

OFFICE OF REPORTS AND ESTIMATES, CIA  
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INTELLIGENCE HIGHLIGHTS--WEEK OF 18 MAY - 24 MAY 1948

SECTION I. MILITARY OF FAR EAST TRENDS AND DEVELOPMENTS

The Japanese Government is considering a plan to exclude Communists from certain public offices but, in view of possible Soviet retaliations, is unlikely to implement it before the roughly 700,000 Japanese have been repatriated from Soviet-controlled areas, or until the USSR indicates that no further repatriations will be made (page 3).

In the South Korean elections of 10 May, neither of the two extreme rightist groups--Rhee Syngman's National Society and the Hankooks--won a majority, and the balance of power is held temporarily by the smaller rightist powers. The Hankooks have the capability of undermining and seizing Rhee's present dominant position in any future political crisis (page 3).

Chiang Ksi-shek's inability to control the Kuomintang effectively has been demonstrated by the serious intra-party struggle over the naming of a new premier. This struggle, involving key figures upon whom Chiang has relied for years, appears to be a serious challenge to his position of leadership (page 4).

In French Indochina, Ho Chi Minh is expected to launch a campaign of propaganda and terror in response to the formation of a new French-sponsored Vietnam Government under General Xuan (page 6).

A Dutch move to by-pass the Indonesian Republic is evident in a "Federal Conference" being convened in Dutch-held Java on 27 May, apparently without Republic representation (page 6). As reported in the CIA Daily Summary of 25 May, Dutch resumption of "police action" in the near future is much more probable than is a peaceful conclusion of Dutch-Republic political agreement.

In the Philippines, peaceful settlement of the law and order problem has been rendered less likely by the open insistence by Tarao, Hukbalahap leader, that the Huks have the right to bear arms (page 7).

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## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERALStrong opposition to proposed Japanese whaling expedition

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The UK, Australia, New Zealand, and Norway have voiced strong opposition to the contemplated authorization by SCAP of a Japanese antarctic whaling expedition for the 1948-1949 season. Earlier expeditions, although smaller than the one now under consideration, had drawn vigorous complaints from these same powers. If the current expedition, presently favored by the US Department of State as well as by SCAP, is authorized over such objections, repercussions of the controversy may be felt in the discussions now taking place concurrently in Canberra, where UK and Australian representatives are deliberating on a joint British Commonwealth policy toward the future of Japanese industry.

Contentions of the opposing powers, taken together, are: (1) Japanese participation in antarctic whaling is properly a matter of principle which should be decided by the Far Eastern Commission; (2) the proposal to enlarge the expedition would place Japan in a more advantageous position vis-a-vis the other whaling nations than it enjoyed before the war; (3) Japan's whaling record has been one of ruthless disregard of international whale conservation regulations; (4) Japanese participation would mean that the catches of the parties to the International Whaling Convention would be diminished because no increase in over-all quota of blue whale catch is possible; (5) Japan's needs for whale oil can be better provided by the other nations; and (6) whaling products obtained directly by Japan will reduce the amount of hard currencies that could be obtained by the UK and other whaling nations.

Australian mission headed by McMahon Ball being sent to Southeast Asia

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An indication of the importance which Australia attaches to its relations with Southeast Asia can be seen in the educational and relief mission which is leaving for that area on 27 May. The mission, headed by William McMahon Ball, includes an educational and supply officer and a representative of Australia's Department of External Affairs. Ball, who was formerly Australian representative on the Allied Control Council for Japan and who resigned following policy disagreements with Foreign Minister Evatt, returns to governmental service via this mission. The announced purpose of the mission is to select 25 students from the Southeast Asia countries for study at Australian universities on Government scholarships and to investigate the need for distribution of relief and educational supplies. However, Ball may also be interested in opening up commercial opportunities for Australia in the area.

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JAPAN

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Japan considers barring Communists from public office. Prime Minister ASHIDA revealed on 19 May that the Japanese government has under consideration a plan for excluding Communists from public office. "If public servants engage in activities running counter to the welfare of society", ASHIDA said, "they will be controlled rigidly, whether they are Communists or not." Inasmuch as a Constitutional amendment might be required to eliminate Communists from elective office, a governmental bar, if it materializes, would affect only appointive officials and the civil service. The announcement probably was intended to: (a) threaten the Japanese Communist Party (J.C.P.), whose activities have gradually increased in tempo with retribution if the J.C.P. fails to moderate its actions; (b) act as a trial balloon to obtain US reaction to such a ban; (c) test USSR reaction, the Japanese government being ever mindful of the approximately 700,000 unrepatriated Japanese still in Soviet dominated areas. In view of the repatriation factor it seems improbable that any Japanese government will risk a ban on Communists in public office before repatriation is completed. The wave of popular resentment against any Cabinet responsible for the USSR's canceling of repatriation would force the government to resign. When repatriation is completed or when the Japanese government feels the point is reached where the USSR will return no more Japanese, and if the government is permitted to act as a free agent, the outlawing of the J.C.P. may possibly be expected.

