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COPY NO. 1  
Progress Report on  
NSC146/2

July 16, 1954

# NATIONAL SECURITY COUNCIL

## PROGRESS REPORT

on

UNITED STATES OBJECTIVES AND COURSES OF ACTION  
WITH RESPECT TO FORMOSA AND THE CHINESE NATIONAL GOVERNMENT

by

THE OPERATIONS COORDINATING BOARD



### ATTENTION

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OPERATIONS COORDINATING BOARD  
Washington 25, D. C.

July 16, 1954

MEMORANDUM FOR: Mr. James S. Lay, Jr.  
Executive Secretary  
National Security Council

SUBJECT: Progress Report on NSC 146/2  
(Formosa and Nationalist China)

REFERENCE: Memorandum from the Executive Secretary, NSC,  
dated November 6, 1953.

On November 6, 1953 the President approved NSC 146/2,  
"United States Objectives and Courses of Action with Respect  
to Formosa and the Chinese National Government," and designated  
the Operations Coordinating Board as the coordinating agency.

Attached hereto is the first Progress Report on the  
implementation of NSC 146/2, covering the period through  
June 21, 1954. The Report was approved by the Operations  
Coordinating Board on July 14, 1954.

/s/ George A. Morgan  
Acting Executive Officer



Attachment:

Progress Report on NSC 146/2,  
dated 7/14/54

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July 14, 1954

PROGRESS REPORT ON NSC 146/2,  
UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH  
RESPECT TO FORMOSA AND THE CHINESE NATIONAL GOVERNMENT  
(Policy approved by the President November 6, 1953)

1. SUMMARY OF MAJOR ACTIONS

a. Continuing military and economic support programs on Formosa have resulted in moderately increased capabilities of all Chinese Nationalist forces; additional equipment, the completion of current training programs, and reorganization to include adequate logistic support are required for more effective defensive and offensive combat capabilities. Continuation of these programs is necessary to meet the requirements of paragraph 12a.

b. The mission of the Seventh Fleet, together with the progress noted above, continues to be the primary means of implementing the decision to include Formosa and the Pescadores in the U.S.-Far East defense position.

c. Various U.S. Government actions have helped to maintain the international position of the Government of the Republic of China (GRC). The return by their own choice of anti-communist ex-POWs from Korea to allegiance to the GRC provided concrete manpower and psychological support for the Government, which has successfully exploited the opportunity thus presented. Notwithstanding this favorable development, it cannot be said that the general international position of the Chinese Government has been improved. Various developments beyond the control of the Chinese Government have resulted in an enhancement of the international prestige of the Chinese Communist regime and a corresponding weakening of the diplomatic position of the Chinese Government.

d. A coordinated educational and information program has been developed and is being implemented to win the active support of overseas Chinese communities for the free world. This program was the subject of a meeting of principal Far Eastern public affairs officers (except Japan and Korea) held at Hong Kong March 1-3, 1954.

e. The first three phases of evacuation of Chinese Nationalist personnel from Burma took place between November 7, 1953 and May 7, 1954; they resulted in the evacuation of 5,688 troops and 868 dependents. An extension of Phase III, to evacuate stragglers before September 1, 1954, was authorized by the OCB on June 16, 1954.

f. Economic aid programs for Formosa have been continued with an increasing percentage of the total dollar aid for development as opposed to consumption; there has been a substantial increase of counterpart funds for all purposes, particularly for the military. Relative price stability has been maintained. Industrial and agricultural production and exports all reached post-war highs in 1953.

g. Covert activities will be separately reported to the Board.

## 2. POLICY CONSIDERATIONS

It is concluded that the policy statement in NSC 146/2 remains valid, applicable, and timely.

## 3. EXTENT OF AGENCY INTERESTS

No agencies of the Executive Branch of the Government, other than those on the OCB (including USIA), have played a significant part in the implementation of NSC 146/2.

## 4. EMERGING PROBLEMS AND FUTURE ACTIONS

The divergence of U.S. policies from those of the GRC is becoming clearer as the minimum objectives of economic and military aid programs are approached. The limited U.S. objectives are in increasing contrast to the larger objectives sought by the GRC (e.g. return to the mainland), which must depend on the U.S. to develop its capability to reach its objectives. It may be expected that the GRC will become progressively more dissatisfied with the absence of U.S. agreement to support with U.S. forces the GRC's attempt to overthrow the Chinese Communist regime (cf. paragraph 3b, NSC 166/1).

