

## The CIA Buys an Airline, 1949-1950

### (Part I)

The train of events that results in the CIA's acquisition of CAT begins with Chennault's visit to Washington, D.C., in May 1949. The background of this visit goes back at least to March 1948, when Chennault had the opportunity to express his views on China before a Congressional Committee.

March 10, 1948:

Chennault appears before the House Committee on Foreign Affairs, testifying in open session in the morning and in a closed executive session in the afternoon.

Chennault argues that ". . . the Communist menace in China is a definite expansion of the Communist-operated organization of Russia." Communist leaders "intend to communize all of the nations of the world, either by peaceful infiltration and internal revolution or by force of arms."

Communist leaders will not resort to open warfare until they have obtained the strategic objectives necessary for victory. One of these objective is the domination of China.

The US can avoid a third world war only by convincing the Communists that they could never win such a war. Until recently, the US has concentrated its anti-Communist efforts in Europe and neglected the Far East. Chennault believes that American policy makers fail to perceive the strategic realities. "It is my firm belief that the Communists will not launch an attack in the west until they have secured their eastern continental front by the communization of China. . . It is also my firm belief that if and when China is communized, we will be confronted immediately with the necessity for deciding whether we will engage in a third world war or retire to the defense of the American continents."

US must cease "fumbling and stumbling in China and adopt a policy consistent with our best interests. The basis of any realistic long-term policy should be the realization that our western frontier against communism is China's northern and western boundary and that it is to our interest to assist the national government in suppressing communism south and east of that boundary. This must be our policy because it is our only hope of preventing a third world war. If this hope proves vain, then we must depend upon China to assist us in winning that war."

Chennault emphasizes: "... China is the key to world peace; or to victory if a third world war is precipitated by accident or design." China's strategic importance: air bases and manpower (properly trained, equipped, and supplied).

The great majority of Chinese are anti-Communist. They would be willing to fight if they could see some chance of winning. US must provide equipment, technicians, financial and economic assistance. "We will not be expected to furnish a single man for combat purposes . . ."

American aid must be substantial and immediate. Failure to provide assistance "will constitute the greatest failure of American foreign policy in all of our history and will inevitably set the stage for world war III."

Question: Is the Chinese government honest?

Chennault: "There is some graft, corruption and dishonesty among Chinese officials, military and civil, but it does not amount to a great deal when you consider the total involved, and it does not extend to high levels." Chennault expresses confidence in the honesty and relative efficiency of members of the Chinese Cabinet. Re Chiang: "The generalissimo is a simple, trustful man. He believes in friends."

Question: Should the US build up anti-Communist blocks in China?

Chennault: "The Nationalist Government of China is an anti-Communist block."

Question: "Are there others?"

Chennault: "Not outside the Nationalist Government."

Question: Isn't there a greater danger in Europe?

Chennault: China is the key to peace in western Europe. Soviets will not move in west until their eastern flank is secured.

Question: How much will support of China cost the US?

Answer: Chennault made every effort to avoid being pinned down on a figure. He said that he was not an expert. He argued that whatever the cost now, it would cost far more if action delayed. Finally, he stated an approximate figure of \$1.5 to \$2 billion over three years.

"A strong, independent, anti-Communist Chinese National Government constitutes our only hope of halting the spread of Communism in Asia and of preserving the peace of the world. China, because of its strategic geographical position, must be included in any over-all plan for resisting the spread of communism; for if China goes Communist, all of continental



Asia will quickly follow, and there will be no continental Asian bases left to us."

January 1949:

Chennault's biography, Way of a Fighter, is published. The book was intended to publicize Chennault's call for American assistance to China. The Foreward was a plea for action. It begins with a dramatic sentence:

"The United States is losing the Pacific war."

Chennault goes on to note the course of the war in China. The Communists have scored major victories in Manchuria and northern China. They are now planning to cross the Yangtze and strike at Shanghai. He paints a bleak picture:

"A complete Communist victory in China will channelize the undercurrents of native unrest already swirling through Burma, India, Malaya, and Indonesia into another rising tide of Communist victories. The ring of Red bases can be stretched from Siberia to Saigon. Then the stage will be set for the unannounced explosion of World War III."

