

**August 27, 1957**

**Special National Intelligence Estimate Number  
43-2-57, 'The Prospects of the Government of the  
Republic of China'**

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**Summary:**

Analysts at the CIA write that "the National Government remains politically stable and the economy of Taiwan continues gradually to improve. The military establishment is growing stronger, but Nationalist forces alone could not defend their territories against a full-scale Chinese Communist attack."

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# NATIONAL INTELLIGENCE ESTIMATE

## NUMBER 43-2-57

(Supersedes NIE 43-56)

# THE PROSPECTS FOR THE GOVERNMENT OF THE REPUBLIC OF CHINA

*Submitted by the*

### DIRECTOR OF CENTRAL INTELLIGENCE

*The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.*

*Concurred in by the*

### INTELLIGENCE ADVISORY COMMITTEE

*on 27 August 1957. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Assistant Chief of Staff, Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.*

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### TABLE OF CONTENTS

	Page
SUMMARY AND CONCLUSIONS . . . . .	1
DISCUSSION . . . . .	2
CURRENT SITUATION . . . . .	2
OUTLOOK . . . . .	4
APPENDIX A . . . . .	6
MILITARY . . . . .	6
Army . . . . .	6
Navy . . . . .	6
Air Force . . . . .	7
APPENDIX B . . . . .	9
Table 1. ECONOMIC INDICATORS . . . . .	9
Table 2. TAIWAN'S EXTERNAL ACCOUNTS . . . . .	9
APPENDIX C . . . . .	10
DIPLOMATIC STATUS OF THE REPUBLIC OF CHINA AND COMMUNIST CHINA . . . . .	10

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# THE PROSPECTS FOR THE GOVERNMENT OF THE REPUBLIC OF CHINA

## THE PROBLEM

To estimate the strengths, weaknesses, and prospects of the Government of the Republic of China, with particular reference to its staying power.

## SUMMARY AND CONCLUSIONS

1. The Government of the Republic of China continues to hold as its central objective the recovery of power on the mainland. In fact it controls only Taiwan, the Penghus, and a few islands lying off the coast of China, and it holds its international position primarily because of US diplomatic support. It is able to support its present military establishment and the economy of Taiwan only with substantial US assistance.

2. The National Government remains politically stable and the economy of Taiwan continues gradually to improve. The military establishment is growing stronger, but Nationalist forces alone could not defend their territories against a full-scale Chinese Communist attack.

3. The staying power of the Republic of China will be determined by the ability of Nationalist leaders to adjust to life on Taiwan, by developments within Communist China, and particularly by the policies of the US. Major setbacks in Communist China or the Communist world

would raise Nationalist morale and strength of purpose. However, developments interpreted by Nationalist leaders as indicating that the US was losing interest in supporting the National Government and that Communist China was gaining international prestige and internal strength and stability would foster divisive and defeatist tendencies in Taiwan. The death of President Chiang would probably be followed by a period of domestic uncertainties and a weakening of the government's stability. Communist China's admission to the UN would result in marked deterioration of the morale of Nationalist leaders.

4. Given continued US support, the National Government will probably maintain its position on Taiwan, although its international position will deteriorate. Continued emphasis on the objective of return to the mainland, however, would increase the need for US aid to prevent economic degeneration, particularly in view of the population growth expected

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over the next decade. In this situation there would be increased frustration and defeatism, especially among middle level elements, and there might be increased susceptibility to Communist inducements.

5. On the other hand, if a new generation of leaders in time were to accept a "two

Chinas" arrangement and if they came to concentrate on long-term economic development, the island might become economically viable and morale tend to improve. In any event, US military guarantees and assistance would have to continue and economic aid would be required for the development of export industries. \*

### DISCUSSION

#### CURRENT SITUATION

6. The Republic of China on Taiwan remains politically stable, its military establishment is growing stronger,<sup>1</sup> and the economy of the island continues modestly to improve. However, this appearance of well-being tends to be misleading. The Republic of China cannot survive without US support. Its position as the legal government of China is being increasingly threatened by Communist China. Its leaders are not satisfied with their prospects on Taiwan and continue to hold to the return to the mainland as a major objective, although many of them probably believe that the chances of attaining this objective are remote. Worries over their future, resentment over US lack of support for return to the mainland, and apprehension as to future US intentions toward Communist China have combined to produce a mood of frustration and concern among many Nationalist officials.

