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NATIONAL INTELLIGENCE ESTIMATE

NUMBER 43-64

Prospects for the Government of the Republic of China

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE
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The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and NSA.

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Director of Intelligence and Research, Department of State
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PROSPECTS FOR THE GOVERNMENT OF THE REPUBLIC OF CHINA

THE PROBLEM

To analyze the problems facing the Government of the Republic of China (GRC) and to estimate its prospects, with particular consideration of implications for the US.

CONCLUSIONS

A. French recognition of Communist China, together with fears about the strength of the US position in the Far East and the firmness of US Far Eastern policy have further damaged the morale and confidence of the Government of the Republic of China (GRC). However, we believe that, unless the GRC leadership becomes convinced that the US is abandoning Taiwan and the anti-Communist cause in the Far East, the GRC will live through this setback relatively intact and that it is also likely to survive subsequent blows arising from recognition of Peiping by other important powers and from a bitter struggle over the UN China seat. The possibility cannot be excluded, however, that a crisis might precipitate a radical change in the makeup or policies of the GRC. (*Paras. 1-6*)

B. Such setbacks, however, will reduce the élan and stability of the regime. Mistrust and misunderstanding between the GRC and the US are likely to increase, and it will be increasingly difficult for the US to influence the GRC toward building up the economy of Taiwan. The GRC will continue to maintain a large military establishment and to proclaim its status as sole legitimate government of all China. (*Paras. 38-49*)

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C. The GRC's internal security is generally good and is likely to continue effective. There has been rapid economic growth and continued progress is likely, although it will fall considerably short of its potential, and unemployment is likely to be an increasingly serious problem. There will almost certainly be strong pressure from the GRC for sustained or even increased US economic and military aid. (*Paras. 16-28*)

D. There is likely to be a continuing decline in the GRC's international status with more states establishing economic and diplomatic relations with the mainland regime. As this process goes on, there will be an increasing tendency for the US to be isolated in its support for the GRC as the government of all China. Much of the world will condemn the GRC's efforts to press its claim to the mainland as endangering peace and order in the Far East. (*Para. 44*)

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DISCUSSION

I. INTRODUCTION

1. For many months the leaders of the Government of the Republic of China (GRC) have been depressed by the prolonged frustration of their hopes for a return to the mainland and by a feeling that a favorable opportunity may have been missed in 1961. More recently their gloom has been increased by a conviction that the US anti-Communist position is deteriorating dangerously in Southeast Asia and a concern that US policy is shifting toward a reduced US commitment in Asia and to the acceptance of two Chinas, i.e., a Communist Chinese mainland and a Free Chinese Taiwan.

2. French recognition of the Chinese Communist regime, which was announced rather abruptly on 27 January 1964, was a serious blow to the GRC. The line against recognition of Peiping, which had generally been held effectively since 1950, was for the first time ruptured by a major Western power—a NATO ally of the US—in the face of what the world knew as strenuous US opposition. The GRC's international status was undermined and the specter of a critical shift of world support to Peiping was raised. Leadership confidence was further shaken by a 21 January incident in which a prominent major general exhorted, albeit unsuccessfully, the First Armored Division to move on Taipei and seize the government.

3. Over the past several years the situation on Taiwan has been relatively stable; changes have come only slowly. There appeared to be time for the GRC gradually to adjust, if necessary, to an indefinite postponement of its hopes of returning to the mainland and to a general rejection of its claims to be the legal government of all China. Recent events, particularly the French recognition of Peiping, have accelerated the pace of events and reduced drastically the time for adaptation to changed circumstances.

4. The last few weeks have depressed the morale and confidence of the leadership and for the first time in several years have raised the possibility of a dramatic change in the makeup of the regime or in its basic policies. We believe, however, that, unless the GRC leadership becomes convinced that the US is abandoning Taiwan and the anti-Communist cause in the Far East, the GRC will weather this setback without radical changes. Over the years the GRC has demonstrated a capacity to adjust to serious blows to its hopes and its prestige, and we believe it will continue to do so as long as it has the firm backing and support of the US. Discouraging as the leaders may find their current



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situation on Taiwan, they probably cannot realistically perceive any alternatives more attractive than their present course of hanging on and making the best of it.

5. Even though we believe that the GRC will successfully weather the current situation, more nations will recognize Peiping and there are likely to be bitter and possibly humiliating battles over the UN seat. The possibility cannot be ruled out that a crisis might precipitate some drastic action that would basically alter the situation on Taiwan. It is unlikely that Chiang would withdraw, either retiring on Taiwan or moving to some foreign haven. If, however, for any reason Chiang were removed from the scene he would almost certainly be succeeded by another mainlander regime, since the Taiwanese lack the organization or leadership to make an effective bid for power. If a coup should occur, it would almost certainly come from within the mainlander military leadership. Other possibilities are a move to accommodate with Peiping or a desperation attack upon the mainland. We believe both these last alternatives highly unlikely, although support for such moves could develop among mainlander groups should they come to believe that all hope for a return to the mainland seemed otherwise lost.

6. Thus, while drastic action of some sort must be considered a possibility in some future crisis, we believe it more likely that the regime will continue basically intact and carry on essentially along established lines. Successive crises will take their toll, however, from the élan and confidence of the regime. Its problems will be increased and its stability will be less certain than it has appeared over the past decade or so.

II. PROBLEMS AND PROSPECTS

A. The GRC vs. Communist China

7. *The Continuing Civil War.* The unfinished Chinese civil war has dominated the thinking of the GRC leadership for two decades and it will continue to do so. The GRC tends to evaluate international and domestic events according to their effect on the relative positions of the GRC and the Communist regime. The GRC's claim to be the legitimate government of all China sustains its morale, gives it a sense of purpose, and provides a justification for superimposing a national government over the provincial government of Taiwan and for maintaining maximum military forces. We do not believe that Chiang Kai-shek or any of those in line to succeed him will openly accept for the GRC the status of a government of Taiwan without claims to the mainland, but they may in practice adjust to an indefinitely prolonged existence in Taiwan.

8. *Offshore Islands.* The Kinmen and Matsu island groups are valuable as early warning outpost in the defense of Taiwan, but their greatest

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importance for the GRC is as a link with the mainland and a symbol of successful defiance of Communist power, since they are historically part of mainland Fukien Province. Nearly a third of the army's combat strength is stationed on these islands, the forces are well dug in, and morale appears high. The GRC uses Kinmen as a showplace for visiting American officials and overseas Chinese and for youth leaders from Taiwan. The GRC by itself could not prevent a determined Communist effort from taking the offshore islands, but it could make the action very costly to the attackers. Under present circumstances, it is not certain that the US could induce the GRC to abandon these islands even by the use of measures so drastic as to risk wrecking US-GRC cooperation and destroying the morale of the GRC.

9. *Relations with Communist China.* The GRC maintains no official contacts with the Communist regime, which it considers an illegal and temporary usurper of power. Taipei is as nationalistically Chinese as is Peiping, and it finds itself in basic agreement with some of Peiping's internationally unpopular policies such as the assertion of Chinese authority in Tibet and the defense of Chinese border claims on the Indian frontier.

