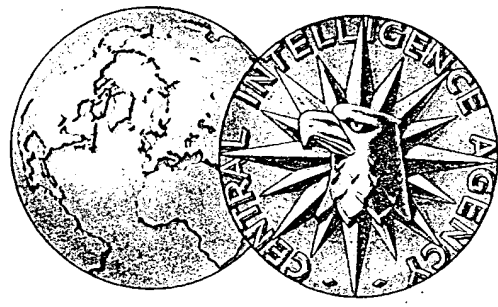


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PROBABLE DEVELOPMENTS IN TAIWAN



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PROBABLE DEVELOPMENTS IN TAIWAN

SUMMARY *

No Chinese Nationalist regime on Taiwan will effect political and military adjustments

* This paper, originally prepared in response to a specific request, is a reappraisal of the survival potential of the Chinese Nationalist regime on Taiwan in the light of US policy announcements that the US will not support Taiwan beyond the economic aid already given. This specific estimate has been made within the broader framework of the conclusions reached in ORE 76-49: "Taiwan remains the one non-Communist area of China where positive US military action could be effective in preventing Chinese Communist control and thereby directly serve important US strategic interests. Without major armed intervention, US political, economic, and logistic support of the present Nationalist Island regime cannot insure its indefinite survival as a non-Communist base. Communist capabilities are such that only extended US military occupation and control of Taiwan can prevent its eventual capture and subjugation by Chinese Communist forces. Falling US military occupation and control, a non-Communist regime on Taiwan probably will succumb to the Chinese Communists by the end of 1950."

sufficiently realistic to make possible a successful defense of Taiwan against a combination of internal and external threats. The basic economic situation on Taiwan is not of itself a source of serious dissatisfaction, but visible and latent disaffection among both the Taiwanese and Chinese, arising from a variety of other causes, is apparent. Such disaffection is a serious weakness in itself and provides a great potentiality for widespread Communist subversion. Limited military defections are known to be occurring. Substantial defections *en bloc* are to be expected in the event of an external attack. Considering these weaknesses of the Nationalist position on Taiwan and the military potentiality of the Chinese Communists, the latter are estimated to possess the capability for carrying out their frequently expressed intention of seizing Taiwan during 1950, and will probably do so during the period of June-December.

Note: The Intelligence Organization of the Department of State has concurred in this report; for dissents by the Departments of the Army, Navy, and the Air Force, see Enclosures A, B, and C, respectively. This report contains information available to CIA as of 16 February 1950.

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PROBABLE DEVELOPMENTS IN TAIWAN

1. Political Situation.

Taiwan, restored to the Chinese in 1945 after a half-century of Japanese rule, has been administered as a Chinese Nationalist province since May 1947.¹ It is now also the seat of the refugee National Government of China, which was transferred to the island from Szechwan on 8 December 1949. Although Chiang Kai-shek had been preparing the island as a final Nationalist refuge for more than a year, the transfer of the "provisional capital" to "Taipei, China" has brought additional remnants of Nationalist political and military units to Taiwan and places upon the defenders of that island virtually the whole burden of continued Nationalist resistance to the Chinese Communists.

The position of the National Government on Taiwan so far as control of the Taiwanese is concerned is relatively strong. Because of strong forces of disintegration now at work within the government and military establishment, however, an invasion could be expected to precipitate a quick collapse.

The presence of the refugee National Government of China on Taiwan probably will augment the disunity, inefficiency, defeatism, and other weaknesses which have spelled dis-

¹ Legally, Taiwan is not now regarded as a part of China. However, with the sanction of the principal powers, Taiwan has been under Chinese Nationalist administration since October 1945, in accord with the Cairo Declaration of 1 December 1943, in which the US, the UK, and China announced that "Manchuria, Formosa, and the Pescadores shall be restored to the Republic of China." The three powers reaffirmed the Cairo Declaration in the Potsdam Proclamation of 26 July 1945, which the USSR subsequently endorsed. Neither the US nor any other power, however, has formally recognized the annexation of Taiwan by China although the US has admitted and acquiesced in China's de facto control, and the island's legal status—like that of other Japanese-occupied territories in which the US and other participants in the war with Japan have an interest—remains to be determined in the negotiation of the Japanese peace treaty.

aster for the Nationalists on the mainland. Nationalist political control over the Taiwanese, however, which has been dependent for the most part on the presence of Nationalist garrison forces there, has been greatly augmented. Since the Communist crossing of the Yangtze in April 1949, many additional Nationalist Army units, as well as the Nationalist Navy and Air Force, have been concentrated on the island. The considerable weight of Nationalist armed forces on Taiwan assures the continuation of firm Nationalist political control and the maintenance of satisfactory internal security so long as factors making for disruption do not combine and increase considerably in strength.

