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PROSPECTS FOR THE GOVERNMENT
OF THE REPUBLIC OF CHINA

Superseded by 43-61

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
UNITED STATES INTELLIGENCE BOARD

on 17 November 1959. Concurring were the Director of Intelligence and Research, Department of State; the Assistant Chief of Staff for Intelligence, Department of the Army; the Assistant Chief of Naval Operations for Intelligence, Department of the Navy; the Assistant Chief of Staff, Intelligence, USAF; the Director for Intelligence, The Joint Staff; the Assistant to the Secretary of Defense, Special Operations; and the Director of the National Security Agency. The Atomic Energy Commission Representative to the USIB, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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PROSPECTS FOR THE GOVERNMENT OF THE REPUBLIC OF CHINA

THE PROBLEM

To estimate the strengths, weakness, and prospects of the Government of the Republic of China, with particular reference to both its international position and its position on Taiwan.

CONCLUSIONS

1. The past two years have been good ones for the Government of the Republic of China (GRC). Its international standing has benefited by its military showing during the 1958 Taiwan Strait crisis and by the truculence and brutality of its Chinese Communist rival. The GRC is supported, at least passively, by most of the inhabitants of Taiwan, who continue to enjoy one of the highest standards of living in Asia. (*Paras. 11, 15, 26*)
2. Nevertheless, the GRC is faced with a basic problem in that the demands of preserving the GRC as the government for all of China and effecting its return to the mainland compete with the requirements of building a viable economic and political structure on Taiwan. (*Para. 10*)
3. If present trends continue, the prospect is for modest economic improvement for at least the next two years, although the rate may slow somewhat. As long as the military establishment requires a major portion of Taiwan's resources, the economy will remain heavily dependent on outside assistance. Over the longer
- run, however, any regime on Taiwan will almost certainly be faced with serious economic problems stemming largely from the rapid population growth. A decrease in the standard of living would create political difficulties for the GRC. (*Para. 20*)
4. Although, given continuing US naval and air support, Taiwan could be defended with smaller ground forces than now maintained, the GRC considers that any serious reduction in its armed forces would cast doubt on the concept of return to the mainland. GRC leaders recognize that existing forces are not capable of a successful invasion under present conditions, and we believe it unlikely that an invasion would be undertaken without prior US concurrence. There have been, however, recent indications that Chiang has been considering the training of a special force of approximately 30,000 paratroopers for possible use in exploiting any widespread anti-Communist uprising that might occur or be fomented on the mainland. (*Para. 21*)

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5. The GRC is especially sensitive to indications of an eventual US-Soviet *detente* and fears that the US may sacrifice GRC interests whenever it may seem desirable in the larger interests of the US to do so. (Para. 24)

6. We believe that with strong US support the GRC will be able to hold its present position in the UN for the next two or three years. However, it is possible that this position might collapse before then, especially if Communist China refrains from further aggressive actions. (Para. 27)

7. We believe that, provided the US continued to guarantee Taiwan's security,

the GRC would be able to survive the loss of its position in the UN and such other vicissitudes as the death of Chiang Kai-shek and even the loss of the offshore islands. The death of Chiang Kai-shek would accelerate the domestic trend toward concentration on the problems of Taiwan and the international growth of sentiment for a "two-Chinas" solution, but it would not critically weaken the stability of the GRC. The loss of the offshore islands would be a severe blow to Chinese Nationalist morale but we believe that the GRC would hold together and would be able to maintain firm control over Taiwan. (Paras. 28-35)

DISCUSSION

I. INTRODUCTION

8. The prospects of the Government of the Republic of China (GRC) in both the international and domestic arenas depend in large measure on factors over which it exercises little or no control. Its existence is threatened by a powerful and well entrenched regime on the mainland, which has as one of its primary objectives the destruction of the GRC and the seizure of Taiwan. The GRC could not survive without US military and economic assistance, and its international position could not be maintained without US diplomatic support. GRC prospects for re-establishing itself as the effective government of mainland China depend almost entirely on developments on the mainland, which the GRC itself can do little to influence. On Taiwan itself, there is some scope for constructive initiative by the GRC but even here the pressure of a growing population on limited land and resources, the burden of military expenditures, and reliance on outside aid greatly narrow the regime's range of choices.

9. The basic objective of the GRC is to preserve its identity as a national government—the government of all China, not merely of the island of Taiwan; and all its major foreign and domestic policies stem from or are subordinated to this objective. The GRC continues to stress its mission of regaining control of mainland China, contending that the solidarity and esprit of the regime largely rest on this objective; it insists that the offshore islands be defended; and it maintains a large military establishment, in hopes of exploiting the first opportunity to return to the mainland.