KOREA

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Neither the Hankooks nor Rhee Syngman's National Society, the two major rightist groups, secured a majority in the 10 May elections in South Korea. Although so-called "independents" hold a plurality of seats, a more realistic break-down of the election results indicates that the Hankooks and the Rhee machine will have about equal strength with the balance of power held, at least temporarily, by the smaller political parties. Kim Koo's Korean Independence Party is the largest of these lesser groups. If Kim, despite his attendance at the Pyongyang conference, still has authority in his party, he may be able to utilize to his own advantage the stalemate of the major groups.

Rhee, who derives his strength from his extensive political machine, was expected to win a generous plurality of seats. However, his present parity with the Hankooks is dependent on the precarious support of ambitious General Lee Chung Chun's Dai Dong Youth Party. Moreover, it is possible that in their long-standing contest with Rhee for political supremacy, the wealthy Hankooks have been able to infiltrate and capture some parts of Rhee's machine at the lower levels. For the present, however, the two groups will maintain an uneasy coalition, with the Hankooks supporting Rhee for president. Rhee will attempt to get himself elected as a "strong" president on the "American" pattern while the Hankooks will struggle for the adoption of the "French" system with Kim Sung Soo as premier. Although Rhee may be successful in this initial struggle, should his egocentricity produce an eventual political crisis (e.g. frustration of any future US aid program), the more astute and flexible Hankooks will have an excellent chance of seizing real control of the government, leaving the obdurate Rhee in a position of prominence only at their sufferance.

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CHINAStruggle within Kuomintang

Chiang Kai-shek's difficulty in forming a new cabinet for China has "A" revealed a serious struggle within the inner circle of the Kuomintang. Apparently Chiang no longer has unchallenged control over the Party and his inability to rely on the support of certain key Party leaders from whom he has drawn his strength in the past is a more dangerous threat to Chiang's position than that presented by any liberal opposition under Li Tsung-jen.

The present struggle has stemmed from the Legislative Yuan which is controlled by the conservative CC Clique and must approve the appointment and actions of the new president of the Executive Yuan. The more likely candidates for the position, Chang Chun, Ho Ying-chin and T. V. Soong, were all reluctant to accept the position since they doubted their ability to command a majority in the legislature. The appointment of Wong Wen-hao to this position, which was approved by a large majority of the Legislative Yuan on 24 May, was only a compromise and has not solved Party differences.

Wong Wen-hao, an outstanding Chinese geologist, chairman of the National Resources Commission and a follower of T. V. Soong, is considered an able and honest administrator. Despite his association with the Political Science Group, he has remained outside intra-party rivalries, but with no political following of his own, he may be relied on for his loyalty to the Generalissimo rather than for any independence of action. His position will be difficult since he will be subject to pressures from Chiang on one side and the Legislative Yuan on the other.

Current Military Situation in China

Widespread Communist offensives, anticipated for the month of May, have "A" failed to develop and the Chinese military scene during the past week continued to be permeated by a general attitude of expectancy. Military activity was confined to the general North China area around Peiping and to the Central China area northwest and west of Hankow and involved comparatively small numbers of troops. In the latter area Communist units, reportedly irregulars, captured Laohokou, important Han River city, looting important stores of food and materiel. One source describes recent Communist activity in west Honan as a foraging expedition, necessitated by supply shortages in the Tapieshan area. According to this interpretation, the Communist timetable for the crossing of the Yangtze River has been consequently disrupted.

As yet no broadscale fighting has broken out on the Manchurian front where the main Communist regular troop strength is as yet uncommitted but is moving westward to the Chinchou area. The Communists in North China have been harrasing all railway communications leading out of Peiping, apparently

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in preparation for the Manchurian offensive. Communist troops attacked the western outskirts of Peiping, isolated Kalgan and Chengteh, continue to threaten Tatung, and, following the capture of Linfen, now menace Yen Hsi-shan's stronghold at Taiyuan. These actions suggest that the Communists are presently attempting to draw Fu Tso-yi into the mountains on the Hopei-Chahar-Suiyuan-Shansi border in order to inflict as heavy losses as possible upon his troops before bringing the battle into the coastal plains surrounding Peiping and Tientsin. These Communist efforts will utilize only a fraction of available Communist troops with the majority being reserved in western Liaoning for action when the Nationalists begin to move troops to save North China.