Disunity, a major obstacle in the path of Nationalist efforts toward stability on Taiwan, has been demonstrated recently by conflicts over such issues as reform, defense preparations, and attempted shifts in the allotment of military and political power. This factionalism, which is acute in both military and political circles, probably will be concealed in the immediate future in order to present a united Nationalist front for the solicitation of US aid.

The political maneuvering of Chiang Kai-shek to perpetuate his personal control over the remaining National Government and Kuomintang machinery has contributed greatly to disunity. The struggle for power between the "old guard" in the Kuomintang and the more moderate elements probably will be intensified as Chiang attempts a fiction of reform without upsetting the balance among the adherents upon whom his personal power depends. As affairs in Taiwan continue to degenerate, existing factionalism can be expected to assume open forms.

Various reports during recent months, for example, have indicated that Sun Li-jen, the US-educated general charged with Taiwan's defense, has been planning a *coup d'état* aimed at the preservation of Chiang as a

figurehead and the simultaneous liquidation of most of Chiang's close associates. A number of factors militate against the probability of such an attempt at present. Rumors of the contemplated move have been widely disseminated and are known to Chiang's entourage. Also, Sun's political inexperience and his lack of influence with important political and military leaders suggest his probable inability to undertake such a revolt. Finally, Sun would be unlikely to attempt a coup in any case, without tangible assurance of US support.

The appointment of K. C. Wu, former mayor of Shanghai, as Provincial Governor of Taiwan—though advertised as evidence of intended reform of the provincial administration under civilian control—is expected neither to lead to reforms nor to keep down the inevitable conflict between the provincial and the national governments. Regardless of Wu's administrative ability and experience, he is seriously hampered by the opposition of the former Governor, old-line generals, and Kuomintang leaders, all of whom are well entrenched in the national and provincial governments. Wu has found that his authority is limited to civilian affairs on the provincial level, and he is also restricted by the presence in Taiwan of the Nationalist Government and the ruling KMT cliques.

Within even this limited field of authority, Governor Wu is further restricted by the influence of Chiang Kai-shek. Chiang's control of the National Government and Party machinery, now reduced to its most loyal core, is still strong; moreover, Chiang will not willingly relinquish his active role as leader of the Nationalists. In addition, Wu has a long record of loyalty to Chiang, for whom he has been an ardent apologist. It is improbable, therefore, that Wu will be able to act independently of Chiang in any matter of importance.

2. Economic Situation.

Despite the increase in the island's population during the past year, Taiwan has a food surplus and will continue to have so long as fertilizer imports continue. Industrial recovery since VJ-Day has been substantial. If

the government is to realize the full benefits of agricultural and industrial recovery, however, favorable foreign trade relations and efficient trading institutions will have to be established.

The Nationalist fiscal situation is deteriorating, and eventually the continuing budgetary deficits are expected to wipe out the government's holdings in specie and foreign exchange. Despite this fact, Nationalist financial resources probably are adequate to permit continued operations through 1950, and the basic economic situation in Taiwan offers no immediate threat to internal security.¹

3. Military Situation.

a. Strength, Composition, and Disposition of Nationalist Forces.

The present military strength reported to be under the control of the Taiwan regime totals 416,000, of whom 295,000 are Army, 81,000 Air Force, and 40,000 Navy (including 8,600 Marines). Of the Army's 35 infantry divisions (5 to 10 thousand men per division), approximately one-half are located in the Chou-shan Islands and on Quemoy Island. The remainder, including approximately 23,000 Armored Force Personnel and 6,000 troops of the Artillery Command, are located on Taiwan and the Pescadores.

The Nationalist Navy has 17 combat vessels in operation (including 7 deployed between Shanghai and Foochow) and 21 vessels under repair. All naval operations are based on Taiwan. The largest units are former Japanese destroyers. In addition to these 38 ships, the Nationalists have a comparatively large number of auxiliary vessels and smaller craft available for patrol operations.

