

CHINA

Approved For Release 2001/08/26 : CIA-RDP79-01082A000100010043-2  
WEEKLY PRESENTATION  
2 December, 1947

2 Dec 47

During the past week, the Chinese civil war was marked by a lull in all theaters, but worsening conditions were reflected on the economic front. Black market foreign exchange rates, on 28 November, touched a new high of 150,000 to US \$1, a rise of more than 50 percent since 15 November. However, this inflationary wave has now showed a marked subsidence, which may be attributed to a series of drastic anti-inflationary measures <sup>reportedly adopted</sup> ~~announced~~ by the National Government, as well as a report that the eldest son of Chiang Kai-shek has been appointed to lead the fight against the black market in Shanghai.

Domestic politics were marked by China's first national elections, to choose members of a National Assembly, which in turn is to elect the President of a new constitutional government, to be inaugurated on 25 December. The results have not been announced officially, but it is apparent that the Kuomintang will receive the largest representation, with smaller numbers of seats being parcelled out to the two minority parties and "independents". The general conduct of the entirely inexperienced electorate was so disappointing that elections for the Legislative Yuan, scheduled for 21-23 December, have been postponed for a month.

In China's foreign relations, there were two indications, in the preparations for pending peace treaties, of Soviet attention to Chinese sensitivity: (1) While rejecting China's compromise proposal to hold an 11-nation conference to consider the Japanese peace treaty, the USSR suggested that a preliminary conference in January of the Foreign Ministers of the US, the USSR, the UK, and China be held in China; (2) At the London Conference of Foreign Ministers, Molotov proposed that the conference to draft the German peace treaty should include China as well as German's neighbors and the states which took part in the common fight.

State Dept. declassification & release instructions on file

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24 Nov. - 1 Dec., 1947

2 DEC 47

(TRIAL RUN #1)

INTERNAL POLITICAL

Results of the election of the National Assembly, which was conducted on 21, 22, and 23 November, have not yet been revealed. However, there is no doubt that the Kuomintang will receive largest representation in the Assembly, with smaller numbers of seats being parcelled out to the two minority parties and "independents".

Election of the Legislative Yuan, originally scheduled for 21, 22, and 23 December, has been postponed for one month.

MILITARY

In Manchuria, where CNA prospects for the coming winter look grim indeed, a significant airlift of two division of the New 1st Army from Changchun to Mukden and the airlift of vastly inferior, green replacements to Changchun suggests; (a) that the CNA continues to hope the CCF will not seriously attack the Manchurian capital, or that, in the event of such attack, the CNA could move sufficient 1st quality troops northward in time to save the city; (b) that the CNA is preparing to write the Changchun-Kirin area off in the face of superior CCF, considered capable of taking these cities at will. A CNA claim that they have reopened their Mukden-Changchun-Kirin salient evidently does not include the railroad as the CCF still holds Kungchuling and Chintai, east of Changchun.

Liu Po-cheng is moving Northeast from Hankow, and Chen Keng is moving south-east from the areas south of Loyang. These movements, if continued, would bring these three CCF commanders together in the Southeast Honan-Northwest Anhui area.

EXTERNAL (BORDER REGIONS)

The thorny problem of threatening rebellion in Sinkiang has been the subject of discussion in Nanking in recent weeks. Present for these discussions are Gen. Chang Chih-chung, Chinese Commander for the Northwest who advocates a conciliatory policy toward the Turki natives of Sinkiang. One of these Turki officials, a member of the State Council, told the press on 23 November that the Government is considering the early holding of elections for a Sinkiang provincial Governor. This would meet the Ili group's demand for removal of the present Nanking-appointed Governor Mesud Sabri and would pave the way for renewal of negotiations between Chinese authorities and the Ili group, broken off by the latter last summer.

EXTERNAL (INTERNATIONAL RELATIONS)

Significant events in the field of China's external affairs for the past week include: (1) China abstained in the UN General Assembly vote to partition Palestine, which was passed 33-13 with the US and the USSR in the majority.

