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Taiwan - Chiang's Stronghold

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Dear Mr. Rogers:

Fifteen miles from T'aipeh, capital of Taiwan (Formosa), there is a small Japanese built resort town called Ts'aoshan, perched on a mountainside amid semi-tropical flora. Ts'aoshan is the seat of the Generalissimo's Headquarters, an unofficial government within a government, where the diehards of a dying regime advise their "retired" leader in his attempts to reassert control over a situation which is almost entirely out of control.

When Chiang K'ai-shek went into "retirement" in January of this year nominal leadership of Nationalist China passed to General Li Tsung-jen who had been elected Vice-President in April, 1948, despite the vigorous opposition of Chiang and the Kuomintang party machine. Chiang's "retirement" has never been more than a fiction, however, and the power of Li Tsung-jen, and his Kwangsi clique and other supporters, has remained purely nominal. As party chief of the Kuomintang Chiang has continued to pull strings, give orders and direct his personal followers from behind the scenes.

For over twenty years Chiang K'ai-shek and the Kuomintang regime have been so tightly wedded that the split in 1949 has merely been a separation, not a divorce. During the past year Li and his supporters have never had a chance to determine policies with any degree of independence, because they have been undercut by Chiang's constant interference and obstruction. Many observers believe that Chiang has deliberately sabotaged Li and the Central Government on the mainland in order to destroy Li's power and to ensure that Chiang himself would have no strong political competitors among the non-Communists in China. There is considerable evidence to support this view.

In the Spring of this year Li wanted to fight the Communists along the Yangtze River, which is one of the best natural defense barriers in the country, but Chiang, although holding no official government post, withdrew most of the navy and airforce to Taiwan and gave personal orders to General T'ang En-po, commander of the lower Yangtze Valley, to withdraw toward Shanghai. As a result the Communists' crossing of the river was virtually unopposed. Li then wanted to reorganize the government and army and to purge incompetent men, but Chiang blocked almost every move in this direction. To cite a specific example, Li vetoed the appointment of T'ang En-po as commander in Fukien, but Chiang's influence placed T'ang in the job nonetheless. Subsequently T'ang, who is a fellow Chekiang provincial of Chiang's, lost the battle for Fukien as he has lost every other important battle during his long career. Li controlled none of the financial resources of the National

Government, and while his capital was in Canton expenditures (about Silver \$50 million a month) exceeded revenues (about Silver \$20 million a month) to such an extent that the troops could not be paid, and the financial strain on the government became intolerable. Despite Li's suppliant requests for financial assistance, Chiang, who had shipped the monetary reserves of the Central Government to Taiwan and kept them under his own control, refused to bail Li's government out of its predicament and doled out money, as well as airforce and navy units, in pitifully inadequate amounts. Discouraged but not defeated, Li wanted to attempt the defense of South China by maintaining a defense line established on the Kwangtung-Hunan border. Chiang, however, went over Li's head and in late September ordered a general retreat to the environs of Canton. This move predetermined the loss of Canton which was given up without a fight, and Pai Chung-hsi's soldiers, the only important Nationalist troops left on the mainland, barely missed Communist encirclement and were forced to withdraw precipitously to Kwangsi.

For over ten months Chiang K'ai-shek's meddling, in direct opposition to Li Tsung-jen's plans and policies, has destroyed the last vestiges of unity in the Nationalists' camp. Cleavages of all sorts have widened, and the basic rivalry between Li and Chiang has reached an explosive point. Chiang's apologists explain that he has been trying to conserve the Nationalists' dwindling military strength, but if that has been his objective his efforts have been remarkably misguided. His machinations have aided the Communists in destroying the remaining Nationalist strength on the mainland. It is true, however, that Chiang has undermined the position of his Kuomintang competitors and has reasserted control over his party and the Nationalist Government. As long ago as July Chiang in an interview with a foreign correspondent said, "Regardless of whether I hold any political office I cannot give up my revolutionary leadership", and he has shown that these were not idle words. Last week, Acting President Li Tsung-jen apparently gave up his attempts to govern without power, and ignoring Chiang's requests that he come to Chungking he flew to the foreign colony of Hongkong for medical treatment. (He hopes to proceed to the U.S.)

It is too early to predict whether or not Li Tsung-jen will be persuaded to return to the mainland to assume once more his post as nominal chief of the Nationalist Government. Although this seems unlikely at present it is still possible. It is also possible, however, that Chiang will abandon the fiction of "retirement", now that he has defeated his major political opponent within the Kuomintang, and he may openly reassert his rule over the remnants of Nationalist China. Or some lesser figure may rise to become a powerless chief of state in a shadow government controlled by Chiang. The possibility of any new and vital leadership asserting its control over the Kuomintang on the mainland is now difficult to conceive, however. Chiang K'ai-shek has completely undercut his party rivals. His political victory certainly seems to be a Pyrrhic one, however, because the Nationalists are now so weak and divided that a complete Communist military victory on the mainland is undoubtedly only a matter of time.