"I can hear the time fuse of a third world war sputtering in China as it burns toward the final powder key, and I cannot stand idly by without making every effort in my power to snuff it out."

Chennault discounts Soviet action in Europe: "The flurries of Russian activity in Europe are largely tests of American policy and smoke screens to divert attention from the fact that Russia is acquiring vast natural resources, strategic bases, and securing its most vulnerable flank in the Orient."

China, due to its geographic position, is the key to the Soviet eastern flank. But the situation is deteriorating rapidly. The US needs "a new and effective policy in China." The immediate goal "must be some sort of holding action that will prevent a decisive Communist victory while our China policy is debated."

Military aid should be tailored to hold the lower Yangtze Valley. Communist armies are now operating off badly stretched line of supply. The situation is comparable to the Japanese in 1944. The Communists are vulnerable "to the stranglehold of airpower." Chennault argues that a "small force of stout men" can exploit the weak spots and halt the advance of the Communist armies. This would save the lower Yangtze Valley, south, and



west China as a base from which "Chinese nationalism could reorganize, and after learning the lessons of its defeat, political and military, set out again under its own steam to liberate the rest of China."

Chennault rejects the notion of supporting provincial warlords. The central government under Chiang Kai-shek must be preserved.

[Chennault's continued support of the central government and rejection of regional aid became more difficult to sustain after the defeat of the Nationalists at Hsuehchow and Chiang's resignation. Early in 1949 Chennault becomes more interested in assisting regional figures, especially in the northwest. Judge Allman is connected with lobbying efforts in the US during the first part of the year.]

April 1-8, 1949:

Shortly before returning to the US, Chennault visits the northwest and discusses aid possibilities with regional leaders (see outline of CAT and the Collapse of Nationalist China for details).

May 3, 1949:

Chennault appears before Senate committees to advance "Chennault Plan" for preservation of non-Communist China. In his testimony, Chennault develops at length a "domino theory" view of events in China, a view first tentatively advanced in Way of a Fighter.

The best part of China has been lost. The US must act soon lest all of China be lost. The consequences of the loss of all of China would be to place enormous pressure on southeast Asia. The Chinese Communists would support Ho in Indochina, and Communism would soon triumph there. Thailand would be surrounded and would soon fall. This would seal the fate of Burma. Malaya, already troubled, would follow. "And the rich islands of Indonesia will also find their way into the new provinces of the Soviet Union's new Asiatic empire." This would only be the beginning. There would be pressure on India. The Soviet would move toward the Middle East. Japan and the Philippine Islands would be endangered. The fall of China, thus, would start a chain reaction. Although it might take years, an explosion (World War III) would be inevitable. There would be created a new East Asia coprosperity sphere, "from the Bering Strait to Bali," under the direction of the Soviet Union. The Pacific would be imperiled, and the US placed in immediate danger. But there was still time to avert "the ultimate catastrophe."



Chennault argued that the Chinese do not like Communism and would fight valiantly if give the chance (he cites that case of Taiyuan). There remain local and provincial regimes along the periphery of China -Kwantung, Hunan, Kwangsi, Yunnan, Szechuan, and in the Northwest - were the tradition of local autonomy is strong and where leaders are determined to resist conquest by Communists or anyone else. This territory is substantially what was Free China during the war against the Japanese, an area that Chennault knows well. "With the proper kind of aid and support from the United States, and the kind of communication and strategy that can be given them by air, these peripheral areas can be welded into an effective union of Chinese resistance . . ." Chennault has worked out a plan, emphasizing air power, to achieve this goal.

"The territory involved is essentially that part of China over which I fought for 4 years in World War II. I will not try to offer details in public testimony. But I have thought through details of a plan and I have honestly calculated that, from the military side along, competent men in the Defense Department with Asiatic and air experience could work out adequate defense plans for the next couple of years at a cost per year not exceeding the Berlin airlift. Such a minimum program is, I am sure, well within the national purse, considering the stakes involved."

[The air force part of the plan no doubt resembled the one discussed by Marshal Yen in July 1949: 150 aircraft to be purchased from US surplus for \$2 million; 16 transports to be provided by Chennault; personnel of 2000 Chinese and 1300 foreigners; operating costs est. \$1 million per month for salaries, gasoline, parts, etc.]

