased farm consumption of rice is mainly responsible for the current low level of export surpluses despite record crops.¹

31. In spite of these shortcomings, the economic situation, with US assistance,² has substantially improved, as compared with the chaos of 1949. Between 1949 and 1953 industrial output increased from 74 percent to 140 percent of the 1941 level, while agricultural output rose from less than 80 percent to 93 percent of the 1935-1939 level. Effective budgetary controls have halted the growth in government expenditures and permitted a reduction of budgetary deficits, even though government receipts exclusive of US aid did not rise in real terms between 1950 and 1953. With the diversion of the increased output to consumption and the reduction of budgetary deficits, inflationary pressures have been eased. Recent Nationalist foreign investment legislation, and pending legislation reducing business income taxes may increase production and stimulate foreign and domestic capital investment in industrial undertakings on Taiwan.

<u>¹ Exports</u>		<u>1938</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
(f.o.b.) Million US\$		<u>130</u>	<u>93</u>	<u>93</u>	<u>120</u>	<u>130</u>
Sugar	" "	54	74	50	70	90
Rice	" "	36	3	15	23	11
Tea	" "	3	3	7	6	7
<u>Imports</u> (c.i.f.)	" "	<u>104</u>	<u>132</u>	<u>151</u>	<u>222</u>	<u>199</u>
US-financed nonmilitary aid goods	" "		19	61	92	83
<u>Trade balance</u>	" "	<u>26</u>	<u>-39</u>	<u>-58</u>	<u>-102</u>	<u>-69</u>

Foreign exchange earnings, January-May 1954, were five percent below earnings in the corresponding period of 1953.

² Deliveries of US aid goods, exclusive of military supplies, in 1953 totalled US \$83 million, amounting to 38 percent of Taiwan's receipts of goods and services from abroad, and, if converted at the average black market foreign exchange rate, equalling 62 percent of the net revenues of all levels of government.

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Military Situation

32. *Army.* The present total strength of the Nationalist ground forces is 422,000, organized as follows:

Ministry of National Defense (H. Q. Staff)	32,000
Combined Service Force (a separate service for logistical support)	45,000
Combat Forces	345,000
eight corps (24 infantry divs.)	280,000
armored units (2 armored divs.)	23,000
fortress commands	4,000
officer combat regiments	15,000
in training	15,000
Defense Command H. Q.	4,000
GHQ troops	4,000
TOTAL	422,000

However, about 17 percent of the above combat forces are unfit for duty, thus leaving about 285,000 effective combat troops.

33. The army's effectiveness is impaired by a failure of the highest command echelons to delegate authority and by a political officer system which interferes with command functions but has not resulted in infusing a great amount of political zeal in the army. The MAAG is attempting to overcome these problems through a gradual reorganization of army forces, instruction in US military staff methods, and new agreements designed to modify the functions and operation of the political officers. The MAAG's task in this respect is difficult, however, for these proposed changes impinge upon certain of President Chiang's most strongly held desires: to maintain a tight grip on the army command, not to delegate authority, and to maintain a political officer system outside of the normal chain of command charged with the duties of political indoctrination, surveillance, and enforcing loyalty to himself.

34. The army is also hampered by an ineffective logistical organization which at present would be unable to provide continuing support to the fighting units if there were an invasion of Taiwan. The reorganization now in process includes measures designed to take control of supplies in the field away from the Combined Service Forces, long the most inept branch of the military establishment, and give

it to the army commanders. MAAG is also attempting to overcome another major problem, that of static and unsound Nationalist concepts for the defense of Taiwan.

35. An increasingly important problem facing the Nationalist Army is that of manpower. There is a continuing personnel shortage in combat units, even though almost 35,000 Chinese troops from Korea, Indochina, and Burma have been integrated into the army in the past year. Because the Nationalists have created an army force base larger than they can maintain under their present manpower system, most combat units are greatly understrength. The army is essentially static, with little influx of young men, and little or no present provision for enlistments or conscription.