10. The GRC is recognized by a majority of nations and it holds a seat as a permanent member of the Security Council of the United Nations. Nevertheless, its actual power extends only to Taiwan and a few smaller islands.¹ The modest resources of this small

¹These islands are: (a) the P'eng-hus (Pescadores); (b) a few islands along the Fukien coast (chiefly the Chinmen and Matsu groups); (c) Pratas (about 200 miles east-southeast of Hong Kong); and (d) Itu Aba (about 500 miles east of Saigon, in the Spratley group).

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domain are wholly inadequate to support the larger ambitions of the regime. The GRC is faced with a basic problem in that the demands of preserving the GRC as the government for all of China and of effecting its return to the mainland compete with the requirements of building a viable economic and political structure on Taiwan.

II. TRENDS AND PROBLEMS

A. Political

11. Since the last National Intelligence Estimate dealing with the prospects of the Chinese Nationalists,² no major changes have taken place in either the international status or the internal affairs of the GRC. It remains one of the most stable regimes in the Far East, and Chiang Kai-shek remains its unchallenged leader. Most of the mainlanders who fled to Taiwan with the GRC in 1949 actively support the government. It receives passive support from most of the Taiwanese, who constitute about 8.5 million of the GRC's nearly 11 million people.

12. The GRC is essentially a one-party dictatorship though its unity and discipline are by no means absolute. In early 1960 Chiang will have completed his second six-year term as president, the maximum allowed by the constitution. It is conceivable that he will choose to turn over the presidency to a trusted lieutenant, such as Ch'en Ch'eng, and rule from behind the scenes, but we consider it more likely that he will find some means to stay in office. Chiang faces no effective internal opposition. Communist efforts at subversion and inducements to defection have apparently had no practical effect. The Taiwanese independence movement at present has little active support, although the aspirations of the Taiwanese people and the growing dependence of the GRC on the Taiwanese for manning the armed forces limit the government's freedom of action. In any case, the security forces of the GRC are capable of taking care of any antigovernment strength that

is likely to develop in Taiwan in the next few years.

13. President Chiang and his circle of loyal supporters think of Taiwan primarily as a base from which they will eventually return to their rightful position on the Chinese mainland. The recent domestic and international difficulties suffered by the Chinese Communists have given new hope to the older leaders, and Chiang Kai-shek's 1959 Double-10 Day speech (10 October) expressed renewed optimism concerning the imminence of Communist collapse.

14. Nevertheless, the long-term trend among the mainlanders on Taiwan is toward a loss of faith in the prospect of return. After 10 years on Taiwan, even some of the veteran officials are accepting the prospect of living out their lives on the island. More or less parallel with this trend will come increased restiveness on the part of the Taiwanese if they continue to be subordinated to the interests of the mainlanders.

B. Economic

15. With US assistance, Taiwan has made considerable economic progress in spite of the large military expenditures of the GRC.³ The last two years have seen a continuation of economic gains. Taiwan's rate of economic growth—6 percent increase in the gross national product (GNP) in 1957 and an estimated 8.7 percent in 1958—has been among the highest in underdeveloped countries of Asia. Agricultural output expanded by 10 percent in 1957 and 5 percent in 1958. The index of industrial production rose 5 percent in 1958 and was 86 percent above its 1952 base. The inhabitants of Taiwan enjoy one of the best standards of living in Asia.

16. However, underlying these signs of progress are a number of chronic problems. The financial operations of the GRC are marked by large deficits. The cost of operating the national and provincial governments resulted in a deficit of \$31 million (after US aid) in

² NIE 43-2-57, "The Prospects of the Government of the Republic of China," dated 27 August 1957.

³ See "Economic Indicators," Appendix B, and "Taiwan's Balance of Payments," Appendix C.

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FY 1958. A similar deficit is forecast for FY 1959. Military expenditures accounted for 51 percent of total expenditures in FY 1957. Largely as a result of the offshore island crisis of late 1958, military expenditures are expected to reach 57 percent in 1959. These deficits and monetary expansion, much of it in the form of bank credit for productive purposes, have resulted in strong inflationary pressures. So far the inflationary trend has been kept sufficiently under control to prevent serious economic damage.

17. The chief threat to Taiwan's long-range economic viability is the explosive rate of Taiwan's population growth, which at 3.5 percent is among the highest in the world. In 1946 the island's population was just over 6 million; by the end of 1950, following the influx from the mainland, it had risen to 8 million; between 1950 and 1958, with negligible immigration, the population increased to approximately 11 million. Thus far these population pressures have not imposed a serious strain on the island's resources. When the mainlanders arrived on Taiwan in 1949 the island was still relatively underpopulated and its resources were sufficient (with some US aid) to absorb the increased population. Since that time increased US aid and the rapid growth of the Taiwan economy have permitted the maintenance and even the gradual elevation of living standards on the island.

