

## The roots of the Taiwan conflict

### Part Five: KMT and US intelligence agencies collaborate

By Melissa Harrison

For decades the island of Taiwan, situated about 160km off the southeastern coast of China, has been used by Anglo-American powers to agitate against the Chinese government. Parts 1-4 of this AAS series explored the rise of Chiang Kai-shek, head of the Kuomintang Party (KMT) and the future leader of Taiwan, and his ultimate defeat by the Communist Party of China. The preceding article (Part Four) documented the tremendous influence of the pro-Chiang "China Lobby" in America; in Part Five, we examine the collaboration of US-KMT intelligence agencies and the subsequent impact on US China policy.

During World War II, US intelligence factions collaborated with China's ruling Kuomintang Party (KMT), headed by Generalissimo Chiang Kai-shek. These factions exercised significant influence over America's wartime China policy, and promoted hostility towards Chiang's enemy, the Communist Party of China (CPC). Post-WWII, the Chinese Civil War, which was waged intermittently in 1927-49, resumed. The KMT were ultimately defeated by the CPC, which established the People's Republic of China (PRC) on 1 October 1949. Chiang and his armies fled to the nearby island province of Taiwan, where US intelligence agencies continued to cooperate with the KMT in waging clandestine war against the fledgling PRC. Amidst the anti-communist fervour of the Cold War, US intelligence agencies pursued covert and illegal provocations against the PRC, and propagandised the American public against "Red" China.

#### SACO

For patriotic reasons during World War II, China's myriad secret societies agreed to share intelligence with General Tai Li, the head of Chiang's military intelligence agency, the Bureau of Investigation and Statistics (BIS). Under this arrangement, Tai commanded a coalition of between 7-8 million operatives. However, instead of using this vast intelligence network to fight the invading Japanese, Tai, who also headed the feared Blue Shirts Society, a fascist organisation which ruthlessly suppressed opposition to Chiang, used it to solidify his control over the Chinese populace.

During the war, American intelligence organisations operating in China were brought under Tai's supervision, with the establishment of the Sino-American Cooperative Organisation (SACO), which operated between 1942 and 1945. US Navy Lieutenant-Commander (later Admiral) Milton Miles brokered the arrangement with Tai for the KMT to share intelligence with the USA, in exchange for American aid in training KMT guerrilla forces, which numbered between 50,000-70,000. Miles served as Tai's American counterpart in SACO, and at the spy chief's insistence, agreed to work under Tai's authority. Despite being aware of Tai's notoriety as a drug smuggler, political assassin, and enforcer of anti-Communist terror, Miles was fascinated by Tai and threw his full support behind the intelligence chief.

SACO's powers and its supply line, which grew to several hundred tonnes of military equipment per month, were independent of US General Joseph W. Stilwell, commander of the American forces in the China-Burma-India region, who strongly disapproved of the Miles-Tai relationship. Stilwell would later privately refer to Tai's secret police as a "Ge-stapo". The US Navy detachment in China considered Tai its commander and followed his orders, and in return received



KMT enforcer Tai Li and US Navy Commander Milton Miles. Photo: Screenshot  
preferential treatment over other American intelligence forces operating in China. SACO controlled the flow of sensitive information between Washington and China, and used its influence to affect US China policy. SACO backed the most reactionary factions of the KMT and promoted hostility towards the Chinese Communists. This included SACO's attempts to sabotage the US Dixie Mission, a small group of American military, foreign service and Office of Strategic Services (OSS, America's wartime intelligence agency) personnel, who were dispatched on an observer mission to Communist-controlled Yen-an.

SACO operated training camps, supported KMT commando forces, supplied weapons to Tai's so-called Loyal Patriotic Army of 15,000 troops, and collaborated with several thousand pirates in exchange for intelligence and military support. SACO operated a notorious police training program which was overseen by former FBI agents. This program offered little training which could have helped in the fight against the Japanese, instead focussing on political crimes and methods of repression, to be utilised by Tai's forces after the war. According to reports submitted by American foreign service officers, SACO's operatives employed torture and poisonings, and Miles reportedly participated in Tai's mass trials of political prisoners, who were then buried alive. Much of the American war material delivered to Tai under SACO could not be traced, as no records were kept. US-supplied military equipment was sold on the black market or hoarded for the KMT's imminent fight against the Chinese Communists.

