

NIE 43-56
9 October 1956

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Nº 221

NATIONAL INTELLIGENCE ESTIMATE
NUMBER 43-56
(Supersedes NIE 43-55)

THE PROSPECTS OF THE GOVERNMENT OF
THE REPUBLIC OF CHINA

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

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 9 October 1956. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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DOCUMENT NO. 1
NO CHANGE IN CLASS. I
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE: 8 JUL 81 REVIEWER: GS14

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THE PROSPECTS OF THE GOVERNMENT OF THE REPUBLIC OF CHINA

THE PROBLEM

To estimate the present strength and weakness of the Government of the Republic of China and its prospects.

CONCLUSIONS

1. The Government of the Republic of China continues to exercise firm political control on Taiwan. With US assistance, an expanding economy has been maintained and the strength of the armed forces has been increased. At the same time, however, the international position of the National Government has declined, causing an increased feeling of insecurity and concern for the future.
2. So long as President Chiang remains in power no substantial change in Nationalist policy is likely to occur. Should he die prior to the expiration of his present term of office in 1960, Vice President Ch'en Ch'eng would probably succeed to the presidency without provoking internal disturbances. However, the difficulties that would confront the National Government internationally would be substantially increased and domestically Ch'en's authority would probably be increasingly contested by Chiang Ching-kuo, the elder son of President Chiang.
3. If present international trends persist, international acceptance of the National Government as the government of China and the prospects of realizing the objective of a return to the mainland will almost certainly continue to decline. Although the Chinese Nationalists almost certainly believe that the US will not assist them in an attempt to return to the mainland by force, the morale on Taiwan probably will not weaken critically so long as the people there remain confident of firm US support for the defense of Taiwan.
4. In the longer run, it is likely that evidence of growing prestige and material progress on the part of the Chinese Communists will have a serious impact upon the attitude of the people on Taiwan. Were this situation compounded by increased uncertainty on Taiwan over continued US support, the task of sustaining morale and loyalty might exceed the capabilities of Chiang or his eventual successor.

DISCUSSION

I. OBJECTIVES OF THE NATIONAL GOVERNMENT

5. The fundamental objectives of the National Government continue to be: (a) the recovery of power on the mainland and the destruction of the Chinese Communist regime, and (b) the preservation of its position as the legal government of China. The domestic and foreign policies of the National Government are strongly conditioned by these objectives and the Nationalist leadership continues to concentrate on matters which it considers to be directly related to these policies. The National Government recognizes, however, that the achievement of these objectives, as well as its very existence, depends on US support and assistance. Moreover, Chiang and his government almost certainly believe that it is unlikely the US could be persuaded to support a return to the mainland by force unless other circumstances impel the US to engage Communist China or the Communist Bloc in a major war.

6. Until such time as the situation becomes favorable for an invasion of the mainland, the National Government will continue to concentrate on the preservation of its position as the legal government of China and on the development of its military strength. To these ends, the National Government will seek to retain membership in the UN and other international bodies to the exclusion of the Chinese Communist representatives, to perpetuate the US alliance and obtain a US commitment for the defense of the offshore islands, and to maintain internal security.

II. RECENT DEVELOPMENTS

Political

7. There have been no recent significant changes in the domestic political scene on Taiwan. Chiang Kai-shek remains vigorous and continues to be the dominant figure in the government both as President and as the

leader of the Kuomintang. His term as President will expire in 1960, and thus far he has made no effort to have the constitution interpreted to make a third term legally possible. Even if Chiang should retire from the presidency it is unlikely that he will release effective control of the government so long as he retains his vigor.

8. Vice President Ch'en Ch'eng is the constitutional successor to the office of President in the event of the death of the Generalissimo. In this event, Ch'en Ch'eng, who has a strong personal following in the Kuomintang and the army, would probably succeed to the presidency without internal disturbance. However, no possible successor is likely to command either the internal or international prestige and influence that Chiang Kai-shek has wielded.

9. Ch'en's chief rival for power is Chiang Ching-kuo. In addition to his status as the elder son of President Chiang, he has a strong following in the army, the KMT, the Youth Corps, and in particular in the secret police. Chiang Ching-kuo would probably not contest Ch'en's succession as he would probably have difficulty in enlisting support from other Nationalist leaders in an attempt which would seriously weaken the domestic and international position of the National Government. He will, however, enjoy increased personal prestige as the natural successor to some of his father's personal power.