Chiang K'ai-shek's actions during the past year seem on the surface to have been suicidal madness. They make sense only in terms of the following surmises and facts. Chiang seems to have an unshakeable belief in his own destiny, and he has therefore obstinately refused to relinquish power to anyone else, Communist or non-Communist. He has openly proclaimed his belief that a Third World War not only will come but has already started. He seems to be confident that he will ride the crest of Western military advances in an eventual Soviet-American struggle and will be reinstated as ruler of a non-Communist China. And he controls the island of Taiwan as a military base and final personal stronghold. It is reliably reported that Chiang now wants the official Nationalist capital to be set up on Taiwan. Taiwan is the center of Chiang's power and hopes, and the small resort town of Ts'aoshan is the nerve center of his operations.

What little positive popular support the Kuomintang has continued to evoke during recent months has generally been based on the hope that Li and other leaders would be able to change the character of the party after Chiang's "retirement". These hopes have not materialized, Chiang has not retired and a large majority of the tight group of men in the Kuomintang who still accept the Generalissimo's leadership are the oldest party and army workhorses who still feel a personal loyalty to Chiang or have such strong vested interests in the old regime that they still hope it will continue unchanged. A majority of these men are now concentrated on Taiwan.

The Generalissimo's Headquarters organized on Taiwan after the fall of Nanking and Shanghai is an agglomeration of party elders who form an unofficial cabinet for an unofficial ruler. Officially it is called the Kuomintang Director-General's Office, and it has a total personnel of about a hundred men organized into six major sections under an overall Secretariat headed by Huang Shao-ku, former Kuomintang Minister of Information. The Party and Government Section is under Ku Cheng-kang, former Minister of Social Affairs and one of the three prominent Ku brothers from Kweichow. The Economic Affairs Section is under K.C. Wu, ex-mayor of Shanghai. The Military Affairs Section is headed by General Wang Tung-yuan, onetime governor in both Hupeh and Hunan. The Information Section chief is Hollington Tong, longtime head of the Government Information Office. The Research Section is under T'ao Hsi-sheng, a Kuomintang Vice-Minister of Information. The Secretariat Section is headed by Chang Chi-yun, a former geography professor in the National Chekiang University. There is also a General Affairs Section headed by General Yu Chi-shih, one of the Generalissimo's former aides. In addition there are many untitled advisors, the most prominent of whom is Wang Shih-chieh, a former Minister of Foreign Affairs. This group is the Generalissimo's organized brain trust. The job of its members is to advise the chief as a cabinet would, and many of the brain trusters are former cabinet members. They also draw up plans, policies and reforms, but it is the Generalissimo's prerogative to make decisions and, when the spirit moves him, to take action by issuing orders and instructions to loyal subordinates, often forcing or persuading these subordinates to disregard the Central Government to which they theoretically now owe allegiance.

A few of the well-known younger men in the Generalissimo's Headquarters are competent and qualified for responsible positions. One notable example is K.C. Wu who probably administered the complicated city of Shanghai as efficiently as any other man in China could have. But men of this sort are in a minority. It is by no means certain, furthermore, that this minority is satisfied with the system under which they work even though they have followed the Generalissimo to Taiwan. There are recurring rumors in Taipei that there is a group within the top inner circle which would like to end Chiang's arbitrary control, but not many people believe them capable of doing it. The minority of competent men can hardly compete with the swarm of old time incompetents, and seldom do they overcome the Generalissimo's stubborn opposition to change or reform. It has always been difficult to give Chiang advice which he does not want to hear, and it is no easier now than in the past.

The organized braintrust is only a small part of the entourage which makes up Chiang's unofficial government on Taiwan. The island is crowded with old party hands, including the most diehard, unchangeable, uncompromising ones, as well as old commanders and generals who are a dime a dozen. Many of these men are advisors of one sort or another - to Chiang, to the Director-General's Office and to the Provincial Government. Even T'ang En-po is still around as advisor to something or other. The same men who have brought Nationalist China to its present state of political and military bankruptcy still hang on, and on Taiwan there are more of them concentrated in less space and with less to do than ever before. As a result they interfere with everyone including each other. Figuratively speaking, advisors lean over the shoulders of almost all legitimate officials on Taiwan, including those in the Provincial Government, and the influence of their dubious advice reaches far into West and South China and interferes with the functioning of many officials there.