(2) The Soviet answered the Chinese compromise proposal to hold an eleven-nat/

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conference to consider the Japanese peace treaty by suggesting a preliminary

conference in January by the Foreign Ministers of the US, USSR, UK and China to be held in China. (3) Molotov, at the Conference of the Big Four Foreign Ministers in London considering the German peace treaty, proposed that the Conference to draft the German peace treaty should include China as well as Germany's neighbors and the states which took part in the common fight. (4) An official Chinese spokesman announced that China intends to lay formal claim to two hundred thousand square kilometers of "undemarcated" territory lying between Yunnan Province and Burma.

ECONOMIC

Currency: The worsening of conditions in China is reflected in the rise of black market foreign exchange rates by over 50% since 15 Nov. reaching 150,000 to US \$1. Domestic prices, although rising at record rates, have failed to keep pace with the black market exchange rate advance, probably due to the added pressure against the exchange rate accompanying the flight of capital from China. Disappointment of hopes of greater US aid and bad military news touched off the present inflationary wave which, however, is basically due to the flood of easy money aggravated by a fall of confidence in the future outlook. Money is being sent abroad in growing volume by persons, including officials, who fear not only financial deterioration but also the increasing penetration of Communists in Central China and possible disorders started by them in Shanghai and elsewhere. This fall of confidence

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could easily "snowball" and lead to a breakdown although no prediction as to

time is possible.

Foreign Trade: According to Customs figures China's adverse foreign trade balance reached CN\$ 79 billion in Sept. 1947, with the value of imports exceeding exports by 270%. This is the highest unfavorable balance for any month since V-J Day.

Public Assets: On basis of figures by Dr. Young, financial adviser to the Chinese Govt., official gold and US dollars holdings of the government banks totaled US\$ 281 million as of 30 Sept. In Dr. Young's opinion the US\$36 million decline in Central Bank dollar and sterling area currency holdings between 30 Sept. and 15 Nov. is a conservative indication of this rate of decline in official balances to be expected in the future. At this rate it is estimated that official exchange assets would be exhausted in the first half of 1948, possibly before April.

US Aid: US\$60 million as stop-gap aid to cope with the economic-political crisis in China was recommended by the House Committee on Foreign Affairs this week; it is not clear whether this amount is to be part of or in addition to the US\$300 million tentatively indicated by Secretary Marshall. Cables from Nanking urgently request inclusion of aid to China in the emergency program of the special session of Congress with an official statement that aid to China is under active consideration. Fear of a complete breakdown without early external aid and internal reform has gripped an increasing number of Chinese officials.

## SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The North Korean electric power cut-off of 14 May will have an embarrassing, although not crippling, effect upon South Korea. The Soviet-controlled North Koreans have the capability of aggravating this situation by cutting off water supplies across the border. Future moves affecting power and water supply will continue to be guided by the Soviet objective of forcing US withdrawal from Korea.

In China, opposition to Chiang Kai-shek is increasing at a time when the National Government faces mounting military efforts by the Chinese Communists and growing economic deterioration. Chiang shows no disposition to take effective measures, and apparently is trying to counter his opposition by reliance upon old, trusted, but incompetent, political figures.

The Philippine Government is currently attempting to reach a political settlement with dissident groups; if successful, such attempts would materially increase stability in the Philippines.

A new anti-Phi/bul movement, led by high Army and Navy officers, is reportedly developing in Siam, but is not yet believed powerful enough to threaten the Government.

*Things to remember:*

- 1. Margin's 13'-87 (paper guide on "0").*
- 2. Set four spaces from top - then leave a two line indentation for numbering - two lines more to general text.*

*This note on every issue. ↓*

NOTE: In succeeding sections of this Weekly, the following marginal notations are used:

- (1) An asterisk (\*) — To indicate that all or part of an item is based solely upon information from State's "S/S distribution" series.
- (2) "A", "B", or "C" — Importance, in B/FE's opinion, of the item, with "A" representing the most important ones.

SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

*Start ("")  
on 89  
margin.*

Sale of Japanese rolling stock to Europe discouraged

The US Political Adviser in Tokyo has replied to the State Department's request for his comments on the possibility of Japanese rolling stock manufacturing capacity being used for European needs if Japan is capable of producing equipment for a standard guage railroad (See B/FE Weekly of 4 - 10 May.) The Adviser states that Japan has the capacity to produce such equipment, but that it is not feasible for Japan to export any appreciable quantities during the next fifteen months because (1) Japan itself is currently very short of rolling stock at a time when it faces heavy transportation needs, and (2) during the next year, Japan will be unable to produce more than about one-half of the 10,000 freight cars actually needed domestically because of its lack of raw materials, such as pig iron or iron ore, manganese ore, magnesia clinker, coal, and possibly some types of lumber. In addition, Japan has a tentative commitment to the USSR for 310 freight cars.

"C"

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JAPAN

Outcast leader possible Communist convert. MATSUMOTO Jiichiro, widely recognized as the leader of the Eta (outcasts), and vice-president of the House of Councillors, is reportedly becoming a Japanese Communist Party (JCP) convert. Although the new Constitution legally removes the discrimination to which the Eta have been subject for centuries and they now have political equality, it would be naive to expect the age-old social and economic discrimination to have been completely discarded. MATSUMOTO, himself an outcast for the past two and a half decades, has been the recognized champion of the downtrodden Eta in their struggles for equality.

In the April 1947 general elections MATSUMOTO gained a seat in the Upper House as a Social Democrat and the Eta as a class voted the Social Democratic ticket. If he becomes a Communist, making a public avowal of his conversion and requesting his people to follow, most of the Eta would probably transfer their ballots to the JCP. The Japanese Government estimates Eta numbers at one million while they themselves claim three million. The JCP polled approximately one million votes in the April 1947 general election and, since the addition of the Eta to their ranks would be invaluable, the JCP has reportedly been making consistent efforts to convert MATSUMOTO to their doctrines.

KOREA

Loss of North Korean power is causing hardship but not chaos in South Korea at present. The stoppage will not immediately impair operation of South Korea's most essential services, but a sharp decrease in already low industrial production will be inevitable. Plans are in effect which will permit continuance of essential services and industries through August but these involve partial reliance upon stand-by thermal plants previously idle because of high operational expenses and lack of an adequate quantity and quality of coal. Moreover, the stepping-up of hydro-electric generation involved in these plans can be effected only during the summer months when rain will give the additional necessary water supply. A severe rationing program and careful use of limited coal stocks will permit South Korea to supply 60% of its current needs of approximately 100,000 kw. in June. After July bituminous coal imports of 20,000 metric tons per month will be required to maintain the production of 60% of requirements. The anticipated summer rains will raise the figure to 80-90% during July and August. It is to be noted, however, that Chong P ong, a hydro-electric plant now producing about 18,000 kw. and which is now undergoing repairs in order to step-up its generation, cannot be depended upon in the present emergency since it uses water from north of the 38th parallel which can be turned off by the North Koreans. North Korea also has the capability of cutting off water used for irrigation purposes in South Korea with a resultant adverse effect on South Korean agricultural areas adjacent to the 38th parallel.

There is nothing to compel the Soviet authorities to restore the power supply to South Korea. However, propaganda considerations could induce them to make the cut-off only temporary. If the power supply is



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restored, therefore, it will probably be accompanied by repeated explanations that the cut-off was directed only against the US occupation authorities and that sympathy with the plight of their suffering countrymen prompted the North Koreans to reverse their decision. It is apparent that the Kremlin is determined to take maximum advantage of the power situation as part of its presently-indicated campaign to assure that US withdrawal from Korea will be accomplished under the most embarrassing and chaotic circumstances. The path will then be open for rapid North Korean conquest and consolidation of the South. Adoption of an "all-Korean" Constitution by the North Korean People's Council on 29 April marked the completion of preparations for eventual annexation of South Korea. The presence of US occupation forces is now the only factor frustrating implementation of Soviet plans to dominate all of Korea.