10. The Peiping regime has attempted a sort of informal communication with the GRC leaders through radio broadcasts and open and secret letters. Hong Kong intermediaries claiming to represent Peiping have also been in touch with Taipei authorities. Up to the present time, we have no evidence that Chinese Communist offers have elicited any positive response from GRC leaders. In spite of the increased sense of frustration and discouragement that has developed in recent months, there is no evidence that any significant number of mainlanders in Taiwan have been led to consider joining the Communists as an acceptable alternative. While the Communists have tried to exploit frictions between the Taiwanese and the Kuomintang (KMT), they have had little or no success in converting the Taiwanese to their cause. Taiwanese feeling against the GRC is not pro-Communist but pro-Taiwanese, a sentiment Peiping has no wish to encourage.

11. Barring a major change in US policy, we do not believe that mainlander susceptibility to Chinese Communist blandishments will increase significantly. Even the detonation of a nuclear device by the Chinese Communists would probably not change things greatly. The chief effect on the GRC would likely be demands for renewed assurances of US protection and an insistence that the imminence of a Communist nuclear capability makes inescapably clear the need for prompt action against the Communist regime. Although the GRC would continue to rely primarily on the US for protection, it might make a request for nuclear weapons.

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12. *Small Operations Against the Mainland.* For some time to come the chief form of contact between the two regimes, aside from the propaganda war, is likely to remain small-unit raids and penetration attempts by the GRC. The latter have failed totally to date; a few minor successes have been scored by small raids. In the near future, at least, raids upon Chinese Communist shipping and isolated coastal outposts are likely to receive increased emphasis.

13. *Invasion Attempt.* In the past two or three years, Chiang has stepped up preparations for a large-scale attack on the mainland and talked publicly of launching an invasion very soon. In 1962 even the Chinese Communists took his threats seriously enough to deploy large reinforcements into the area near the Strait. (The magnitude and vigor of their reaction indicates they believe the US was backing Chiang's plans.) Chiang's past record of military conservatism and his commitments to the US, however, argue against the likelihood of his launching an invasion attempt without US support. On the whole we consider it highly unlikely that he will do so. Nevertheless, we cannot rule out the possibility of an invasion if Chiang should come to feel that conditions on the mainland had reached such a point that he could make enough headway either to enlist US support or carry the day without it.

14. *Military Capability.* The GRC has available armed forces of approximately 600,000 men.¹ GRC ambitions notwithstanding, US military aid has been designed to shape this force along defensive lines for the protection of Taiwan and the Penghus. The GRC's capability to lift forces across the Strait by sea and air is limited and it lacks bombers and other important offensive weapons. The GRC has sought to compensate for these limitations by domestic production of such items as landing craft and by trying to buy abroad parachutes, landing-craft components, and possibly helicopters. It has further given training to special forces beyond those supported by the US. Although some progress has been made in increasing lift capacity, we believe the sum total of these efforts has not made any significant increase in its invasion capability.

15. *Implications for Economic Development.* Preparation for an invasion of the mainland and the economic development of Taiwan compete for the regime's limited resources. Chiang Kai-shek is reluctant to divert his interest from military preparations to economic problems. Primary responsibility for the economy devolved until recently upon Premier Chen Cheng and his Cabinet and technicians. Many of the policies which have helped economic growth are the result of patient and persistent urging by American advisers, working with such officials

¹ This figure includes a large number of noncombatant personnel. See Annex for further information on the armed forces.

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as C. K. Yen, formerly the Finance Minister and now the new Premier. Yen's appointment as Premier would appear on the surface to bode well for future economic policy, but the net effect of his appointment may be the opposite. Yen is a technician with no independent political strength, and he is probably less able than Chen Cheng to push crucial economic programs.

B. Economic Problems

16. *Economic Growth to Date.* The economy's performance over the past decade has been generally impressive. Industrial production more than trebled from 1953 to 1963 and agricultural production was up about 60 percent. Real national income doubled and per capita income rose at an average annual rate of 3.7 percent, reaching US\$118, high by Asian standards. Exports doubled while imports rose by less than 60 percent. A recently favorable world sugar market helped build up gold and foreign exchange reserves, which reached about \$212 million by the end of 1963. Taiwan's 12 million people provide a supply of hard working, low cost labor, and considerable managerial skills and enterprise are available.

17. *Trouble Spots.* Continued economic progress is threatened by a population increase of about three percent a year. With about 870 people per square mile, Taiwan is already one of the most densely populated areas of the world, a situation rendered worse by the fact that only about a third of the island is arable. The regime has made only a tentative approach to population control and such programs as may be undertaken are unlikely to have much impact in the next several years.

18. Directly related to the population problem is that of unemployment, which is already a serious problem. Even if the hoped-for six percent annual growth in Gross National Product (GNP) continues, unemployment will probably get worse. In 1964 about 175,000 will enter the labor force with jobs expected for less than half this number. Projections indicate that by 1968 only one-third of the new employables will find regular work. Large increases in the labor force over the next five years reflect the fact that 46 percent of the population is now under 15 years of age. In addition to unemployment, underemployment is widespread, with resultant low labor productivity and raised production costs. Any effort to alleviate unemployment by spreading the work among more employees would raise production costs and thus make Taiwanese products less competitive on the world markets.

19. There has also recently been a slowdown in the investment growth rate. Total gross investment in 1963 was about 19 percent of GNP, compared with 21 percent in 1962. A number of factors tend to discourage domestic investment, and a sizable amount of domestic capital

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is lying idle. The antiquated financial system is adapted to the old family system of enterprise and lacks the suppleness to cope with modern corporate business. It is difficult to obtain loans for private industrial expansion: gaining bank and government approval is time consuming and entails considerable petty graft, unreasonably high collateral is demanded, and interest rates are very high. The administration of taxation, allocation of raw materials and import permits, and various bureaucratic regulations, tend to favor government enterprises and handicap private initiative. Although the tax system has been improved, inefficiencies remain which tend to discourage expansion and long-range development.

20. In 1959 and 1960 the GRC tried to raise the previous low level of foreign private investment by passing very liberal laws on foreign investment. Such investment had begun to rise markedly in response to the liberalization, until 1962, when the GRC temporarily adopted the Special Defense Assessment (increased taxes and utility rates). These, along with signs of stepped-up military preparedness and the development of a war psychology, contributed to a 50 percent drop in foreign investment for 1962-1963 compared with 1960-1961. There was an increase in investment in the last half of 1963.

21. Since 1950 the US has extended about US\$4.6 billion in aid, some of which is still in the pipeline. Of this amount, military aid has accounted for about \$2.5 billion (53 percent). The GRC has made effective use of US aid, which has been an essential ingredient in Taiwan's economic growth. In 1961, the US began to shift to long-term loans at interest and away from grants and "soft" loans. A US decision to phase out the latter completely over the next few years was announced in 1963. This decision was based on the belief that by then Taiwan could sustain its economic growth by relying on international lending organizations and private foreign investment. Military aid and PL 480 shipments were to be continued, although at unspecified levels.

22. Over the past several years military expenditures have accounted for over 50 percent of the total national, provincial, and local budgets and over 80 percent of the national budget. The current defense budget of about \$195 million is approximately \$25 million less than last year's. It remains, however, at about the same percentage of government expenditures since the overall budget was smaller as a result of reduced domestic revenues (chiefly the ending of the special defense assessments) and reductions in US aid. It is unlikely that the share of GNP devoted to the military over the next few years can be decreased, even if GNP should increase rapidly. Military expenditures are likely to increase at least as rapidly as national income, primarily because of a strongly felt need for maximum military forces, but also for other reasons, chiefly the widely held view that force cuts would add to the already serious unemployment problem.

