

~~CONFIDENTIAL~~  
TOP SECRET

A N N X

25 January 1949

**THE CURRENT SITUATION IN CHINA**

The Chinese Communists will probably soon establish a new government which will have a better claim than any Nationalist group to de facto recognition as the Government of China and which will seek de jure recognition. Organized Nationalist military resistance, on a national scale, has been destroyed and the final outcome of the civil war is no longer in doubt. Although the elimination of anti-Communist resistance in south and west China and in Taiwan is inevitable, obstacles of distance, terrain, and poor communications may require an extended period of Communist effort.

Chiang Kai-shek's "retirement" has left the Nanking Government little bargaining power with which to negotiate a favorable peace settlement with the Communists who are continuing to exert unremitting military pressure on Nanking. The capitulation of the Nanking Government or the complete failure of its peace efforts will probably be followed by renewed resistance by the large number of Nationalist leaders who have little chance of surviving under a Communist regime. All evidence indicates that some of these will form a new Nationalist center of anti-Communist resistance in south China and that Chiang Kai-shek will probably emerge from "retirement" to provide the necessary leadership. Such a development is suggested by: (a) the large-scale withdrawal of Nationalist military supplies and material resources to southeast China and Taiwan; and (b) the reshuffling of key officials in the area in order to place authority in the hands of persons definitely loyal to Chiang. The probable re-emergence of Chiang, who would still retain the title of President as well as the support of many officials in the present National Government, would permit his regime to claim continuing international recognition. This Nationalist group, convinced that World War III is inevitable, would continue to hope for sufficient foreign aid to resist the Communists.

~~CONFIDENTIAL~~  
TOP SECRET

#4  
*Communist Program*  
TOP SECRET  
CONFIDENTIAL

Despite Chiang's "retirement," the Communists still regard him as their principal enemy. Current Communist propaganda accuses the US and the Kuomintang of plotting to build up south China and Taiwan as bases from which "to destroy the revolution." Communist denunciation of Chiang's retirement as a tactical maneuver inspired by the US also reveals the genuine concern of the Communists over Chiang's prospects, with US aid, for delaying the realization of the Communist program for establishing control over all China.

TOP SECRET  
CONFIDENTIAL