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CHINA

Increasing Opposition to Chiang Kai-shek

There seems to be no prospect that Chiang Kai-shek will introduce any "A" reforms that might improve China's present critical situation and regain popular support for the National Government. The complexion of the National Government appears to be unchanged by the governmental reorganization now taking place. Rather than introducing into the Government liberal personalities inclined toward positive action, Chiang Kai-shek is apparently attempting to balance the opposition voiced through Li Tsung-jen's election to the Vice-Presidency by maintaining in the top government positions political figures upon whom he has relied in the past, despite their ineffective records.

The position of Vice-President has little constitutional power and Chiang will probably try to keep Li Tsung-jen from assuming any authority. Li, however, is following his progressive political campaign by the formulation of a reform program. Li's political advisor has indicated that if Chiang refuses to accept the plan, Li will force the Generalissimo into the background and take over the leadership of the Government. Li's movement appears to be gathering strength and a program for positive reform would undoubtedly command popular support.

Marshal Li Chi-shen's Kuomintang Revolutionary Committee now operating in Hong Kong also gives indications of being an effective source of opposition. This group is reported to have definite plans for overthrowing the Generalissimo and negotiating with the Communists for peace. Marshal Li reasons that any government responsible for ending civil strife would be assured immense popular support and that peace is necessary to stabilize the country and prevent the spread of Communism. It is rumored that Li Chi-shen's group is associated with the movement centering around Li Tsung-jen. Their combined forces might be able to force Chiang's withdrawal, which they both desire, since, as long as Chiang shows no indications of taking effective measures to handle the present crisis, the demand for new leadership will increase. However, in any political upheaval the process of disintegration will probably be accelerated at first and the initial advantages will therefore accrue to the Chinese Communists.

The tenor of Chiang Kai-shek's recent appointments is indicated in the "C" naming of an old reliable, Marshal Ku Chu-tung, to be Chief of Staff, succeeding General Chen Cheng. Marshal Ku, who has been Chief of the Army Ground Forces and concurrently commander of the Advance Headquarters at Haichou, is considered one of the most incompetent generals in the Nationalist Army. General Yu Han-mou, another of the Generalissimo's trusted but hardly qualified reliables, succeeds Ku.

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The return of General Roschin, new Soviet Ambassador to China, has "B" aroused speculation as to whether the USSR will now adopt a more positive policy than hitherto in Chinese affairs. There has been no Soviet Ambassador at Nanking since last June. General Roschin may renew talks with Chinese officials regarding a compromise settlement of the civil conflict, and it is possible that he may offer Soviet mediation. In addition it is likely that Roschin will undertake mediation of the current impasse in Sinkiang, and that this will be accepted by General Chang Chih-chung, top Chinese official in that province. No real progress has been made toward solving the deadlock in Sinkiang through the exchange of notes during the past eight months between Gen. Chang Chih-chung and the Ili Group. As minimum conditions for a resumption of negotiations, the Chinese demand return of Ili leaders to Tihwa; the Ili Group demands dismissal of Mesud Sabri as provincial Governor. Neither side will agree to the condition demanded by the other. So far, the exchange of notes has resulted only in keeping the situation open to discussion, and in forestalling resumption of large-scale warfare. Soviet mediation will probably result in further Chinese concessions to the Ili Group.