In his 1972 memoirs, *A Secret War: Americans in China, 1944-1945*, Oliver J. Caldwell, an OSS officer who worked under SACO during WWII, documented that OSS operatives' efforts to fight the Japanese were deliberately curtailed by Tai Li. This included in the denial of essential supplies, intentional administrative delays, and the attempted murder of OSS agents who had identified Japanese spies. Caldwell also filed official reports to Washington documenting evidence of the KMT's trading with the enemy. According to Caldwell's account, key OSS intelligence was shared with the Japanese by Tai Li's agents, who spied on OSS officers. The OSS was stationed at Tai Li's headquarters, at which Caldwell observed the cruelty and ruthlessness of Tai's operation. Caldwell described hearing the screams of people being tortured in Tai Li's facilities for hours.

When the Japanese surrendered in August 1945, the KMT and Chinese Communists competed to re-occupy former enemy territory. Miles ignored instructions to remain

neutral and secretly ordered American SACO forces to provide logistical support, and to send arms and ammunition to Tai Li's troops. This support included arming a fleet of junk ships to seize harbours for the KMT, and collaborating with Japanese and puppet troops (pro-Japanese Chinese forces which had been trained and armed by Japan during the war) to re-take Shanghai. SACO's power was diminished in September 1945, when Miles was ordered to be transferred back to the US, as he had suffered a nervous breakdown. Tai Li was killed in a plane crash in March 1946, under suspicious circumstances. The 13 November 1946 *New York Times* reported that some "residual activities" continued under SACO after the war, which reportedly included the operation of Chinese weather stations acquired by the US Navy.

### CIA on Taiwan

During the Korean War (1950-1953) Taiwan became the primary US base for intelligence-related activities and for waging covert war against the Chinese mainland. The Central Intelligence Agency (CIA), which was the successor to the wartime OSS, and the Office of Policy Coordination (OPC), which functioned as the covert operations wing of the CIA, operated on Taiwan behind a front company called Western Enterprises Inc. (WEI).

Under the cover of WEI, the CIA participated in raids against China's coast, trained KMT guerrillas, attempted to land agents and commando-type teams on the mainland for intelligence and sabotage activities, and conducted psychological warfare operations against mainland Chinese citizens.

American-made spy planes, known as the Black Bats, piloted by American and KMT pilots, conducted espionage and reconnaissance missions over mainland China. The Black Bat squadron was a US-KMT joint venture, which the USA intended to keep secret; however, the KMT publicly acknowledged the operation. The Black Bats operated in 1951-69 and were utilised by the CIA for clandestine missions during the Vietnam War. WEI was later succeeded by a new CIA front organisation, the Naval Auxiliary Communications Centre. Successive CIA station chiefs behaved as though they were the premier decision-makers on Taiwan and commonly failed to inform the US ambassador, their purported boss, of major covert activities the agency was undertaking.

Different US agencies stationed on Taiwan, including the CIA, the US Army's 500th Military Intelligence Unit and the US Military Assistance Advisory Group (MAAG), jostled for control over paramilitary operations against mainland China. By 1957 the number of Americans on Taiwan had grown to 10,000 people, primarily intelligence and military officials and their families.

The CIA received extensive funding for its collaboration with the KMT's intelligence agencies and its special operations unit, which included 14,000 special forces troops and a unit of 600 child soldiers, who were orphaned boys trained in guerrilla warfare. For the following two decades, the CIA utilised the KMT's extensive network of spies, smugglers and businessman for its covert operations in East Asia.

At the same time that the CIA closely cooperated with the KMT on Taiwan during the early 1950s, the so-called China Lobby was highly active in the USA, agitating on behalf of the KMT's interests. Numerous China Lobby organisations had connections to the CIA. For example, the Committee of One Million (COM), an organisation formed to campaign against the PRC's admission to the United Nations, employed Marvin Liebman as its principal fundraiser, director and secretary. Liebman, a former communist, had renounced communism after working for the CIA-funded and linked International

Rescue Committee. Harold Oman, COM's fundraiser and public relations expert who had hired Liebman, was associated with several CIA front organisations, and served as a reporting conduit between CIA Director Allen Dulles and the American Friends of Vietnam, an anti-communist organisation which appointed numerous former CIA officials as leading members, and received funds from CIA proprietary companies.

Liebman, Oram and COM leader and China Lobby member, Congressman Walter H. Judd, co-organised the Aid Refugee Chinese Intellectuals (ARCI) organisation in 1952. ARCI was a CIA proprietary organisation and received CIA funding. Other members of the China Lobby's inner core also had CIA connections. For example, Henry R. Luce, publisher of *Time* magazine, was a longtime friend of CIA Director Allen Dulles, and was part of the agency's Operation Mockingbird program, the CIA's infiltration and manipulation of American media. Luce's wife, a glamorous playwright, journalist and Republican politician who was an active member of the China Lobby, Clare Booth Luce, had an extramarital affair with Dulles.