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23. Hypersensitivity on the subject of Communist China has involved the GRC in damaging disputes with its trading partners. This problem has been greatest in the case of Japan, whose increasing contacts with Communist China greatly agitate the GRC. Exchange of trade delegations and increased Japanese sales to Peiping, especially that of a complete vinylon plant, led in September 1963 to the stoning of the Japanese Ambassador's home in Taipei, recall of the GRC Ambassador, and a GRC threat to break relations if a permanent Chinese Communist trade mission were accepted by Japan. In a rupture of Japanese-GRC trade relations, the GRC would be the chief loser. In 1963, trade with Japan accounted for 33 percent of the GRC's imports and 24 percent of its exports. (The US is the GRC's only other trading partner of comparable size.) Trade with the GRC, however, only accounts for about two and one-half percent of Japan's exports. Already Japanese investment in Taiwan—one of the largest sources of private foreign investment—has been practically stopped by anti-Japanese pressures there. In recent weeks, since France's recognition of Peiping, the GRC has begun to value Japanese friendship more highly, and Japan's protestations against the recognition action were greatly appreciated in Taipei. Nevertheless, it is almost certain that trade and other contacts between Tokyo and Peiping will grow in the near future and will be a source of troubles.

24. *Economic Prospects.* In spite of the economic problems facing the GRC, its economy has sufficient momentum and basic strength to continue growth for some time even in the absence of economic reform. If certain economic reforms were made, notably those which would modernize the financial system and improve government administration and the tax structure, thus encouraging foreign and domestic investment, Taiwan's prospects for rapid economic growth would be good. However, even under the best circumstances there will be serious problems arising out of the high rate of population growth and increasing unemployment.

25. Taiwan's resources are proportionally comparable to those on which the Japanese economy is based. To achieve a self-sustaining growth along Japanese lines, however, it would be necessary to give economic growth a more important place in the nation's planning and to take vigorous action to remove some of the inhibiting factors discussed above. The danger is that the GRC leadership, for essentially political reasons, may not only fail to do this but may actually take steps that will further slow down growth, such as the devotion of an even greater share of resources to the military, imposition of new taxes discouraging to investment, or actions in the international sphere destructive to its foreign trade and the flow of foreign investment.

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26. Thus, the future of the economy is to a considerable extent a political question. The allocation of sufficient resources to economic investment and the achievement of the needed reforms would require changes in some long-held views of the top leaders, as well as the overcoming of considerable bureaucratic inertia. Given these factors, we believe that the GRC will not make the most effective use of its resources in meeting the demands placed upon its economy by rapid population growth, the rising expectations of its people, and reduced US aid.

C. Internal Security Problems

27. *Internal Security.* Chiang Kai-shek has shown extraordinary virtuosity in manipulating internal security controls. Despite the fact that his is, in a sense, an alien rule imposed upon a native majority, he has kept the situation on Taiwan completely under control without resorting to mass arrests or open terror. Although he has been ruthless in a number of individual cases, indirect means have generally been adequate to correct any worrisome deviations from authorized behavior. For example, editors who stray from the line suddenly find newsprint impossible to acquire, or they become entangled in a series of paralyzing lawsuits. Only the most flagrant violators are liable to be jailed, and even then it is for some other charge than the actual crime of censorship violation. The various security forces are ubiquitous and effective; any sort of organization that threatens even remotely to form a real opposition to the regime is found out and neutralized before it can gather momentum. Neither Communist subversion nor Taiwanese separatism has made any significant headway.

28. This lack of organized opposition testifies more to the regime's skillful controls than to its popularity. The Taiwanese who form nearly 85 percent of the population, continue dissatisfied under mainland domination. At present their political role is pretty well confined to local offices and the lower branches of the bureaucracy. As time passes, the political aspirations of the Taiwanese are likely to increase. Whether to try to control these aspirations by increased repression or by providing for greater Taiwanese participation in the government is a growing problem for the GRC leadership. Chiang resists any suggestions that the Taiwanese should be given a greater role, probably feeling that such action might whet rather than satisfy the Taiwanese appetite, and, more especially, that it would undermine the back-to-the-mainland rationale. For these reasons, further concessions to the Taiwanese will be very limited and carefully hedged. There is some danger that growing protest will bring forth more severe, less veiled suppression which in turn might breed more bitter opposition.

29. The drop in leadership morale and self-confidence which has recently developed may give rise to security problems. Increased sus-

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picion and sensitivity to possible opposition is likely to result in tighter, less subtle repression, which in turn may increase antipathy toward the regime. If the sense of frustration and hopelessness among the mainlanders, especially in the military, continues to grow, a coup attempt will remain a possibility even after the immediate crisis has passed.

D. The Problem of Succession

30. The effect on the GRC of the demise of Chiang Kai-shek is difficult to estimate. To a considerable degree Chiang Kai-shek is the GRC, both to his own people and to the world at large. No one else has had final responsibility in the KMT, the government, or the armed forces for the past 38 years. During this time Chiang has learned much and has perfected his skills as a subtle and generally benign dictator. His regime has been an extremely personal one built upon personal loyalties rather than upon forms and institutions. Even if the succession takes place in a regular and orderly manner, the task of his successor, whoever he is, will be extremely difficult.

31. President Chiang is in exceptional health for a man of 76, and he has not revealed any plans for his eventual replacement. Nevertheless, the question of succession has already become a factor in current politics. Until the latter part of 1963 it was generally considered that Chen Cheng, who was both Vice President and Premier, would succeed Chiang Kai-shek with the latter's powerful son, Chiang Ching-kuo, biding his time while nominally supporting the more elderly and ailing Chen. During the past few months, however, Chen's status has undergone conspicuous decline, spotlighted in early December by the President's acceptance of his resignation as Premier and, more recently by his being ignored in formulating a response to French recognition of Peiping. At the same time, Chiang Ching-kuo, has come more into the foreground. In the late summer of 1963 Chiang Ching-kuo made an official trip to Washington which was followed by considerable and unaccustomed publicity upon his return. During the ninth KMT party congress in November, the younger Chiang played an important role and arranged the election or appointment of many of his followers to the KMT Central Committee.

32. The Generalissimo appears now to be grooming his son more openly as his eventual successor. However, with Chen Cheng still serving as Vice President and Deputy Director of the KMT, he is still likely to be at least titular successor should Chiang Kai-shek die before his current term expires in 1966. In any case, the passing of the Generalissimo will sharply increase the danger of instability in the GRC. The extent of this danger and the direction from which it might come will depend upon how the regime survives and how morale and unity are affected by external events in the months ahead.

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E. Foreign Relations

33. *General.* The dominant theme of GRC foreign relations has been the struggle to preserve as far as possible the regime's status as the legitimate government of all China. Essentially, this has entailed blocking international recognition of the Communist Chinese regime and protecting the GRC's title to the China seat in the UN General Assembly and on the Security Council. Despite a widely held feeling that Communist China should be recognized "as a fact" and a desire to try to bring it into the society of nations, the majority of nations has withheld recognition. This has been largely a result of US pressure, aided at critical times by blatant aggressiveness on the part of Peiping. Voting on the China issue, posed in various forms in the UN, has roughly followed the pattern of recognition.

34. Peiping's recent breakthrough in winning recognition from France has seriously threatened the GRC's prospects for holding on to its position. There has not been a rush to follow the French precedent, but it has caused a number of countries to consider recognition of Peiping, and erosion of the GRC position has been almost certainly accelerated.