The Nationalist Air Force is composed of two Light Bomber Groups, four Fighter Groups, two Transport Groups, and one Photo-reconnaissance Squadron. All Air Force units are based on Taiwan. An estimated 428 aircraft, with a 60 percent serviceability rate, are assigned to tactical units. A few fighter and bomber aircraft are rotated for operations from an advance base in the Chou-shan archi-

¹A detailed statement of the current economic situation on Taiwan is set forth in the Appendix.

pelago, and special operations are conducted from other remaining Nationalist bases near Amoy and on Hainan Island.

b. Nationalist Military Capabilities and Limitations.

In the present Chinese Nationalist military organization no provision is made for inter-service coordination below the level of the Generalissimo. Chiang jealously guards his control over subordinates, even those of lesser rank, by playing one against another in competition for his personal favor. Coordination can be obtained only through Chiang whose past record is one of politically motivated meddling in tactical operations. The possibility of achieving an effective coordinated effort among Nationalist armed forces through the supervisory direction of Chiang himself appears unrealizable. With or without Chiang, such coordination cannot be realized so long as politics plays its traditionally dominant role in Chinese military organization.

(1) *Army.*

Individually, the troops commanded by the Chinese Nationalist regime on Taiwan are good raw material. The resources available to the Nationalist regime (which include substantial stocks of individual arms, automatic weapons, light artillery, ammunition, other materiel, some arsenal capacity, and monetary reserves) are potentially adequate to equip and to maintain these troops both for foreseeable internal security requirements and for a major defensive operation. Actually, however, Nationalist troops and units are inadequately equipped, trained, and led. Needed materiel is held in disorganized depots and dumps, and there is no system for the control and distribution of supplies.

The Nationalist officer corps is professionally inept. Advancement is by favor rather than by merit, and loyalties tend to be personal rather than organizational or national.

Factional splits in the Nationalist high command preclude proper exercise of leadership in any of the services. The pattern of divided responsibility and overlapping authority, for example, has blocked the efforts of General Sun Li-jen—regarded by some US observers to be the most capable Nationalist Army of-

ficer from a professional standpoint—to conduct basic unit training programs and otherwise bolster Taiwan's military defenses. While nominally the paramount commander of the island's ground defenses, Sun does not control all Taiwan's troops, is denied adequate resources, and is disliked and distrusted by the generals of the Whampoa clique who enjoy Generalissimo Chiang's confidence.

There are indications of Chinese Communist efforts to infiltrate and to disaffect Nationalist forces on Taiwan, and the chances are that these efforts will eventually succeed. The Nationalist Army is ripe for Communist infiltration and subversion. Successive defeats on the mainland have lessened the Nationalist will to fight, and disaffection can be expected to appear among a majority of the Nationalist troops when confronted with the threat of attack. Military unit defections will occur when, but not until, the military leaders deem such action expedient.

(2) *Navy.*

So far as numbers of ships and personnel are concerned, the Nationalist Navy is presently adequate for a defense of Taiwan against a major Chinese Communist amphibious assault. Fuel requirements could be satisfied in an emergency; factional strife, which exists between the old Navy clique and the Commander in Chief, an ex-Army man, does not constitute an insoluble problem. For continued success against a Communist assault, however, the Nationalist Navy will have to depend on four factors, all of which are uncertain:

- (a) Adequate maintenance of vessels;
- (b) Adequate planning and performance of operations;
- (c) Coordination of efforts with ground and air forces, especially in the matter of coordination with air reconnaissance and support;
- (d) Individual loyalty and willingness to fight.

Nationalist vessels now on patrol stand in need of many minor repairs. If current operations are continued, these minor requirements will become serious problems within six months, at which time the greater part of the Nationalist Navy will be immobilized.

~~SECRET~~*(3) Air Force.*

Nationalist Air Force operations are dependent upon foreign sources of logistic support, and to a degree upon those individuals in the Air Force who received US training. Maintenance facilities are limited and the spare parts shortage, partially the result of an inadequate supply system, has led to the common practice of aircraft cannibalization. Although significant aircraft reserves are now limited to transport and Mosquito (light bomber) aircraft, the recent receipt of forty-five F-51 aircraft has improved the immediate fighter capabilities of the CNAF. Eight B-25's have also been delivered to the Nationalists since September 1949. Fuel on hand is estimated to be adequate for 5½ months' operations at the current rate of expenditure, and air facilities on Taiwan are adequate for operations.