The influence of the Generalissimo and his unofficial government on the mainland situation is sometimes exercised by remote control, but sometimes it is applied directly through what has been called Chiang's "mobile cabinet". A small group of key members of the Generalissimo's Headquarters and high ranking advisors travel with Chiang wherever he goes. When Chiang flies to Chungking, for example, these men hop into the plane with him, and on arrival they act as a general staff to assist the Generalissimo in his political maneuvers - all unofficially, of course.

The territorial base from which Chiang's pocket-size but potent government operates is confined to Taiwan, however, despite the peregrinations of the "mobile cabinet". It is the relative strategic invulnerability of this base, together with the financial, naval, air and military strength which Chiang controls on the island, which give the Generalissimo the material basis for power, regardless of what titles he may or may not possess. Before the fall of Nanking and Shanghai Chiang managed to bring virtually the entire treasury of the Central Government, including its gold bullion reserves, to Taiwan.

Not even the most astute outside observers seem to know where these funds are guarded or how they are disbursed, but everyone agrees that Chiang himself holds the purse-strings and has refused to allow the Central Government authorities on the mainland, who should be the custodians of the treasury, to draw freely on these reserves. These funds, which generally were valued at about US\$300 million when brought to Taiwan have been used only when and where Chiang has permitted. Employment of the navy and airforce is also subject to direct orders from the Generalissimo, and since the loss of the Yangtze Valley he has concentrated the forces of both these services at Taiwan, to the detriment of Nationalist efforts on the mainland. A sizeable military organization is also being created on Taiwan, and Chiang has concentrated his efforts on building this island defense force. He has shown far less concern about remedying the equipment deficiencies and lack of pay plaguing the Nationalist troops actually facing the Communists on the mainland than he has about strengthening the military potential of Taiwan, his own final stronghold.

Chiang has entrusted the administration of Taiwan to one of his closest personal followers, General Ch'en Ch'eng, who was sent to Taiwan at the end of 1948 to prepare a base to which Chiang could retire. Wei Tao-ming, the Governor of Taiwan, was not even informed that Ch'en was coming, but in January this year Ch'en took over Wei's job. Ch'en, like Chiang himself, is a native of Chekiang and a graduate of Paoting Military Academy. He has held a succession of important jobs under the Generalissimo. In recent years he has been Chiang's Minister of War (1944-46), Chief of Staff (1946-48), and Director of the President's Northeast Headquarters (1947-48). At present in addition to being Governor of Taiwan he is Southeast China Commander (a post created on September 1 this year to include Taiwan, Kiangsu, Chekiang and Fukien Provinces, the latter three of which are largely in Communist hands). As Southeast China Commander Ch'en is military deputy to Chiang K'ai-shek - who officially holds no military post but is still "the Generalissimo" and therefore the highest ranking officer in the Chinese Nationalist Army.

This is the political background, on a national level, to the present situation on Taiwan Island. In theory the island is simply Taiwan Province, one part of Nationalist China, without special status. Actually it is Chiang K'ai-shek's personal reserve, governed by the "retired" Generalissimo himself with the help of loyal supporters. The Nationalists' disintegrating Central Government on the mainland does not control Taiwan; instead Chiang's unofficial government on Taiwan exercises a considerable degree of control over a few remnant Nationalist elements on the mainland.

Chiang K'ai-shek undoubtedly chose Taiwan as his final stronghold because strategically it is the most defensible area still in Nationalist hands. Any invasion force from the mainland must cross the Taiwan Straits, over a hundred miles of choppy water. From late Autumn until

Spring the Northeast monsoon adds to the difficulty of crossing the straits in small boats. This geographical barrier does not necessarily make Taiwan invulnerable, however. The island's defense potential is determined by a complex combination of military, economic, political and psychological factors.

The military force under Ch'en Ch'eng's command in the whole Southeast China area at present totals about 600,000 men, roughly half of whom are infantry effectives. These are divided into four subordinate commands. General Kao Ts'an commands the forces on Tinghai and in the whole Chusan Island group which lies off the coast near Shanghai; Tinghai is the base from which Nationalist destroyer-escorts and smaller craft are blockading the river entrance to Shanghai. General Hu Lien commands Chinmen (Kinmen) Island off the coast near Amoy. General Li Cheng-ch'ing is in charge of the Pescadores, Southwest of Taiwan. And General Sun Li-jen is commander of the combat defense force on the island of Taiwan itself.