10. The Taiwanese exercise no appreciable influence in the making or execution of government policy and very few hold other than subordinate positions in the National Government or central KMT organization. With the countryside relatively prosperous and no specific grievances to serve as an incitement, and because of efficient security measures, the Taiwanese do not at present threaten internal security or the continued stability of the National Government. The induction of Tai-

wanese youth into the army has not provoked serious discontent. Although through the process of education and living together, individual relations between the Taiwanese and mainlanders have gradually improved, the development of active Taiwanese support for the National Government continues to be retarded by an emotional antipathy for mainland control and by restrictions on Taiwanese political opportunities.

11. Stringent security measures have prevented Communist subversion from developing as a threat to the stability of the government. Despite increased Chinese Communist propaganda efforts, during the past year known defectors to the mainland from Taiwan and the offshore islands have been few and generally of low rank.

12. Although morale on Taiwan is reasonably good because of the internal stability of the government and a standard of living high in Asian terms, it is tempered by an underlying uncertainty with regard to the future. Despite the National Government's continued public affirmation of its determination to return to the mainland, many mainlanders, probably including high officials, have become pessimistic over the prospects for continued international acceptance of their position as the legal government of China and for their ultimate return to the mainland. In part, this has resulted from the erosion of the international position of the National Government and from uncertainty with regard to future US support which has been fostered by events such as the continuation of the Geneva talks and by Chinese Communist propaganda. Moreover, there are indications of growing discontent and anti-American feeling among lower grade officials, younger army officers, white collar workers, and the intellectuals, most of whom have felt an economic pinch resulting from low salaries and diminishing savings. A number of mainlanders have also been experiencing a growing frustration over the lack of opportunity to improve their prospects on Taiwan, leading some of them to contrast conditions on the island unfavorably with Communist achievements on the main-

land. However, there are no indications that these factors have impaired the will of Nationalist leaders to resist Communism, or have reduced their ability to maintain firm control of Taiwan.

13. Although the National Government still maintains official relations with 41 countries and the Holy See (38 of which are UN members) the international position of the GRC suffered setbacks during the past year.¹ Since mid-1955, Egypt has withdrawn recognition of Nationalist China and together with Nepal, Syria, and Yemen, which had not established diplomatic relations with Nationalist China, has recognized the Peiping regime. This brings the total number of UN member states which recognize Communist China to 25 (of which eight are Communist states). Furthermore, there has been a considerable increase in the exchange of official and unofficial delegations between Communist China and many of the nations with which she does not have diplomatic ties. Moreover, support for the National Government among the overseas Chinese has, on balance, probably declined, in part because of lack of an effective, coordinated program to counter the large scale and energetically promoted Communist campaign to gain the support of the overseas Chinese. During the next few years, the Chinese Communists, at the expense of the Nationalists, will probably be recognized by additional countries and will probably gain further support from overseas Chinese.

The Taiwan Economy

14. The economy of Taiwan has expanded by 62 percent over the five year period since 1951 when US economic aid began being extended on a large scale. Taiwan's GNP in 1956 will probably rise by about eight percent over 1955, to US \$1.2 billion of which 89 percent will be domestic output and 11 percent US economic aid.²

¹ See Appendix A for a list of the countries recognizing Nationalist China and Communist China.

² In addition, the Nationalists received in FY 1956 under the MDAP Program military equipment valued at approximately \$200 million.

ECONOMIC INDICATORS ^a

Category	1951	1952	1953	1954	1955	1956 Estimate
Agricultural production index	100	122	119	120	120	129
Industrial production index	100	124	152	168	189	209
GNP in 1955 prices (millions of US dollars)	764	905	958	1,079	1,144	1,236
Per capita GNP (US dollars)	81	93	96	105	109	114
Wholesale price index	100	122	133	135	155	173 ^b

^a Sharp changes in the exchange rate during 1955 to correct the overvaluation of the Taiwan dollar have led to a reconsideration and a lowering of the US dollar values from those used in the economic indicators in NIE 43-55.