7. Throughout eight years on Taiwan the top Nationalist leadership, and particularly Chiang Kai-shek, has held firmly to the objective of a return to the mainland as the *raison d'etre* of the National Government. The Generalissimo is apparently concerned over the long-term pull of the mainland on his followers, and in addition believes that to aban-

the return would be realized in his lifetime. His own appraisal of developments of the past year, in the Bloc generally and in Communist China specifically, has almost certainly raised his estimate of the chances of a return. He may well read into current Communist difficulties on the mainland the early signs of that reaction against "alien rule" that his interpretation of Chinese history tells him is inevitable. The Generalissimo's faith in the return will probably remain even though current troubles on the mainland fail to attain serious proportions and even if there is no apparent prospect of major hostilities between the US and the Chinese Communists. Furthermore, whatever the actual chances of a return, he will almost certainly continue to believe that it is essential to proclaim the objective in order to maintain morale and a sense of national purpose among his followers.

8. However important it may be for Nationalist morale to hold out promise of return, the continued emphasis on this theme in propaganda and policy constitutes a major vulnerability in the Nationalist position on Taiwan, if, as we believe likely, the realistic chances of a return are slim. The problem of finding constructive employment for Taiwan's large numbers of educated and talented men is becoming increasingly serious. They are not

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\* 1/ The Special Assistant, Intelligence, Department of State, believes paragraph 5 should read as follows:

"On the other hand, if a new generation of leaders in time come to place major emphasis on long term economic development, the island's economic prospects would improve, morale would be sustained, and the staying power of the ROC would be strengthened. In any event, US military guarantees and assistance would have to continue and economic aid would be required for the development of export industries."

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officers, white collar workers, and intellectuals that indications of dissatisfaction have been in evidence. This group represents a potentially serious morale problem and a target for Communist subversion.

9. To date Communist efforts to subvert and to induce defections have had little success. The security measures of the National Government appear adequate to prevent any threat to the stability of the government. In addition, recent events on the mainland have somewhat lifted Nationalist spirits, particularly the current repression of the "rightist" nonparty figures which undercuts Communist attempts to persuade Nationalist leaders and officials that they can become important "democratic personages" in Communist China. However, it is impossible to estimate whether or to what extent frustration and the appeal of the mainland have undermined the loyalties of some Nationalists.

10. President Chiang Kai-shek, still vigorous at 70, continues to be the dominant figure in the government and the ruling Kuomintang. The chief political rivals at present, under the Generalissimo, are Ch'en Ch'eng, the constitutional successor to the presidency, and Chiang Ching-kuo, the elder son of President Chiang. The latter has acquired considerable power from his close relationship with his father and from his control of important elements within the secret police, the Political Department of the Army, the KMT Youth Corps, and the secondary levels of the Kuomintang organization. His growing power has been somewhat circumscribed, however, by distrust of him engendered by his long training in the USSR and his association with police activities.

11. The most striking event of the past year was the 24 May riot and the sacking of the US Embassy. We believe this incident did not reflect the existence in Taiwan of intense anti-Americanism, but did demonstrate resentment against what many Chinese believed to be a miscarriage of justice. The reaction was intensified by the existence of deep-seated frustrations and injured national pride. Although some officials probably knew that a demonstration was planned and

some advantage was taken of the situation, the pillage of the Embassy was probably not premeditated. There was a long delay in controlling the mob after the demonstrations turned to violence, reflecting seriously on the ability of the government to take prompt action in the event of an emergency situation.

12. With US diplomatic support, the Republic of China continues to maintain its formal international position. The Nationalists gained from the hardening of world opinion toward the Bloc because of recent events in Hungary and the Middle East. Saudi Arabia, Paraguay, and Liberia have agreed to exchange ambassadors with the National Government, and Jordan may soon follow suit. Pressure, however, continues in favor of Communist China's entry into the UN, and increases for further lowering of CHINCOM trade barriers. Moreover, Nationalist prestige has declined somewhat in Asia, and the National Government has lost face with the Overseas Chinese because of its inability to defend their interests in specific situations in Southeast Asia.