35. *Africa.* Taipei's chief successes in the past few years have occurred in Africa. Until recently 19 African nations have had diplomatic relations with the GRC as against 15 with the Chinese Communists. This record results from an energetic diplomatic offensive, which has been supported by a small, but effective, agricultural assistance program. Success has been most notable among the former French colonies in contrast with the former British areas, which have generally followed London's example in recognizing Peiping. Only one of the former French colonies (Congo (Brazzaville)) has as yet followed the French example. However, a number of others are considering recognition and Dahomey appears headed in that direction.

36. *The United Nations.* In the past three years, the UN has voted on resolutions which have combined the demands that the Chinese Communists be seated and that the GRC be expelled. Over the three years Peiping has won only four new votes in the General Assembly compared with a gain of nine for the GRC. This strengthening of the GRC position represents very largely the votes of new African nations. French recognition has improved Peiping's prospects for the 1964 session of the General Assembly, but it is not certain that Communist China can win majority support even then if, as is likely, the question is put in terms of denying representation to Taiwan. The growing sentiment for "two Chinas" is such, however, that a resolution which invited Peiping without expelling Taiwan would probably have a good chance of getting majority support. Although Peiping would almost certainly not accept an invitation on such terms, serious complications would ensue, including the possibility that the GRC might quit the UN in protest. In any

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case, future action in the UN on the China question will be greatly influenced by what happens between now and the next General Assembly session, including the behavior of Communist China and the GRC.

37. *Southeast Asia.* The GRC has had little impact, either economic or political, on Southeast Asia, although it has been active in Thailand, South Vietnam, and among the rightists in Laos. Continued contact with the remaining Chinese irregulars in the Thai-Burma-Laos-Yunnan border areas holds little prospect for gain and considerable danger to US relations with Burma. The overthrow and assassination of Diem and Nhu in South Vietnam, like the earlier overthrow of Rhee in South Korea, caused discomfort and worry in the GRC and increased its suspicions of the US. Southeast Asia is now less important to the GRC as an area of operation for GRC foreign policy than as a barometer of anti-Communist effectiveness and US determination.

38. *Relations with the US.* Because the GRC is heavily dependent upon the US, it maintains an intensive watch on US politics and policy. GRC leaders display an extreme touchiness whenever a US official mentions policy toward either the Chinese Communists or the GRC. Taipei fears that the US may be embarking on a "two Chinas" policy and even that the US may be planning to cut its commitments sharply in Asia. Continued US presence in South Vietnam has done as much as anything to assure the GRC leaders that the US is willing to commit its troops and assume risks to stop the spread of communism in the area.

39. Taipei is disturbed by any apparent improvement of US-Soviet relations, and only reluctantly joined in signing the Test Ban Treaty. The GRC leaders felt that they should not be associated with the Soviet Communists in any treaty, and that US initiative in drawing up the treaty reflected naïveté in trusting the Communists. They may have feared that the treaty would lead to a lessening of tensions, which would adversely affect the GRC hope of regaining control over the mainland.

40. The US and the GRC differed over the proper response to French recognition of Communist China. Chiang took the position that national pride demanded a prompt severance of relations with France and had decided to do so. Strong US urging led to a temporary reversal of policy with the aim of forcing Peiping to expose its unwillingness to establish relations on a "two Chinas" basis and forcing France publicly to sever relations with Taiwan in response to Peiping's demand. The first aim was achieved, but two weeks later the GRC's pride led it to respond to an oral representation by the French chargé at Taipei, which amounted to severance of relations, by publicly announcing the GRC's break with France, thus relieving the French of the need to make the open break. This divergence of view as to proper policy has abraded GRC-US relations, an effect which was increased by Taipei's public

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announcement of its break with France before notifying the US and without consulting on the form of the announcement.

III. IMPLICATIONS FOR US POLICY

41. The US is likely to find the GRC increasingly difficult to work with. US motives will be suspect and GRC responsiveness will be decreased. In the present atmosphere, reductions in US economic and military aid will probably take on a new significance. It will be increasingly difficult to convince GRC leaders that such cuts are not steps toward reducing the US stake in the area in line with a decreasing US presence in the Far East.

42. Uncertainty as to the future and lack of confidence in the direction of US policy in the Far East are likely to reinforce the GRC's desire to maintain a maximum military capability of its own. Thus long-range economic needs on Taiwan are likely to run a poor second to an increase in military capabilities. The GRC leaders are confident that the US cannot afford to let the GRC collapse and that the US will therefore act to save Taiwan's economy even from troubles caused in large part by the further allocation of resources to the military against US advice. Thus the GRC may expand its offshore procurement and domestic production of material needed for the military at the cost of more rapid economic growth. What the US is most likely to face, therefore, is an economy which is growing, but not as fast as it should, and which is saddled with increasing unemployment and popular discontent. The GRC will seek further US aid and point to economic difficulties as justification. US efforts to limit military expenditures will be resented, and substantial further cuts in US military aid or intensified efforts to bring about a significant reduction in the GRC military establishment would be looked upon as defeatism and a de facto support of the "two Chinas" policy.

43. The loss of confidence and élan in the GRC leadership and the decreased certainty of the regime's stability present the US with a much less steady situation than has prevailed on Taiwan for the past 15 years. The US now has to be prepared to respond to any one of a number of different forms of internal crises which were not considered serious possibilities before.

44. On the international scene, France's new initiative will multiply US difficulties in holding the line against recognition of Communist China and in protecting the GRC's position in the UN. If present trends continue, more nations will sooner or later recognize Peiping as the only legitimate government of China. As this process goes on, there will be an increasing tendency for the US to be isolated in its support of the GRC as the government of all China. Much of the world will condemn the GRC's efforts to press its claim to the mainland as endangering peace and order in the Far East.

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MILITARY ANNEX

I. MILITARY POLICY

1. Although the US military aid program is aimed at modernizing and developing the GRC armed forces for the defense of Taiwan and the Penghus² the GRC's own philosophy of preparation for attacking the mainland places a premium on developing offensive capabilities. Limitation of US support to defensive requirements has created a sense of frustration in the GRC leadership, which has led to various efforts to get around the US restriction. For example, the utilization of MAP-supported training facilities for the training of non-MAP-supported units is a common occurrence. The purpose for which the GRC hopes to use its forces also dictates that they be kept at maximum strength. The GRC has therefore resisted US pressures for any significant reductions and maintains the largest per capita armed force in the world. It will probably continue to strive to keep MAP-supported forces as large as it can while maintaining and perhaps increasing its non-MAP-supported unconventional warfare forces.

2. The fact that such large numbers of military personnel cannot be replenished from the mainlander sector of the population alone has necessitated an ever-increasing ratio of Taiwanese in the forces. At present Taiwanese comprise about 38 percent of the personnel and the ratio is increasing about three percent a year. A more significant fact is the extent to which Taiwanese have been kept from positions of authority: they form about 88 percent of the lower enlisted ranks but only about 11 percent of the non-commissioned officers and about four percent of the commissioned officers. While there would be doubt about the reliability of the Taiwanese troops for an invasion of the mainland, we believe that they would perform effectively in the defense of Nationalist-held territory.

3. In recent years the GRC has sought to increase its military strength, especially its offensive capabilities, through efforts uncoordinated with the MAP. To this end it levied temporary defense surtaxes from 1 May 1962 through 30 June 1963 in support of a \$59.3 million special Preparedness Budget. In that period the GRC's self-financed defense expenditures rose from 8.7 percent of GNP in FY 61 to 9.8 percent and 10.5 percent in FY 62 and FY 63, respectively. The figure is estimated at 8.7 percent in FY 64. An essential reason for the Special Budget was to

²Under the US-GRC Mutual Defense Treaty signed 2 December 1954, the US, is committed to the defense of Taiwan and the Penghus (Pescadores). A Congressional resolution of 1955 gives the President discretionary power to extend the defense to the offshore islands "as he judges to be required or appropriate in assuring the defense of Formosa and the Pescadores."