Further need for a re-examination of U.S. policies may arise out of developments which appear imminent in Southeast Asia. Depending upon the nature of the settlement which is reached in Indochina, it is possible that Free World capabilities in SEA may be severely curtailed while those of Communist China are expanding. In such an eventuality it might become desirable (a) to offset the imbalance in military potential thus created; and, (b) to strengthen the constraining forces which can be brought to bear on the Communist flank. Such action would, in all probability, produce strong favorable psychological reactions among the Chinese Nationalists and the overseas Chinese. Specifically, with reference to Formosa, consideration might have to be given to raising force levels (beyond those stated in the original version of paragraph 12a.) and otherwise greatly enhancing the offensive potential of GRC forces. It might also, in these circumstances, be advisable to consider extending direct U.S. military defense to the offshore islands, putting these islands in the same category as Formosa and the Pescadores. So doing would contribute to the GRC capabilities of raiding, blockading, and otherwise harrasing the Communist east coast. The foregoing should be considered in the light of Japan's slow progress in building up its military potential.

Related to the foregoing is the problem of the inclusion of the GRC in collective security arrangements undertaken in the Far East. While the position of the U.S. Government in respect to Communist military or political efforts to take Formosa has been made clear, there has been to date neither a mutual security treaty with the GRC nor inclusion of the latter in the multilateral security proposals under consideration for the Far East area. A bilateral U.S.-GRC mutual defense treaty would help to diminish the feeling of isolation on the part of the GRC but would not provide a basis for utilization of its armed forces in the manner set forth in other policy statements (cf. NSC 5405, South-east Asia). For the present, however, the GRC has been informed that the U.S. does not view favorably a mutual security treaty, primarily because it would tie the hands of the GRC.

Stemming from the Communist military successes in Indochina and the potent role played by the Chinese Communist delegation at the Geneva Conference, a strong tide has set in which favors increasing diplomatic acceptance of Communist China and threatens eventual admittance of Communist China into the United Nations. This poses a grave threat to the international position of the Chinese Government and foreshadows the development of a situation fraught with danger for the United States. There is an increasing disposition on the part of both France and the United Kingdom to come to a comprehensive political settlement with Communist China which would assure its position as the recognized Government of China and the authorized holder of China's seat in the UN. The tendency in both France and the UK is to dismiss Communist China's role as a convicted aggressor in Korea provided Communist China continues to observe a cease fire in Korea, and to make the full acceptance and legitimation of the Chinese Communist regime contingent only upon the attainment of a settlement in Indochina. If an Indochina settlement acceptable to the French and the British should be reached, it might be followed by French recognition of Communist China and the full regularization of diplomatic relations between the UK and Communist China, with an exchange of Ambassadors. The establishment of full diplomatic relations between the UK and Communist China might reasonably be expected to be followed by a recognition of Communist China by Canada and possibly Australia and New Zealand. In these circumstances it would be increasingly difficult to induce these countries to abide by the terms of the existing moratorium agreement, assuring the retention of the Chinese seat in the UN by the Chinese Government. Instead of maintaining the diplomatic isolation of Communist China, the United States itself would be threatened with a measure of diplomatic isolation on the China issue. In this situation a careful examination of the alternative courses of action open to us is called for.

DETAILED DEVELOPMENT OF MAJOR ACTIONSMilitary

Para. 9. "Effectively incorporate Formosa and the Pescadores within U.S. Far East defense positions by taking all necessary measures to prevent hostile forces from gaining control thereof, even at grave risk of general war, and by making it clear that the United States will so react to any attack."

Action agencies: Defense, State

Action:

1. Our intentions in regard to Formosa were made clear to the world when the President, on 27 June 1950, shortly after the Communists invaded South Korea stated: "... the occupation of Formosa by Communist forces would be a direct threat to the security of the Pacific area and to United States forces performing their lawful and necessary functions in that area. Accordingly, I have ordered the Seventh Fleet to prevent any attack on Formosa." That order is still in effect.

2. It is believed that the GRC Army is now sufficiently equipped and trained to provide a significant deterrent to any Chinese Communist intention to invade Formosa. Within the GRC Army, the infantry divisions and combat support units are capable of conducting an adequate defense of Formosa as long as the logistical organization performs its mission properly. The development of the Combined Service Forces as an effective logistical organization, designed to support all three services has not kept pace with that of combat elements of the army. It is estimated that the CSF, as presently organized, could not support a protracted offensive operation. The combat units are capable of conducting limited raids where resupply is not a major factor, but the combat elements are incapable of sustained offensives unless close logistical support is provided from outside sources. CSF depots have on hand sufficient equipment, spare parts and POL to support the present scope of operations and training of the army. The recruitment program of Taiwanese is progressing satisfactorily in establishing a nucleus of reserves. The Taiwanese recruits are mostly of high school age and during the past year have been called in at the rate of about 20,000 every 4 months. Each group, at the completion of its 4 months training, is placed in the reserves -- none is inducted into active service. It is expected that starting 1 July of this year 30,000 will be called every 4 months.