Similarly, the Committee to Defend America by Aiding Anti-Communist China boasted former head of the OSS, William Donovan, as its vice chair. Former China-based OSS officer Paul Helliwell and Jay Lovestone, a CIA collaborator and anti-communist union official, served on the Committee's board of directors. Cord Meyer, a CIA officer who was appointed head of the CIA's International Organisation Division in 1954, was an executive member of the Committee on National Affairs, another China Lobby organisation. Another pro-KMT organisation, the Committee for Free Asia (later the Asia Foundation), was a CIA front used for psychological warfare operations, which received CIA funds.

### Flying Tigers

In 1940 Chiang Kai-shek appointed US aviator Claire L. Chennault head of the Chinese Air Force's training and operations. Chennault, who became a leading member of the China Lobby, served as commander of the "Flying Tigers" 1st American Volunteer Group, a squadron equipped by the USA which helped China fight the Japanese invasion in 1941-42.

After WWII, the USA attempted to support the KMT in its civil war against the Chinese Communists, and later, to negotiate a CPC-KMT cease-fire agreement and transition to a coalition government. Both initiatives failed, and the USA began to withdraw its forces from China in 1947. At this time, Chennault's Flying Tigers resurfaced as an ostensibly private airline, named Chennault Air Transport (later Civil Air Transport). Under pressure from the US State Department and prominent KMT lobbyists Madam Chiang, the wife of Chiang Kai-shek, and her brother, T.V. Soong, a wealthy and influential member of the KMT, the United Nations Relief and Rehabilitation Administration (UNRRA, a US-dominated post-war relief agency) subsidised Chennault's airline. UNRRA supplied Chennault's fleet of forty-seven surplus US Army Air Force transports for less than 10 per cent of their original cost, not in cash, but by UNRRA contracting Chennault's pilots to transport relief supplies into China which Chennault billed at inflated emergency rates; when the bill equalled the low cost of the planes, he acquired them. When Chennault took full ownership of the planes, he began to provide logistical support for the KMT in its war against the Chinese Communists. Chennault's airline was supported by KMT capital, including funding from the wealthy Soong family and Chinese industrialists. Chennault's management staff included former US government officials, and some of his pilots were former OSS officers.

In mid-1948 OPC Chief Frank Wisner and Paul Helliwell,

who served as OSS desk chief in Kunming (Yunnan province) during WWII, initiated plans for the CIA to refinance and take-over Chennault's airline, which was experiencing financial difficulties. In March 1950, the CIA used a middleman banker to finalise the deal. The CIA's new airline, which was supplied with surplus planes, experienced a boom in business several months later when it was contracted to fly the majority of the US military airlifts during the Korean War (1950-53).

When the CIA acquired Chennault's airline, the complex legal takeover separated his assets into three parts: planes owned by Civil Air Transport, the KMT's civilian airline; pilots who operated under the CIA proprietary firm CAT Inc., later named Air America; and ground-support facilities, which operated under Air Asia, the Taiwan subsidiary of Air America. Although these companies were legally separate entities, in practise they operated interchangeably, sharing pilots, planes, facilities and directors. The OPC arranged that the CIA would only own 40 per cent of CAT Inc. The remaining 60 per cent was owned by KMT financiers who were associated with the KMT-linked Kincheng Bank (Hong Kong). This arrangement guaranteed that CAT's activities were shielded from interference from Washington. CAT was also intertwined with Wall Street interests, including American airline giant Pan Am, which had been intimately involved with the Flying Tigers. Pan Am provided a trans-Pacific back-up to various CAT/Air America operations during the 1950s-1960s.

### Operation Paper

When Chiang Kai-shek rose to power in China during the 1920s, he used proceeds from opium trafficking to finance his wars against rival warlords, the Chinese Communists, and the Japanese. In alliance with the Green Gang, an organised crime syndicate, the KMT monopolised the Chinese opium market. KMT General Tai Li's secret police were involved in, and funded by, opium trafficking. By 1931, China produced almost 90 per cent of the world's narcotics.

Several months after the CPC's victory over the KMT in October 1949, remnants of the KMT's remaining armies were driven out of China's southwestern Yunnan province, one of the KMT's primary opium-producing regions. The KMT's forces fled into neighbouring Burma (Myanmar) and French Indochina (the former French colonial territories of Cambodia, Laos and Vietnam). By March 1950 about 1,500 KMT troops under the command of General Li Mi, known as the 93rd Division, began occupying a large area of eastern Burma, in a region where local hill tribes had traditionally cultivated opium as a cash crop. Being familiar with the opium trade in nearby Yunnan for years, the KMT remnant armies began drug trafficking from Burma, in order to fund their army and their plans to retake the Chinese mainland.