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accelerate its covert activities on the mainland and acquire psychological warfare equipment additional to that supplied under MAP.

II CAPABILITIES

4. In general the capability of the GRC armed forces appears to be at or approaching a peak. Morale is fair to good and has been at its best on the offshore islands. However, morale, particularly among the mainlander leaders of the military, is closely tied to the objective of recovering the mainland, and recent events may have had a discouraging effect among the leaders. Although only about one-fifth the size of the Communist Chinese forces in terms of manpower, the GRC forces probably compare well qualitatively, but grounds for comparison are extremely scarce. In the last major meeting of the two forces during the offshore island crisis of 1958, the GRC exhibited a striking qualitative superiority in the air. In the two minor air skirmishes since that time, the Communists demonstrated somewhat improved tactics, but their aircraft are now becoming increasingly aged and obsolescent. Additionally, their insufficiencies in pilot flight time and training in all-weather operations, and the lack of air-to-air missiles all contribute to a relatively low degree of combat effectiveness.

5. On defense, the armed forces of the GRC could not withstand a sustained military effort by the Chinese Communist against either the offshore islands or Taiwan and the Penghus without US naval and air support. Offensively the GRC's capabilities are limited. It can drop approximately 3,400 troops on the mainland and follow up with limited resupply if all assigned C-46, C-47, and C-119 aircraft are employed. In a supported amphibious assault upon a hostile beach against limited to moderate enemy resistance the GRC Navy could provide sufficient amphibious ships and craft to land a 10,000-man tactically balanced force with full allowance of tanks, guns, LVT's, wheeled vehicles and supplies. If the number of troops to be transported were the primary consideration without regard to unit and tactical integrity, or accompanying heavy equipment, the same vessels could lift approximately 36,000 troops. Additional forces could be transported in 73 combat loaded merchant ships with a lift capability of 500,000 tons (Cargo DWT) or approximately seven infantry divisions totalling 75,000 troops with combat equipment. These figures are all based upon 100 percent availability and a single operation with no turn around.

6. The GRC has been exercising its capability of landing small groups of 7 to 20 men on the long mainland coast with the stated objective of moving inland to establish contact with "resistance groups." A number of teams have succeeded in getting ashore in the past year or so but all or nearly all participants were killed or captured within a few hours of landing. Publicly, however, the GRC has claimed success for its operations, saying the great majority of their infiltrators are at large on the mainland.

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7. A few of the raids, in contrast to the infiltration attempts, have had minor success, but they have so far produced little intelligence or much else of value. Nevertheless, the leadership believes that the fact of the raids and infiltration efforts and even the Communist publicity of captures and executions serves as a reminder that the GRC is still an active enemy of Communist domination. The GRC plans to continue these small landings, perhaps increasing the size of the forces involved, but it plans to place more emphasis on raids on Communist shipping and isolated outposts with small teams in plastic boats launched from mother craft. Sabotage attempts out of Hong Kong and Macao have succeeded in winning publicity out of all proportion to the small damage done, and they have brought forth the wrath of the colonial authorities and precipitated local police action against GRC agents, especially in Hong Kong.

III. COMPOSITION

8. The GRC maintains a total military force of about 600,000 men, distributed as follows:

Ministry of National Defense (MND)	30,000
Army	415,000
Navy	61,000
	(Includes 26,000 Marines)
Air Force	87,000
Combined Service Force (CSF)	7,000
	<hr/>
	600,000

Of this total 35,500 consisting of 8,000 in the MND and 27,500 in the Army do not receive MAP support. The 8,000 MND personnel in general serve in an overhead capacity. The 27,500 in the Army however, form an integral part of that force and include such units as two Special Forces groups totaling 7,000 and the Anti-Communist National Salvation Corps (ACNSC) of 5,500. These two Special Forces groups, along with the two MAP-supported Special Forces groups, are subordinate to the Special Warfare Center. The ACNSC is a veteran force of ex-mainlander guerrillas under direct control of the Army GHQ which garrisons the minor offshore islands of Tung-yin and Wu-chiu. Not included in the 600,000 figure are 7,500 physically disabled or over age troops comprising three Garrison Regiments of the Taiwan Garrison General Headquarters (TGGH). The TGGH, an internal security organization, also has one regular MAP-supported Army division assigned on a rotational basis.

9. *The Army.* The GRC ground forces consist of a general headquarters, 2 field armies, 6 corps, 21 infantry divisions (including 6 light reserve divisions), 1 armor center with 2 armored divisions, 1 special warfare center with 4 special forces groups, 1 air defense artillery (ADA) missile group, and 1 airborne infantry regiment. These forces are com-

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bat ready, increasingly well trained and equipped, and have a substantial reserve and replacement manpower pool. The Army must have foreign support to maintain its armed forces at present levels of readiness or to conduct sustained military operations. Steps are being taken to remedy equipment shortages and personnel management deficiencies and improvement is continuing.

10. In the Taiwan Strait area, GRC forces are now more formidable than in 1958. The Army has about 19,000 troops on the Matsu Islands group facing an estimated 42,600 Chinese Communist ground troops on the nearby mainland (the vicinity of Foochow). On the Kinmen Island group, there are approximately 67,000 GRC troops. The Chinese Communists have an estimated 92,600 ground troops nearby in the Amoy area and within 12 days, could reinforce their troop strength in the Amoy-Foochow area with the additional forces already in East China (approximately 212,000 troops, including three airborne divisions which total about 21,000 men). These forces are conveniently astride main lines of communication and would most probably enter the coastal area by way of the Nanping-Foochow rail line in the north and/or the Yingtan-Hsiamen (Amoy) rail line in the south. Such redeployment possibly could be accomplished without detection, but it is believed that any sizable concentration of forces or amphibious craft would be detected if current US-GRC surveillance is continued.

11. Chinese Communist artillery strength in the Matsu-Kinmen areas totals about 850 pieces, as compared to 400 GRC pieces. Improvements in fortifications and covered artillery emplacements have increased the defensive capability of both the Kinmen and Matsu garrisons. Food, ammunition, and other supplies in abundance are stockpiled in tunnels on the major offshore islands.

12. *The Navy.* The GRC Navy has a small fleet composed of former US ships, the largest combat type being destroyers. The total ship strength is as follows:

Destroyer (DD)*	4
Escort Ship (DE)	5
Patrol Escort (PF)	1 (2)
Escort (PCE)	7 (1)
Submarine Chaser (PC)	16
Motor Gunboat (PGM)	1
Motor Torpedo Boat (PT)	6
Coastal Minelayer (MMC)	2
Fleet Minesweeper (MSF)	2
Coastal Minesweeper (MSC)	4
Amphibious Warfare Ships	43 (4)
Amphibious Craft	335
LOU	21
LCM	154
LCVP	160

* Figures in parentheses are additional ships in reserve.

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GRC Naval forces afloat, except small patrol and harbor craft assigned to naval districts, are organized into the Fleet Command (comprising five squadrons), an Amphibious Force Command, and a Fleet Training Command.