The difficulty of amphibious operations against these islands, if the defending troops fight, was indicated a month ago by two Communist invasion attacks which were decisively smashed by the Nationalists. On October 25th 17,000 Communists with supporting artillery made a night attack on Chinmen. By the 27th the three Nationalist armies there, sparked by regiments trained under Sun Li-jen, had annihilated the attackers, of whom 8,000 were captured and 9,000 killed or drowned. The Nationalist airforce aided the defenders. On November 3rd a somewhat smaller Communist force attacked Tengpu Island (near Tinghai), and on the 6th they were finally destroyed by units of the four armies in the Chusan group. These two battles resulted in the only significant Nationalist victories in recent months. The morale of the Nationalist troops participating was good, and as a result of the battles they captured artillery and small arms which strengthened their position. (The equipment captured undoubtedly had once belonged to other Nationalist units on the mainland.)

On Taiwan itself General Sun Li-jen's defense force according to its tables of organization should total 230,000 men, but actually Sun has about 130,000 men, one-third of whom lack small arms. These troops belong to three infantry armies and to M-5 tank units with a strength equivalent to an army. General Sun is a distinguished and accomplished soldier, a graduate of Tsinghua University, Purdue and the Virginia Military Institute, but he is non-political and belongs to no clique. This fact has undermined his position throughout his career and has repeatedly prevented his assignment to key command posts which his talents have deserved. During the past two years he has not seen combat but has been assigned to a training post on Taiwan. The Fengshan training base which he established on South Taiwan in 1947 has produced four armies of qualified soldiers, however, and those still left on Taiwan form the nucleus of his present command, to which he was assigned this Fall.

Although Sun Li-jen's troops are of relatively high calibre and are comparatively well paid and fed by Chinese standards, a number of factors make his position weaker than it might appear. Arms, ammunition and other supplies are lacking. The bulk of the Nationalists' military supplies have already been lost to the Communists on the mainland. Taiwan produces only a few of the items needed by an army; a few small arms and mortars are produced, but the numbers are negligible. Sun, furthermore, does not control the allocation of supplies or finances to various units on the island. Since August of this year he has been given an increasing amount of authority, but this has been done grudgingly, and Sun still feels he does not have a free enough hand to organize an effective coordinated defense. There are still some commanders on Taiwan completely out of his control, and this split command permits political jockeying and creates friction. The Nationalists still seem incapable of setting up a completely unified command. "If you are familiar with any part of China", Sun said to me, "then you will see the same old political situation here."

The command situation is not as bad as it might have been, however, considering the confusion which reigned on Taiwan immediately after Nationalist refugee troops arrived from the Shanghai-Nanking area. The reorganization of these troops is, in fact, one of Ch'en Ch'eng's major accomplishments. Within a relatively short period of time after their arrival Ch'en abolished twenty army designations (!), accounting for almost two-thirds of the paper strength of the refugee units, and reorganized the soldiers into units placed under Sun for retraining. As a result, unemployed generals were, and are, a drug on the market. This reorganization process, Ch'en said to me, was "harder than forming new units", because all the vested interests involved naturally opposed it, but it brought some order out of chaos. There are still some generals and units which have not been placed directly under Sun's semi-unified command, however, and these include the Peace Preservation Corps troops under General P'eng Men-chi, who figured prominently in the massacre of Taiwanese in February, 1947.

The airforce and navy, both concentrated entirely on Taiwan and nearby islands, in theory should give the Nationalists on Taiwan a decisive advantage in defense against attack by the Communists whose airforce and navy are in their infancy. Both of these services are unreliable, however, and have produced a singularly poor combat record during the civil war. It is true that the navy is blockading Shanghai with considerable effectiveness, and the airforce, under General Chou Chih-jou, sends a token raid over Nanking and Shanghai almost daily, but no one has much confidence in their real strength or dependability. Bad maintenance and poor tactics are characteristic of the airforce. Bad management and political unreliability are typical of the navy. Admiral Kwei Yung-ch'ing, in fact, spends most of his time trying to prevent the defection of ships to the Communists, but ships constantly change sides nonetheless. Fear of defections is a spectre which haunts both the navy and airforce, and no one knows what would happen in the face of a full scale attack.

If the fate of Taiwan is ultimately decided by military, rather than political, means, the brunt of defense will probably fall on General Sun Li-jen, and Sun himself says, "We have the determination to defend Taiwan, but we need both financial and military support from the outside to do it." It is doubtful if all the Nationalist leaders on Taiwan have the same soldiers' determination as Sun, but it is certain, as Sun says, that outside aid is a prerequisite for a long-term defense of Taiwan. The reasons for this are economic. Taiwan can support itself, but it cannot support the Nationalists' government and war effort for an indefinite length of time.