18. Even if US aid is continued at present levels, there is some question whether the high rate of growth which has characterized the Taiwan economy over the past few years can be maintained. With little additional land available and with intensive methods of cultivation already in general use, the possibilities for any major increase in agricultural output seem limited. Moreover, in order to grow food for the increasing population, it may become necessary to use land (especially sugar plantations) now producing export crops. Since agricultural products have constituted four-fifths of Taiwan's exports, this diversion would reduce the island's capacity to earn foreign exchange and thus further impede its economic growth and viability.

19. Increased industrialization offers the best hope of alleviating Taiwan's long-range economic problems. Increases in capital investment, effectively administered, would increase the rate of industrial development. The amount of investment which could be attracted would depend in great part upon the government's readiness to foster an atmosphere conducive to private enterprise and foreign capital. The GRC has already taken steps in this direction, including simplification of foreign exchange controls and elimination of the multiple foreign exchange rate. A modest domestic bond market has also been created. However, the GRC's willingness to devote its own resources to economic development will continue to be limited by the priority assigned to military expenditures and to the maintenance of consumption levels.

20. If present trends continue, the prospect is for modest economic improvement for at least the next two years, although the rate may slow somewhat. As long as the military establishment requires a major portion of Taiwan's resources, the economy will remain heavily dependent on outside assistance. Over the longer run, any regime on Taiwan will almost certainly be faced with serious economic problems stemming largely from the rapid population growth. A decrease in the standard of living would create political difficulties for the GRC.

C. Military ⁴

21. The GRC armed forces have an effective strength of about 800,000 and constitute one of the largest non-Communist military organizations in the Far East. Given continuing US naval and air support, Taiwan and the Penghus could be defended with smaller ground forces than are now being maintained. In spite of this, the GRC is reluctant to reduce the size of its armed forces substantially. It considers that any serious reduction would cast doubt on the concept of return to the mainland. GRC leaders recognize that existing forces are not capable of a successful in-

⁴ For a detailed discussion of the military strength and capabilities of the GRC, see Appendix A, "The GRC Military Establishment."

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vasion under present conditions, and we believe it unlikely that an invasion would be undertaken without prior US concurrence. There have been, however, recent indications that Chiang has been considering the training of a special force of approximately 30,000 paratroopers for possible use in exploiting any widespread anti-Communist uprising that might occur or be fomented on the mainland.

22. The GRC contends that the offshore islands are of great psychological and strategic importance and it remains firmly committed to their defense. Hence it is unlikely to agree to a further reduction in the military strength on these islands. However, the GRC forces alone almost certainly could not hold the islands against an all-out effort by the Communists. In response to US advice the GRC has generally refrained from using the islands as a base for provocative actions against the mainland and will probably continue to do so.

D. International

23. The GRC's foreign policy derives from its contention that it is the sole, legitimate government of China and its goal of regaining control of mainland China. It is thus unswervingly opposed to any sort of international accommodation with communism that might tend to freeze the status quo.

24. At present US-GRC relations are as good as they have been at any time in recent years. The quick and vigorous support proffered by the US in the 1958 Taiwan Strait crisis was immensely reassuring to the GRC. The crisis also served to demonstrate the critical extent to which the GRC is dependent on the US for its survival, and the consequent need for avoiding any actions which might jeopardize this relationship. Nevertheless, many Chinese resent the GRC dependence on the US and there will continue to be Sino-American differences on policy matters. There is an underlying fear that the US will sacrifice the interests of the GRC whenever it may seem desirable in the larger interests of the US to do so. For this reason the GRC continually seeks reassurances of American fidelity. At present the GRC is especially sensitive to indications of an eventual US-Soviet *detente*, as a result of

which the GRC's own position might be gravely compromised, even though the US continued to oppose Peiping.

25. The Overseas Chinese continue to be a point of friction between the GRC and the governments of southeast Asia, where there are large Chinese minorities. They also are an object of the continuing propaganda contest between the GRC and Peiping. However, the position and outlook of the overseas Chinese do not fundamentally affect the GRC policies and capabilities.

26. International respect for the GRC has been somewhat increased both by the performance of the GRC armed forces in the 1958 Taiwan Strait crisis and by the restraint exercised by the government in not agitating the crisis to greater proportions. At the same time, the international reputation of the Communist regime on the mainland has been severely tarnished by its domestic programs, the brutality of its actions in Tibet, and its aggressions on the Indian border. These developments, however, have not strengthened support for the GRC's claim to be the legal representative of all China, but, rather, have increased sentiment for the "two-Chinas" idea. Especially among the uncommitted nations of Asia there appears to be increased feeling that Taiwan should not be allowed to fall to the Communists and thus there is greater willingness to accept the GRC as the government of an independent Taiwan. This trend toward a "two-Chinas" solution is repugnant both to the GRC and to Communist China.