[During May and June 1949, Chennault attempted to promote his plan with a generally hostile State Department. Acheson was "an Atlanticist for whom Western Europe was the highest priority." Butterworth, Princetonian, conservative, staunchly anti-Communist, was a career foreign service officer with one tour in China (he administered the Embassy during the Marshall mission). He had no particular affection for China and prided himself on his lack of illusions about any special relationship between Americans and Chinese. He was concerned about the financial corruption of the Soongs. Dean Rusk played an important role in the development of Far East policy. While somewhat troubled by the neglect of Asia, Rusk was not an admirer of Chennault or the Nationalist government. A wartime associate of Stilwell, Rusk questioned Chennault's ties to the Chiang circle - and he questioned Chennault's honesty.]



May 10, 1949:

Undersecretary Webb to Director of the Office of Far Eastern Affairs (Butterworth):

Chennault is coming to see me at noon tomorrow to emphasize the importance of having \$5 million of available ECA funds to continue operations of airline operations into areas of anti-Communist resistance in China. "He feels there is a definite possibility, without too large a Government expenditure, of continuing some form of resistance although he agrees that the Generalissimo and most of the Nationalist leaders are out of the picture from here on out." Chennault is being advised by friends "to work with the State Department rather than against it." Webb wants Butterworth's advice.

Butterworth replied that after receiving memo he telephoned Harlan Cleveland, chief of ECA's China Division. Cleveland said that ECA had refused in March to approve \$5 million for airline operations in China. Butterworth recommends that Webb toss cold water on Chennault's schemes for American assistance in China; it is far too late for such schemes to be effective.

May 11, 1949:

Chennault meets at State Department with Webb, Rusk, and Sprouse. Webb followed Butterworth's recommendation and gave no cause for encouragement. However, he suggested that the meeting continue in Rusk's office where a secretary could make a transcript of his remarks for later study.

When the meeting continued, with Rusk and Philip D. Sprouse of the Division of Chinese Affairs, Chennault outlined the areas of anti-Communist resistance in China, then he responded to Rusk's questions.

Rusk: "What individuals could carry the plan at the top?"

Chennault: "One one man - Chiang Kai-shek; maybe Li Tsung-jen, Pai Chung-hsi, or Chang Chun. Most of them could do it if Chiang Kai-shek gets out of China. Only as a last resort would I consider dealing directly with provincial governors and leaders."

Rusk: "Would you have American military mission people with units in the field or just to assure supplies?"

Chennault: "I would do like Wedemeyer and maintain top-level staff with the government and supervise operation of all transport or quartermaster, food, clothing, medical supplies, communication. He had American personnel all the way down through the company level. He watched everything that was

done with our equipment and planned all fighting. That is the way I recommend again; American personnel right down to the company. . . ."

May 25, 1949:

Department of State to Embassy in China:

"Gen Chennault has plan which he has made available to Dept for US aid in establishing zone running from Nanghsia to Yunnan which could be defended against Commies and would prevent spread Communism into Southeast Asia. . . . He proposed sending US mil mission to China charged with procurement, distribution, handling mil aid supplies for Chin armies in this belt and US mil advisers for training Chi armies and planning tactics, with US mil personnel down to company level. Chennault believes terrain makes this zone defensible against Commies attack, that predominantly Moslem population northwest provinces bitterly opposed to Communism and that sizable mil forces exist in parts of areas indicated. He proposed area be supplied by Chi civil airline transports now in operation from bases south China or Indochina and envisaged continuation ECA aid program these areas."

Request comments on proposal.

May 30, 1949:

Ambassador Stuart to the Secretary of State:

Stuart has discussed Chennault plan with American military attaches. "Our feeling is that, while plan may have validity in some of its aspects, as a whole it is impractical and of doubtful value to furtherance of US national interests." For example, key role for Yunnan is "entirely unrealistic. Lack of control by Nationalist authority in greater portion Yunnan, widespread Communist guerrilla activity therein and unreliability of present governor would seem make any plan built around Yunnan as southern outlet to corridor unsound." Also, effective resistance in Northwest unlikely. Situation in China has gone too far to be retrieved.

