

SECTION 1

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The Current Situation in China

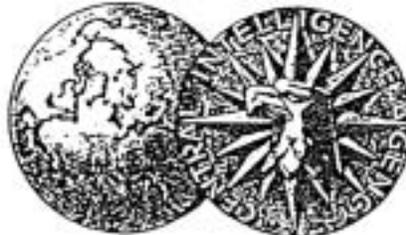
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THE CURRENT SITUATION IN CHINA

SUMMARY

The position of the present National Government is so precarious that its fall may occur at any time. It is quite likely, however, that it may survive with diminishing power for some time, but soon become only one of several regimes exercising governmental powers independently in Nationalist China. Even with the current US aid program, the present National Government has little prospect of reversing or even checking these trends of disintegration. The increasing instability in Nationalist China will facilitate the extension of Chinese Communist military and political influence.

Within Nationalist China the power and prestige of Chiang Kai-shek is steadily weakening because of the unsuccessful prosecution of the war under his leadership and his apparent unwillingness and inability to accomplish positive reforms. Opposition, both within the Kuomintang and among dissident elements, centered chiefly in Hong Kong, is gathering strength. In addition, deteriorating economic conditions are exerting a cumulative impact on the political structure of the National Government. Furthermore, the military forces of the Chinese Communists have been able to seize the tactical initiative on an increasingly large scale. Even with current US assistance, it is improbable that the Nationalist Army can successfully defend all of its present territories.

In foreign relations, questions concerning the neighboring states of Japan and the USSR are of paramount interest to China for reasons of security. Chinese opinion favors a "hard" peace settlement with Japan so as to prevent the resurgence of that country as a Great Power. It is equally important for China to maintain correct and if possible friendly relations with the USSR, for China unaided cannot match Soviet power. Implementation of US aid to China is complicated by the question of the extent of US controls and supervision, and US insistence upon accompanying economic, political, and military reforms. The USSR thus far has refrained from overt material assistance to the Chinese Communists and continues to recognize the National Government, but it is apparent, nevertheless, that Soviet sympathies lie with the Chinese Communists. Even if US aid should prove effective, this might prove to be only a temporary advantage for the National Government, since it might be offset by Soviet counter-aid to the Chinese Communists.

The prospect for the foreseeable future in China is at best an indefinite and inconclusive prolongation of the civil war, with the authority of the National Government limited to a dwindling area in Central and South China and isolated major cities in north and northeast China, and with political and economic disorder spreading throughout the country except possibly in Communist-held areas. The worst prospect is complete collapse of the National Government, and its replacement by a Chinese

Note: The information in this report is as of 11 June 1948.

The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

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Communist-controlled regime, under Soviet influence if not under Soviet control, and uncooperative toward the US if not openly hostile. The latter development would result in an extensive loss of US prestige and increased Communist influence throughout the Far East, as well as an intensification of threat to US interests in the Western Pacific area.

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