27. In spite of the adverse reactions to the recent behavior of Communist China, the GRC has barely held its own in preserving its international status.⁵ There has been a growing belief among the nations of the world that the Communist regime must be dealt with as the actual rulers of the Chinese mainland. There has been a corollary tendency to believe that the GRC should not be the legal representative of the Chinese people in the UN. Latin American countries have been restive under

⁵ See Appendix D, "UN Vote on Moratorium Issue" and Appendix E, "GRC and CPR International Positions."

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US pressure on this issue and Cuba's abstention this year on the moratorium vote may portend other abstentions or even votes in favor of Communist China in the next few years. Moreover, the newly independent African countries (there will be at least four new ones in 1960) tend to be favorably inclined toward the admission of Peiping. We believe that with strong US support the GRC will be able to hold its present position in the UN for the next two or three years. However, it is possible that this position might collapse before then, especially if Communist China refrains from further aggressive actions.

28. The loss of the GRC's seat in the UN and wider recognition of the Peiping regime as the Government of China would be a serious blow to the morale of the Chinese Nationalist leadership, and would make the prospects of return appear even more remote and unrealistic. However, we do not believe that such a development would lead to the collapse of the GRC. We believe that given continued US protection against military attack, the GRC would continue to oppose any kind of "deal" with the Communists and would be able to maintain firm control over the island of Taiwan.

III. CONTINGENCIES

A. Loss of Offshore Islands

29. The loss of the offshore islands would, under any circumstances, severely impair the morale of the mainlanders on Taiwan. The impact of such a loss would be greatest if the Nationalist troops on the islands were defeated by Chinese Communist assault. After such a misfortune the Taiwanese, who supply a majority of the enlisted men on the islands, would become increasingly restive under GRC rule. The initial shock to the government and the mainlanders on Taiwan as a result of the loss of the islands would give rise to despair, confusion, and probably some breakdown in governmental efficiency. The impact of the loss would be less severe if the GRC voluntarily withdrew the troops.

30. In any case the adjustment to the new situation would be exceedingly difficult, in-

volving a shift in the GRC's view of its role in the world, some change in its policies, and severe strains in the US-GRC relationship. Nevertheless, provided the GRC were convinced that the US was still determined to protect Taiwan and to support the GRC's international position, we believe that the loss of the offshore islands would not lead to a collapse of the GRC's will to exist, or to the overturn of the GRC by groups seeking accommodation with Peiping or the creation of an "independent" Taiwan.

B. The Death of Chiang Kai-shek

31. President Chiang, now 72 years old and in vigorous physical and mental health, has led the GRC and its political party, the KMT, for a third of a century. During this time he has been the major unifying factor among many diverse interests. His death would be regarded both at home and abroad as the end of an era.

32. Although party factionalism and political infighting will inevitably become more intense following Chiang's death, we believe that Ch'en Ch'eng, the present Vice President, Premier, and constitutional successor, will succeed Chiang in an orderly fashion. Ch'en has considerable prestige and support within both the party and the army, and he commands the respect of the Taiwanese people.

33. Chiang's death probably will not result in any immediate change in the basic policies of the GRC. No probable successor is likely soon to modify the GRC's claim to be the government of all China, though expectations of a return to the mainland will inevitably be dimmed. In any case, Chiang's death will accelerate trends toward policies placing greater emphasis on the social and economic development of Taiwan and bring increased pressure from the Taiwanese for fuller participation in the government.

34. Internationally, there will be a general feeling that Chiang's death provides an occasion for a basic reassessment of the situation. There will be increased international sentiment for a "two-Chinas" solution.