June 6, 1949:

Minister-Counselor Clark to Washington on the Chennault Plan:

"Chennault plan should be profitable commercial airlines, but detrimental interests US. Only way we could justify action suggested would be that it offered prospect alternative Communism. If end result is to be Communist-dominated China, we



not only could not justify prolonging suffering Chinese people which would ensure, but would also make Communist task easier by providing them with material to rally racial feeling in support of resistance to foreign intervention.

The conditions that enabled Communists win all North China, despite preponderance materiel and manpower on Nationalist side, still exist, if anything, in exaggerated form. There is complete bankruptcy of leadership in Kmt as exemplified most recently by appointment Yen Hsi-shan, sole surviving warlord, to premiership. Military leadership is the same or no better than that defeated in the North and we could have no assurance that military leaders in zone suggested by Chennault would take our advice any more than did Gimo. From personal observation and from reports of our people in West China, it seems obvious that mass Chinese people those areas cordially detest their present overlords and would welcome any change. They would hardly appreciate our action in maintaining their overlords in power. This is true in areas ruled by the 5 Ma[s] as well as in Szechuan and Yunnan. Although the Ma[s] can be expected, even without help from US, to put up strenuous resistance against Communists, they will not have the support of the people and must inevitably succumb to Communist attack. In Szechuan the leaders are bickering among themselves, distraught at the thought that the Nationalist Government may move Chungking, thus inviting earlier Communist attack, and in Yunnan even the Government having declared complete autonomy is merely waiting to make the best terms possible with Communists. Am convinced Li Tsung-jen and Pai Chung-hsi, the latter having the only good armies in wouthwest China, will inevitably at proper time take peace with Communists. Li's manoeuvres seem too much of character calculated strengthen his bargaining position. Kwangtung generals realize resistance Canton impossible and are arranging establish safe haven provincial capital Hainan Island. Gimo sits on Taiwan doing what he can to divert Communist attack some other part China and it is almost openly admitted in Canton that life of government in Chungking will be short; that forces of resistance will eventually rally around Gimo on Taiwan and endeavor survive until what is considered to be the inevitable war between US and USSR.

In other words, disintegration is so far advanced, morale so low and the desire of the people for peace so strag that any effort support continued resistance in West or Southwest China seems doomed in advance to failure.

The cycle is complete. Those inspired young leaders who so successfully led the Kmt to control have grown old and corrupt; have lost the mandate of heaven, and are fleeing for safety abroad or to Taiwan. Their followers for the most part are endeavoring adjust themselves mentally and physically to a Communist regime. The people want peace.



In this situation, our best course, it seems to me, is to let Kmt resistance die a natural death and prepare as best we can for a new and even more difficult era of Communist-dominated China."

June 23, 1949:

During a closed executive session of the House Committee on Foreign Affairs, Secretary Acheson is questioned by Rep. Judd with regard to the Chennault Plan. Acheson replied:

"We are of course familiar with General Chennault's view. Military authorities did not consider them to be soundly taken. We are not closing our minds to any of these things. If some developments take place that warrant, we will be eager to follow them. I am not in a position to come to Congress and ask Congress for money at this time to do something which we do not believe can possibly be effective.

[According to the public record - record that would be maintained for a quarter of a century, governmental interests in the Chennault Plan seemed to end with Secretary Acheson's dismissal of the idea. However, such was not the case. In addition to the State Department, Corcoran had arranged for Chennault to speak with CIA Director Hillenkoetter. While the results of this meeting were inconclusive, Chennault's ideas did spark the interest of Paul Helliwell, a CIA official who had served in the OSS in China and had worked with Chennault. Helliwell recommended to Frank G. Wisner, head of OPC, the government's covert action arm, that contact be established with Chennault looking toward the use of CAT for possible covert operations in China. This led to a meeting between Chennault and Wisner.]

May 9, 1949:

Chennault and Wisner meet at Hotel Washington. Also present from OPC: Franklin A. Lindsey, Carmel Offie, and Joseph A. Frank. Chennault made a forceful presentation of his battle plan to "save China," describing the role of CAT in the operation. Wisner and his associates were impressed: Chennault had a concrete plan; he stressed immediate action; and he had the means to supply and support Chinese forces. If OPC was going to assist those forces militarily, the services of CAT would be indispensable.