13. The current US aid program on Taiwan has contributed to significant economic improvement but the economy is still far from self-sustaining. The reorganized National Government has provided a reasonably strong and effective administration under which it has been possible to employ US aid deliveries efficiently. Productive investment has been limited, but has yielded a rather sizable increase in output through the rehabilitation of existing fixed plant and increased imported raw materials, much of which was made available through US aid. As a result, the economy has continued to expand during the past year, but at a decelerating rate. Taiwan's GNP in 1957 will be about seven percent higher than in 1956, and about 72 percent higher than in 1951. However, the apparent economic progress is seriously overshadowed by the increasing pressure on resources, and inflationary forces continue to grow despite continued large scale US aid. Two basic problems plague the economy of Taiwan. One is the huge military establishment which is made necessary by defense requirements and by the objective of returning to the mainland.

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The other basic problem is that with limited natural resources the population is increasing at the rate of about three percent per annum, and government and social attitudes are hostile to any measure designed to control population growth.

#### OUTLOOK

14. The prospects of the Republic of China will continue to depend critically upon US policies. Provided US military, economic, and diplomatic support continues at present levels, the National Government for the next few years will probably be able to maintain its position on Taiwan, prevent serious internal discontent, and promote some economic development. In the short term, the international status quo of the Republic of China can probably also be maintained with US support. Over the longer run, however, the international position of the Republic will probably deteriorate.

15. The Nationalist leaders will continue to be highly sensitive to US actions and statements which appear to affect the degree of US support of the National Government of China. There will be an increasing conviction that the US will eventually come to some arrangement with Peiping that will be to the detriment of the Republic of China. While fully recognizing Nationalist China's dependence upon the US, Nationalist leaders will probably seek to exploit what they consider to be US strategic and political interests in Taiwan by attempting to gain US support on their own terms.

16. Nationalist leaders recognize the threat that incidents such as the 24 May sacking of the US Embassy present to Sino-US cooperation, and will probably take firm measures to prevent another such occurrence. However, there will probably be an increase in incidents manifesting frustrations and latent anti-Americanism, although we believe that open expression of such sentiments will not reach a dangerous pitch in the near future.

17. Beyond the next few years, economic prospects for Taiwan are poor, because of the rapid population growth and because Nationalist leadership does not consider seriously the

possibility of a protracted exile on Taiwan. If present Nationalist policies continue with respect to military priority, economic development, and population control, Taiwan will have little if any hope of becoming economically viable over the long run and will gradually require increased outside assistance to maintain present economic levels. On the other hand, a fundamental change in these policies would improve Taiwan's chances for economic viability.

18. So long as President Chiang remains in power no substantial change in Nationalist policy is likely to occur. Should he die prior to the expiration of his present term of office in 1960, Vice President Ch'en Ch'eng would probably succeed to the presidency without provoking internal disturbances. Ch'en would probably attempt to continue the Generalissimo's policies, but would probably be a less effective leader. Moreover, Ch'en's authority would probably be contested by the Generalissimo's son, Chiang Ching-kuo, with adverse effects upon Nationalist morale and cohesion.

19. As Chiang and other senior officials eventually retire from the scene, the National Government will probably display more flexibility of policy. The majority of the new leaders would probably in time accept a "two Chinas" arrangement, provided the continued military defense of Taiwan was assured and there seemed to be some economic hope for Taiwan. They would probably remain skeptical of Chinese Communist promises, although certain Nationalists might come to believe that they could make a successful deal with Peiping. If some high-level defections occurred, there would be great danger that blocs of followers might go over en masse to the Communist cause.

20. Serious unrest on the mainland or a major Communist setback of some kind in China would greatly spark the morale of the Nationalists. They would probably begin to make active preparations for landings on the continent, and would exert pressure on the US to underwrite an invasion. They would probably not launch an actual attack without assurances of US support or at least acquiescence, unless the Nationalists believed that

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the difficulties on the mainland had assumed such proportions as to threaten the existence of the Peiping regime.