Following the KMT's defeat by the CPC, the USA fretted over the possible southward expansion of communism, expressing fear that PRC President Mao Zedong planned to conquer all of Asia. In April 1950, the US Joint Chiefs of Staff noted the purported "renewed vitality and apparent increased effectiveness" of the KMT's armies, and suggested a "program of special covert operations designed to interfere with Communist activities in Southeast Asia". In November 1950, US President Harry S Truman approved an OPC/CIA proposal to arm the remnant KMT armies in Burma, utilising them as a barrier along the China-Burma border, and for invasions of southern China, in order to divert Chinese forces away from the Korean warfront. This highly secret covert initiative was codenamed Operation Paper. However, Truman was only giving belated authorisation to a clandestine CIA arms shipment operation which had already begun months

earlier, involving Paul Helliwell, the OSS officer who had co-organised the CIA's purchase of Chennault's airline.

During WWII, Helliwell served as OSS chief of Special Intelligence in Kunming, Yunnan province. While stationed there, Helliwell observed the KMT's use of opium trafficking to finance their activities, and had himself paid local informants with opium. After WWII, Helliwell served as the Far East Division chief of the Strategic Services Unit, an OSS successor organisation. In this role, Helliwell was a key participant in managing covert funds for the CIA's operations in East Asia, establishing numerous banks to funnel proceeds from the CIA's clandestine activities.

From 1950, the CIA began to covertly support the KMT opium traffickers in Burma, which would ultimately make Southeast Asia the world's leading supplier of opium and heroin for several decades. Individuals involved in this operation included Helliwell and Willis Bird, who served as Kunming's OSS deputy chief over Helliwell. Funding for the CIA's support of the KMT opium traffickers partly came from the funds of Japanese war criminals which had been appropriated by US intelligence services, and reportedly from confiscated Nazi gold laundered through one of the myriad banks Helliwell established.

After WWII, former Kunming OSS deputy station chief, Willis Bird, headed a private Thailand-based import/export company which supplied arms to the Thai police and the KMT. In 1950 Bird was involved in a military coup which brought General Phao, a Thai police chief who had received covert support from US intelligence agencies since 1948, to power. Phao was instrumental in facilitating the KMT's opium shipments from Burma into Thailand, where the Thai government exercised a legal opium monopoly. From Thailand, the drugs made their way on to the international market. Bird's company was later absorbed by Sea Supply Inc., another CIA front organisation which had been incorporated by Helliwell. Sea Supply delivered large quantities of arms, aircraft, ships and armoured vehicles to Phao's National Police Force, providing logistical support for Phao's trafficking syndicate, which became Thailand's largest by 1955. Sea Supply also delivered arms to the KMT armies in Burma.

With CIA support, General Li's KMT armies were soon supplying almost a third of the world's opium. By the early 1960s, the "Golden Triangle" region, the tri-border area where Thailand, Laos and Burma meet, had become the largest opium producing-region in the world. The KMT remained active in the drug trade in Burma until at least the 1990s. The CIA's "guns in drugs out" (GIDO) method of support for the KMT's drug trafficking became a model for future operations in Laos, Vietnam and Central America.

The CIA helped to expand the capabilities of the KMT's remnant forces in Burma. American engineers assisted in the construction and expansion of air strips; CAT flew in weekly shipments of supplies and large quantities of American arms; CIA air squadrons provided logistical support; training bases were constructed, with instructors flown in from Taiwan; and troops were regularly transported from Taiwan. The KMT press-ganged eight thousand men from amongst the Burmese hill tribes, and the General Li's army eventually stood at 12,000 troops.

Although the Burmese army had partial success in routing some of the KMT troops, it was preoccupied with insurgencies in other parts of the country. The KMT began administering its own government in the regions it controlled in eastern Burma, heavily taxing the locals and forcing Burmese hill tribes to expand opium production, thereby consolidating control over the local opium trade.

