

## Fact-Finding Mission to China

*Report by Ambassador Wedemeyer, September 19, 1947*<sup>1</sup>

### PART I--GENERAL STATEMENT

China's history is replete with examples of encroachment, arbitrary action, special privilege, exploitation, and usurpation of territory on the part of foreign powers. Continued foreign infiltration, penetration or efforts to obtain spheres of influence in China, including Manchuria and Taiwan (Formosa), could be interpreted only as a direct infringement and violation of China's sovereignty and a contravention of the principles of the Charter of the United Nations. It is mandatory that the United States and those other nations subscribing to the principles of the Charter of the United Nations should combine their efforts to insure the unimpeded march of all peoples toward goals that recognize the dignity of man and his civil rights and, further, definitely provide the opportunity to express freely how and by whom they will be governed.

<sup>1</sup> United States Relations with China, pp. 766-774. President Truman's directive to Lt. Gen. Wedemeyer, July 9, 1947, asking him to "proceed to China without delay for the purpose of making an appraisal of the political, economic, psychological and military situations-current and projected" is printed *ibid.*, pp. 774-775.

Those goals and the lofty aims of freedom-loving peoples are jeopardized today by forces as sinister as those that operated in Europe and Asia during the ten years leading to World War II. The pattern is familiar--employment of subversive agents; infiltration tactics; incitement of disorder and chaos to disrupt normal economy and thereby to undermine popular confidence in government and leaders; seizure of authority without reference to the will of the people--all the techniques skillfully designed and ruthlessly implemented in order to create favorable conditions for the imposition of totalitarian ideologies. This pattern is present in the Far East, particularly in the areas

contiguous to Siberia.

If the United Nations is to have real effect in establishing economic stability and in maintaining world peace, these developments merit high priority on the United Nations' agenda for study and action. Events of the past two years demonstrate the futility of appeasement based on the hope that the strongly consolidated forces of the Soviet Union will adopt either a conciliatory or a cooperative attitude, except as tactical expedients. Soviet practice in the countries already occupied or dominated completes the mosaic of aggressive expansion through ruthless secret police methods and through an increasing political and economic enslavement of peoples. Soviet literature, confirmed repeatedly by Communist leaders, reveals a definite plan for expansion far exceeding that of Nazism in its ambitious scope and dangerous implications. Therefore in attempting a solution to the problem presented in the Far East, as well as in other troubled areas of the world, every possible opportunity must be used to seize the initiative in order to create and maintain bulwarks of freedom.

Notwithstanding all the corruption and incompetence that one notes in China, it is a certainty that the bulk of the people are not disposed to a Communist political and economic structure. Some have become affiliated with Communism in indignant protest against oppressive police measures, corrupt practices and mal-administration of National Government officials. Some have lost all hope for China under existing leadership and turn to the Communists in despair. Some accept a new leadership by mere inertia.

Indirectly, the United States facilitated the Soviet program in the Far East by agreeing at the Yalta Conference to Russian re-entry into Manchuria, and later by withholding aid from the National Government. There were justifiable reasons for these policies. In the one case we were concentrating maximum Allied strength against Japanese in order to accelerate crushing defeat and thus save Allied lives. In the other, we were withholding unqualified support from a government within which corruption and incompetence were so prevalent that it was losing the support of its own people. Further, the United States had not yet realized that the Soviet Union would fail to cooperate in the

accomplishment of world-wide plans for post-war rehabilitation. Our own participation in those plans has already afforded assistance to other nations and peoples, friends and former foes alike, to a degree unparalleled in humanitarian history.

Gradually it has become apparent that the World War II objectives for which we and others made tremendous sacrifices are not being fully attained, and that there remains in the world a force presenting even greater dangers to world peace than did the Nazi militarists and the Japanese jingoists. Consequently the United States made the decision in the Spring of 1947 to assist Greece and Turkey with a view to protecting their sovereignties, which were threatened by the direct or inspired activities of the Soviet Union. Charges of unilateral action and circumvention of the United Nations were made by members of that organization. In the light of its purposes and principles such criticisms seemed plausible. The United States promptly declared its intention of referring the matter to the United Nations when that organization would be ready to assume responsibility.

It follows that the United Nations should be informed of contemplated action with regard to China. If the recommendations of this report are approved, the United States should suggest to China that she inform the United Nations officially of her request to the United States for material assistance and advisory aid in order to facilitate China's post-war rehabilitation and economic recovery. This will demonstrate that the United Nations is not being circumvented, and that the United States is not infringing upon China's sovereignty, but contrary-wise is cooperating constructively in the interest of peace and stability in the Far East, concomitantly in the world.