36. The principal reservoir of manpower is the native Taiwanese population. Twelve to fourteen thousand Taiwanese were drafted in 1951 and served for two years, but no further increments were conscripted. Instead, a short-term reserve training program was instituted. To date, some 70,000 young men, about 85 percent of whom are Taiwanese, have been given this four months' training. The Taiwanese youths have demonstrated a willingness to serve and an aptitude for certain technical duties. However, their training has been largely superficial, and very few have been absorbed into the regular forces or developed as NCO's. The National Government's reluctance to make fuller military use of Taiwanese manpower is probably due to a number of factors: a certain distrust of the native populations; unwillingness to attempt to finance more than the total manpower presently carried on the military establishment rolls; reluctance, for political and military reasons, to retire overage, disabled or ineffective personnel and thus make room for Taiwanese youth; and uncertainty as to the Nationalist military and political future. Thus, while the National Government continues its present manpower policies, the attrition of age goes on unchecked.

37. Despite the foregoing limitations, progress is being achieved in raising the level of combat efficiency of the Nationalist Army.

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Leadership at the lower levels is improving steadily. Units up to and including regimental size are well organized and generally well trained. All infantry units have completed exercises at regimental level; some have received training at division level; and a few have had amphibious, mountain, or other specialized training. The troops are well-equipped with small arms (excepting carbines) and crew-served weapons, and are capable of using them effectively. Troop morale is considered satisfactory. Based on status of personnel, equipment, training, and quality of leadership, MAAG rates infantry units at approximately 50 percent combat effective.

38. *Navy.* The personnel strength of the Nationalist naval establishment totals about 42,920:

Navy		27,925
officers	7,325 of whom 1,900 are afloat	
enlisted men	20,600 of whom 12,000 are afloat	
Marine Corps (organized in two brigades and a security regiment)		14,995
officers	1,895	
enlisted men	13,100	
TOTAL		42,920

The navy includes three destroyers (two ex-US, one ex-Japanese), six destroyer escorts, and 38 other patrol-type vessels, nine mine vessels, 35 amphibious vessels, and 18 auxiliaries — all of which are active. There is no naval air arm, nor is there any indication that one will be created in the near future.

39. The navy's operating forces do not carry out their assignments effectively, shipboard maintenance is neglected, and the Nationalist naval planners continue to ignore the importance of practical training, particularly underway training. With the exception of the destroyer types, the navy's general state of training is fair to poor by USN standards. Most importantly, the Nationalist Navy's effectiveness has been impaired by poor leadership. Nationalist personnel policies with re-

spect to the navy have resulted in the promotion of incompetents and the frequent by-passing of the chain of command. As a result, the lack of responsibility and authority hamstring the navy at all levels, and morale is only fair.

40. Nevertheless, improvements in the navy's efficiency have been made. The navy is presently superior in number, and in quality and type of ships, to the Chinese Communist Navy. It also has certain capabilities such as ocean patrol and surface interception, not possessed by the Chinese Communist Navy.³ It has displayed a somewhat increased combat aggressiveness in recent small encounters with the Chinese Communists. The development and training of the Marine Corps has progressed satisfactorily, and some units are now suitable for use as assault troops. The recent appointment of a new, capable naval chief may signal a Nationalist determination to remedy some of the main defects of the naval establishment.

41. *Air Force.* The personnel strength of the Nationalist Air Force is 69,000 officers and men, including 11,580 personnel of the AAA Command which is manned by army troops, though assigned to and under the operational control of the air force. The air force has 825 aircraft, approximately 385 of which are combat types; of these types, 92 are jet aircraft (84 F-84G's, and 8 T-33's).

42. The equipment, morale, and leadership of the Nationalist Air Force are probably all superior to those of the Nationalist Army or Navy, and it suffers from fewer of the problems that beset its sister services. The F-84 equipped fighter-bomber group is still in a training status but does have some combat value. The remaining groups, equipped with piston engine aircraft, are on the average approximately 45 percent combat effective.

43. Although the Nationalist Air Force is the strongest air force of any non-Communist East Asian country, it is far weaker than the Chi-

³ The possible recent acquisition by the Chinese Communist Navy of two-three Soviet long-range submarines, now at Tsingtao, would introduce a new problem for the Nationalist Navy, whose ASW capability is estimated to be poor to fair.