Following this meeting, Joseph Frank directed Alfred A. Hussy of OPC to draft a paper for Wisner's signature to be sent to State Department.



May 24, 1949:

OPC sends memo on Chennault Plan to State; this triggered State's cable to Embassy in China on 25th for reaction.

Meanwhile, OPC was proceeding to acquaint itself with CAT's operations. CIA History: "The first assessment of doing business with CAT . . . envisaged a pure business transaction in which a set sum of money would be paid for a set number of flying hours. This view prevailed during May and June, together with the assumption that CAT would be restored to sound financial operation through the ECA grant of money."

However, State remains negative. And ECA continued opposition to financial grants to civilian airlines in China.

OPC begins to study possibility of indirect subsidy to CAT. Helliwell instructed to discuss matter with Corcoran.

June 27, 1949:

Helliwell meets with Corcoran and reports:

"1. In accordance with instructions the undersigned on 27 June 1949 entered into preliminary and unofficial discussions with the general counsel of C.A.T. looking towards the possible direct or indirect subsidization of the line to preserve its operations, facilities and personnel for ultimate OPC use in China. The following was developed:

2. C.A.T. is in difficult financial straits. The exact extent of the difficulties cannot be determined until the return of an individual to Washington on or about 11 July 1949 who has been making a detailed study of the situation in Canton.

3. The primary trouble is acute 'dollarities.' The line has made substantial profits in Chinese G.Y. but has not, of recent months, been able to get the dollars which are essential to its operations. It must have dollars for the following purposes:

- a. The purchase of gasoline.
- b. The purchase of engine parts and replacements.
- c. Allowances to American dependents of operating personnel located in China.



4. Assistance from us can substantially reduce the dollar requirements for the continued maintenance of the line. Currently, for example, their gasoline is costing 60¢ per gallon dockside, Canton. Engine parts are becoming increasingly hard to get through civilian procurement channels, and the prices are extremely high.

5. It was also pointed out in the discussions that ECA has in excess of \$50,000,000 of unexpended China funds, and that it might be possible to work out ECA support for the line, under various types of programs. In this connection, a memorandum was prepared and submitted by C.A.T. for certain assistance, and apparently Messrs. Hoffman and Lapham were favorably impressed. Also favorably impressed by the plan was Senator Taft as evidenced by a letter from him seen by the writer. Apparently, the original support idea was scuttled somewhere in State.

6. Apart from an ECA allocation for engines and/or gasoline, the following possible methods were mentioned:

a. Continuation of the Yunnan tin haul under the strategic stockpile program with an increase in dollar rates for haulage.

b. Increased rates for other ECA and United States Government hauls in China; i.e., the current removal of Rural Rehabilitation supplies from Canton westward.

c. Guaranteed convertability of G.Y. to United States dollar at a fixed rate.

None of the foregoing, however, are believed to offer enough in themselves to hold the position of the line.

7. C.A.T. is completely dominated by American personnel. The only Chinese participation is minority, and the line is therefore theoretically exempt from nationalization - which is not true of C.A.T.C. or C.N.A.C., both of which are majority owned by the Chinese Government. C.A.T. is willing to fly anywhere in free China, and presumably would be willing to fly drops to anti-Communist forces. It is believed that a high level of security can be maintained in the events of subsidy or other help.

8. C.A.T. proposes to use Haiphong as its coastal base when Canton falls. However, at the moment the line has only intermittent landing rights and must clear each plan before it is permitted to land. There is an application pending for unlimited landing rights, and it was felt that if C.A.T. was to be useful some pressure should be put upon the French to promptly grant such rights. In that event certain machine equipment presently in Hong Kong will be removed to Haiphong and a permanent operating base vice Canton will be established.



9. The matter was left that further discussions would be had during the week of July 18, after the return of the individual [probably Youngman] who is making a detailed study of C.A.T.'s present financial condition, and after there had been an opportunity to explore the matter further from our side. In the event our interest continues, at that time detailed financial presentations can be made. However, it is believed that approximately \$1,000,000 per annum will be minimum necessary to hold the C.A.T. operation together for our purposes.