13. The GRC Navy is primarily a defensive force with the principal mission of maintaining sea control of the Taiwan Strait and of providing for the naval defense of Taiwan. It is only moderately effective, but through MAAG assistance its state of readiness and its combat potential are being steadily improved. Proficiency in surface gunnery is considered to be good, and antisubmarine warfare (ASW), air defense, minelaying and minesweeping capabilities are improving.

14. The 26,000-man elite Marine Corps is organized into a headquarters, a supporting establishment, and the Fleet Marine Force. The operating forces consist of 1 division, 1 brigade, 1 LVT, and 1 LVTA battalion, organized and equipped under modified US Marine Corps TO&E. The Marine Corps has the training and combat readiness which would enable it to execute an amphibious assault engaging the division and the brigade against light to moderate resistance if adequate air and naval support, including amphibious shipping, were available.

15. *The Air Force.* The Chinese Air Force (CAF) has 25 squadrons organized into 6 wings: 4 tactical fighter wings, 1 composite wing, and 1 transport wing. The 4 tactical fighter wings and 1 composite wing comprise a total of 13 tactical fighter squadrons, 1 fighter-interceptor squadron, 1 all-weather squadron, 2 tactical reconnaissance squadrons, and 1 search and rescue squadron. The transport wing consists of 7 transport squadrons. All squadrons are considered to be operationally ready except those preparing for conversion to higher performance aircraft. The majority of tactical fighters have been modified to accommodate the SIDEWINDER (GAR-8) missile. Personnel strength of 87,000 includes about 2,130 trained pilots.

16. The capabilities of the CAF have been improved by the addition of Century-series supersonic fighters, and it could provide reasonably good air defense of Taiwan under daylight or clear air mass conditions. Air defense of the Taipei area is bolstered by a Nike-Hercules missile battalion and a Hawk missile battalion scheduled to become operational this year. The early warning radar coverage from ground installations on Taiwan and in the Penghus is fairly good and is being improved by the modernization of present equipment. Radars on Kinmen and Matsu provide valuable early warning information. The main weakness in air defense is the limited number of all-weather aircraft which are available. At present, only one squadron is equipped for all-weather defense. With the addition of two F-104G squadrons programmed to become operational in the near future, this weakness will be somewhat reduced. There are also important limitations in air control capa-

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bilities as air-defense communications still have inadequate capacity and quality to link air-defense weapons and control centers effectively. Although only a small number of photo-reconnaissance aircraft are available, CAF reconnaissance operations in regular missions against the mainland have proved to be outstanding. This capability will be further improved as RF-104G aircraft replace the RF-84F's which are scheduled for early phaseout.

17. In the event that US-GRC strategy should call for air defense of Taiwan and the Penghus by US air units, a number of Chinese Nationalist F-86F and F-100 day fighter aircraft could perform important tactical missions against mainland targets along with the F-104G's. The F-86F, equipped with two 200-gallon drop tanks and two 500-pound bombs, would have a combat radius of 300 n.m. on a hi-lo-hi mission profile. The F-100A aircraft, equipped with two 275-gallon drop tanks and two 500-pound bombs, flying the same profile, would have a combat radius of 310 n.m. The combat radius of the F-104G in the same profile, carrying 2,510 pounds of bombs and ammunition, is approximately 540 n.m. Mainland targets within these radii would be primarily airfields, control centers, radars, lines of communication, military installations, and targets of opportunity.

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INVENTORY OF AIRCRAFT AND MISSILES BY CONFIGURATION AND
ASSIGNMENT CHINESE AIR FORCE, GRC, AS OF 2 MARCH 1964

BASIC CONFIGURATION	MODEL	IN TACTICAL UNITS		INVENTORY TOTAL	
		JET	PROP	JET	PROP
Fighter.....	F-86D	12		16	
All Weather.....	F-104G *			10	
Day.....	F-86F	212		228	
	F-100A	63		60	
	F-100F	7		8	
	F-104A	15		18	
	F-104B	3		3	
Subtotal.....		312		352	
Reconnaissance.....	RF-84F	15		15	
	RF-101A	4		4	
	RF-104G ^b			8	
Subtotal.....		19		27	
Trainer.....	T-28A				21
	T-33A	16		45	
	TF-104G			6	
Subtotal.....		16		51	21
Transport.....	C-46A				1
	C-16D		72		70
	C-47A/B		16		21
	EC-47D				1
	C-119G		12		15
	C-118		1		1
	HU-16A		7		9
Subtotal.....			108		127
Helicopter.....	UH-19B		4		6
Subtotal.....			4		6
TOTALS.....		347	112	430	154
TOTAL ASSIGNED TO TACTICAL UNITS.....			450		
TOTAL INVENTORY.....					584
Surface-to-Air Missiles *		48		86 ^d	
Nike Hercules					

* Ten of 32 aircraft already delivered. Remaining 22 programmed for delivery by 31 May 1964.

^b Eight aircraft delivered in December 1963.

^c Missile group is manned and operated by the Chinese Army but is under the operational control of the CAF.

^d Twelve missiles in launching section of each of four batteries. Six missiles in storage and one under reprocessing at each battery. Ten missiles in storage at ordnance direct support unit (DSU).

EAST CHINA AND TAIWAN ARMY STRENGTHS 1 March 1964

— Road — Railroad
- - - Military region boundary

COMMUNIST

UNIT	STRENGTH
31st Army	48,000
83rd Div, 28th Army	15,000
28th Army Arty Regt	1,000
63rd AAA Div	4,000
64th AAA Div	2,600
3rd Arty Div	5,500
9th Arty Div	5,500
w/i Arty Div	5,500
w/i Arty Regt	1,500
80 BD Regt	2,000
84 BD Regt	2,000
TOTAL	92,600

FOOCHOW

UNIT	STRENGTH
28th Army (-)	33,000
65th AAA Div	2,600
13th BD Div	7,000
TOTAL	42,600