^b The wholesale price index has leveled off since December 1955, with the index for specific months moving as follows:

1955	1956
January	140
April	149
July	150
October	159
December	176
January	171
April	173
July	171

15. Although a severe spring drought in 1955 held farm output to the 1954 level, production in 1956 is expected to rise by seven percent, led by a 13 percent increase in rice. Industrial output in 1955 rose by 12.2 percent over 1954 and is expected to rise at a similar rate in 1956. Electric power availability is currently a limiting factor, but the shortage is being alleviated by the increase in installed capacity during 1955 from 392,000 KW to 493,000 KW, and the planned increase during 1956 and 1957 to 630,000 KW. In the past year there was little or no advance either in fertilizer or aluminum output owing to power restrictions, or in sugar and cotton textiles owing to lack of markets, but considerable progress was registered in petroleum refining, cement, pineapple canning, beverages, and tobacco products. Industrial output became more diversified with the inauguration of production of such products as window glass, high octane gasoline, fluorescent lamps, marine diesel engines, and aluminum foil.

16. Over the past five years Taiwan's exports have been little more than half of its imports,

and its imports ³ could not be greatly reduced without risking the disruption of domestic production. In 1955, owing to the depletion of foreign exchange reserves, it was necessary to impose stricter import controls and expand exports with special sales from rice stocks. With a record farm output in prospect, exports are being maintained in 1956, and with exchange reserves restored, a higher level of imports is in prospect.

TAIWAN'S EXTERNAL ACCOUNTS ^a

(in millions of US dollars)

	1951	1952	1953	1954	1955	1956 ^b (Jan-May)
Exports, f.o.b.	90	119	125	94	131	57
Imports, c.i.f.	150	217	200	211	193	99
Trade balance	-60	-98	-75	-117	-62	-42
Balance on current account	-60	-98	-85	-119	-71	n a
Grants from the US	+61	+92	+83	+85	+91	n a
Changes in gold and foreign exchange reserves (increase)	-11	-4	-17	+23	-25	2 ^c
Other transactions ^d	+10	+10	+19	+11	+5	n a

NOTE: From exchange settlement statistics adjusted to include aid imports. Calendar year data.

^a Sharp changes in the exchange rate during 1955 to correct the overvaluation of the Taiwan dollar have led to a reconsideration and a lowering of the US dollar values from those used in the economic indicators in NIE 43-55.

^b Unadjusted data as reported by Chinese government agencies to ICA.

^c January-April.

^d Including all capital transactions and errors and omissions.

17. Despite certain gains, the Taiwan economy continues to be under substantial strain primarily as a result of the large Nationalist military establishment. Inflationary pressures exist, in large part because of the diversion of nearly 40 percent of the gross national product to investment, military expenditures, and other government expenditures. The government's fiscal and credit controls have continued to improve, however, enabling the government to contain the sharp increase in price levels which occurred in 1955.

³ This does not refer to imports financed under MDAP.

18. Government expenditures increased sharply in the past year, but the government, with US prodding, has taken measures to expand its revenues, and with increased US counterpart aid, has kept the budget substantially in balance. During FY 1956 national and provincial expenditures increased by 32 percent over FY 1955, with military costs rising 46 percent and constituting 63 percent of the total. However, revenues rose 29 percent as the government increased tax rates, strengthened tax collection procedures, and developed new sources of revenue. The initial FY 1957 budget contemplates increased expenditures but provides for additional revenues, and it appears that the government is in a stronger fiscal position than it was a year ago.

19. Taiwan's inability to finance its import requirements from its own resources will continue to be the fundamental weakness of the Taiwan economy. Prospects for an increase in the traditional agricultural exports are limited for the near future. Moreover, while the industrialization program aims at replacing certain import requirements, the needs of a growing population and a rising standard of living will continue to keep the import demand high. Furthermore, the economic drain of the large modern military establishment places such an additional burden as to preclude the possibility of the economy becoming self-sustaining. The high rate of economic expansion maintained in the past five years stemmed in large part from rehabilitation measures and the drawing of idle capacity into production. Future increases in output are likely to be more expensive in terms of required investments. In this situation, the National Government can probably sustain an annual growth rate of four-five percent (the annual population growth rate is 2.75 percent) over the next few years but only if US economic and military assistance is maintained at approximately present levels, the total investment continues at about the present rate, and inflationary pressures are effectively contained.

Military Progress

20. The personnel strength of the Chinese Nationalist army is now 416,000.⁴ It is organized into two field armies, six corps headquarters, 21 infantry divisions, two light armored divisions, and miscellaneous units.