21. Any change in US policy suggesting a reduction of US support for the Republic of China would have highly adverse effects on morale. US efforts to obtain a Nationalist withdrawal from some of the offshore islands, increased US official contacts with the Chinese Communists, or US failure to actively oppose Chinese Communist membership in the UN would be viewed with alarm as moves toward formal US acceptance of "two Chinas." Large cuts in US military or economic aid would have serious repercussions, whether or not the Nationalist military establishment and economy could sustain the reductions. Particularly if accompanied by seeming indications of a relaxation of US anti-Communist policies, such cuts would undermine morale to a point that might make maintenance of stability by the National Government difficult. The problem would be aggravated by the Government's reluctance to accept economic reasons for cutting its military establishment. The difficulties caused by the above contingencies might increase anti-Americanism and the susceptibility of the Nationalists to Communist propaganda. Some defections might occur. It is possible that in an extreme situation the Nationalists might attempt to embroil the US in war by launching an attack on the mainland, but we regard such a development as unlikely.

22. However, provided most Nationalist leaders remained convinced that US defense of Taiwan was assured, we believe that, despite the strains mentioned above, they would ac-

cept the situation and become reconciled to the economic and psychological problems of a Taiwan future.

23. The admission of Communist China to the UN would be a serious psychological blow to the National Government. In the Nationalist view it would signify world acceptance of Communist victory in China, US unwillingness or inability to prevent this acceptance, and a consequent further weakening of prospects for a Nationalist return. While it would accelerate the forces of deterioration, we believe that for the immediate future there would be no collapse of National Government authority.

24. The long-term staying power of the Republic of China will be determined by the policies of the US, by developments within Communist China, and by the ability of Nationalist leaders to adjust to life on Taiwan. Indications that the US was losing interest in supporting the National Government, and that Communist China was gaining international prestige and internal strength and stability, would accelerate divisive and defeatist tendencies on Taiwan. Major setbacks or persistent terrorism on the mainland would raise Nationalist morale and purpose. Continued emphasis on the objective of return to the mainland would lead to political frustration and would require increasing levels of US support to prevent economic collapse. Conversely, a limiting of political ambitions to the horizons of Taiwan and a concentration on long-term economic development might make the island politically and economically viable, though it would still need some US support.

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## APPENDIX A

### MILITARY

#### Army

1. Army units are currently at 93 percent of authorized strength with total personnel of approximately 425,000. All infantry divisions have completed combined-arms training. The army at present has about 80 percent of its authorized equipment, with major shortages existing in communications equipment and cargo transportation vehicles. Equipment on hand is considered to be adequate for a defensive mission only. Substantial improvements are being made in personnel and logistics management procedures. Over-all combat efficiency of the army will probably improve over the next few years, particularly in logistical support. Morale of the Nationalist army is considered to be good with no indication of probable change.

2. There are no records available as to the exact ratio of Taiwanese to mainlanders in the army. Various releases from the National Government have acknowledged that about one-third of the armed forces are Taiwanese. It is not expected that the ratio will go beyond 42 percent for the next two or three years. Beyond that date the ratio will begin a steady climb which will continue for an indefinite period. The National Government apparently fears that induction of Taiwanese will reduce the efficiency of their forces for offensive action against the mainland. It is seeking by political indoctrination of inductees to make the Taiwanese feel that they have the same patriotic duty as soldiers from the mainland, and is trying to insure that no combat units are assigned a disproportionate share of Taiwanese. Currently, the Taiwanese appear to be fitting into the combat units successfully and there are no indications that they will be any less efficient as fighting men than the mainlanders.

3. The capability of the GRC Army for the defense of Taiwan and the Penghus is dependent upon outside air and naval support. The lack of local sea and air superiority reduces the GRC defensive capability, but the army could probably conduct a tenacious defense which would be costly to an invading force. The offshore island garrisons continue to improve their defensive capability, but, again, local air and sea superiority would be needed for a successful defense of the offshore islands.