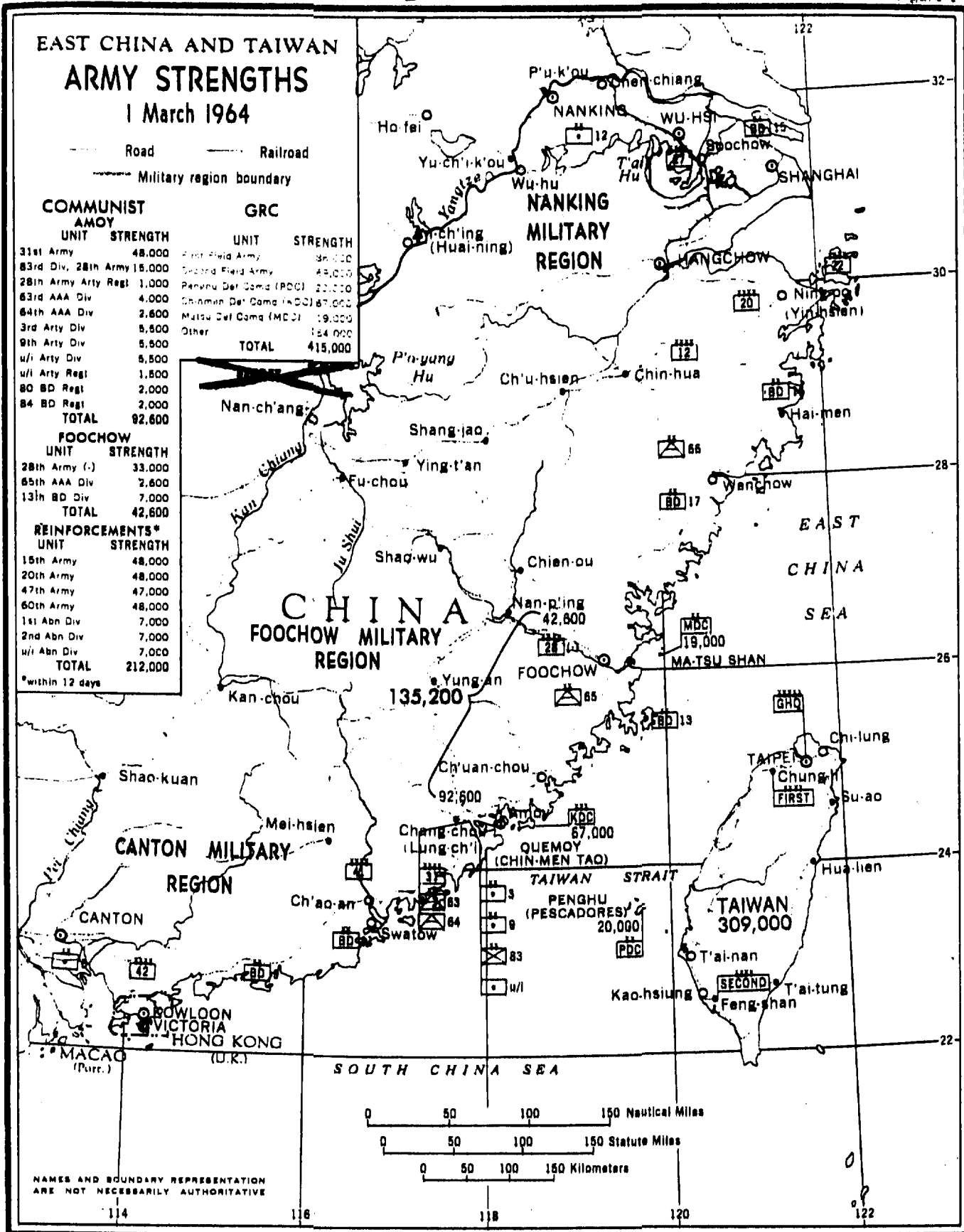
REINFORCEMENTS*

UNIT	STRENGTH
15th Army	48,000
20th Army	48,000
47th Army	47,000
60th Army	48,000
1st Abn Div	7,000
2nd Abn Div	7,000
w/i Abn Div	7,000
TOTAL	212,000

*within 12 days

GRC

UNIT	STRENGTH
First Field Army	38,000
Second Field Army	48,000
Pemhu Def Comd (PDC)	22,000
Shanmu Def Comd (SDC)	67,000
Matsu Def Comd (MDC)	19,000
Other	184,000
TOTAL	415,000