Air Force operations during the major Communist advances on the Chinese mainland were generally ineffective. Although weaknesses in maintenance and supply were attributable in large part to administrative ineptness and poor tactical techniques, including unsatisfactory pilot and crew briefings, weak command structure and a lack of inter-service cooperation were equally important. Most important of all was the lack of will to fight.

Since June 1949, when the Air Force withdrawal to Taiwan was completed, the Nationalist Air Force has shown improvement in operations against transport and industrial targets, mostly in the Shanghai-Nanking area, and against other targets in the "blockade" of Shanghai and the defense of the Chou-shan Islands. As to the "blockade," it is probable that the threat of air action rather than any outstanding record of actual interceptions has been the principal contribution of the Air Force. While reports on effective air participation in the defense of the Chou-shan Islands indicate a potential for local cooperation, the problems of cooperation involved in a protracted defense of Taiwan would not be comparable either in the degree or continuity of inter-service cooperation required.

The Air Force, under the leadership of a non-flying ex-Army officer, reports directly to Generalissimo Chiang, but the two deputy

commanders also enjoy the personal favor of Chiang. As a result, in the event of disagreement within the Air Force high command, contradictory orders reportedly are often issued by the commanding General and his operational deputy, as coming directly from Generalissimo Chiang.

Past defections in the Air Force, though not large-scale, indicate successful Communist exploitation of low morale among some CNAF personnel. The present limitation of missions to those flight personnel whose families are resident in Taiwan indicates continued Air Force concern over the prevention of further defections. During the past six months, however, the morale of the flying crews is reported to have improved.

The operational air strength consists of 174 fighters, 91 light bombers, 13 reconnaissance planes, and 148 transports. Current National Air Force capabilities against a Communist assault on Taiwan are considered good. It is estimated that with the present stocks of fuel and ammunition, and current aircraft condition, the Air Force is capable of conducting 12,230 sorties with combat aircraft and 2,500 sorties with transport aircraft. At the present rate of operations, this total capability will be heavily dissipated by mid-1950.

4. Communist Intentions and Capabilities with Respect to Taiwan.

a. Objectives.

The Chinese Communist intention to gain control over Taiwan was announced in January 1949 when the Communists designated the island as one of sixteen key areas eventually to be "liberated" from Nationalist rule, and the intention to take the island in 1950 has been strongly reiterated. The mission has been assigned to the Commander of the East China field forces. Communist propaganda has emphasized Taiwan's involuntary role as Chiang Kai-shek's last fortress and has reiterated that Communist forces must occupy the island, both to end the Nationalist blockade of mainland ports and to destroy the last vestige of Chiang's regime. This propaganda has also exploited the theme of US "imperialist" designs on Taiwan and has expressed concern lest action by some outside power or

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group of powers interfere with the Communist occupation and administration of the island.

b. Capabilities.

(1) Infiltration and Subversion.

Although the progress of Communist penetration in Taiwan cannot be estimated with precision, it is believed to be at present still in the early stages among the military and civilian population. Although the Taiwanese themselves are anti-Communist, their dislike for the Nationalists, together with their political immaturity, renders them susceptible to Communist propaganda.

Communist penetration of Taiwan probably will increase as the Communist military preparations progress. Low morale already prevails in many Nationalist naval, air, and ground units. Nearly all the Chinese have home and families in mainland China, and there exists a generally hopeless outlook for long-term Nationalist resistance. Moreover, the Chinese population in Taiwan, military and civil, may perceive possible advantages to be derived from accommodation with the Communists. For these reasons, the Chinese population is considered to be generally vulnerable to Communist infiltration and subversion. Likewise, many Taiwanese may decide to assist in the overthrow of the Nationalists, in the desperate hope of an improved lot under the Communists.

(2) Military Capabilities.

(a) Strength, Composition, and Disposition of Communist Forces.