3. U.S. aid has assisted the GRC Navy to improve progressively. There are about 83 ships in the navy that have any particular significance for combat or amphibious operations. In both quantity and strength it is

probably superior to its most likely opponent, the Chinese Communist Navy. The material condition of most of the larger ships and some of the smaller ones is now satisfactory. Operational readiness has greatly improved, but much still remains to be done. The operational effectiveness of the Chinese Nationalist Navy is considered to be less than 50%, as measured by U.S. standards and U.S. personnel. It is apparent that the Chinese Navy cannot undertake the major part of the naval defense of Formosa against the threat of a major hostile force. Limiting factors are: the caliber and motivation of senior commanders, command and staff qualifications, command relations, organization, communications, air support and coordination with air, and logistic support. Although the GRC Navy has in the past few weeks participated in minor engagements with elements of the Chinese Communist Navy and has captured some coastal shipping, the Chinese Nationalists have given little indication of either ability or willingness to make full use of naval capabilities against the Chinese Communists. Because of its limited industrial base, the GRC must be indefinitely dependent upon outside aid for the major part of its naval support. The GRC Marine Corps is progressing well in both training and absorption of U.S. material aid.

4. The GRC Air Force has the necessary personnel assigned, the organizational structure, and the will to be an effective Air Force. One of its fighter-bomber wings was re-equipped with jet aircraft in 1953. The Combat Group within this Wing presently includes approximately 75 F-84 jet aircraft. This Wing is not, in all respects, ready for combat operations at the present time, but is rapidly becoming so. A second fighter-bomber wing is to be re-equipped with F-84 jet aircraft during Fiscal Year 1955. Also during Fiscal Year 1955 a day fighter wing will be re-equipped with F-86 jet aircraft. During Fiscal Year 55 and the first quarter of Fiscal Year 56 a tactical reconnaissance squadron will be re-equipped with RF-33 jet aircraft. During the last half of Fiscal Year 56 and the first quarter of Fiscal Year 57 a second day fighter wing will be re-equipped with F-86 jet aircraft. Training toward bringing jet re-equipped units up to combat ready standards will be accomplished by assigned USAF Advisory Personnel augmented as necessary by Temporary Duty Training Teams specialized on the particular types of aircraft involved.

5. As a means of making it clear that the United States would react with armed support for the GRC in the event of a Communist attack, State has considered the negotiation of a bilateral security pact with the GRC but has decided not to proceed with it at present, primarily because a defensive pact might have the effect of tying the hands of the GRC. Public statements of Department of State officials continue to reflect the United States' determination to prevent Communist seizure of Formosa.

Para. 10. "Without committing U.S. forces, unless Formosa or the Pescadores are attacked, encourage and assist the Chinese National Government to defend the Nationalist-held off-shore islands against Communist attack and to raid Chinese Communist territory and commerce."



Action Agency: Defense

Action:

1. In order to encourage and assist the Chinese Nationalist Government to defend the Nationalist-held off-shore islands, the Navy is lending them ten shallow draft craft. These craft consist for the most part of small amphibious support type vessels. Consent, which was previously withheld, has also been given to the use of military aid material and equipment in the defense of these islands.

2. An NSC action subsequent to the issuance of NSC 146/2 reads as follows:

"Noted that the President has authorized elements of the U.S. Seventh Fleet, as a routine incident to their patrol of the Formosan area, to pay friendly visits to the Tachen Islands lying off the east coast of China, which are held by the Chinese Nationalist Government and are closely related to the defense of Formosa, in order to make a show of strength that might deter the Chinese Communists from attacking these islands."

In implementation of this NSC action, the Navy ordered a small force of ships and aircraft to maneuver within sight of these off-shore islands and in addition is currently considering submission of recommendations to carry out this action.

Para. 11. "Encourage and covertly assist the Chinese National Government to develop and extend logistical support of, anti-communist guerrillas on the mainland of China, for purposes of resistance and intelligence."

Action agency: CIA

Action: This paragraph will be separately reported to the Board.