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nese Communist Air Force. Except for one group recently equipped with jet fighter-bombers, Nationalist aircraft are largely obsolescent. Inadequate or obsolescent equipment is also responsible, in part, for poor communications, inadequate early-warning capabilities, and for low proficiency in night and instrument flying.

44. *Guerrilla Forces.* There are several thousand Nationalist guerrillas on the offshore islands, the majority of whom are US-trained and equipped. At present, organized guerrilla groups on the China mainland are few, small, and generally unimportant in spite of some minor local successes.

45. *Over-all Military Capabilities.* Despite the gradual increases which have taken place in the combat capabilities of Nationalist ground, air, and naval forces over the past several years, Nationalist capabilities are far outweighed by those of Communist China. If the Nationalists chose to defend the offshore islands, they could probably make Communist assaults on these islands costly, but they probably could not, unassisted, hold them if the Chinese Communists were willing to commit the ground, air, and naval forces that they have available.⁴ Without outside logistical, naval, and air support, the Nationalists would almost certainly not be able to defend Taiwan against large-scale Communist air attacks or invasion.

46. Offensively, the Nationalists presently have the capability to interdict a part of the coastal traffic through the Formosa Straits; seize unescorted merchant vessels in the Luzon Straits; commit aircraft in tactical bombardment, amphibious support, airlift, and paradrop missions; conduct guerrilla raids; and conduct periodic raids with regular troops against the coastal provinces in up to regimental strength. They are not presently capable of attempting an invasion of the mainland without considerable outside logistic, air, and naval support.

⁴ See paragraph 7 of SNIE 100-4-54, "The Situation with Respect to Certain Islands off the Coast of Mainland China," dated 4 September 1954.

II. PROBABLE DEVELOPMENTS

47. The future fortunes of the Chinese National Government will be determined to a very large extent by US policy, and will depend increasingly upon the scale and character of US aid and support. The National Government's ability to defend Taiwan against attack and to maintain domestic stability will be contingent upon a continued flow of US military and economic aid, and its ability to maintain its international position, including its place in the UN, will depend largely on US diplomatic support. Withdrawal or considerable reduction of US support would jeopardize the National Government.

48. Should US aid continue at approximately present levels, the prospects of the National Government for maintaining domestic stability over the short term between now and mid-1956 appear good. However, the continued focusing of primary governmental efforts on military defense and expansion will probably detract from the government's ability to remedy basic economic weaknesses and create a self-sufficient economic base. Consequently, during the period of this estimate, serious economic weaknesses will remain. Moreover, the international position of the National Government will continue gradually to deteriorate. In the face of a deteriorating international position and unimproved prospects for return to the mainland, the National Government's task of maintaining its own morale and that of its armed forces and the former mainlanders on Taiwan will become increasingly difficult.

Foreign Affairs

49. During the period of this estimate, a few foreign states now recognizing the National Government will probably recognize the Peiping regime, making it increasingly difficult for the National Government to maintain its claim as the legal government of China. Its right to membership in international bodies, including the UN, will come under increasingly serious challenge during the period of this estimate, possibly to the point where Peiping can gain the support of the majority of UN members for the seating of its delegation in

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the General Assembly. The Chinese Nationalists, however, will still be able to exercise their veto over any expulsion move in the Security Council.

50. Nationalist China's security and international standing will continue to be menaced by Communist China. Peiping holds that Nationalist occupation of Taiwan is an infringement of Chinese Communist sovereignty, and that the Communist revolution cannot be completed in China until Taiwan has been "liberated" and the National Government deposed. At the present time, external Communist pressure against the National Government has intensified. The means employed include propaganda, diplomatic effort, threats, and military demonstrations. This pressure will almost certainly continue as a means of dividing the US and other non-Communist states, furnishing the Peiping regime with a means of attracting additional domestic support, and, primarily, testing US intentions and discouraging long-range US commitments to the National Government. We believe that the Chinese Communists will not invade Taiwan or the Pescadores in force, because they probably believe that such actions would lead to war with the US, and that over the long run they can further their objectives with respect to the Chinese Nationalists by means not involving war. However, if the Chinese Communists should come to believe in the course of their tests of US intentions or otherwise that the US would not in fact defend Taiwan and the Pescadores, they would probably attempt to take over Taiwan by force.