10. COMMENT: It is the opinion of the writer that if at all possible action must be taken to hold C.A.T. intact. The 'face' of the C.A.T. operation, coupled with its communications and operations, cannot be established by a new operation without the expenditure of time which we do not have, and without the expenditure of many millions of dollars. The operation is so set up that it can be militarized, if that should ever become necessary, and unquestionably OPC flying and other personnel can be gradually introduced into the operation to ensure continuity and proper function. It is strongly urged that favorable policy decisions be taken promptly and that thereafter the necessary contacts and representations be made looking towards ultimate operational subsidy sufficient to maintain C.A.T. as an American-owned airline with complete facilities in non-Communist China."

June 30, 1949:

Chennault testifies before House Committee on Foreign Affairs at closed executive session.

Chennault again argues that there exists the opportunity to block further spread of communism in Asia by holding "what I call a sanitary zone which extends from Outer Mongolia in the north, to the South China Sea in the south, and back westward to include Yunan Province, Tibet, and Sinkiang in the north." This was the area held by the Nationalists against the Japanese during the recent war. The Japanese, with one of the strongest armies in the world, were unable to penetrate this zone, except in 1944 in the southwest, despite repeated attempts. The Zone can be easily defended because it is protected by natural barriers: shifting deserts in the north, without roads; impassable mountains below Sian extending to the southwest. The population of western China is anti-communist. In the northwest "Nearly all the troops are Moslem and they are pledged to fight communism to the death. I have visited those people in April, just before I came over to the States, and lived with them for about 10 days. They renewed to me again, the pledge I knew they had taken which is to fight communism to the death."



Chennault recommends that aid be sent to western China, to be supervised by American technicians. This aid can be limited. "The aid western China needs is to hold those two islands [Hainan and Taiwan] and the wide area back of the barriers, as a sanitary zone against the further spread of communism, but having no idea of waging a big offensive to take any part of China already occupied." The cost would be modest. Under proper supervision and with due regard to economy and efficiency, both military and economic aid sufficient to hold this area should run \$150 million to \$200 million a year.

Hainan and Taiwan should be held for strategic reasons. These bases could threaten American communications in the western Pacific. "They can be held but I am afraid unless we put American military men in there to sit behind the Chinese and see that proper things are done, I am afraid they will not be held."

"I have heard reports that people in the State Department have said my plan is impractical. I would like to debate the point with them at a suitable time and have them show me why it is impractical. One of the reasons I mentioned my doing things in China that have been considered impossible before, because some things I propose now have been said to be impractical. If people in charge now cannot do these things which are really simple and easy to do, then someone else should take up the job. We Americans do not consider anything impossible until we have tried it."

Rep. Lodge: "... I assume you discussed with Admiral Hillenkoetter the question of subversive activities, not only countersubversive activities in non-Communist China but subversive activities in Communist China, in an effort to infiltrate them as they infiltrated the non-Communists. Do you believe that a great deal can be done along both those lines with a relatively inexpensive effort?"

Chennault: "Without reference to my conversation with Admiral Hillenkoetter, I believe that a great deal could be done. You could train non-Communist agents and send them out into the Communist territory, just as they train their people and send them into non-Communist territory."

Rep. Judd: "A Member of Congress said, 'I don't pay any attention to what Chennault says because he has an interest out there. He has an airline. Therefore he want aid to China to save his airline.'"

Chennault: "... We are a private enterprise. We have no subsidy and are not even partly owned by the Chinese government. I think we are the only successful demonstration of private enterprise of American capital in China since V-J Day. If all China goes Communist we will not have an airline



in China. We have already taken steps to move if we have to. I would not lose it.

I am not advocating any aid here to the benefit of my airline. I have offered to give up all my interests in the airline, resign my position with it, if my recommendations for aid are carried out and if I can be used personally in the program. We have other officials of the Government who have given up private business under similar circumstances and I am willing to give it here. If I am not in the program I would like to continue the airline because it is quite necessary in continuing aid to China."

Question: Should aid be given directly to provinces or through Central government?

Chennault: "I think it is very necessary that we maintain a united, non-Communist China and that we should deal with the National Government, as long as it controls the provinces and the governments of those provinces are loyal to the Nationalist Government and China has a legal government. If we attempt to deal with the provincial governments alone we will encourage a lack of unity and planning. If the fellows down south feel you are not dealing with them fairly they will block your highways to the north. Therefore it would be almost vital that we insist on dealing with the Central Government."