The Army represents almost the entire Chinese Communist military strength. For purposes of this discussion, Communist army forces of concern are those of the East China Field Forces, largely infantry troops, supported by light artillery, roughly grouped in two sub-areas:

Nanking-Shanghai-Hangchow, Ningpo area	292,000
Amoy area	54,000
	<hr style="width: 10%; margin-left: auto; margin-right: 0;"/>
TOTAL	346,000

In addition, Communist military manpower reserves are sufficient to allow any necessary reinforcement of these forces.

The Chinese Communist Navy, made up of units and personnel defected from the Nationalist Navy, possesses or can obtain three operational destroyer escorts, 70-75 landing craft of various types, numerous barges and tugs, as well as 90 ex-UNRRA fishing trawlers, most of which are suitable only for water-lift. Prospects for expansion are dependent on (1) further Nationalist defections and (2) rehabilitation of the light cruiser *Chungking* which, although damaged by Nationalist air attack at Hulutao, may have been refloated and may now be undergoing repairs at Dairen. There is also the possibility of direct Soviet naval assistance, overt or covert.

The Chinese Communist Air Force is an uncertain factor. Although the CCAF has not been observed in tactical operations, reports of training activity in Manchuria since early 1947, Nationalist defections of aircraft, pilots, and technicians, and the possibility of Soviet advisory and logistical assistance all lead to the conclusion that the Chinese Communists have at least an air force which might be employed as a "one shot" threat against Taiwan in actual, limited support of an amphibious operation. As in the case of the Navy, the Communist Air Force might be bolstered by further Nationalist defections or by more direct Soviet support.

(b) Capabilities and Limitations of Communist Forces.

Troop dispositions of the Chinese Communist East China Field Forces constitute a land force adequate in number and fighting quality to overcome the Nationalist Army Forces on Taiwan once landings in force have been made. Weapons and ammunition do not constitute any particular problem for the Communists. Moreover, they have available sufficient powered landing-craft to transport at least 60,000 troops on a single lift. These means for transport can be augmented by improvising native craft if needed and some additional landing-craft may be purchased from abroad.

The most apparent Communist military limitations are deficiencies in supporting air and naval forces necessary for escort of an amphibious operation. However, in view of the

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serious Nationalist weaknesses, these Communist deficiencies are more apparent than real. Basically, Taiwan's defenses are weakened by the factors of disunity and ineptness and by tendencies toward defection. In addition, the defense of Quemoy and Chou-shan Islands has weakened and is further dissipating the military strength on Taiwan and concomitantly is providing the Nationalists with a false sense of security. The Communists can furthermore so exploit their capabilities for subversion, infiltration, and sabotage on Taiwan as to cause key Nationalist military defections and otherwise neutralize important Nationalist defenses at a critical time. It is unlikely that progress of Communist preparations to bring about a Nationalist collapse by

these means will be strongly in evidence before that critical time arrives.

In an operation against Taiwan, the Communists will select the optimum timing consistent with political considerations and relative military capabilities (a product of their own growing capabilities and a waning Nationalist military potential). This optimum period will probably extend from June to December 1950. Other factors such as substantial Soviet assistance or pressures growing out of current Nationalist military operations might cause an advance in the Communist timetable. Meteorological considerations would indicate an operation either just before or after the June-September typhoon season.

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APPENDIX

THE ECONOMIC SITUATION

1. Agriculture.

Taiwan's 1949 harvests eliminate the possibility that a food shortage will threaten the National Government. The rice crop in 1949 is estimated at 1.2 million tons, approximately the same as in 1948.¹ With increased acreage, rice production in 1950 is expected to exceed that of 1949. Sweet potatoes, the other basic foodstuff of the island, will also be in ample supply. Moreover, current Taiwanese food surpluses are not being drained off to the mainland, a fact that improves the island's foreign trading position.

Continued agricultural surpluses are dependent, however, on the availability of fertilizer, and ECA has been supplying an important proportion of Taiwan's fertilizer requirements. Although local fertilizer production is increasing, it is insufficient to meet these requirements, and Taiwan's future agricultural prosperity will demand continued supplies of foreign fertilizer.

While recent reports indicate some improvement in Chinese administration, particularly in regard to the 1949 land reform program, with a consequent lessening of the burden on the farm population, the National Government of China is faced with the necessity of imposing heavy rice requisitions on the farmers to feed the army and civilian additions to the island's population.