Taiwan is a lush, rich, semi-tropical island developed by the Japanese during their fifty-year occupation into a highly productive economy. The economy deteriorated badly as a result of wartime conditions and post-war Chinese misrule, but the island is still a going proposition, and some sectors of the economy have recuperated during the past year with the assistance of U.S. economic aid.

Agricultural production is the mainstay of the Taiwanese economy, and rice is the island's most important agricultural product. When the Japanese annexed the island in 1895 Taiwan had a population of roughly two million and a rice deficit. Fifty years later the population had trebled to 6,300,000, yet rice was a surplus commodity. This was a result of remarkable Japanese techniques of intensive cultivation which involved irrigation, heavy fertilization and the use of improved seeds. The peak pre-war annual rice production amounted to 1,400,000 tons; of this 500,000 to 600,000 tons were exported, and the Taiwanese population supplemented its own rice consumption with sweet potatoes. By the end of the war, in 1945, total rice production had dropped to 600,000 tons, as a result of the lack of fertilizers and other deterioration in methods. Since then, production has risen steadily, and this year the crop is estimated to be 1,229,000 tons, while next year's goal is 1,400,000 tons. The population has increased, however, to roughly 7,200,000 with the influx this year of almost a million civilian refugees and troops from the mainland, and the average Taiwanese now eats more rice and fewer sweet potatoes. Consequently there is not much of an export surplus. Last year roughly a million tons of rice were consumed on the island, and while about 70,000 tons were exported to the mainland very little was exported abroad. Government officials on Taiwan assert that production will just meet the local demand this year, but some unofficial observers believe there may be an exportable surplus of perhaps 100,000 tons.

The importance of Taiwan's self-sufficiency in rice should not be underestimated, because food and politics are closely related, particularly in Asiatic countries where simple economic survival is usually the most basic problem. A continuation of Taiwan's favorable food situation depends, however, on a number of factors, one of the most critical being the supply of fertilizers. The Japanese achieved their high rice production rate by using each year about 600,000 tons of fertilizer, roughly one-third bean cake and two-thirds chemical. The Chinese cannot obtain that much fertilizer. This year local Taiwanese production of fertilizer

will be about 45,000 tons, and by the end of the year about 200,000 tons of fertilizer will have been imported - one-half by the Provincial Government and one-half by U.S. ECA agencies - but the Taiwanese are now producing rice less efficiently than previously and have increased production by using more labor and putting more land into rice production. (Some of the land has been converted from sugar.) ECA is now scheduled to close its Taiwan office in February, 1950, however, and the Chinese have only limited foreign exchange with which to continue buying fertilizers.

Sugar, which is primarily an export commodity, is Taiwan's second most important agricultural product. Peak production under the Japanese amounted to 1,400,000 tons a year, but by 1945 this had dropped to 86,000 tons. During the first year after the war production declined still further, to 30,000 tons, but since then it has increased rapidly, and this year the crop is expected to total 630,000 tons. Local consumption is less than ten percent this figure, and the surplus is exported (or at least is exportable), mainly to Japan which last year bought about 200,000 tons. Sugar has become a headache, however, because of a decline both in world demand and in the world price, and Taiwanese sugar is not in a good competitive position on the world market. Consequently, despite the fact that Taiwan's sugar production is still less than one-half the pre-war peak experts believe that the island is over-producing and will find itself with useless stocks on hand. Sugar is still important to Taiwan because it now earns nearly four-fifths of the island's foreign exchange, but the ablest local economic planners, such as Provincial Finance Commissioner C.Y. Yen, hope to convert much sugar land to rice, which is a more saleable commodity abroad and now brings a better return than sugar.

Several other important agricultural products such as tea, fruits (pineapples, bananas), and camphor are normally exported from Taiwan. These have declined seriously, however. Camphor, particularly, has been almost priced out of the world market and replaced by substitutes - and Taiwan normally produces nine-tenths of the world's camphor supply. Nonetheless, exports of these agricultural products, together with miscellaneous commodities such as salt, coal and cement bring Taiwan a small amount of foreign exchange.

Taiwan's natural endowments are suited primarily to agricultural rather than industrial production, and the Japanese developed the island in a classic imperialistic manner, making it an integral part of their empire and Yen bloc, contributing agricultural products to and buying industrial products from Japan. In the early 1930's, however, Japan pushed the development on Taiwan of a number of industries including alcohol, aluminum, and oil. The motivation behind this development was primarily strategic, however, and many of these industries cannot be competitive in an unprotected market. When the Chinese first took over Taiwan after the war they decided unwisely to emphasize Taiwan's industry at the expense of agriculture. Despite the fact that this industry had been shattered during the war, and despite a lack of technicians, much corruption and a great deal of mismanagement, the Chinese have somehow

managed to accomplish a considerable amount of reconstruction. Now, however, there is a strong tendency, based upon a sounder analysis of the island's potentialities, to revert to an emphasis on agriculture.