[Chennault continued during the summer to lobby for his plan and to give the idea widespread publicity. Life carried a feature article on his proposals on July 11, 1949. Later, in October, Reader's Digest would publish an article by Chennault. However, the most important activity continued to be the CIA's interest in the scheme.]

August 24 and 25, 1949:

Following OPC's recommendation for indirect aid (subsidy) to CAT and while awaiting State's approval, Colonels Stillwell and Ellis of OPC meet with Chennault.

August 29, 1949:

As the situation in the northwest collapses, Willauer writes to his wife:

". . . I have talked to Tom [Corcoran] . . . twice since your letter, once on the 20th and once on the 28th - and I am now sitting waiting for a third call. The situation at the moment appears to be that aid of some sort to China is 90% sure, and that some of our people are counting on us



heavily if there is such aid. I have suggested an operational plan covering Japan, China & Indo China which seems to be meeting with some favor. I would hope that this would have as a by-product some hook-up with Erik, which certainly would give me what I have always needed & wanted."

Meanwhile, the State Department in China continued to be negative about the possibilities of continued resistance. For example, on August 28 J. Wesley Jones, Counselor of Embassy sent to Washington an extremely pessimistic analysis of the prospects for continued resistance.

August 30, 1949:

State Department Assistant Secretary Gross testifies in executive session of joint Senate committees on Foreign Relations and Armed Services that were considering appropriations for the Military Assistance Program for 1949. Senator Knowland was attempting to have military assistance for China included in the program.

Gross stated that State Department was "flatly opposed" to Knowland's amendment. Senator Connolly went on to propose changes in the proposal that had originated in State; these changes would substitute "Far East" for "China" and give the president broad discretionary authority on expenditure of the funds (\$100,000,000 suggested at this point).

Senator Vandenberg: "We are the victims of our own form of government at this point. I have no doubt in the world that the President of the United States, handed \$100 million, without the necessity for even accounting for half of it, could by intrigue and manipulation raise unshirted hell in the Far East and do \$15 billion worth of damage to the cause of communism, and that is what I would like to do, but I do not know how you would do it under our form of government."

Asst Secy Ernest A. Gross noted that there was ample precedent. The President had more than \$100 million in unvouchered funds during World War II; the OSS was financed in part in this fashion. Connolly also saw no problems; adoption of the provision would give the President the necessary authority. Connolly: "The [State] want this money to be secret so they can bribe some of these war lords and others."

September 1, 1949:

Admiral Hillenkoetter met with Acheson, Kennan, and Jessup to discuss costs of keeping CAT in operation.



September 8, 1949:

Admiral Badger testifies in executive session before joint Senate Foreign Relations-Armed Services committees.

Badger, who had just returned from the Far East, stated that the Communists will overrun China, including Canton, in the near future. However, there remains "four determined sources of resistance":

1. Chiang Kai-shek on Taiwan, who control the remaining air force, navy, and treasury (approx. \$300 million);

2. Southeast China: President Li agreed about two weeks ago to give up Canton and regroup forces for defense of this area.

3. Southwest China (Yunnan): 250,000 men are available to defend his area, with 400,000 available but without equipment. Lu Han is "an opportunist" and will deal with anyone. This is the critical area. If it goes Communist, there will not be any resistance in Indochina and Burma. If the US is to render any support to anti-Communists, "this is the area that requires immediate consideration." Badger believes that "it can be stabilized as a strong barrier against these other comparatively undecided weak nations of the Far East." After Canton falls, General Pai will retire with his troops to the southwest and set up a semiautonomous state (with Li Tsung-jen as administrative head).

3. Northwest China: Ma Pu-fang went to Formosa to ask for aid two weeks ago but he obtained only "a few crumbs." Ma is violently anti-Communist - and not overly fond of Chiang Kai-shek. The terrain of the northwest is favorable for resistance. Ma was a guerilla leader against the Japanese.

There are also possible guerilla movements throughout China. For example, there is a strong guerilla movement (est. 16,000) in Communist-occupied Shantung province.

Badger points to increased evidence of Russian support for Chinese communists. During a battle against Communist forces, Pai recently captured two complete regiments that were 100% Russia-equipped, from rifles to artillery. These weapons were brought to Hong Kong for examination.