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APPENDIX A

THE GRC MILITARY ESTABLISHMENT

Total Armed Forces

1. The actual MAP-supported strength of GRC military components is approximately 600,000, assigned as follows: Army, 423,000; Navy, 34,000; Marines, 25,000; Air Force, 89,000; Ministry of National Defense, 24,000; and Combined Service Force, 8,000. In addition, there are about 42,000 non-MAP-supported officers and men, including approximately 12,000 officers in semiretired status. Army dispositions include 69,000 on the Chinmens and 20,000 on Matsu, with the remainder on Taiwan and the Penghus (see map). Naval strength consists primarily in five ex-US destroyers. The air force has about 690 aircraft, about 460 of them jets.
2. While the actual strength of the GRC armed forces is about 642,000, the authorized strength is 673,624. Both the GRC Ministry of National Defense (MND) and the US Military Assistance Advisory Group (MAAG) on Taiwan are interested in reducing the size of the armed forces, both actual and authorized strengths. The MND has a plan (which it is now trying to implement) to reduce total strength to 600,000 by 30 June 1960, the reduction to be effected by such measures as retirement or discharge of ineffective officers and men, administrative attrition, and smaller draftee inductions. MAAG Taiwan has proposed a plan to bring the over-all strength of the GRC military establishment to 545,000 during the next five years. Under the MAAG plan, the ground forces would absorb the personnel decrease. However, this decrease would be compensated for by modernization and increased firepower. The MAAG proposal has been authorized as a basis for US planning and programming but has not yet been discussed with GRC authorities.
3. *Army.* The present strength of the army is about 423,000 troops, organized into a general headquarters and 16 divisions on Taiwan; the Chinmen, Matsu, and Penghus Defense Commands; and various logistical and training units. Adding to the air defense capability of the forces on Taiwan is the Nike-Hercules battalion sent to Taiwan in 1958 and taken under operational control of the GRC army in August 1959.
4. The army is engaged in a modernization program aimed primarily at reorganizing the infantry divisions to provide better balanced forces. The reorganized division will have increased equipment and firepower—more artillery, machine guns, rocket launchers, and 4.2-inch mortars—but 1,000 fewer troops. Even if it achieves needed improvement in infantry-artillery coordination, transportation, and communications, the offensive capability of the army will remain limited primarily because of logistical factors.
5. The army continues to be dependent upon US air and naval support for the successful defense of Taiwan and the Penghus Islands. Without local sea and air superiority, the army probably could, nevertheless, conduct a vigorous defense costly to an invading force. The defensive capability of the major offshore island garrisons is being improved by augmentation of medium and heavy artillery, further development of physical defenses, and additional training. Again, however, successful ground defense of the offshore islands is tied directly to air and sea superiority and to continued logistical supply. Without these elements, the offshore defense commands would be isolated and subject to early capture.

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6. *Navy.* The GRC naval establishment has a personnel strength of 59,000 of which 25,000 are marines. Ship strength is as follows:

Destroyer (DD)	5
Escort Vessel (DE)	5
Patrol Escort (PF)	2
Escort (PCE)	7
Submarine Chaser (PC)	16
Motor Gunboat (PGM)	2
Motor Torpedo Boat (PT)	6
Coastal Minelayer (MMC)	2
Fleet Minesweeper (MSF)	5
Coastal Minesweeper (MSC)	4
Amphibious Vessels	61
Auxiliary Vessels	15

7. The size and composition of the navy enables it to carry out certain limited offensive assignments, such as lifting and supporting amphibious assault missions within a restricted radius of Taiwan, shore bombardment, reconnaissance and interdiction in the Taiwan Strait, and assault minesweeping. The navy is capable of providing logistical support to the offshore islands and furnishing patrol surveillance and destroyer gunfire support. Its antisubmarine warfare and mine warfare capabilities are limited. Under US guidance and support, further augmentation and modernization of the navy is taking place.

8. While the state of training of the navy is good, maintenance and repair of ships and equipment are generally substandard. Logistic capability is adequate but dependent on continued US support. The navy is capable of successfully engaging Chinese Communist naval forces of similar size and composition; however, intervention of Chinese Communist submarines and PT boats would seriously reduce the GRC navy's capabilities and limit its effectiveness.

9. The marine corps has a strength of 25,000, organized into a headquarters, a supporting establishment, and the operating forces. The operating forces consist of 1 division, 1 brigade, and 2 LVT/LVT(A) battalions, organized and equipped under modified US Marine Corps TO&E. The marine corps continues to have the capability to execute amphibious operations involving the division and brigade against light to moderate resistance, assuming adequate naval and air support.

10. *Air Force.* The personnel strength of the Chinese Air Force (CAF) is about 89,000, including almost 2,100 trained pilots. The CAF has about 690 aircraft, including 460 jets, in principal tactical units as follows:

- 15 Fighter-bomber squadrons (jet—3 F-84G; 12 F-86F)
- 2 Tactical-reconnaissance squadrons (jet—1 RB-57D/RF-86F/RF-100A; 1 HF-84F)
- 4 Transport squadrons (prop—3 C-46; 1 C-47/C-54)
- 3 Troop carrier squadrons (prop—2 C-46; 1 C-119)
- 1 Search and rescue squadron (prop—SA-16; helicopter—H-19)

11. The ability of the CAF to conduct tactical air support is only fair. Dive-bombing and rocketry scores in the air force are poor and the air force would have difficulty carrying out an effective ground support, airfield neutralization, or interdiction mission at the present time. However, strong training emphasis is being placed in the areas of air-to-ground gunnery and air-ground coordination and the CAF's tactical air capability can be expected to improve. Reconnaissance over the mainland is a major tactical mission of the CAF.