2. Industry and Foreign Trade.

Despite evidences of Nationalist maladministration, industrial production, which is almost entirely a government responsibility in Taiwan, has shown a substantial recovery since

¹ The 1948 rice harvest provided an exportable surplus of perhaps 100,000 tons, most of which was smuggled to the mainland. Although the island's population has increased during the past year, the 1949 crop will provide a surplus over domestic food requirements.

VJ-Day. All industries, including sugar, coal, salt, cement, electric power, and fertilizer, are producing in larger quantities now than they were in the years immediately after the Japanese surrender. Although over-all production is still below wartime records, some industries have exceeded prewar levels and the output of fertilizers exceeds even wartime levels.

Industrial output, like agricultural production, will probably be maintained or increased in the coming year, if Taiwan does not become a theater of war. For the present, Taiwan has adequate domestic resources. Exportable surpluses of sugar as well as other items like tea, coal, fruits, and salt—together with ECA funds—will provide the means for importing such essential supplies as fertilizers, raw cotton, textiles, petroleum, and machinery.

Foreign trade, however, forms a large segment of the Taiwanese economy, and the productivity of this economy will depend upon the establishment of favorable foreign trade relations and of efficient trading institutions. Until this is accomplished—and only a start in this direction has been made—the benefits to the Nationalist regime resulting from the physical recovery of agricultural and industrial output must be regarded as largely potential rather than realized.

3. Finance.

The most unfavorable aspect of the economic situation on Taiwan is the Nationalists' financial plight. The island, with a population of about seven million, offers a limited potential for tax revenues. In order to support the increased civil staff transferred from the mainland, as well as the island's heavy military establishment, the national and provincial governments are necessarily incurring deficits. To meet these deficits, the Nationalists are dipping into their specie and foreign exchange reserves. Reports from the US Fed-

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eral Reserve System on official Chinese dollar holdings in the US, together with less reliable information on the size of Generalissimo Chiang's gold hoard in Taiwan, indicate that the Nationalists may have had as much as \$100 million in specie and foreign exchange reserves at the beginning of 1950. With these financial resources, the Nationalist regime can

probably continue through the current year. Ultimately, however, these reserves will be dissipated. The financial solvency of the National Government of China will thus be threatened and, in the event that Nationalist armies are engaged in effective resistance over a prolonged period, additional foreign economic assistance may be required.

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ENCLOSURE A

DISSENT BY THE INTELLIGENCE DIVISION, DEPARTMENT OF THE ARMY

The Intelligence Division of the Department of the Army dissents for the following reasons:

1. The study overemphasizes and misrepresents the extent of internal disaffection and subversion in Taiwan. Field intelligence of the past six months indicates an improvement of morale among military forces in Taiwan, as well as increased effectiveness of anti-subversive activities on the Island.

2. The treatment of the political and economic sections of the study appear to be mutually inconsistent, particularly for an esti-

mate of an Asiatic area. The former portrays a rather dismal situation, whereas in the latter, the situation is described as fairly stable. Since the economic capability of the Island is not given sufficient recognition in the political analysis of the subject, it is felt that the negative aspects of the political situation are overstressed.

3. The estimate does not take into account the current and possibly continuing adverse conditions on the mainland which might retard the Communist timetable for an invasion attempt of Taiwan.

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ENCLOSURE B

DISSENT OF THE OFFICE OF NAVAL INTELLIGENCE

The Office of Naval Intelligence dissents from ORE 7-50 because certain factors affecting Nationalist and Communist capabilities in the estimate are overemphasized, while other factors are misinterpreted. Since the factors are overemphasized and misinterpreted in fa-

vor of the Chinese Communist capabilities, the conclusions as drawn are considered to be erroneous and the Chinese Nationalist capabilities to resist an invasion of Taiwan are underestimated.

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ENCLOSURE C

DISSENT BY THE DIRECTOR OF INTELLIGENCE, UNITED STATES AIR FORCE

The Director of Intelligence, United States Air Force, dissents for the following reason:

The Chinese Communist capability of seizing Taiwan is dependent primarily on the degree of outside assistance they can obtain in

building up the air and naval strengths required to support a large scale amphibious operation. It is estimated that the lack of naval and air power will delay the Communist assault against Taiwan until late 1950 or early 1951.

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