At the present time overall industrial production on Taiwan is approximately sixty percent of the pre-war level. In a few industries production is actually greater than under the Japanese, but many other industries have suffered a serious decline. One of the most remarkable achievements of hard-working Chinese technicians has been the restoration of the island's output of electricity. Taiwan has a hydroelectric potential of about two and a half million kilowatts, and before the war the Japanese constructed plants with a capacity of 152,000 kw, 85 percent of which came from installations at Sun-Moon Lake in the center of the island. By V-J Day output had been reduced by bombing to 40,000 kw, but now it has been restored to 143,000 kw, almost its pre-war level. Industrial rehabilitation of all kinds has depended upon this achievement.

Taiwanese fertilizer production, although still far below local needs, has risen to almost 45,000 tons a year, and plans call for increasing it to 130,000 tons in the relatively near future. Cement production has also increased, largely on the basis of abnormally large military demands. 300,000 tons of cement are currently produced annually, and the existing plant facilities could turn out a half million tons a year. Textile production has also risen, but it is still very low because it started from almost nothing. There are now 26,000 spindles on Taiwan, and 7,000 more are expected before the end of this year. On the negative side of the industrial picture, however, is the decline in oil, aluminum, alcohol and other industries. The Japanese built a large oil plant to refine crude oil from Southeast Asia for use in refueling ships at the major naval base of Kaohsiung (Takao) in South Taiwan. The capacity of its two units is large enough to supply almost one-fourth of mainland China's needs. Now, however, access to both raw material and markets is difficult, and only one unit is producing part time. Even so production exceeds Taiwan's needs, and the surplus is difficult to dispose of. The Japanese also built an aluminum plant to process ores obtained from Fukien. Production this year, 4,000 tons of ingots, is much lower than under the Japanese, yet the product is still hard to sell because of high manufacturing costs. Now both the mainland ores and mainland markets are cut off. Industrial alcohol made from sugar was a major Taiwanese product under the Japanese, who used it extensively for fuel. A large number of plants were destroyed during the war, but many are now producing again. There is very little market for the six million gallons produced this year, however, because as in the case of aluminum costs are high and markets limited.

For industrial consumer goods of all sorts Taiwan has always depended upon imports. Before the war 85 to 90 percent of the island's trade was with Japan. After the war this pattern changed abruptly, and 80 percent of Taiwan's trade shifted to China, but now the civil war

has cut off most of the mainland markets, and markets elsewhere have not yet recovered. A definite attempt is currently being made to reorient the island's economy toward Japan, and economic planners on the island consider this step essential not only because of the military situation but also because of the complementary nature of the Japanese and Taiwanese economies, but not a great deal has been accomplished along this line to-date. As a consequence Taiwan does not earn much foreign exchange. This year its exports will bring in perhaps US\$50 million of foreign exchange, but most if not all of this is required to pay for the island's minimum needs of cotton goods, fertilizers, wheat flour, medicines, drugs and other manufactured goods. The island's international balance of trade is in equilibrium, in a precarious sort of way, and there is no significant export balance. This is a fact of importance for the future, because it means that Taiwan itself cannot earn the foreign exchange needed to buy military and other supplies required for a war effort on the part of the Nationalists. Chiang still has some reserves of gold and foreign exchange left, but they are probably not large. Although it is not known exactly how much he does have some "informed guesses" place the figure at less than US\$100 million, and it is generally believed that in eight or nine months Chiang will follow his compatriots on the mainland along the road toward bankruptcy. After that if Chiang continues to finance a large military organization on Taiwan someone else will have to foot the bills.

The effect of four years of Chinese rule upon the standard of living of the average Taiwanese has been unfavorable. Much has been written already about the way mainland carpetbaggers flooded Taiwan after the war and squeezed all they could get from the Taiwanese, and the details do not have to be repeated here. In essence what happened was that bureaucratic, monopolistic organizations of the Nationalist Government, together with some rich mainland individuals, replaced the Japanese as the exploiters of the local population, and the Taiwanese did not reap the benefits they expected from "liberation". Mainland officials took over industries and large plantations, and the Chinese have proven to be far less efficient administrators than the Japanese. For a foreign observer it is almost incredible to find widespread nostalgia about the days of Japanese rule. "The Japanese took a lot from Taiwan", the local people say, "but they contributed to the developing of the island; the Chinese merely take without making any contribution." The adverse effect on the Taiwanese has not taken the form of food shortages, but rather the form of insecurity of employment, a lack of consumer goods, and high prices.