Badger states that \$75 million, if effectively used, could stabilize the areas of resistance. It was largely a question of morale.

Knwoland raises question of working with Central government: would assistance have to be funneled through Chiang? Badger states that it would be feasible to work out a program in consultation with the central government, with material shipped directly to those who would use it. Senator Pepper



pointed out that Chiang had adamantly refused to go along with such an arrangement during the war. Badger: "He will go along now."

Badger states that aid to China should be viewed in the context of "our national policy of assisting areas or peoples who are resisting Communism." [Truman Doctrine] Appropriation of \$75 million will provide the means "for adding to the security of certain areas which I consider important from the viewpoint of containment."

September 13, 1949:

President Li cables Badger:

"Chinese Government Canton is in extremely critical position. Within next week or 10 days decisive battle expected Hunan which will decide fate Canton. General Pai Chung-hsi will face combined armies Lin Piao and Liu Po-chen. Generalissimo's actions indicate we can expect no support from Air Force and funds for Canton Government from Taiwan be completely stopped near future with no hope future Taiwan financial aid. Without funds our Government will collapse. If US intends any military, financial or moral backing, regardless amount, the time is now. Our position is critical."

September 18, 1949:

Willauer to his wife:

"I have been having almost weekly phone talks with Tom and it now looks that aid is about agreed on and that somehow CAT is to play a substantial part."

Willauer later writes to Corcoran (January 6, 1950):

"You told me in late September that you thought my basic function was to use my knowledge of the Far East and the available facilities of CAT to back up the final resistance efforts of the Chinese Government on the mainland; and that if these efforts were not successful to do everything in my power as a private businessman with the facilities of CAT under my control to arrange for resistance by the Chinese on Hainan and Formosa."

\*\*\*September 20, 1949\*\*\*

Admiral Hillenkoetter meets with Webb and Butterworth. Although Butterworth was very negative, he said that State would not object to a minor amount of covert support to CAT if it would enable CIA secret operations to be effective.



This informal approval of subsidy to CAT was followed on October 4 by a memo from George Kennan, State's representative on the OPC oversight committee, to Frank Wisner on the OPC's plan to assist anti-communist elements in China. The CIA's history observed that the memo was ambiguous; it neither approved nor disapproved project. But Wisner treated the memo as authorizing the project.

CAT began flying for CIA on October 10, 1949, pending the formal agreement. Willauer and Chennault bought out the Chinese interests in the company so that CAT was 100% American owned. On November 1, 1949, an agreement was signed between the US government and CAT. Emmett D. Echols, of the CIA's Office of Finance, signed for the government, while Corcoran signed for CAT. Lawrence Houston, the CIA's General Counsel, approved as to form. It was a general agreement, the CIA agreeing to expend up to \$500,000 to financial a CAT base and underwrite deficits incident to execution of hazardous missions directed by CIA. "In return from the \$500,000 CAT agreed to give first priority to carriage of CIA-designated cargoes and persons for one year at rates to be agreed upon." The CIA immediately paid over to CAT \$200,000.

[The Mutual Defense Assistance Act of 1949, appropriating over \$1.3 billion dollars for military assistance (mainly Europe) was signed into law on October 6, 1949. Section 303 appropriated \$75 million as an emergency fund for the President to be used in the "general area" of China. The President did not have to specify the nature of expenditures, only the fact of expenditures. OPC's China project may have been funded with 303 funds.]

[The State Department's reluctant approval was likely given because of outside pressures - Congressional critics of the administration's policy in the Far East, military people, etc. As Dean Rusk has recently observed, covert operations in China "could only be a pinprick." There was no military option in China due to postwar demobilization.

Wisner seemed to be the moving force behind OPC's involvement in the last stages of the Chinese civil war. Even the reluctance of the Joint Chiefs did not deter him. As Lyman Kirkpatrick, a high CIA official at the time, has written to me: "As far as why OPC would go ahead with the project when the JCS was lukewarm, it would be my guess that OPC wanted a piece of the action and overestimated Chinese resistance. Using Kennan's memo as authority was indeed common practice at the time. This was long before a formalized procedure for approving covert operations had been established."]