12. The CAF possesses an excellent air defense capability for limited daylight aerial warfare. The decisive air victories scored by its F-86F's in the 1958 Taiwan Strait engagements demonstrated the qualitative superiority of the CAF interceptor units. A kill ratio of about 10 to 1 in the dogfights was achieved by CAF pilots. In the one engagement in which Sidewinder missiles were employed, four kills were scored out of six missiles fired. However, against a full scale onslaught by the Chinese Communist Air Force, the Nationalists could fight only a delaying action until US aid arrived.

13. A significant CAF weakness is the present lack of any all-weather fighter capability. Although radar coverage from Taiwan sites is fairly good, the radars on the offshore islands of Chinmen and Matsu have limited ranging and height-finding capability. Air transport capabilities are excellent within the limitations of aircraft strength. The two air transport groups performed well and gained valu-

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able operational experience in aerial supply missions to Chinmen during the 1958 crisis.

14. A significant increase in air force capabilities is expected in the next five years, resulting primarily from equipment modernization and personnel specialization. The F-84G's will phase out to be replaced by F-86D, F-100A, and eventually F-104 aircraft. Activation of missile squadrons (Bomarc and Hawk) is planned and the radar capability will be improved.

15. *Taiwanese in GRC Armed Forces.* The passage of time has brought the GRC face to face with a military manpower problem that threatens the "mainlander" character and spirit of the armed forces. Many mainlanders who came to Taiwan with Chiang a decade ago are beginning to near retirement and are of doubtful combat effectiveness but are retained in uniform largely as repayment for past service and loyalties. However, air force pilots have maintained a high degree of effectiveness even though 98 percent of them are mainlanders. A major source of manpower to replace the aging mainlanders, particularly those in the enlisted ranks, is the indigenous Taiwanese youth. The mainlanders were reluctant to see the proportion of Taiwanese in the armed forces grow, however, because of doubts as to their willingness to fight for the traditional Nationalist objective of return to

the mainland. As prospects of returning to the mainland have dimmed and emphasis has turned to an effective defensive posture, the leadership of the three services has come to regard the Taiwanese as dependable in the defense of Taiwan and other offshore islands and potentially educable to an offensive role.

16. The proportion of Taiwanese in the armed forces is approximately 35 percent which the regime has tried to keep as a maximum figure for the armed forces as a whole. Few officers are Taiwanese and the number is likely to remain small over the next 10 years; young mainlanders coming of military age will continue to supply most officer replacements. In the lower grades of the enlisted ranks, however, the proportion of Taiwanese reaches 65 percent. It is this heavy percentage of Taiwanese at the basic fighting unit level that concerns the GRC leadership. However, Taiwanese troops performed well under Communist artillery bombardment during the 1958 crisis, and in general their morale has been excellent. In the next few years the GRC will have to choose between accepting a higher proportion of Taiwanese in its armed forces or accepting a reduction in number of military personnel. We estimate that the Taiwanese will continue to serve satisfactorily in the Nationalist armed forces, particularly in military actions related to defense of Nationalist-held territory.

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APPENDIX B

ECONOMIC INDICATORS

	1952	1953	1954	1955	1956	1957	1958	1959
Agricultural production index ^a	100.0	113.3	112.0	111.3	118.9	130.7	137.3	<i>na</i>
Industrial production index ^b	100.0	124.2	132.9	148.0	155.4	176.6	185.6	<i>na</i>
Gross National Product—1957 prices (millions of US \$)	678	795	872	891	930	986	1,071 ^c	1,140 ^c
Per Capita GNP—1957 prices (US \$)	79.6	90.3	94.5	94.2	95.0	97.2	101.2 ^c	105 ^c
Wholesale price index ^c	100.0	108.8	111.4	127.1	143.2	153.5	155.7	159.0 ^c (Aug)

^a Group index for farm crops.

^b Group index for mining, manufacturing, construction, utilities.

^c Yearly averages.

^d Estimate. 1959 figures a projection based on small amount of developed statistics.

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APPENDIX C

TAIWAN'S BALANCE OF PAYMENTS

	1957	1958	1959
		(Estimated)	
A. Goods and services:			
Exports, f.o.b.	162	158	127
Imports, c.i.f.	-266	-244	-263
Trade balance	-104	-86	-136
Services	-19	-10	-17
Balance, goods, and services	-123	-96	-153
B. Private capital	14	18	18
C. Official long-term fi- nancing:			
Grants (US)	78	72	77
Loans (net)	18	-3	8
Total, grants and loans	96	69	85
D. Total A, B, and C	-13	-9	-50
E. Net errors and omis- sions	6	4	<i>na</i>
F. Total change in official gold and short-term capital	-7	-5	-50

NOTE: All figures in millions of US dollars converted
at NT \$36.38 per US \$1.00.