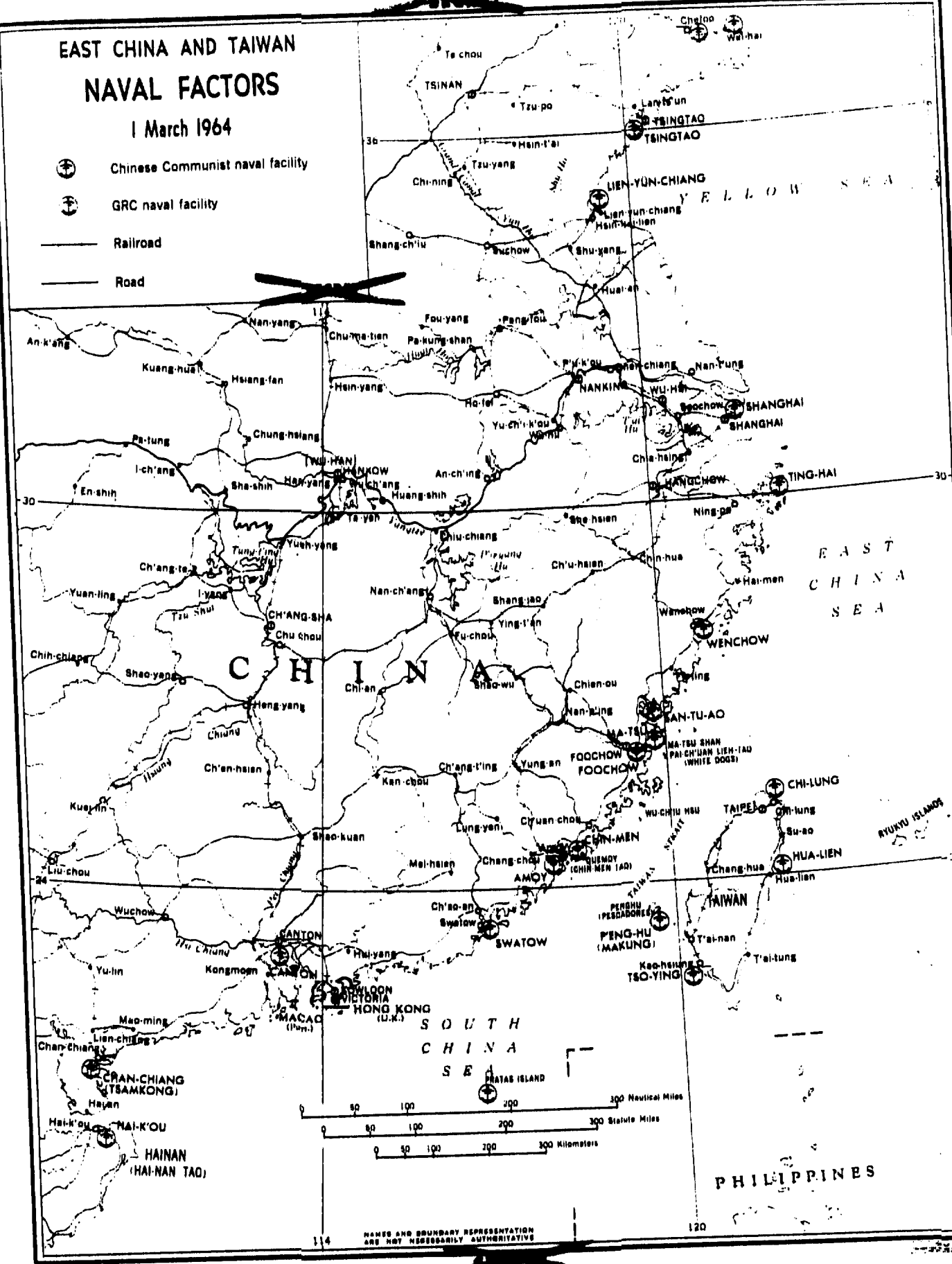
NAMES AND BOUNDARY REPRESENTATION ARE NOT NECESSARILY AUTHORITY

Figure 2

EAST CHINA AND TAIWAN NAVAL FACTORS

1 March 1964

-  Chinese Communist naval facility
-  GRC naval facility
-  Railroad
-  Road



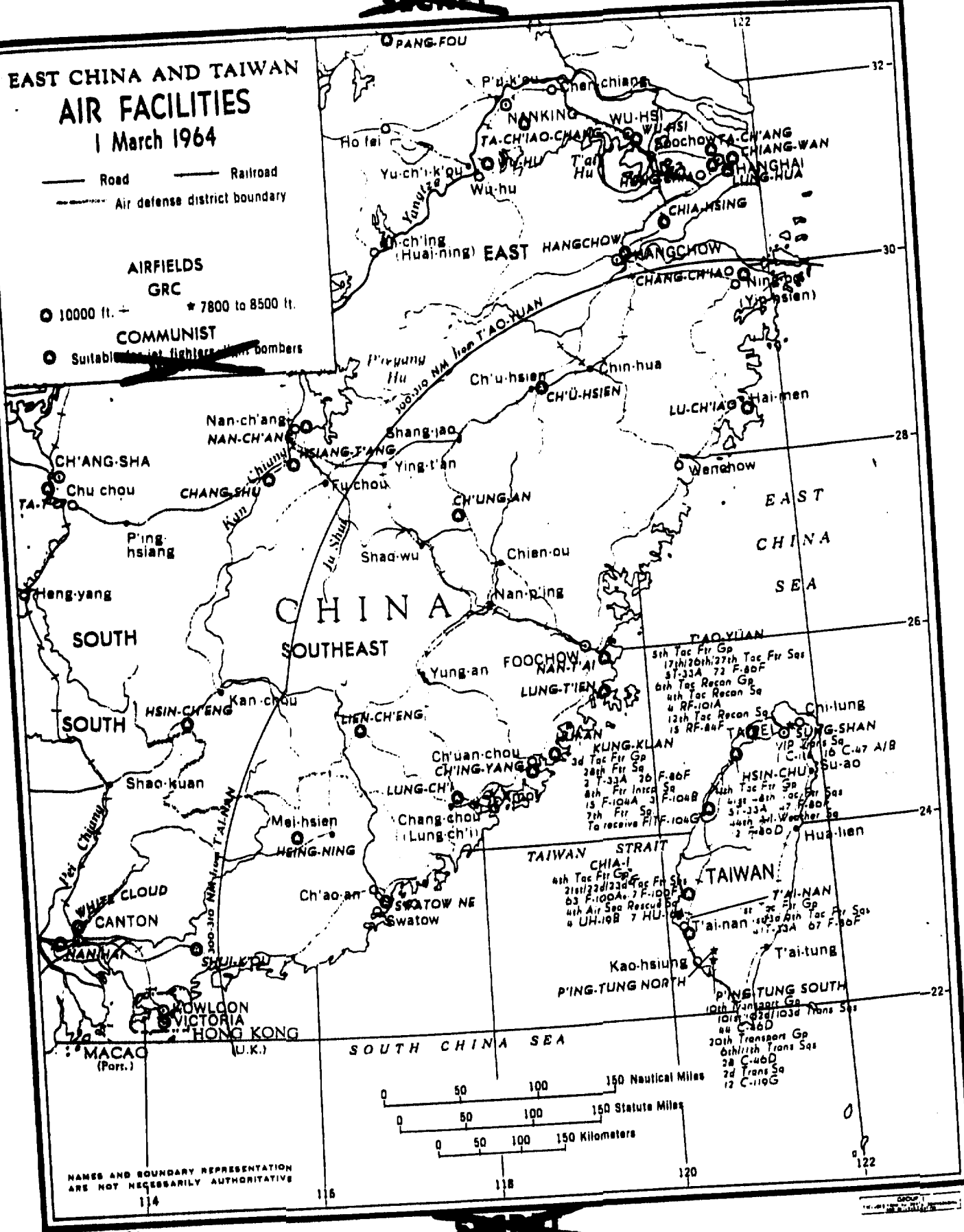
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Figure 3

EAST CHINA AND TAIWAN AIR FACILITIES 1 March 1964

— Road — Railroad
- - - - Air defense district boundary

AIRFIELDS
GRC
● 10000 ft. + * 7800 to 8500 ft.
COMMUNIST
● Suitable for jet fighters and bombers



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CHINA: OFFSHORE ISLANDS

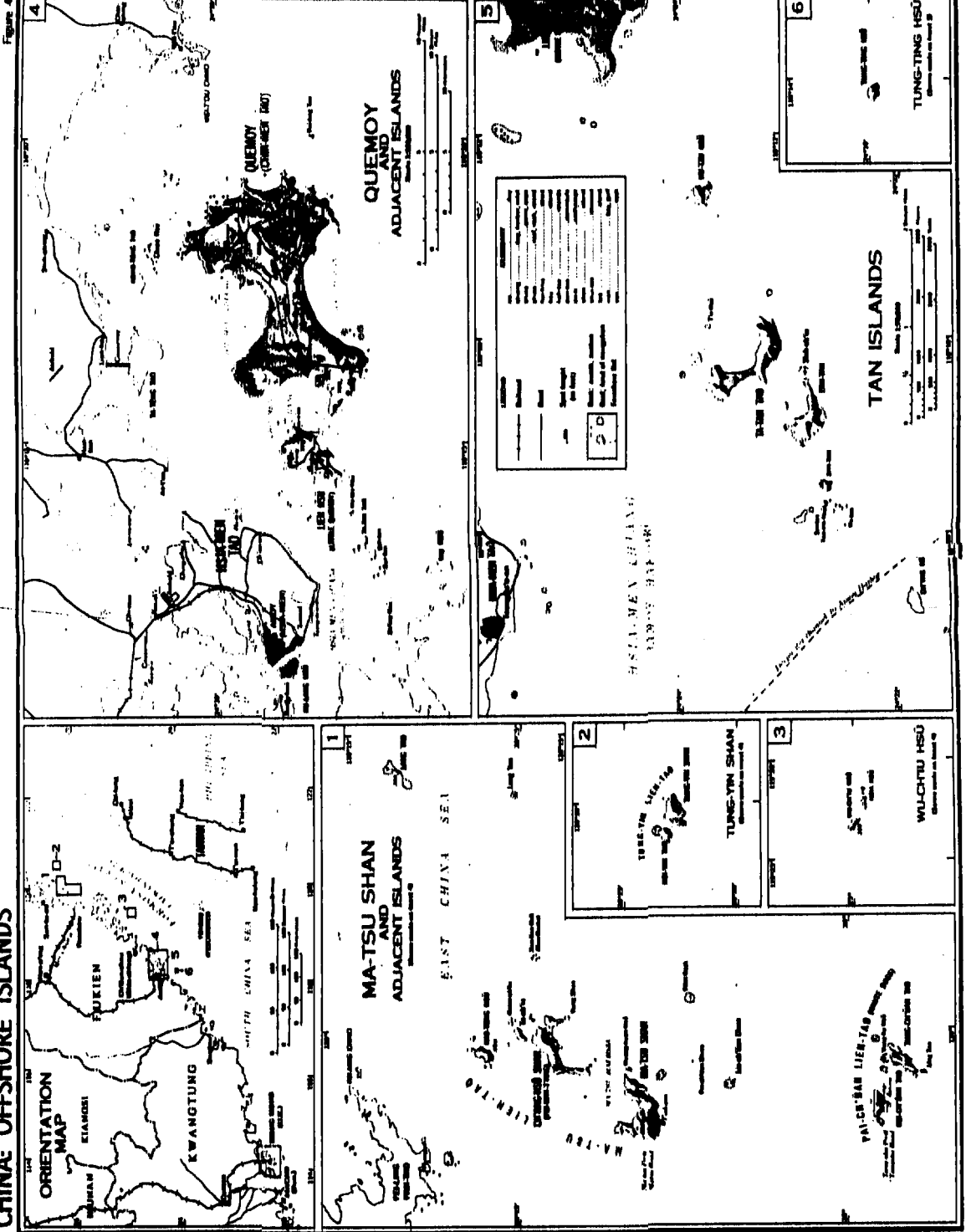


Figure 4

CENTRAL INTELLIGENCE AGENCY

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