Change in the Shantung military and civil administration is indicated by "B" persistent rumors that the National Government is about to relieve Wang Yao-wu of his military command (2nd Pacification area) and the governorship of Shantung. One of the more able Government commanders, Wang has been actively considering the establishment of an autonomous regime in the key province of Shantung under his own leadership. Wang was reported to have been one of the chief supporters of Vice-President Li Tsung-jen. Li, incidently, has been notably quiet since his election to the Vice-Presidency and apparently is coming to the realization that his reforms will be difficult to implement over the opposition of Chiang Kai-shek so long as the latter still controls the Army, the Government finances, and the Party machine.

Nanking's dissatisfaction with Sino-Soviet relations has found recent "C" expression in the Ministry of Information's publication, the Daily Tribune. Commenting on the newly arrived Soviet Ambassador's statement that the Sino-Soviet Treaty was a manifestation of friendly feeling, the paper stated that it could not agree with Soviet interpretation of the agreement; that China's position would be very different today if Manchuria had been handed over intact to the National Government; and that it would have been easy for the Soviet Government to have honored the spirit of the Treaty by expressing its abhorrence of the armed (Communist) revolt against the Government of its "friend and ally". The paper added, however, that the Ambassador's arrival provided the occasion "to clear up a number of misunderstandings and suspicions".

A new import regulation, the Central Bank Circular 131, has created "C" consternation among China importers. This circular requires an importer to 1) deposit with the Central Bank, at the time of approval of the import license, 50% of c.i.f. value of import, in local currency at prevailing official open market rate of exchange, 2) deposit additional margin, as required, whenever the official rate is subsequently modified upward, and 3) settle final foreign exchange, at the time of arrival of goods, at the official rate prevailing at that date. The announced purpose of this circular is to reduce the "exorbitant" profits hitherto possible to importers buying exchange at unrealistic low official open market rates prevailing at time of issuance of licenses and disposing of their goods, upon arrival, at black market level commodity prices. A majority of the import and banking concerns consider the regulation unworkable and believe its enforcement will have serious repercussions on the economy. The fact that the regulation was adopted seems to have impressed observers and Chinese with the stringency of the National Government's foreign exchange position despite US commodity aid.

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FRENCH INDOCHINA

Terrorism expected as result of formation of new French-sponsored government. A campaign of propaganda and terror, instituted by Ho Chi Minh's Viet Minh government, is expected as a result of the formation of a new French-sponsored Provisional Central Government of Vietnam under General Nguyen-van-Xuan. General Xuan, a French citizen and since last October president of the Provisional Government of South Vietnam, on 20 May was "unanimously chosen" to head the new government by delegates from Tonkin, Annam, and Cochinchina. The formation of the Xuan government, which postpones a government under the former Annamite emperor, Bao Dai, nevertheless has Bao Dai's approval. Furthermore Xuan has announced that he would sign an agreement with French High Commissioner Bollaert, in Bao Dai's presence, on the day following the proclamation of the government on the "first lucky day of the June moon." A French Foreign Office official stated that although de facto recognition will not now be granted, the Provisional Government will have the status of an associated state in the French Union. General Xuan has pointed out that the evolution of Vietnam will proceed within the legal framework of the French Constitution, reaching at some future date full maturity and dominion status. Notwithstanding these elaborate plans, neither influential Vietnamese nationalists nor French officials believe that the new government has much chance of survival. The French, who because of domestic considerations in France are unable at the present to make any major change in colonial policy which will involve the granting of more liberal concessions to the new provisional government, realize how quickly Viet Minh terrorism could jeopardize the success of the Xuan regime and have redoubled their security precautions.

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INDONESIA

Dutch moves to by-pass the Republic. An elaborate "Federal Conference" to be attended by the heads of autonomous states and areas is to be convened on 27 May at Pandoeng, in Dutch-held Java, by Lt. Governor General Van Nook. This conference, to which the Republic of Indonesia has apparently not been invited, represents a Dutch move to strengthen its influence in the existing Provisional Federal Government. A Republican request to hold an "All Indonesia National Congress" at Batavia from May 24 to 26 as a counterpoise to the Pandoeng conference has been prohibited by the Netherlands Indies Government on the grounds that all political convictions will be adequately represented at Pandoeng. These moves are projections of the basic difference between the Dutch and Republican positions in regard to the Republic's status in an interim government.

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The Dutch objective has been to transfer sovereignty to a United States of Indonesia in which the Republic would be in the minority. The Republic, which considers itself the champion of nationalism for all of Indonesia, has insisted upon representation commensurate with its influence and therefore has demanded a majority position in any federal government. The Pandoeng Conference is further evidence that the Republic may be forced to enter an interim government and the United

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INDONESIA (continued)

States of Indonesia on Netherlands terms or that it will be by-passed entirely. If the Republic is by-passed the inevitable unrest would enable the Dutch to argue before the United Nations Security Council that such disturbances were a civil conflict in which the Dutch would be obliged to protect their interests. The US Delegation of the UN Good Offices Committee takes a serious view of the Bandung conference and in an effort to resolve the imminent deadlock, is prepared to offer a compromise plan which contemplates the establishment of a provisional federal government on the basis of general elections throughout the area without regard for the present state boundaries.