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APPENDIX D

UN VOTE ON MORATORIUM ISSUE

NOTE: Since 1951, the question of whether the GRC or the Peiping regime should represent China in the UN has been deferred each year in the General Assembly by adoption of a US-sponsored resolution to omit the item from the agenda. Hence, in Appendices D and E, a vote recorded as "FOR" is in effect a vote to allow the GRC to occupy the Chinese seat for the ensuing year.

YEAR	FOR	AGAINST	ABSTENTIONS	VOTES NOT RECORDED	TOTAL MEMBERSHIP
1951	37	11	4	8	60
1952	42	7	11	..	60
1953	44	10	2	4	60
1954	43	11	6	..	60
1955	42	12	6	..	60
1956	47	24	8	..	79
1957	48	27	6	1	82
1958	44	28	9	..	81
1959	44	29	9	..	82

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APPENDIX E

GRC AND CPR INTERNATIONAL POSITIONS

COUNTRY	RECOGNIZES		UNGA VOTE ON MORATORIUM ISSUE					
	GRC	CPR	FOR	1957 AGAINST	FOR	1958 AGAINST	FOR	1959 AGAINST
1. Afghanistan		x		x		x		x
2. Albania		x		x		x		x
3. Argentina	x		x		x		x	
4. Australia	x		x		x		x	
5. Austria	Unclear		x		Abstained		Abstained	
6. Belgium	x		x		x		x	
7. Bolivia	x		x		x		x	
8. Brazil	x		x		x		x	
9. Bulgaria		x		x		x		x
10. Burma		x		x		x		x
11. Byelorussian SSR	—			x		x		x
12. Cambodia		x	Abstained			x		x
13. Canada	x		x		x		x	
14. Ceylon		x		x		x		x
15. Chile	x		x		x		x	
16. China (GRC)			x		x		x	
17. Colombia	x		x		x		x	
18. Costa Rica	x		x		x		x	
19. Cuba	x		x		x		Abstained	
20. Czechoslovakia		x		x		x		x
21. Denmark		x		x		x		x
22. Dominican Republic	x		x		x		x	
23. Ecuador	x		x		x		x	
24. El Salvador	x		x		x		x	
25. Ethiopia	Unclear		x		x		Abstained	
26. Finland		x		x		x		x
27. France	x		x		x		x	
28. Ghana	Unclear			x		x		x
29. Greece	x		x		Abstained		x	
30. Guatemala	x		x		x		x	
31. Guinea		x						x
32. Haiti	x		x		x		x	
33. Honduras	x		x		x		x	
34. Hungary		x		x		x		x
35. Iceland	Unclear		x		Abstained		Abstained	
36. India		x		x		x		x
37. Indonesia		x		x		x		x
38. Iran	x		x		x		x	
39. Iraq		x	x					x
40. Ireland	Unclear			x		x		x
41. Israel		x	Abstained		Abstained		Abstained	
42. Italy	x		x		x		x	
43. Japan	x		x		x		x	
44. Jordan	x		x		Abstained		x	
45. Laos	Neither		Abstained		Abstained		x	
46. Lebanon		x	x		x		x	
47. Liberia	x		x		x		x	
48. Libya	x		x		Abstained		Abstained	

See footnote at end of table.

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GRC AND CPR INTERNATIONAL POSITIONS (Continued)

COUNTRY	RECOGNIZES		UNGA VOTE ON MORATORIUM ISSUE					
	GRC	CPR	FOR	1957 AGAINST	FOR	1958 AGAINST	FOR	1959 AGAINST
49. Luxembourg	x		x		x		x	
50. Malaya	Neither		x		x		x	
51. Mexico	x		x		x		x	
52. Morocco		x		x		x		x
53. Nepal		x		x		x		x
54. Netherlands		x	x		x		x	
55. New Zealand	x		x		x		x	
56. Nicaragua	x		x		x		x	
57. Norway		x		x		x		x
58. Pakistan		x	x		x		x	
59. Panama	x		x		x		x	
60. Paraguay	x		x		x		x	
61. Peru	x		x		x		x	
62. Philippines	x		x		x		x	
63. Poland		x		x		x		x
64. Portugal	x		Abstained		Abstained		Abstained	
65. Rumania		x		x		x		x
66. Saudi Arabia	x		Abstained		Abstained		Abstained	
67. Spain	x		x		x		x	
68. Sudan		x		x		x		x
69. Sweden		x		x		x		x
70. Thailand	x		x		x		x	
71. Tunisia	Neither		Abstained		Abstained		Abstained	
72. Turkey	x		x		x		x	
73. Ukrainian SSR		—		x		x		x
74. Union of South Africa	x		Not Voting		x		x	
75. USSR		x		x		x		x
76. UAR		x		*		x		x
77. United Kingdom		x	x		x		x	
78. United States	x		x		x		x	
79. Uruguay	x		x		x		x	
80. Venezuela	x		x		x		x	
81. Yemen		x		x		x		x
82. Yugoslavia		x		x		x		x