The situation in Manchuria has deteriorated to such a degree that prompt action is necessary to prevent that area from becoming a Soviet satellite. The Chinese Communists may soon gain military control of Manchuria and announce the establishment of a government. Outer Mongolia, already a Soviet satellite, may then recognize Manchuria and conclude a "mutual support agreement" with a de facto Manchurian government of the Chinese Communists. In that event, the Soviet Union might accomplish a mutual support agreement with Communist-dominated

Manchuria, because of her current similar agreement with Outer Mongolia. This would create a difficult situation for China, the United States and the United Nations. Ultimately it could lead to a Communist-dominated China.

The United Nations might take immediate action to bring about cessation of hostilities in Manchuria as a prelude to the establishment of a Guardianship or Trusteeship. The Guardianship might consist of China, Soviet Russia, the United States, Great Britain and France. This should be attempted promptly and could be initiated only by China. Should one of the nations refuse to participate in Manchurian Guardianship, China might then request the General Assembly of the United Nations to establish a Trusteeship, under the provisions of the Charter.

Initially China might interpret Guardianship or Trusteeship as an infringement upon her sovereignty. But the urgency of the matter should encourage a realistic view of the situation. If these steps are not taken by China, Manchuria may be drawn into the Soviet orbit, despite United States aid, and lost, perhaps permanently, to China.

The economic deterioration and the incompetence and corruption in the political and military organizations in China should be considered against an all-inclusive background lest there be disproportionate emphasis upon defects. Comity requires that cognizance be taken of the following:

Unlike other Powers since V-J Day, China has never been free to devote full attention to internal problems that were greatly confounded by eight years of war. The current civil war has imposed an overwhelming financial and economic burden at a time when resources and energies have been dissipated and when, in any event, they would have been strained to the utmost to meet the problems of recovery.

The National Government has consistently, since 1927, opposed Communism. Today the same political leader and same civil and military officials are determined to prevent their country from becoming a Communist-dominated State or Soviet satellite.

Although the Japanese offered increasingly favorable surrender terms during the course of the war, China elected to remain steadfast with her Allies. If China had accepted surrender terms, approximately a million Japanese would have been released for employment against American forces in the Pacific.

I was assured by the Generalissimo that China would support to the limit of her ability an American program for the stabilization of the Far East. He stated categorically that, regardless of moral encouragement of material aid received from the United States, he is determined to oppose Communism and to create a democratic form of government in consonance with Doctor Sun Yat-sen's principles. He stated further that he plans to make sweeping reforms in the government including the removal of incompetent and corrupt officials. He stated that some progress has been made along these lines but, with spiraling inflation, economic distress and civil war, it has been difficult to accomplish fully these objectives. He emphasized that, when the Communist problem is solved, he could drastically reduce the Army and concentrate upon political and economic reforms. I retain the conviction that the Generalissimo is sincere in his desire to attain these objectives. I am not certain that he has today sufficient determination to do so if this requires absolute overruling of the political and military cliques surrounding him. Yet, if realistic United States aid is to prove effective in stabilizing the situation in China and in coping with the dangerous expansion of Communism, that determination must be established.

Adoption by the United States of a policy motivated solely toward stopping the expansion of Communism without regard to the continued existence of an unpopular repressive government would render any aid ineffective. Further, United States prestige in the Far East would suffer heavily, and wavering elements might turn away from the existing government to Communism.

In China [and Korea]<sup>2</sup> the political, economic and psychological problems are inextricably mingled. All of them are complex and are becoming increasingly difficult of solution. Each has been studied assiduously in compliance with your directive. Each will be discussed

in the course of this report. However, it is recognized that a continued global appraisal is mandatory in order to preclude disproportionate or untimely assistance to any specific area.

The following three postulates of United States foreign policy are pertinent to indicate the background of my investigations, analyses and report:

The United States will continue support of the United Nations in the attainment of its lofty aims, accepting the possible development that the Soviet Union or other nations may not actively participate.

Moral support will be given to nations and peoples that have established political and economic structures compatible with our own, or that give convincing evidence of their desire to do so.

Material aid may be given to those same nations and peoples in order to accelerate post-war rehabilitation and to develop economic stability, provided:

That such aid shall be used for the purpose intended.

<sup>2</sup> Brackets in the source text. A footnote to Wedemeyer's memorandum of transmittal of his report to the President, September 19, 1947, states: "All references to Korea have been deleted from General Wedemeyer's report itself as irrelevant to this paper." (Ibid., p. 764.)