For the first three years after the war Taiwan was squeezed to help support the Nationalists on the mainland. The situation has changed somewhat now, because the island is cut off from the mainland, but Taiwanese still make a considerable contribution, economic and financial, to the Nationalists who occupy the island. Some efforts have been made to alleviate this burden, but they have had only limited success. In June of this year Governor Ch'en was allowed to issue a new currency entirely divorced from the mainland currency and pegged to gold. As

backing for the new note issue he managed to obtain 800,000 ounces of gold from Chiang K'ai-shek's reserves. Issuance of the new currency halted runaway inflation, but inflation at a slower rate has continued nonetheless. The black market foreign exchange rate has risen to over T\$7.50 for US\$1.00 although the official rate is five to one, and note circulation has increased from \$42 million to \$130 million since June. Most prices have risen accordingly, and Taiwan, once one of the cheapest places to live in the Orient, is now one of the most expensive.

Governor Ch'en and his Finance Commissioner Yen have managed to keep the local civilian budget separate to some degree from the island's military budget and have maintained theoretical financial independence. All foreign exchange earned by Taiwan is now controlled by the Provincial Government, for example. Military expenses, furthermore, are supposed to be paid by Chiang. The Provincial Government makes some direct advances to the military, but in theory this is repaid in gold or is deducted from the province's tax obligations to the central authorities. In actual fact, however, the direct and indirect provincial contribution, and thus in the last analysis the Taiwanese people's contribution, to the maintenance of Nationalist troops is considerable. At present the civilian Provincial Government budget is balanced, but just barely. If and when Chiang's financial resources are exhausted, furthermore, the whole burden of supporting the Nationalists' military organization on Taiwan will fall upon the local economy unless outside aid is received. The economy would then be thrown out of balance, and the situation, in the words of the Finance Commissioner, would be "dangerous".

The economic situation on Taiwan is one of the reasons why the local Taiwanese population is hostile to the Nationalist Government. There are other reasons also. The Taiwanese are of Chinese stock (largely from Fukien), but geographical separation and fifty years of Japanese rule have developed in them characteristics differentiating them from the mainlanders. They have acquired the Japanese respect for order and efficiency and have developed a contempt for the Chinese lack of these qualities. They are accustomed to a higher standard of living than the average mainlander and resent intimations that they shouldn't expect to live better. Most of them speak Japanese, but only a few speak kuoyü, the Chinese national language. They have been excluded by mainlanders from top administrative posts in the government, when they expected to achieve self-rule. Politically active dissidents have been, and still are, jailed by the mainland authorities on the island. These and other factors led to the unarmed Taiwanese uprising of February 27-28, 1947, which was brutally suppressed by Governor Ch'en Yi who ordered repression resulting in the massacre of 5,000 to 10,000 Taiwanese. This "incident" suppressed open opposition but won for the Chinese regime a universal dislike among the Taiwanese people. The attitude toward the Chinese of large numbers of Taiwanese is even stronger than dislike; it is hatred. Not a few long for revenge.

In recent months some efforts to conciliate the Taiwanese have been made by Ch'en Ch'eng's regime. One reform has been the enforcement of the long-standing (on the books) Nationalist rent reform program limiting land rents to 37½ percent of agricultural output. This program, if really enforced, should definitely improve the economic conditions of roughly 55 percent of Taiwan's farmers who are tenants, and foreign observers on the spot say that enforcement is having some success. The Taiwanese middle class, who are the most vocal political group among the local population, are opposed to the reform, however. Many members of the middle class depend on small landholdings for supplementary income, and they are adversely affected by the reform measures. Some of them even assert that the reform is merely an underhanded Chinese way of eliminating the middle class because of its potential political importance. They also claim that government controls have kept the price of rice low, benefiting mainlanders in the cities at the expense of Taiwanese farmers; this price policy, they say, counterbalances any beneficial effects of rent reductions for the farmers.

Three months ago a Local Self-Government Committee, with about twenty members, was established on Taiwan to advise the governor on elections of Taiwanese representatives and officials. This committee has already made a number of recommendations, and Ch'en now says that in two years time all executive posts below the level of the Provincial Government itself will be made elective. However, C.C. Huang, present Chairman of the Taiwan Provincial Council, says that this is not soon enough, and Huang is considered a moderate. At present 95 percent of all the higher political and administrative jobs on Taiwan are still filled by mainlanders. Although village administration is still in the hands of local people, only three mayors (T'aipeh, Chiayi, Changhua), one magistrate (T'aitung) and three important provincial officers in the government (Commissioners of Food, Public Health, and Agriculture and Forestry) are Taiwanese. Arguments about qualifications, training and experience do not affect the feelings on this subject of the Taiwanese, who believe, rightly or wrongly, that they can govern themselves.