51. A return to the mainland will continue to be the central objective of the National Government and the focus of its foreign and domestic policies, despite Nationalist appreciation that the chances of an early return are remote. However, during the period of this estimate, Nationalist leadership will almost certainly not become reconciled to an insular future, nor will it concentrate principally on the development of Taiwan. It will continue to concentrate its efforts on military matters, hoping to return to the mainland in the wake of a future US-Communist Chinese war.

52. Because of its basic dependence on US aid, the National Government will continue to be oriented toward the US throughout the period of this estimate. Taipei will continue to seek additional US commitments, in particular the conclusion of a mutual security pact and the extension of US defense commitments to include the Nationalist-held offshore islands. The National Government will consider that Taiwan's strategic importance to the US has increased as a result of recent developments concerning Indochina. It will attempt to use Taiwan's strategic importance as a lever with which to gain increased US aid and commitments, especially if the non-Communist position in the Far East suffers further setbacks during the period of this estimate.

53. As long as the US does not reduce materially its present commitments to Taiwan, the Government of Nationalist China will probably not undertake major military or diplomatic moves without US endorsement and assurances of support. However, it will retain a considerable capability for independent action and will stubbornly resist such US suggestions as it considers prejudicial to its interests. It will continue to respond to US advice about as at present, i.e., it will generally respond on economic and administrative matters, but will tend to ignore or circumvent certain types of military changes suggested by the US.

54. Nationalist China will probably wish to be included in any regional security system organized by the US in the Far East. While attempting to maintain friendly relations with Japan, the Nationalists will begrudge any US support to Japan which appears to them to divert aid from Taiwan. They will also remain apprehensive of the possible ascendancy of Japanese leadership among non-Communist countries in Asia or of any significant improvement in the relations between Japan and Communist China.

55. Little significantly increased support of the National Government from among the overseas Chinese will be forthcoming during the period of this estimate, largely because of

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the probable relative power of Communist China and Nationalist China during this period.

56. If the National Government should come to believe during the period of this estimate that US support were being withdrawn or greatly reduced, it would probably consider that its interests and those of the US were becoming increasingly divergent. This might be reflected in more intemperate behavior, and could conceivably cause Taipei to take steps in the hope of involving the US and Communist China in full-scale war.

Domestic Development

57. The general political picture during the period under consideration will probably remain fairly static. The National Government will continue to give its military programs dominant consideration, thus detracting from its ability to remedy basic economic weaknesses and to create a self-supporting economic base. Although some shifts in governmental personnel may occur, the central government leadership will probably continue to be drawn from the group of Kuomintang leaders who have been prominent since 1949. Politically the government will be handicapped by the narrow range of policy choices and the predispositions of its leaders. While personal rivalries may persist, efforts will be made to present an outward display of unity and solidarity, and intraparty factions are unlikely to become a serious threat to party unity or governmental stability.

58. The National Government will almost certainly be able to maintain political stability on Taiwan. Existing political controls are sufficiently strong to maintain order and security. Communist influence and subversion will probably continue to be vigorously suppressed, although sporadic cases of Communist infiltration and of defections may occur, particularly as time passes and there is growing disillusionment over prospects of a return to the mainland. Serious friction will probably not develop between the government and the local Taiwanese population, and some improvement in relations may occur.

59. During the period of this estimate the National Government will almost certainly continue to operate within the framework of the present constitution. Elective processes may be further extended, but will probably not be carried to the point where the top posts in the provincial government become elective. Further efforts may be made to include Taiwanese in government, at least at the local level, but it is doubtful that they will gain real influence at the national level. While progress toward a more democratic form of government may be made, Nationalist China will probably remain in essence a one-party state, with power concentrated in the Kuomintang elite, and authority flowing downward through party channels. Nationalist leadership will probably not succeed in creating any new and dynamic political program.