PHILIPPINES

Settlement of law and order problem less likely in view of Taruc letter. The possibility that the law and order problem in the Philippines will be settled amicably through surrender and the granting of amnesty is much less likely in view of a letter which Luis Taruc, supreme commander of the dissident Hukbalahar, is reported to have sent to an Associated Press correspondent in answer to a series of questions. In this letter Taruc states that he is still a member of the Philippine Communist Party, demands the right for Huks to bear arms regardless of property or educational qualifications, and objects to various infringements of Philippine sovereignty by the United States. The Philippine Government's apparent answer to Taruc's attitude has been the appointment of General Guillermo P. Francisco (Chief of the Constabulary during the Japanese occupation) as technical assistant on police matters and the appointment of Teofilo Sison (pre-war Secretary of the Interior and Secretary of Justice in the Laurel war-time puppet Cabinet who was convicted of treason by the People's Court and later granted amnesty as a result of a proclamation by the late President Roxas) as a technical adviser to President Quirino in charge of provincial and municipal administration.

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AUSTRALIA

Pessimism about UK financial position increases. Australian officials are increasingly pessimistic about the UK financial crisis and continued dollar shortage. They now see the need for rigid import restrictions extending into 1950. The problem is not so much one of finding dollar markets as it is of producing sufficient quantities of goods to sell. It is complicated by the commitment to supply the UK with all exportable surpluses of food and by the fact that certain types of essential agricultural and industrial machinery are only available from dollar areas. If official fears materialize and the European Recovery Program requires Australia to live within her own dollar income, the whole pattern of her trade will have to be reoriented away from the UK, with far reaching effects on military and political relations within the Commonwealth and towards third powers.

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## SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

Strategic Importance of Japan

Japan's defeat in World War II has created a vacuum of power in the Far East where the extension of Soviet influence and US strategic interests have been brought into direct conflict. From the point of view of either the US or the USSR, control of Japan is important to the control of the Far Eastern area, both because of the island's geographical location and because Japan, while militarily defenseless at present, possesses a large reservoir of trained manpower, which, if mobilized and provided logistic support, could become a potent factor in determining the outcome of any future armed conflict embracing the Far East.

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The US as principal power in occupation presently controls Japan, the stability of whose new democratic government cannot be determined completely until the withdrawal of US occupation troops. Given a viable economy, however, present Japanese stability and pro-US orientation should continue so long as the Occupation remains.

On the other hand, there are certain possible developments which would greatly weaken the US position in Japan and throughout the Far East, and to this extent strengthen that of the USSR. Principal among these are:

## 1. Disruption of the Present Status Quo in Northeast Asia.

Extension of Soviet control or domination over North China, Manchuria, and the whole of Korea would result in an incalculable loss of US prestige throughout the Far East. Such a condition might greatly facilitate further Soviet extension into Japan itself, which in turn would expedite Communist expansion in Asia against diminishing resistance.

## 2. Serious Deterioration of Japan's Economic System.

The key factor in the postwar development of Japan is economic rehabilitation. As in the past, Japan, for normal economic functioning on an industrial basis, must have access to the Northeast Asiatic areas - notably North China, Manchuria, and Korea - now under direct, indirect, or potential control of the USSR. It is believed that the Kremlin, without serious effect on its own position in Northeast Asia, could refuse to allow Japan economic access to these areas if political or strategic considerations so dictated.

The short-term loss of Northeast Asia trade, though it would make economic recovery of Japan difficult, would not render it impossible. It could be compensated for in part by trade with Southeast Asia and the Philippine Islands where, however, there would be, in addition to US and European competition, the possible development and expansion of indigenous industries.

Over the long term, exclusion of Japan from Northeast Asia trade would so drastically distort Japan's natural trade pattern that economic stability could be maintained only if the US were prepared to underwrite substantial trade deficits on a continuing basis. Should such aid be

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withheld or unavailable, the ensuing economic distress might easily force Japan to align itself with the USSR as the only means of returning to economic normality.

So long as this Japanese rehabilitation is under US control, it can be assumed that Japan of itself, with its basic economic weaknesses, cannot in the foreseeable future become a threat to US security. Only as an ally of the USSR, or as part of a large anti-US coalition could Japan become once again dangerous.

So long as a viable economy for Japan can be constructed and maintained, the difficulties facing the USSR in attempting to force Japan's acquiescence would be considerable and could be largely offset through the adoption by the US of available counter-measures.



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