Para. 12a. "Continue military assistance beyond Fiscal Year 1954 to assure the completion of present programs designed to develop an army of approximately 350,000 capable of limited offensive operations; a small navy capable of conducting limited coastal patrol, anti-shiping, and commando operations; and an air force designed to provide limited "air defense, troop support and interdiction capabilities. Such forces (1) without U.S. air, naval, and logistic support would be able to undertake more effective raids against the Communist mainland and seaborne commerce with Communist China; (2) without U.S. air, naval, and logistic support, but to an even greater extent with such support, would continue to represent a threat to Communist China and add significantly to the



strategic reserves potentially available to the free world in the Far East; (3) while not alone able successfully to defend Formosa or initiate large-scale amphibious operations against the mainland of China, would, with U.S. air, naval, and logistic support, have an increased capability for the defense of Formosa and be able to initiate such large-scale amphibious operations. (This subparagraph is subject to review in the light of recommendations by the Department of Defense regarding Chinese Nationalist force levels and the rate of military assistance to be provided the Chinese National Government beyond Fiscal Year 1954.)"

Action agency: Defense

Action:

1. U.S. military grant aid will be required after Fiscal Year 1954 for as long as it is strategically feasible and necessary for the U.S. to support the GRC military effort.

2. The continuation of military assistance beyond Fiscal Year 1954 will be designed to assure the completion of the ultimate program to develop the forces listed in paragraph 12a. above. Army forces of approximately 295,000 were supported during Fiscal Year 1954 and are planned to be supported in Fiscal Year 1955.

3. The JCS still have under consideration the force levels for the GRC in conjunction with their broader examination of world-wide requirements beyond Fiscal Year 1955. In connection with their broader examination of world-wide requirements, the JCS are presently considering assigning a higher priority to the GRC forces than they have at present.

4. The operational effectiveness of the Chinese Nationalist Navy is considered to be less than 50% as measured by U.S. standards and U.S. personnel. The Chinese Nationalists have a limited contact minesweeping ability and no effective AA or ASM capability. The Chinese Nationalists could not support their present Navy without continued U.S. assistance. The Chinese Nationalists have given little indication of either ability or willingness to make use of Naval capability against the Chinese Communists.

Para. 12b. "Keep U.S. military assistance to Formosa under continuing review in the light of the development of Japanese forces and possible political settlements in Korea and Indochina."

Action agencies: State, Defense, FOA

Action:

The strategic aspect of military assistance to the GRC has been



under constant review. The Joint Chiefs of Staff have prepared a paper entitled "U.S. Strategy for Developing a Position of Military Strength in the Far East", circulated as NSC 5416. This paper, not yet acted upon, takes into account the factors mentioned in this paragraph. It should be noted that these factors have not operated to the strategic advantage of the U.S., as appeared possible at the time the policy statement was adopted. The effect of this situation is considered in the future problems section of the summary report.

Para. 13. "Continue coordinated military planning with the Chinese National Government designed to achieve maximum cooperation from the Nationalists in furtherance of over-all U.S. military strategy in the Far East, subject to the commitment taken by the Chinese National Government that its forces will not engage in offensive operations considered by the United States to be inimical to the best interest of the United States."

Action agency: Defense

Action:

The closest coordination in military planning is maintained with the Ministry of National Defense of the GRC. Cooperation by the GRC has been highly satisfactory. The commitment, previously given, of the GRC not to engage in operations inimical to U.S. interests has been observed.

Para. 14. "Encourage and assist the Chinese National Government, through such means as off-shore procurement and technical advice, to construct and maintain on Formosa selected arsenals and other military support industries."

Action agencies: FOA, Defense



Action:

FOA has assisted the GRC to conclude offshore procurement (OSP) contracts in the amount of US \$7.9 million for FY 1954 under which the arsenals in Formosa are now producing small arms ammunition, and consideration is being given to further contracts raising the total to US \$10.8 million this year. In addition, the common use program (civilian type goods for military use) contains sufficient funds to assure a continued supply of raw materials. Technical advice is being furnished to the GRC in the fields of small arms, ammunition and smokeless powder manufacture, jet air field construction, and establishing omnirange equipment.

Para. 15. "Maintain the right to develop facilities on Formosa for use by U.S. forces and agencies in the event of need."

Action agencies: Defense, State

Action:

1. This right is maintained currently. It has been agreed informally with the GRC that shore facilities on Formosa and the Pescadores should be developed for present use of U.S. aircraft, and for possible future use during emergencies. Plans for such development are underway.

2. Ambassador Rankin has been instructed by the State Department to proceed, on a basis agreeable to General Chase and the Chinese authorities, to complete agreements for the establishment of a USAF communication station on Formosa. Arrangements for the establishment of this activity are underway, based on the provisions of the present MAAG agreement.