That there is continuing evidence that they are taking effective steps to help themselves, or are firmly committed to do so.

That such aid shall not jeopardize American economy and shall conform to an integrated program that involves other international commitments and contributes to the attainment of political, economic and psychological objectives of the United States.

PART II--CHINA

POLITICAL

Although the Chinese people are unanimous in their desire for peace at almost any cost there seems to be no possibility of its realization under existing circumstances. On one side is the Kuomintang, whose reactionary leadership, repression and corruption have caused a loss of popular faith in the Government. On the other side, bound ideologically to the Soviet Union, are the Chinese Communists, whose eventual aim is admittedly a Communist state in China. Some reports indicate that Communist measures of land reform have gained for them the support of the majority of peasants in areas under their control, while others indicate that their ruthless tactics of land distribution and terrorism have alienated the majority of such peasants. They have, however, successfully organized many rural areas against the National Government. Moderate groups are caught between Kuomintang misrule and repression and ruthless communist totalitarianism. Minority parties lack dynamic leadership and sizable following. Neither the moderates, many of whom are in the Kuomintang, nor the minority parties are able to make their influence felt because of National Government repression. Existing provincial opposition leading to possible separatist movements would probably crystallize only if collapse of the Government were imminent.

Soviet actions, contrary to the letter and spirit of the Sino-Soviet Treaty of 1945 and its related documents, have strengthened the Chinese Communist position in Manchuria, with political, economic and military repercussions on the National Government's position both in Manchuria and in China proper, and have made more difficult peace and stability in China. The present trend points toward a gradual disintegration of the National Government's control, with the ultimate possibility of a Communist-dominated China.

Steps taken by the Chinese Government toward governmental reorganization in mid-April 1947 aroused hopes of improvement in the political situation. However, the reorganization resulted in little change. Reactionary influences continue to mold important policies even though the Generalissimo remains the principal determinative force in the government. Since the April reorganization, the most significant change has been the appointment of General Chen Cheng to head the civil

and military administration of Manchuria. Projected steps include elections in the Fall for the formation of a constitutional government, but, under present conditions, they are not expected to result in a government more representative than the present regime.

#### ECONOMIC

Under the impact of civil strife and inflation, the Chinese economy is disintegrating. The most probable outcome of present trends would be, not sudden collapse, but a continued and creeping paralysis and consequent decline in the authority and power of the National Government. The past ten years of war have caused a serious deterioration of transportation and communication facilities, mines, utilities and industries. Notwithstanding some commendable efforts and large amounts of economic aid, their overall capabilities are scarcely half those of the pre-war period. With disruption of transportation facilities and the loss of much of North China and Manchuria, important resources of those rich areas are no longer available for the rehabilitation and support of China's economy.

Inflation in China has been diffused slowly through an enormous population without causing the immediate dislocation which would have occurred in a highly industrialized economy. The rural people, 80 per cent of the total Chinese population of 450 million, barter food-stuffs for local handicraft products without suffering a drastic cut in living standards. Thus, local economies exist in many parts of China, largely insulated from the disruption of urban industry. Some local economies are under the control of Communists, and some are loosely under the control of provincial authorities.

The principal cause of the hyper-inflation is the long-continued deficit in the national budget. Present revenue collections, plus the profits of nationalized enterprises, cover only one-third of governmental expenditures, which are approximately 70 percent military, and an increasing proportion of the budget is financed by the issuance of new currency. In the first six months of 1947 note-issue was tripled but rice prices increased seven-fold. Thus prices and governmental expenditures spiral upwards, with price increases occurring faster than



new currency can be printed. With further price increases, budget revisions will undoubtedly be necessary. The most urgent economic need of Nationalist China is a reduction of the military budget.

China's external official assets amounted to \$327 million (US) on July 30, 1947. Privately-held foreign exchange assets are at least \$600 million and may total \$1500 million, but no serious attempt has been made to mobilize these private resources for rehabilitation purposes. Private Chinese assets located in China include probably \$200 million in gold, and about \$75 million in US currency notes. Although China has not exhausted her foreign official assets, and probably will not do so at the present rates of imports and exports until early 1949, the continuing deficit in her external balance of payments is a serious problem.

Disparity between the prices of export goods in China and in world markets at unrealistic official exchange rates has greatly penalized exports, as have disproportionate increases in wages and other costs. Despite rigorous trade and exchange controls, imports have greatly exceeded exports, and there consistently has been a heavy adverse trade balance.

China's food harvests this year are expected to be significantly larger than last year's fairly good returns. This moderately encouraging situation with regard to crops is among the few favorable factors which can be found in China's current economic situation.