#### Navy

4. The personnel strength of the Nationalist naval establishment totals 57,748 including 25,076 marines. The Navy, augmented by one ex-US destroyer and 5 ex-US PC's (which will replace 5 patrol escorts (PF) now in service), consists of the following:

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Destroyer (DD)	4
Escort Vessel (DE)	5
Patrol Escorts (PF)	11
Escort (PCE)	2
Sub-chaser (PC)	16
Sub-chaser (SC)	1
Motor Gunboat (PGM)	2
Motor Torpedo Boat (PT)	1
<u>Mine Vessels</u>	
Minelayer Coastal (MMC)	2
Fleet Minesweeper (MSF)	6
Coastal Minesweeper (MSC)	2
<u>Miscellaneous</u>	
Amphibious Vessels	36
Aux. and Service Craft	77

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5. The general state of training is good. Logistical support of the offshore islands, which only a little over a year ago was in a very bad state, has been notably improved. Over-all combat effectiveness has continued to show improvement, with operational availability on the increase due to improvements in

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APPENDIX A

maintenance and overhaul and improved operating procedures. The GRC Navy has displayed a considerable increase in aggressiveness while on patrol in the offshore islands area. Taiwanese presently comprise about four percent of the Navy's personnel. Morale within the Navy which last year was rated as fair, is now rated as good.

6. The GRC Navy is still incapable of engaging in sustained combat at any great distance from its major points of supply or of engaging in large-scale combat against the full force of the Chinese Communist Navy. The GRC Navy can lift and support only small raiding and reconnaissance parties. It is primarily a defensive force, and even in this field its capabilities are limited.

7. The Marine Corps with a personnel strength of 25,076 has the men, equipment, and skill to make it capable of executing modern amphibious operations. The Marine

Corps continues to have the capability of planning and executing an amphibious operation involving the division and brigade against light to moderate resistance providing adequate naval and air support is provided. Taiwanese comprise about 26 percent of the enlisted strength of the Corps. As the ratio of Taiwanese in the Corps increases, the effectiveness of the Corps as an assault unit may gradually decline.

**Air Force**

8. No significant changes in the over-all strength and organization of the Chinese Air Force (CAF) have occurred, with the exception of a slight augmentation of the Tactical Reconnaissance Group. That unit presently performs daily photo and visual reconnaissance missions with RF-84F's and RF-86F's. The coverage of that unit will be extended by the addition of 2 RB-57's, which are scheduled for delivery within the year.

CAF Air Order of Battle

Type of Aircraft	Jet	Piston
Fighter	323	
Light Bomber		9
Anti-Sub Warfare		19
Transport		140
Transport Helicopter		4
Trainer	30	165
Miscellaneous		8
<b>TOTAL</b>	<b>353</b>	<b>345</b>

Personnel	Aircrew	Non-Aircrew
Pilots	1,347	
Pilot Trainees	173	
Other Aircrew	1,013	
Ground Military		78,206*
Ground Civilian		852 (Officer Spaces)
<b>TOTALS</b>	<b>2,533</b>	<b>79,058</b>

\* Includes 790 pilots assigned to duties not involving frequent flights.

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APPENDIX A

9. There are six major airfields on Taiwan, all with generally excellent supporting facilities, and two more are under construction. Three of the six are capable of supporting operations by all types of USAF jet fighters and jet light bombers. Of the two airfields under construction, one will probably be capable of supporting B-47 or B-52 bombers.

10. Taiwanese now account for 42 percent of airmen but only two percent of officers. The Taiwanese are generally better educated than the recruits presently in the CAF from the mainland, and their induction will raise CAF standards. However, CAF commanders apparently doubt that the Taiwanese would support an invasion of the mainland. This lack of confidence in the Taiwanese has led to their being assigned less critical and less sensitive duties in the CAF. The CAF Command also tries to limit the number of Taiwanese in tactical organizations to a maximum of 33 1/3 percent of the total strength. However, the Taiwanese are treated fairly and react enthusiastically to service in the CAF. Taiwanese induction has not detracted from

the comparatively high morale of the CAF. The most significant trend is the steady improvement of operational capability, resulting from more effective training, personnel utilization, and maintenance.

11. The CAF is incapable of defending Taiwan against a determined, large-scale air assault by the Chinese Communist Air Force. The short operating radius of the predominantly fighter and fighter-bomber equipped CAF inhibits effective use of these units in the defense of the offshore islands against the stronger Chinese Communist Air Force. The CAF, by means of daily photo and visual reconnaissance missions, is capable of preventing a major assault from achieving surprise. The CAF can also patrol the straits and interfere with the flow of supplies into coastal areas opposite Taiwan. Though it would probably be eventually eliminated by enemy air superiority, the CAF could initially give effective support to GRC ground forces either in opposing an amphibious invasion or in possible offensive operations.