21. The army has continued to improve its capabilities. In the spring and summer of 1956 the army for the first time conducted two combined arms exercises at corps level. Army morale appears to be good generally and is not a limiting factor to army combat capabilities. A new conscription and retirement program is relieving the problem of overage and ineffective soldiers. Approximately 34,000 ineffectives have been retired or removed from the army rolls, and an additional 36,000 ineffectives are due for retirement. Under the new program, conscripts will serve two years in the army and five years in a reserve division.

22. The military leaders realize the difficulties which might arise from increased use of Taiwanese in their forces, and have given special attention to problems caused by the increase in the ratio of Taiwanese to mainland troops. Taiwanese recruits have been treated fairly and considerable efforts have been made to eliminate differences between them and the mainlanders.

23. The Chinese Nationalist air force has about 750 aircraft, the principal combat component being 270 jet aircraft (F86F fighters and F84G fighter-bombers) organized into five fighter-bomber groups, one light-bomber patrol group, two transport groups, one tactical reconnaissance squadron and one air-sea rescue squadron. The personnel strength is about 80,000, including about 1,560 pilots.⁵ Chinese Nationalist airfields and other facilities are capable of supporting any operations of the CNAF as presently constituted.

⁴This is an increase of 91,000 over the figure for 1955. This increase is largely due to a reduction of the Combined Service Forces and their transfer into the regular army and to the activation of the Reserve Command.

⁵This number is a decrease of 340 from the number of pilots accepted in 1955, due to reclassification by a USAF personnel evaluation team.

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24. Steady progress continues to be made toward the development of a small but well-trained modern air force. The capabilities of the jet fighter units are improving rapidly, as indicated by CNAF performance in recent combat operations with Chinese Communist fighters. The CNAF photo reconnaissance capability is excellent within a radius of about 400 nautical miles for the RF86F and about 800 nautical miles for the RF84F and the strength of the photo reconnaissance element is increasing. Nationalist radar capability has been extended to provide full search, height-finding, and tracking coverage of Taiwan and the Penghus, with supplementary search and surveillance of adjacent parts of the mainland from offshore islands. All phases of air defense have been integrated under the direct control of the Joint Operations Center which, in turn, is closely supervised by the US 13th Air Task Force (Provisional). The CNAF's capability and effectiveness for air support of amphibious operations, while recently improved, is still unsatisfactory.

25. The personnel strength of the Nationalist naval establishment totals about 55,000 including approximately 25,000 marines. The navy has three destroyers (DD), five escort vessels (DE), 28 other patrol-type craft, 10 mine vessels, 43 amphibious vessels, 17 auxiliaries, and 54 service craft. There is no naval air arm.

26. The GRC navy is primarily a defensive force with limited capabilities. Morale is rated only fair; discipline is weak. Over-all condition of material is satisfactory. The reorganization currently in progress should remove many of the past ills of the supply system. Both the ability to effect engineering, ordnance, and electronic repairs, and the quality of work of the shipyards have shown steady improvement. Equipment modernization is proceeding smoothly according to orderly plan. Technical and professional competence are improving. Progress in the basic training program is deemed highly satisfactory, but the navy is only now developing the sorely needed more advanced specialist training. Operational training has and will probably continue to increase over-all effectiveness at

a steady moderate pace. Principal GRC navy accomplishments of the past year were in the areas of organization and training; principal shortcomings are still in the areas of personnel management and in command. The marine corps is capable of planning and successfully executing an amphibious landing of full marine corps strength of one division and one brigade against light to moderate resistance, providing the necessary naval and air support could be provided.

27. The effectiveness of the GRC military establishment has been adversely affected by interference of political officers, and subordination of military plans and objectives to political considerations. There has also been too great a degree of centralization of authority. As a result, many military commanders have proven unwilling to assume responsibility for initiating action.

28. The Nationalist military establishment will probably continue to show some improvement during the next few years. While its present manpower levels will be maintained, there will be a considerable increase in the proportion of Taiwanese recruited for service, and a parity between Taiwanese and mainlanders will probably be reached by 1965. The increasing number of Taiwanese will probably improve the quality of the armed forces in terms of age, physical fitness, and education. However, despite continued improvement in military capabilities the Nationalists will continue to require US logistical, air, and naval support to successfully defend Taiwan and the Penghus.