Under inflationary conditions, long-term investment is unattractive for both Chinese and foreign capital. Private Chinese funds lend to go into short-term advances, hoarding of commodities, and capital flight. The entire psychology is speculative and inflationary, preventing ordinary business planning and handicapping industrial recovery.

Foreign business enterprises in China are adversely affected by the inefficient and corrupt administration of exchange and import controls, discriminatory application of tax laws, the increasing role of government trading agencies and the trend towards state ownership of

industries. The Chinese Government has taken some steps toward improvement but generally has been apathetic in its efforts. Between 1944 and 1947, the anti-inflationary measure on which the Chinese Government placed most reliance was the public sale of gold borrowed from the United States. The intention was to absorb paper currency, and thus reduce the effective demand for goods. Under the circumstance of continued large deficits, however, the only effect of the gold sales program was to retard slightly the price inflation and dissipate dollar assets.

A program to stabilize the economic situation was undertaken in February 1947. The measures included a wage freeze, a system of limited rationing to essential workers in a few cities, and the sale of government bonds. The effect of this program has been slight, and the wage freeze has been abandoned. In August 1947, the unrealistic official rate of exchange was replaced, for proceeds of exports and remittances, by a free market in foreign exchange. This step is expected to stimulate exports, but it is too early to determine whether it will be effective.

The issuance of a new silver currency has been proposed as a future measure to combat inflation. If the government continued to finance budgetary deficits by unbacked note issue, the silver would probably go into hoards and the price inflation would continue. The effect would be no more than that of the gold sales in 1944- 1947, namely, a slight and temporary retardation of the inflationary spiral. The proposal could be carried out, moreover, only through a loan from the United States of at least \$200 million in silver.

In the construction field, China has prepared expansive plans for reconstruction of communications, mines and industries. Some progress has been made in implementing them, notably in the partial rehabilitation of certain railroads and in the textile industry. Constructive results have been handicapped by a lack of funds, equipment and experienced management, supervisory and technical personnel.

On August 1, 1947, the State Council approved a "Plan for Economic Reform." This appears to be an omnibus of plans covering all phases of Chinese economic reconstruction but its effectiveness cannot yet

be determined.

#### SOCIAL--CULTURAL

Public education has been one of the chief victims of war and social and economic disruption. Schoolhouses, textbooks and other equipment have been destroyed and the cost of replacing any considerable portion cannot now be met. Teachers, like other public servants, have seen the purchasing power of a month's salary shrink to the market value of a few day's rice ration. This applies to the entire educational system, from primary schools, which provide a medium to combat the nation's grievous illiteracy, to universities, from which must come the nation's professional men, technicians and administrators. The universities have suffered in an additional and no less serious respect--traditional academic freedom. Students participating in protest demonstrations have been severely and at times brutally punished by National Government agents without pretense of trail or public evidence of the sedition charged. Faculty members have often been dismissed or refused employment with no evidence of professional unfitness, patently because they were politically objectionable to government officials. Somewhat similarly, periodicals have been closed down "for reasons of military security" without stated charges, and permitted to reopen only after new managements have been imposed. Resumption of educational and other public welfare activities on anything like the desired scale can be accomplished only by restraint of officialdom's abuses, and when the nation's economy is stabilized sufficiently to defray the cost of such vital activities.

#### MILITARY

The over-all military position of the National Government has deteriorated in the past several months and the current military situation favors Communist forces. The Generalissimo has never wavered in his contention that he is fighting for national independence against forces of an armed rebellion nor has he been completely convinced that the Communist problem can be resolved except by force of arms. Although the Nationalist Army has a preponderance of force, the tactical initiative rests with the Communists. Their hit-and-run tactics,

adapted to their mission of destruction at points or in areas of their own selection, give them a decided advantage over Nationalists, who must defend many critical areas including connecting lines of communication. Obviously large numbers of Nationalist troops involved in such defensive roles are immobilized whereas Communist tactics permit almost complete freedom of action. The Nationalists' position is precarious in Manchuria, where they occupy only a slender finger of territory. Their control is strongly disputed in Shantung and Hopei Provinces where the Communists make frequent dislocating attacks against isolated garrisons.