Political

Para. 16. "Strive to make clear to the Chinese National Government that its future depends primarily upon its own political and economic efforts and upon its ability to command the respect and support of the Chinese people. Meanwhile, continue efforts to show our continuing friendship for the Chinese National Government and the Chinese people, while avoiding any implication of U.S. obligation to underwrite the Government or to guarantee its return to power on the mainland."

Action agencies: State, Defense, FOA

Action:

1. This line of action is implemented by the discreet expression of attitudes on the part of Embassy Taipei, important Defense visitors to Taipei, and the MAAG, rather than by public exhortations or rebukes, which have generally proven to be counterproductive in the Chinese scene. Within these limitations, it has been made clear that the GRC cannot assume that the United States is going to put the GRC back on the mainland; that United States assistance can strengthen the military and economic potential of the GRC, but can provide no substitute for popular support. The GRC has been left under no illusion as to its responsibility for developing and maintaining this requisite element of national strength.

2. Recent well-publicized criticisms of the Government of the Republic of China by K. C. Wu, former Governor of Formosa, have called attention to the importance of political probity as a means of protecting the Government of the Republic of China's prestige and its capacity to attract popular support in the United States and elsewhere, as well as to the intrinsic desirability of having fully representative institutions on Formosa. There have been some indications since Wu's charges appeared that the Government of the Republic of China itself is increasingly aware of the importance of these considerations and is taking steps to avoid the development of situations which might tend to give credibility

to his charges. New Cabinet and top military appointments made in June reflect the Government of the Republic of China's concern. The action appropriate for State, so long as the Government of the Republic of China continues to manifest its concern for the maintenance of the representative character of its institutions, is to continue the expression through its diplomatic establishment of an attitude of sympathetic silence, leaving no doubt in Chinese minds as to the United States' desire to see continuing progress towards more fully representative institutions, but not in any way implying United States concurrence in the Wu criticisms, which the Chinese sincerely consider immoderate, misleading, in large measure unfounded, and playing directly into the hands of the Communists.

3. FOA actions under this paragraph include continual urging and assistance on the part of the FOA Mission and FOA/W to regularize and maximize the tax collections of the Chinese Government in Formosa. Reliance on counterpart funds has been discouraged by the removal of counterpart support from the Chinese military budget for recurring items, with a few minor exceptions.

4. FOA has, through technical assistance and encouragement, brought the Chinese Government to make a policy pronouncement and to prepare legislation which will assure foreign investors of improved treatment in Formosa. National long-range industrial planning has been encouraged through the FOA participation in the Industrial Development Commission (IDC) and through the Joint Commission on Rural Reconstruction (JCRR).

5. FOA has undertaken several other activities which will serve to enhance respect for the GRC, including improved low-cost housing for dockworkers, initiation of programs for improvement of labor safety and health, and the improvement of educational standards.

6. FOA has encouraged the participation of Chinese of outstanding ability in international conferences of a technical and scientific nature. Primarily through technical assistance, FOA has discouraged discriminatory trade practices hitherto prevailing in connection particularly with the "Taiwan-Japan open account" trade agreement.

Para. 17. "Continue to recognize and encourage other governments to recognize the Chinese National Government on Formosa as the Government of China and to support its right to represent China in the UN and other international bodies."

Action agency: State

Action:

1. Embassy Taipei is under instruction to exert influence in specific instances related to the strengthening of Chinese diplomatic



representation in other countries; efforts to secure the replacement of the Chinese Charge d' Affaires in Bangkok is an example. The Embassy has also exerted influence in the effort to develop diplomatic relations between the GRC and other governments, with special reference to the Government of West Germany and those of the Associated States though there are as yet no tangible results. U.S. representatives and delegations have taken various steps to maintain and strengthen China's position in the UNGA and in the various United Nations organizations.

2. The United States has been successful in maintaining the position of China in the UN and subsidiary bodies. However, this position is maintained with growing difficulty and with a larger accretion of resentment against the United States every time that diplomatic pressure to this end must be exerted. In order to maintain the position of the Chinese Government among the ten large industrial states in the current session of the International Labor Organization, it was necessary for our Chiefs of Mission to make direct and forceful appeals to Foreign Offices all over the world. Many of the ILO delegates were critical of our efforts. There appears to be a slow ground swell of opinion against acceptance of the Chinese Government as the Government of all China, on the grounds that it is unrealistic and not in accordance with the facts of the situation. There is a growing feeling that the Government at Taipei should be considered only as the Government of the Island of Formosa. The passage of time tends to reinforce this view, apart from the aggressive steps taken by the Chinese Communist regime to enhance its own position and to destroy the diplomatic position of the Chinese Government with its seat at Taipei.