60. President Chiang Kai-shek will remain the dominant figure in party and government affairs because of his prestige, his legal authority, and his skillful employment of divide-and-rule tactics. Should the presidency become vacant during the period of this estimate, we believe that Ch'en Ch'eng, who, as Vice President, is next in line of succession under the constitution, would come to power. This transfer of power would probably be achieved with an outward show of order, but there would almost certainly be considerable maneuvering for power behind the scenes, and personal rivalries among Nationalist leaders would in general become more acute. Chiang Ching-kuo would remain a very powerful figure, but would probably play essentially a waiting game, expecting ultimately to gain supreme power.

61. Although some economic improvements can be anticipated, the fundamental economic weaknesses of Taiwan will probably become more acute by mid-1956. Given a continuation of the present level of US aid and the current military commitments of the Chinese Government, the present precarious economic stability will be maintained, but there will be no improvement in Taiwan's capabilities for becoming economically self-supporting. The population will probably expand by roughly five percent, or half a million persons. At the

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same time the current expansion of industrial production will level off, though probably retaining sufficient momentum to prevent any substantial decline in living standards. However, expanded food requirements and a leveling off of agricultural output will probably force a reduction in agricultural exports, adversely affecting the foreign trade position. By mid-1956 the National Government will probably be more, rather than less, dependent upon US economic aid for its continued existence.

Military Affairs

62. Most of the serious problems presently limiting the effectiveness of Nationalist armed forces will remain. The Nationalists will probably continue reluctant to make the basic changes which are necessary to improve present deficiencies in the command structure, in military personnel policies, or in the concept of the utilization of forces in the defense of Taiwan.

63. The Nationalists will probably continue their present policies with respect to Taiwanese manpower. They will give Taiwanese youths a short reserve training course, but will not absorb them into the regular armed forces. These policies will not materially arrest the attrition of age. There are enough physically fit native Taiwanese of military age who could substantially improve the effectiveness of the armed forces for the defense of Taiwan, since they probably would fight if the island were invaded. However, Taiwanese willingness to fight to recover the mainland would be uncertain.

64. Scheduled training, reorganization of the Nationalist military establishment and of combat units, reorganization of the logistical system, and receipt of programmed aid material and equipment will result in appreciable improvement in the combat capabilities of the Chinese Nationalist forces. There will probably be gradual improvement in the materiel condition and operational efficiency of the Navy, and, with additional equipment and improved logistic support, the Marine Corps will increase its present capabilities. Two jet fighter-bomber groups and one jet interceptor

group should be operational by mid-1956. GCI and early-warning capabilities should improve fairly rapidly over the next two years. The Chinese Nationalist armed forces will remain an important source of non-Communist military strength in the Far East.

65. However, Chinese Nationalist military capabilities will remain greatly outweighed by those of Soviet-aided Communist China throughout the period of this estimate, even though substantial improvements take place in the Nationalist armed forces. Outside logistic, air, and naval support will continue to be required to defend Taiwan or the Pescadores against Communist attack. Nationalist strength will continue inadequate to defend the offshore islands against determined Communist attacks. It is possible that the Nationalists will develop the capability to conduct division-size raids against the mainland within the period of this estimate. However, any invasion effort in larger strength against the mainland would continue to require outside logistic, air, and naval support.

Outlook Beyond Mid-1956

66. If, in the longer run, the adverse trends described above are not reversed, the strength and international position of the Republic of China will probably deteriorate, even assuming a continuation of US support at approximately present levels. If the present configuration of the cold war continues generally unchanged, more of the governments of the world will in time probably come to acknowledge the Peiping regime as the legal government of China, virtually isolating the National Government diplomatically. This situation, coupled with a diminishing possibility of return to the mainland, and with continuing concentration by its leaders on military affairs rather than domestic improvements, will in time undermine Nationalist China's morale, economy, and political stability. Moreover, these trends of deterioration, foreign and domestic, will probably be accelerated with the aging of the army, due to become critical several years from now, and with the eventual passing of Chiang Kai-shek and other senior leaders who provide links with