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APPENDIX B

## APPENDIX B

Table 1. ECONOMIC INDICATORS

Category	1951	1952	1953	1954	1955	1956	1957
Agricultural production index	100	111	122	123	126	133	
Industrial production index	100	135	176	184	202	207	
GNP in 1955 prices (millions of US\$)	757	901	946	1,067	1,135	1,220	
Per capita GNP <sup>1</sup> (US dollars)	93	107	109	117	121	124	
Wholesale price index	100	123	135	137	157	177	190 <sup>2</sup>

<sup>1</sup> The population data have been lowered to conform with the 1956 census, resulting in a somewhat higher per capita GNP than shown in NIE 43-56.

<sup>2</sup> The wholesale price index has leveled off since December 1956, with the index for specific months moving as follows:

1956 December	188
1957 January	188
February	190
March	190
April	190
May	189
June	190

Table 2. TAIWAN'S EXTERNAL ACCOUNTS

	1951	1952	1953	1954	1955	1956
Exports, f.o.b.	90	119	125	94	131	125
Imports, c.i.f.	150	217	200	211	193	225
Trade balance	-60	-98	-75	-117	-62	-100
Balance on current account	-60	-98	-85	-123	-72	-110
Grants from the US	61	92	83	85	91	96
Changes in gold and foreign exchange reserves (increase)	-11	-4	-17	+23	-25	+2
Other transactions*	10	10	19	15	6	12

NOTE: From exchange settlement statistics adjusted to include aid imports. Calendar year data.

\* Including all capital transactions and errors and omissions.

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9

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APPENDIX C

DIPLOMATIC STATUS OF THE REPUBLIC OF CHINA  
AND COMMUNIST CHINA

1. Countries with which the Republic of China maintains diplomatic relations (Embassies or Legations):

Country	Chinese Representation in the country	Foreign Representation in China
Argentina	Embassy	
Australia	Embassy	
Belgium	Embassy	Consulate
Bolivia	Embassy, c/o Chinese Embassy, Peru	
Brazil	Embassy	Embassy
Canada	Embassy	
Chile	Embassy	
Colombia	Legation	
Costa Rica	Legation	Consular Agent
Cuba	Legation	
Dominican Republic	Legation, c/o Chinese Embassy, Panama	Legation
Ecuador	Legation	
France	Embassy	Embassy
Greece	Embassy	
Guatemala	Legation	
Haiti	Legation, c/o Chinese Legation, Cuba	
Holy See	Legation	Legation (Papal Internunciature)
Honduras	Legation, c/o Chinese Embassy, Panama	
Iran	Embassy	
Iraq	Embassy	
Italy	Embassy	
Japan	Embassy	Embassy
Korea	Embassy	Embassy
Lebanon	Legation	
Luxembourg	Legation, c/o Chinese Embassy, Belgium	
Mexico	Embassy	
Nicaragua	Legation	
Panama	Embassy	Embassy
Peru	Embassy	
Philippines	Embassy	Embassy
Portugal	Legation	Legation
El Salvador	Legation, c/o Chinese Embassy, Panama	

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APPENDIX C

Country	Chinese Representation in the country	Foreign Representation in China
Saudi Arabia	Embassy	
Spain	Embassy	Embassy
Thailand	Embassy	Embassy
Turkey	Embassy	Embassy
United States	Embassy	Embassy
Venezuela	Legation	Legation
Vietnam	Legation	Legation

## 2. Countries with which the Republic of China maintains consular relations only:

Cambodia	Consulate	
New Zealand	Consulate	Consulate
United Kingdom (Recognizes Peiping regime)		Consulate
Union of South Africa	Consulate	Consulate

## 3. Countries with which negotiations are in process for establishment of diplomatic relations:

Liberia  
Jordan  
Paraguay

## 4. Countries recognizing Communist China:

(a) UN members

Afghanistan  
Albania  
Bulgaria  
Burma  
Ceylon  
Czechoslovakia  
Denmark  
Egypt  
Finland  
Hungary  
India  
Indonesia  
Israel  
Nepal  
Netherlands  
Norway  
Pakistan  
Poland  
Rumania  
Sweden  
Syria  
United Kingdom  
USSR  
Yemen  
Yugoslavia