Para. 18. "Continue to encourage the Chinese National Government to take all possible steps to attract growing support and allegiance from the people of mainland China and Formosa."

Action agencies: State, CIA, FOA

Action:

1. The GRC has recently given new evidence of its appreciation of the importance of continuing political and economic reforms, which the U.S. has continued to encourage through diplomatic and other channels. The administrative program presented by ex-Premier Ch'en Ch'eng to the Legislative Yuan in mid-April stressed the necessity of promoting free

enterprise, continuing land reform, (conducted under the auspices of the Joint Commission on Rural Reconstruction) and improving local self-government and protecting constitutional rights.

2. Much of the FOA program has been directed toward improving the relationship with the Formosan natives (Taiwanese). The principal efforts in this connection are being undertaken by the JCRR which, through numerous projects improving production and the farmer's welfare, are having a direct impact on the Taiwanese population comprising the bulk of the agricultural population. The more important programs are concerned with public health, supply of fertilizers, irrigation projects, improvement of stock, and reforestation.

3. On the industrial side, FOA is encouraging a wider participation on the part of the Taiwanese businessmen in the industrial development of the island through the extension of industrial loans at interest rates below the prevailing market. Taiwan's importers are being encouraged through the commercial procurement procedures recently adopted and by assistance to small miscellaneous industries owned by Taiwanese.

4. Despite the fact that Taiwanese are generally less well qualified for advanced training in the U.S., the FOA has required that Taiwanese be given an opportunity in the training program under which over 100 trainees a year since 1953 have been sent to the U.S.

5. The return to Taiwan from Korea in February 1954 of approximately 15,000 anti-communist ex-POWs, under UNC auspices, was a major and concrete factor demonstrative support of the GRC, occurring as it did as a result of the choice of the ex-POWs. This repatriation was widely publicized, and provided much valuable material for continuing use both by the GRC and by U.S. agencies. The treatment accorded the repatriates, including the commissioning of about 1500 as officers in the GRC armed forces, has reflected further credit on the Government. Selected teams of ex-POWs have since toured the major overseas Chinese areas, with varying degrees of success. It is expected that further means of exploiting this striking allegiance to the GRC in preference to return to Communist control will be found and used.

Para. 19. "To the extent feasible, encourage the Chinese National Government to establish closer contact with the Chinese communities outside mainland China and Formosa and to take steps to win their sympathy and their support to the extent consistent with their obligations and primary allegiance to their local governments. Encourage the leaders of these communities to reciprocate by extending such sympathy and support to the Chinese National Government as a symbol of Chinese political resistance to communism and as a link in the defense against Communist expansion in Asia."

Action agencies: State, CIA, USIA.



Action:

1. Attention has been paid during recent months to the development of programs to alienate the overseas Chinese communities from the Chinese Communists and win their active support for the free world. A coordinated approach to these problems was suggested in a Department of State instruction addressed to 24 posts on February 5, 1954 (Instruction CA-4156), and was made the subject of a three day conference of USIA officers held at Hong Kong March 1-3, 1954. As a result of this conference the responsibility for the coordination of production of USIA materials in the Chinese language for overseas Chinese has been assigned to the Public Affairs Officer, Hong Kong.

2. The U.S. Information Agency, Hong Kong, publishes two Chinese language magazines that receive commercial distribution in Southeast Asia -- World Today and Four Seas. The latter has no attribution and is exclusively commercial in distribution, reaching Chinese communities in Latin America as well as in Southeast Asia. Taipei purchases indigenously produced publications and distributes them throughout Southeast Asia. Most of these publications would otherwise not reach Chinese in the area.

3. The book translation programs of the U. S. Information Agency in Hong Kong as well as local translation programs at each post have made a good start in building a counterflow of literature telling the free world side to which Chinese students and intellectuals can turn. More than 85 titles published in Hong Kong have been put on the market already, and 14 publishing companies in Hong Kong alone have been utilized in the program.

4. USIA Hong Kong and USIA Singapore are circulating examination copies of unbiased or pro-Free World textbooks to other Southeast Asian posts for use in Overseas Chinese schools.

5. VOA broadcasting to the overseas Chinese population has contributed to the alienation of overseas Chinese from the mainland communist regime by programs stressing: (a) the sacrifices of their own people entailed in the Korean war, in Soviet, not Chinese interest; (b) news from China showing the cruelty of the communists and the general poverty of the people; and (c) news from Formosa which depicts Free China as a united force.