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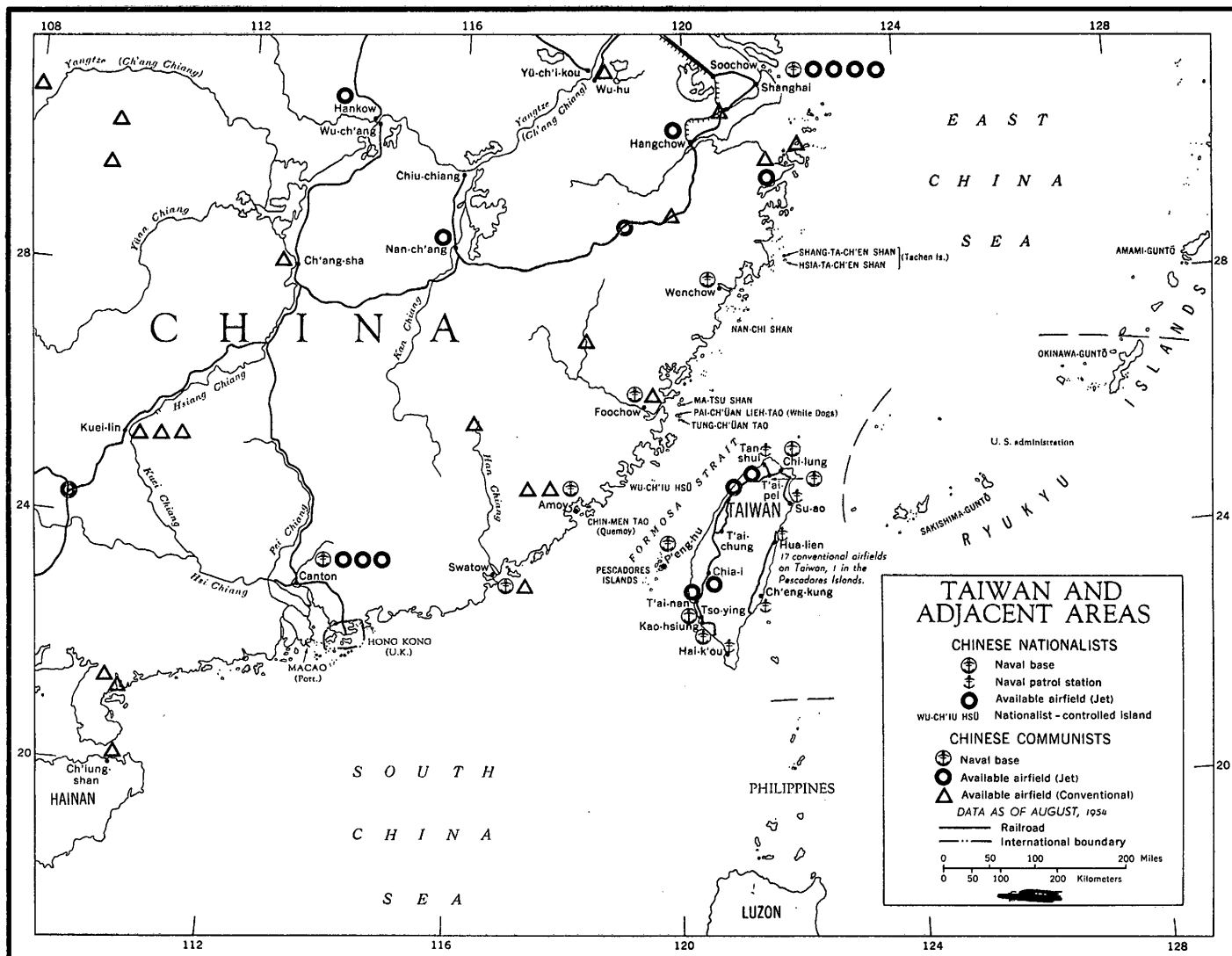
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the past and inspiration and hope for the future. Thus a greatly weakened Republic of China will in time probably be reduced either

to an aspirant for control of China, largely discarded by the world, or to a modest republic of the island of Taiwan.

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