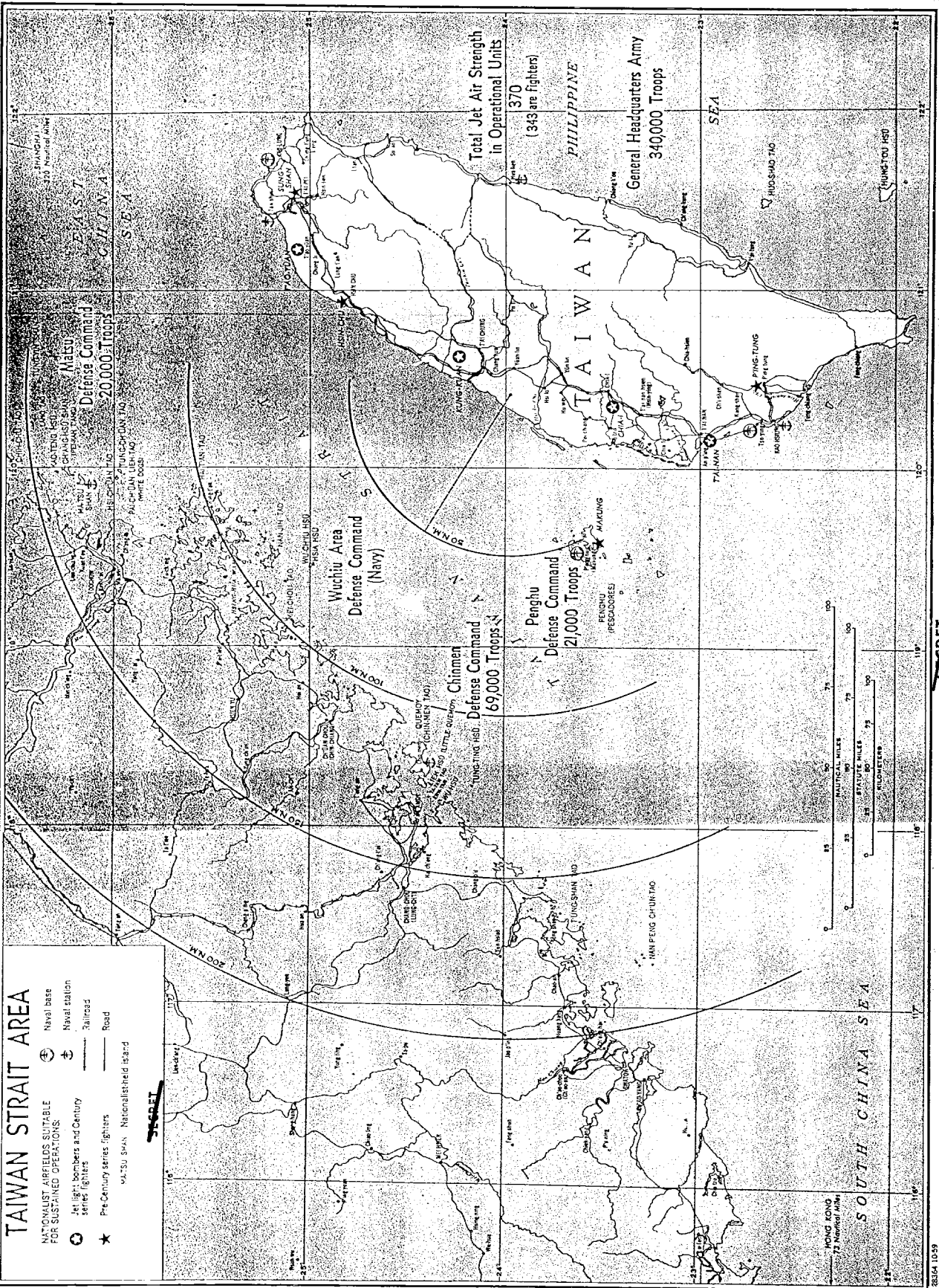
* UAR not yet created. Egypt and Syria voted separately against.

RECOGNITION BY OTHER COUNTRIES

	RECOGNIZES	
	GRC	CPR
NON-COMMUNIST GOVERNMENTS		
West Germany		Neither
Holy See	x	
South Korea	x	
Switzerland		x
South Vietnam	x	
COMMUNIST REGIMES		
East Germany		x
North Korea		x
North Vietnam		x
Outer Mongolia		x
OTHER		
The "Provisional Government of the Algerian Republic"		x

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