III. THE OUTLOOK FOR THE GOVERNMENT OF THE REPUBLIC OF CHINA

29. The prospects of the National Government depend vitally upon US foreign policy. Provided the present US policy of support continues and the international situation remains substantially unchanged, the National Government at least for the next few years will probably be able to maintain its position on Taiwan, prevent the development of serious internal discontent, and promote gradual development of the island's economy. However, even with US support, the interna-

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tional position of the National Government will probably continue to deteriorate.

30. So long as President Chiang remains in power no substantial change in Nationalist policy is likely to occur. Should he die prior to the expiration of his present term of office in 1960, Vice President Ch'en Ch'eng would probably succeed to the presidency without provoking internal disturbances. As Ch'en does not possess Chiang's prestige, however, the difficulties that would confront the National Government internationally would be substantially increased and domestically Ch'en's authority would probably be increasingly contested by Chiang Ching-kuo.

31. With continued US aid at existing levels, the prospects appear good for sustaining a rate of economic growth of four to five percent annually, although the economy will continue under strain and will require effective management to maintain stability. The population probably will increase by 30 percent over the next decade and Taiwan will become far more urbanized and industrialized, and increasingly concerned with its foreign economic relations.

32. Belief in the reliability and efficacy of the US guarantees of the military defense of Taiwan against the Chinese Communists will continue to be basic to the will of the Nationalists to maintain their position on Taiwan and to the maintenance of internal security. Morale, however, may fluctuate greatly depending primarily on international developments. It would be seriously affected by the

admission of Communist China to the UN, or a serious military defeat resulting from a successful Communist seizure of the major offshore islands or to a lesser extent by a cease-fire in the Taiwan Strait imposed upon the Nationalists. Should one or more of these events occur, there would result serious damage to the prestige of the National Government and receptivity, particularly among the mainlanders, to Chinese Communist propaganda and the danger of disaffection would increase. In the short run, however, even the adverse effects of such developments would probably not destroy the will of the Nationalists to maintain their position on Taiwan provided Nationalist leaders do not lose faith in US guarantees.

33. The prospects of the National Government will in the future be increasingly affected by the image of Communist China and the life on the mainland that will develop on Taiwan. If Communist China continues its peaceful pose, avoids serious internal tensions, continues to make substantial domestic economic progress, and attains increased international recognition, an increasing number of mainland Chinese on Taiwan will be conditioned to look more favorably upon the Communist regime and upon the possibility of reaching some accommodation with it, particularly should social and economic strains on Taiwan increase. In the longer run, this would facilitate the growth of an organized subversive movement, which could severely test the National Government's security apparatus.

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APPENDIX A

DIPLOMATIC STATUS OF THE REPUBLIC OF CHINA AND OF COMMUNIST CHINA

UN Members

Recognizing National Government		Recognizing Communist China
Argentina	Iran	Afghanistan
Australia	Iraq	Albania
Belgium	Italy	Bulgaria
Bolivia	Lebanon	Burma
Brazil	Luxembourg	Ceylon
Cambodia	Mexico	Czechoslovakia
Canada	New Zealand	Egypt
Chile	Nicaragua	Denmark
Colombia	Panama	Finland
Costa Rica	Peru	Hungary
Cuba	Philippines	India
Dominican Republic	Portugal	Indonesia
Ecuador	Saudi Arabia	Israel
El Salvador	Spain	Nepal
France	Thailand	Netherlands
Greece	Turkey	Norway
Guatemala	Union of South Africa	Pakistan
Haiti	Venezuela	Poland
Honduras	United States	Rumania
		Sweden
		Syria
		United Kingdom ¹
		USSR
		Yugoslavia
		Yemen

UN Members not recognizing either country

Austria	Laos
Byelorussia	Liberia ²
Ethiopia	Libya
Iceland	Paraguay
Irish Republic	Ukraine
Jordan	Uruguay

Non-UN Members

Recognizing National Government	Recognizing Communist China
Holy See	East Germany
Japan	North Korea
Korea	North Vietnam
Vietnam	Outer Mongolia
	Switzerland

Non-UN Members not recognizing either country

German Federal Republic
Morocco
Sudan
Tunisia

¹ The UK maintains a consular post on Taiwan.

² Liberia and the Republic of China signed a Treaty of Friendship in 1937 and have discussed an exchange of diplomatic representation, but this has never taken place.

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