6. Both Hong Kong and Taipei produce recorded programs of local interest that are broadcast directly over the medium wave transmitters in the Philippines as well as over VOA from New York. For instance, Taipei, Formosa produces a weekly Mandarin program, Report from Free China, which consists of interviews, recordings of special events, factual stories on the economic development of Taiwan and the like. Among other programs Hong Kong produces "The Mainland Report" prepared by a Chinese research group in Hong Kong which has access to a large file of current Chinese



Communist material published on the mainland. Other programs consist of interviews with escapees from the mainland, news material based on Communist news released for domestic consumption on the mainland, book discussion programs and the like.

7. Congress is now being asked for funds to be used by FOA and State in expanding and improving educational facilities on Formosa to attract overseas Chinese.

8. FOA is currently taking action with regard to the expansion of educational facilities whereby approximately 2,000 overseas Chinese students can be accommodated in educational institutions on Formosa. To this end, a program is being prepared for the initial expenditure of \$300,000 in Fiscal Year 1955. This expenditure will be a supplement to the effort already underway as described above in connection with para. 16.

9. As mentioned above in paragraph 16, the Chinese are enacting a law to encourage foreign investment. While the purpose of this law is to encourage foreign investment in general, it is expected also to increase the flow of capital from overseas Chinese.

Para. 20. "While continuing to manifest U.S. confidence in and support of the Chinese National Government, permit U.S. officials as appropriate to maintain discreet contact with anti-Communist Chinese groups outside Formosa which continue to reject cooperation with the Chinese National Government, and without making commitments of U.S. support, encourage such groups actively to oppose communism."

Action agencies: State, CIA

Action: This paragraph will be separately reported to the Board.

Para. 21. "Seek to enhance the Chinese National Government's political appeal and to increase its administrative efficiency."

Action agencies: State, USIA

Action:

1. The exposure of high GRC officials to American influence in the course of visits to the United States has been undertaken in certain instances, such as CHIANG Ching-kuo, as a means of improving the political attractiveness of GRC. Results are undetermined, and the matter is one for continued consideration in cooperation with Defense and other sponsoring agencies.

2. USIS on Formosa reaches the leaders and people of Free China in three ways: (a) by giving the fullest possible local coverage to news from the U.S. stressing the determination of the American people to turn back

the tide of communist aggression; (b) by assisting MAAG and FOA to give the greatest possible local publicity to American military and economic aid to Free China; and (c) by pointing up the accomplishments of the Free Chinese themselves so as to give them greater confidence in their own capabilities.

3. Through contributions to the USIS Chinese language publishing program, USIS on Formosa spreads the word of the growing strength of Free China among other Chinese by making known through picture stories and feature writing the political, military, and economic gains accomplished in Free China.

Para. 22. "Continue to press through diplomatic channels for the repatriation to Formosa of Chinese Nationalist personnel from Burma. If transportation is not available consider U.S. logistic support to repatriate such Chinese Nationalist personnel to Formosa."

Action agency: State

Action:

Repatriation of anti-Communist irregular Chinese forces from Burma, as a means of removing a cause of friction between China and other Southeast Asian nations, has been undertaken through the tripartite committee in Bangkok. The first and second phases, from November 7, 1953 to March 22, 1954, involved 4,888 troops and 848 dependents repatriated. The third phase, started on May 1, 1954 and ended May 8, 1954, with 800 troops and 20 dependents repatriated. An extension of Phase III to repatriate stragglers before September 1, 1954 was approved by the OCB on June 16, 1954.

Economic

Para. 23. "Continue to provide limited economic aid to Formosa in such a manner and of such a scope as to promote U.S. objectives in the area; but plan gradual reduction and eventual termination of such assistance, bearing in mind, however, that some economic aid will probably be required so long as the present military programs are continued".

Action agency: FOA

Action:

1. FOA is continuing in Fiscal Year 1955 the trend initiated in Fiscal Year 1954 of greater emphasis on industrial development, about one-fourth of the total aid. The industrial plant of Formosa, built largely by the Japanese, suffered from under-maintenance during World War II, and since then has deteriorated due to the stringent foreign exchange position of the GRC. Thus far, the industrial index in Formosa has shown a rise from a postwar low of 32 in 1946 up to an index of 140, 100 being the base index

figure for the year 1941. In Fiscal Year 1955, FOA will complete its funding obligations for the manufacture of locally produced fertilizer. Once completed, in late 1956, plants now under construction will meet 85% of the chemical fertilizer needs of Formosa and will have the effect of saving the economy approximately \$18 million of foreign exchange annually. Similarly, industrial production, leading toward a gradual phaseout of FOA economic aid, has been stimulated by increases in the power output which has risen from about 176,000 KW of firm power in 1950 to about 270,000KW. Further increases are expected in late 1954 as more thermal power is brought into the system.