In order to improve materially the current military situation, the Nationalist forces must first stabilize the fronts and then regain the initiative. Further, since the Government is supporting the civil war with approximately seventy per cent of its national budget, it is evident that steps taken to alleviate the situation must point toward an improvement in the effectiveness of the armed forces with a concomitant program of social, political and economic reforms, including a decrease in the size of the military establishment. Whereas some rather ineffective steps have been taken to reorganize and revitalize the command structure, and more sweeping reforms are projected, the effectiveness of the Nationalist Army requires a sound program of equipment and improved logistical support. The present industrial potential of China is inadequate to support military forces effectively. Chinese forces under present conditions cannot cope successfully with internal strife or fulfill China's obligations as a member of the family of nations. Hence outside aid, in the form of munitions (most urgently ammunition) and technical assistance, is essential before any plan of operations can be undertaken with a reasonable prospect of success. Military advice is now available to the Nationalists on a General Staff level through American military advisory groups. The Generalissimo expressed to me repeatedly a strong desire to have this advice and supervision extended in scope to include field forces, training centers and particularly logistical agencies.

Extension of military aid by the United States to the National Government might possibly be followed by similar aid from the Soviet Union to the Chinese Communists, either openly or covertly--the latter

course seems more likely. An arena of conflicting ideologies might be created as in 1935 in Spain. There is always the possibility that such developments in this area, as in Europe and in the Middle East, might precipitate a third world war.

#### PART IV--CONCLUSIONS

The peaceful aims of freedom-loving peoples in the world are jeopardized today by developments as portentous as those leading to World War II.

The Soviet Union and her satellites give no evidence of a conciliatory or cooperative attitude in these developments. The United States is compelled, therefore, to initiate realistic lines of action in order to create and maintain bulwarks of freedom, and to protect United States strategic interests.

The bulk of the Chinese are not disposed to Communism and they are not concerned with ideologies. They desire food, shelter and the opportunity to live in peace.

#### CHINA

The spreading internecine struggle within China threatens world peace. Repeated American efforts to mediate have proved unavailing. It is apparent that positive steps are required to end hostilities immediately. The most logical approach to this very complex and ominous situation would be to refer the matter to the United Nations.

A China dominated by Chinese Communists would be inimical to the interests of the United States, in view of their openly expressed hostility and active opposition to those principles which the United States regards as vital to the peace of the world.

The Communists have the tactical initiative in the overall military situation. The Nationalist position in Manchuria is precarious, and in Shantung and Hopei Provinces strongly disputed. Continued deterioration of the situation may result in the early establishment

of a Soviet satellite government in Manchuria and ultimately in the evolution of a Communist-dominated China.

China is suffering increasingly from disintegration. Her requirements for rehabilitation are large. Her most urgent needs include governmental reorganization and reforms, reduction of the military budget and external assistance.

A program of aid, if effectively employed, would bolster opposition to Communist expansion, and would contribute to gradual development of stability in China.

Due to excesses and oppressions by government police agencies basic freedoms of the people are being jeopardized. Maladministration and corruption cause a loss of confidence in the Government. Until drastic political and economic reforms are undertaken United States aid can not accomplish its purpose.

Even so, criticism of results achieved by the National Government in efforts for improvements should be tempered by a recognition of the handicaps imposed on China by eight years of war, the burden of her opposition to Communism, and her sacrifices for the Allied cause.

A United States program of assistance could best be implemented under the supervision of American advisors in specified economic and military fields. Such a program can be undertaken only if China requests advisory aid as well as material assistance.

#### PART V--RECOMMENDATIONS

It is recommended:

That the United States Government provide as early as practicable moral, advisory, and material support to China in order to contribute to the early establishment of peace in the world in consonance with the enunciated principles of the United Nations, and concomitantly to protect United States strategic interests against militant forces which now threaten them.

That United States policies and actions suggested in this report be thoroughly integrated by appropriate government agencies with other international commitments. It is recognized that any foreign assistance extended must avoid jeopardizing the American economy.

#### CHINA

That China be advised that the United States is favorably disposed to continue aid designed to protect China's territorial integrity and to facilitate her recovery, under agreements to be negotiated by representatives of the two governments, with the following stipulations:

That China inform the United Nations promptly of her request to the United States for increased material and advisory assistance.

That China request the United Nations to take immediate action to bring about a cessation of hostilities in Manchuria and request that Manchuria be placed under a Five-Power Guardianship or, failing that, under a Trusteeship in accordance with the United Nations Charter.

That China make effective use of her own resources in a program for economic reconstruction and initiate sound fiscal policies leading to reduction of budgetary deficits.

That China give continuing evidence that the urgently required political and military reforms are being implemented.

That China accept American advisors as responsible representatives of the United States Government in specified military and economic fields to assist China in utilizing United States aid in the manner for which it is intended.

Decade of American Policy, 1941-1949