Under the auspices of Operation Paper, the KMT's 93rd Division made several unsuccessful attempts to invade the Chinese mainland and reconquer Yennan. Despite CIA support, the KMT was repelled by the PRC's forces and suffered heavy casualties, which included the deaths of several CIA officers. In 1952, the KMT's remnant armies attempted a full-scale invasion of eastern Burma, but were driven back by the Burmese army. As a consequence, Burma accused the KMT of unprovoked aggression before the United Nations in March 1953. Although the USA attempted to deflect the issue and Taiwan denied responsibility for General Li's armies, the Burmese government produced damning evidence which resulted in a vote of censure against Taiwan by UN member nations, and embarrassment for the USA. The USA, Thailand, Taiwan and Burma then made an agreement to withdraw all KMT troops from Burma; however, the KMT guerrillas refused to cooperate, stalling and refusing to relinquish their weapons. Although CAT eventually airlifted 4,500 KMT troops to Taiwan in 1953-54, 6,000 remained in Burma. Additionally, large numbers of alleged KMT military evacuees were actually local Burmese tribesmen and boys separated from their families and forcibly shipped to Taiwan. For the next seven years, KMT troops would fight sporadically with the Burmese army, supported by additional troops secretly flown in from Taiwan.

In 1961 Burma and the PRC initiated a joint operation against the KMT's major Burmese opium trafficking base, which was defended by ten thousand troops and heavily fortified. After overwhelming the KMT's troops, who retreated into northwestern Laos, Burmese officers discovered American-made arms and five tons of American-labelled ammunition. Within months, the CIA began utilising the KMT remnant armies in Laos as mercenaries for its operations there, which also involved drug smuggling. After the KMT was forced out of Burma, it moved its opium trafficking headquarters into northern Thailand, where its operations were facilitated by the Thai government.

### US conceals KMT opium trafficking

During the 1950s-1960s, Harry Anslinger, head of the US Federal Bureau of Narcotics (FBN), relentlessly vilified the PRC as the supposed leading purveyor of the international narcotics trade. For years, Anslinger made sensational allegations against Communist China, claiming that the PRC had flooded the international market with heroin for financial gain, and was the source of opiates which had reached America via Thailand and Hong Kong. The US government and media routinely repeated Anslinger's claims. In actual fact, after WWII the PRC had initiated a relatively successful, albeit sometimes ruthless, campaign to eliminate opium production in China.

The original source of Anslinger's allegations against the PRC was the KMT's own US-based propaganda machine. Anslinger's intelligence on the PRC's alleged drug trafficking was supplied by the KMT, and by US forces which were occupying Japan. The KMT supplied Anslinger with the only samples of heroin which were used to authenticate opium allegedly supplied from the Chinese mainland.

Anslinger was well aware of the KMT's history of involvement with the international narcotics trade. Since the 1930s, Anslinger had received reports implicating senior KMT officials in drug trafficking. By 1935, the FBN knew that most of America's heroin was supplied by Nationalist China. KMT embassy officials participated in smuggling opiates into America.

However, Anslinger, who had a working relationship with the CIA, protected the KMT's narcotics trade. Several times,

the FBN delayed arrests so that KMT-affiliated individuals implicated in trafficking could leave the country and escape conviction (the PRC was then blamed for the heroin involved in the incidents). When the Soong family's Hong Kong-based bank was implicated in a major drug trafficking operation involving KMT-connected officials, Anslinger claimed that the narcotics involved originated in Communist China. Anslinger routinely edited FBN reports to ensure that China was the only country named as a major opium supplier in Asia. Although the FBN had seized several shipments of Thai government monopoly opium in 1949 and 1950, after the commencement of Operation Paper the FBN listed only one seizure of Thai drugs for the following decade. As early as May 1950, American media reported that KMT forces were smuggling opiates in Burma in collaboration with US companies, but Anslinger continued to blame this trafficking on the PRC.

Allegations of Communist China's complicity in the international narcotics trade were weaponised for the US campaign against the PRC's admission to the United Nations. US delegates to the UN claimed their concerns about the evils of the PRC's alleged trafficking were apolitical, but manoeuvred behind the scenes to ensure Anslinger's reports contained accusations against Communist China, to support their allegations. The US State Department acknowledged that Anslinger's attacks against the PRC's admission to the UN "would coincide advantageously with our psychological attacks on Communist China". The China Lobby, which collaborated closely with Anslinger, ran media campaigns alleging the PRC's complicity in opium trafficking.

The FBN's protection of the KMT, the world's leading opium traffickers, persisted through successive organisations until this stance abruptly changed in 1971, when US-China relations began to normalise. The following year, the Nixon Administration released a memo reversing its longstanding accusations against the PRC, stating there was no evidence for PRC opium trafficking, instead blaming the Taiwan lobby's "persistent propaganda campaign" for misleading the public.

*Next—Normalisation and more provocations*

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