The government's conciliatory steps, such as they are, seem to have persuaded some wealthy Taiwanese that cooperation with the mainlanders is possible, but it does not seem to have affected the basic hostility of the majority of Taiwanese. Announced plans to conscript 35,000 or more Taiwanese for the army next Spring have, in fact, increased the opposition of some, even though the Provincial Council was able to introduce provisos that these conscriptees must have their own Taiwanese officers and must be kept on the island for local defense.

Taiwanese opposition to mainland Chinese is not well organized despite the almost universal hostility prevailing, however. This is due not only to Chinese suppression but also to the Taiwanese lack of political experience and leadership. There are only a few organized political groups, and none of them are strong. The most vocal and outspoken Taiwanese group is the Formosan League for Re-Emancipation led by the Liao brothers who are now in exile and have headquarters in Hongkong.

Like all other comparable Taiwanese political organizations this league has a vague membership and probably very few definite members, but the Liao brothers are well known among Taiwanese students and intellectuals. Representing thirteen member organizations (or at least organizational titles) this body originally wanted a U.N. plebiscite or trusteeship but now calls for revolution and independence. Another well known organization, the Formosan League for Democratic Rule, is relatively neutral in its attitude and advocates more autonomy but not independence. There are a few other political groups, and in addition there are several prominent Taiwanese, such as Lin Hsien-t'ang, Ch'in Nien-t'ai and Yang Chao-chia, who had political experience advocating more self-rule under the Japanese and who still represent the desire for self-government. Some of these individuals are occasionally called in for consultation by Ch'en Ch'eng or Chiang K'ai-shek. Real political activity among the Taiwanese is limited to a very few, however, perhaps due to apathy and tradition as well as to fear and Chinese suppression.

It is significant that despite the prevalent anti-Nationalist feeling there seems to be almost no pro-Communist feeling. The Taiwanese attitude seems to be close to pure nationalism. Long anti-Communist indoctrination under the Japanese as well as under the Chinese seems to have been effective, and even bitter anti-Government Taiwanese say they don't want Communism under any circumstances. The highest estimates of Communist Party membership on the island rarely exceed 2,000, and even the Communist-front Formosan League for Democracy, led by a young woman named Hsieh Hsueh-hung (now in Peiping), is not said to have many more. If there is any underground, Communist or non-Communist, which is active, it is not generally known. The possibility of any sort of successful Taiwanese uprising or revolution seems remote, therefore, unless the situation deteriorates to such an extent that there is no force to suppress a rebellion. The general hostility to the Chinese may grow, however, if the burden of supporting Nationalist armed forces falls entirely upon the Taiwanese, which means that the Nationalists on Taiwan cannot expect any active support from the local population, even if organized opposition does not assume serious proportions.

All of these factors are a part of the situation on Taiwan, but it would be a mistake to consider only local factors without relation to the overall China situation. The bad morale among most of the Nationalists, and the general loss of faith in the Nationalists' cause in China, are fundamental facts affecting every individual situation in the country. Defection to the Communists, for those in a position to do so, is "catching", and the fear and threat of defections is felt everywhere, even in Taiwan. (The dramatic turnover of both main Nationalist airlines, CNAC and CATC, was a staggering psychological blow to all Nationalist China.) Defeat breeds defeat, and there is little confidence visible even among the leaders on Taiwan. The psychology of despair among the Nationalists, regardless of hopeful

predictions of victory made for public consumption, is as important a factor in the situation as more tangible factors which can be analyzed, weighed and balanced - such as the military potential, the Taiwan Straits, the food surplus, the dark financial prospects and local Taiwanese hostility. This means that if Taiwan becomes the final stronghold of the Chinese Nationalists, which seems probable, the prospects for long-term survival are not optimistic even under the best conceivable conditions.

A word can be added, also, about how mainland Chinese may feel about a Kuomintang regime on Taiwan. All available evidence seems to indicate that most mainlanders in Communist territory, including those who dislike the Communists, react unfavorably to the destruction and economic disruption caused by the Nationalist blockade and air raids. The reason is not difficult to understand if one realizes the degree to which people have lost faith in the Kuomintang's ability to defeat the Communists. Further loss of life and destruction is considered senseless by most people, particularly if it affects them directly. It is possible, therefore, that the leaders of a Kuomintang regime living out their days on Taiwan may become unwanted exiles, disliked and disowned by both the mainland Chinese and the local Taiwanese.

Sincerely yours,

A. Doak Barnett

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