2. A concomitant to FOA aid to industry has been the quid pro quo expected from the Chinese, namely that FOA aid to industry is contingent on their improving the climate for foreign investment and improving the efficiency of the major nationalized industries of Formosa.

Para. 24. "Continue to assist the Chinese to plan the most productive use of their resources on the island and to make them available to the Free World".

Action agency: FOA

Action:

Action to this end has been taken along the following lines: (a) stimulus to coking coal production through geological surveys and financing both with dollars and counterpart; (b) inventory of all surplus equipment purchased from the U.S. prior to 1950 to assure its maximum utilization in Formosa; (c) marketing of agricultural products of Formosa, chiefly sugar and rice; and (d) assurance from American Overseas Petroleum, Inc., to explore oil structures in Formosa.

Para. 25. "Continue to emphasize and to implement examination and consultation with the Chinese concerning proper fiscal procedures and to curb tendencies toward excessive demands by the Chinese National Military establishment on the economy of Formosa."

Action agencies: FOA, Defense

Action:

In conjunction with the MAAG in Taipei, FOA has screened down the GRC military budget for Fiscal Year 1955 from NT\$3.0 billion (\$192 million) to NT\$2.1 billion (\$135 million). This is 61% of the National and Provincial Government's expenditures, a high percentage, indicative of the maximum capability of the GRC for defense appropriations. Expenditure controls and budget screening are continually being reviewed by the MAAG fiscal officers and the FOA. Despite these efforts, however, the arrival of 45,068 persons from Korea, Indochina, and Burma plus increasing amounts of end-item equipment under MDAP have resulted in a generally rising trend of military expenditures.

Para. 26. "Continue to exert the influence of the U.S. Government to modify programs which run counter to prudent advice on economic and fiscal procedures offered to the Chinese by U.S. representatives."

Action agencies: FOA, State

Action:

1. Aside from screening the GRC military budget mentioned above, the FOA and Embassy have succeeded for the first time in securing from the Chinese a coordinated FOA-GRC foreign exchange budget. Similarly, the procedures for screening foreign exchange expenditures have been improved to prevent capital flight and the importation of non-essentials. Efforts are currently being made to induce the government to export more rice, chiefly to Japan, by encouragement of greater utilization of cheaper grains, barley and wheat. Although the results are not yet final, the trend toward greater exports of rice is satisfactory and is expected to improve in view of the planned imports of wheat and barley under the Section 550 program this year and the "SACAP" funding plans for Fiscal Year 1955. In general the Chinese are responding satisfactory to U.S. advice on economic matters.

2. A further accomplishment has been the securing of agreement from the Chinese on the repayment of counterpart obligations prior to expenditures for other purposes.

Para. 27. "Assist the Chinese National Government to develop a well-balanced foreign trade which will meet the needs of the Formosan economy after the termination of U.S. economic assistance."

Action agency: FOA

Action:

FOA and State have encouraged the Chinese to expand their trade with Japan which has consequently risen from an authorized annual two-way trade of \$50 million to \$75 million. Similarly discriminatory practices against Japan have been or are being eliminated. A Sino-French trade agreement has been concluded this year, calling for a US\$10,000,000 annual two-way trade. Sugar exports to non-Communist Asiatic countries, Near Eastern and African countries have been encouraged by soliciting the assistance of FOA missions in those areas. FOA has encouraged the establishment of long-term amortization arrangements whereby Formosa can pay for needed capital imports both from Japan and the U.S.

Para. 28. "Encourage the Chinese National Government to adopt policies which will stimulate the investment of Chinese and other private capital and skills for the development of the Formosan economy."

Action agencies: State, FOA

Action:

Efforts to date have not been completely successful, although U.S. private investment has taken place to some degree, totalling nearly US\$7,000,000. To improve performance, the Chinese have now agreed to enact a liberalized foreign investment law which permits greater profit remittances and participation by foreigners in Formosan industry. Although not yet finalized, this legislation is expected momentarily. The chief problem in this field lies in the uncertainty of investors as to the political future of the island plus some reluctance to invest in an area so close to the hostile Communist mainland.

Psychological

Para. 29. "Develop Formosa as an effective base for psychological operations against the mainland, along lines which support U.S. policy objectives, and in collaboration with the Chinese National Government when appropriate."

Action agency: CIA

Action: This will be separately reported to the Board.