(b) Non-UN members

Switzerland

## (c) Communist Regimes supporting Communist China:

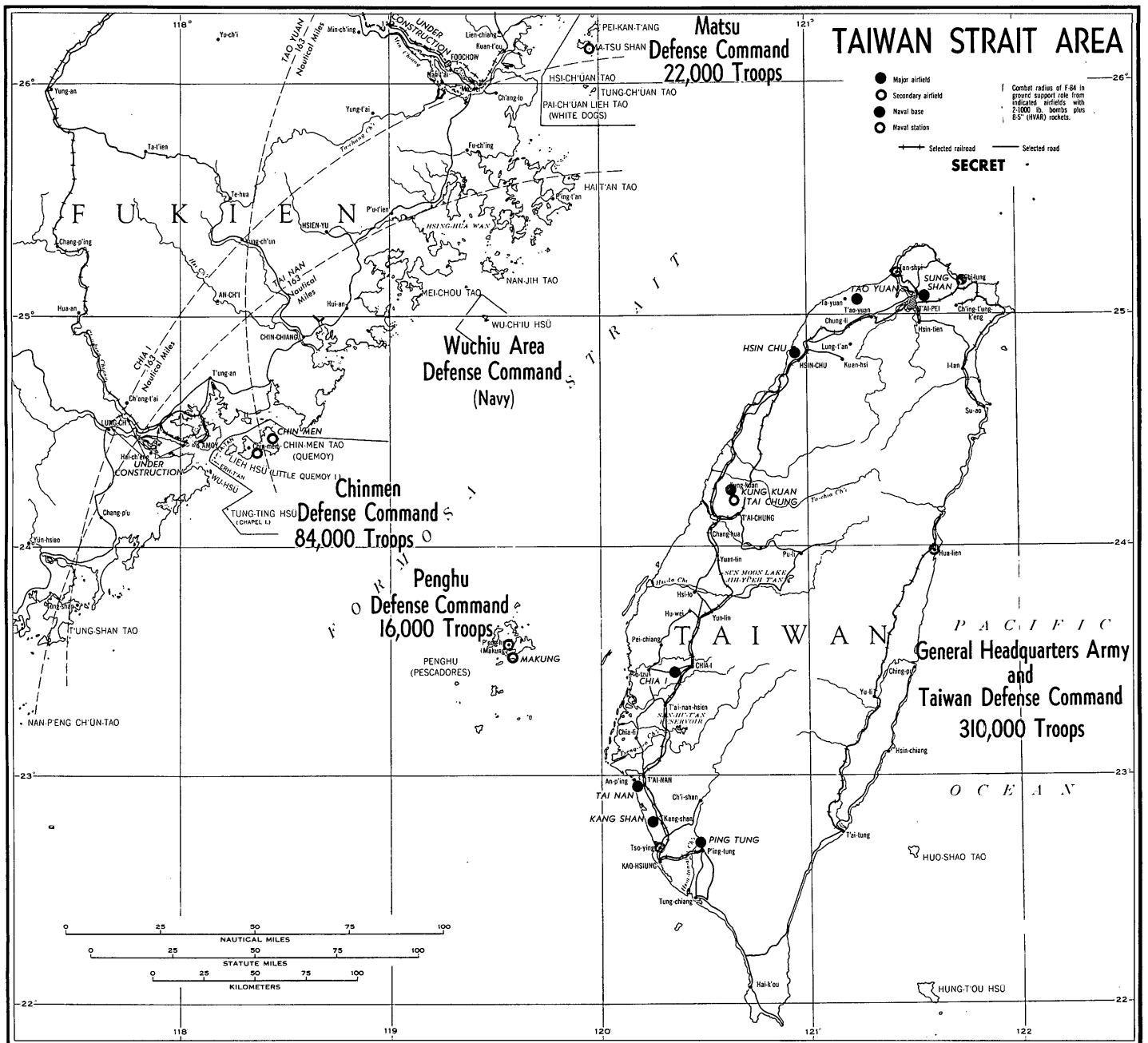
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