Financial Position Nationalist China. There appears to be little hope "B" within the government of arresting the deteriorating economy in the visible future. Among factors for this growing realization are: (1) effective US aid is still months off, (2) prices are advancing much faster (almost doubled during the past month) than the note issue, (3) government revenues are said to be only 40% of expenditures, which now amount to CN \$24 trillion monthly; first half 1948 budget of CN \$96 trillion is already exceeded, and (4) the discrepancy between the "open" and black-market exchange rates is ruinous to the export trade.

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[REDACTED] serious concern over the general economic and financial position of the government, and is considerably pessimistic over the US aid program in relation thereto. He said: (1) foreign exchange is completely exhausted except for working balances, and the Central Bank has been borrowing exchange from the Bank of China the past six weeks, (2) April note issue increased 40% over March, while the budgetary situation is "completely out of hand", and (3) the ineptitude, indifference, fear, and general low morale in high government circles have become much worse in the past three months.

PHILIPPINES

Quirino Government attempts to solve law and order problem. The new "A" Quirino administration, in a dramatic effort to establish its power and prestige, has reversed the stern policy of the Roxas administration toward dissident groups. The Government is currently negotiating for the surrender of Luis Taruc, leader of the Hukbalahap, and his followers, and has prepared an amnesty proclamation which the Philippine Congress reportedly is prepared to accept. Although neither the terms of the surrender nor the provisions of the amnesty are yet known and although serious obstacles could easily develop, the negotiations thus far represent a significant achievement. If a surrender is negotiated which will effectively reduce the number of firearms in circulation and if a reasonable amnesty is issued, substantial progress toward stability in the Philippines can be anticipated.

## SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

Economic Importance of Manchuria

Manchuria is almost unique among the areas of the Asiatic mainland in that, under existing conditions of technology and population density, it possesses a capacity to produce more than it consumes for current purposes -- that is, a capacity to create capital. In addition, Manchuria possesses an industrial plant which, despite Soviet removals, war destruction and deterioration, is valued at approximately US \$2.5 billion. Under favorable circumstances this plant could be increased to US \$6.5 billion within a decade, or four times as large as the total industrial plant in China proper in 1936, and half the size of Japan's 1936 industrial plant. "B"

Manchuria is of little direct economic importance to the US in terms of future trade possibilities. However, in terms of the future balance of power in northeast Asia, Manchuria is of somewhat greater importance to the US. Given a friendly China in control of Manchuria, US capital could utilize the economic potential of that area to develop China into an industrial power. On the other hand, Communist control of Manchuria would complicate the problem of economic recovery in Japan and provide the USSR with a trade weapon that could be used for political purposes in Asia. In addition, the USSR would acquire Manchuria's large agricultural surpluses, useful to the development of Eastern Siberia. It is considered unlikely, however, that the USSR could or would in the short-term future realize upon the Manchurian potential for industrial development.

*quote source*  
 (The Economic Importance of Manchuria to the  
 United States,  
 Dept. of State, OIR Report No. 4160,  
 23 January 1948. CONFIDENTIAL -US Officials  
 only. Distributed in April 1948.)

OFFICE OF REPORTS AND ESTIMATES, CIA 5/18  
FAR EAST/PACIFIC BRANCH 23 (1)

12 Jan 48

Weekly Summary  
30 December - 5 Summary

INTELLIGENCE HIGHLIGHTS -- WEEK OF 30 DECEMBER - 5

948

GENERAL

Rule on Government - government: Capital letter if refer to a specific regime, small letter if a type of government is involved.

Japan Peace Treaty

The Soviet Government replied to the Chinese note of December 5 on the Japanese peace conference by interpreting the Potsdam Agreement as making it mandatory that the (Soviet) prepare the treaty and by maintaining the position that the Moscow Agreement of 1945 especially stipulates that the Far Eastern Commission will not concern itself with the settlement of territorial questions, one of the important constituents of any peace settlement with Japan. Concession to the other nations which fought against Japan is allowed in the proposal that they might work on subcommittees and an informational consultative conference. Japanese Error by political parties have been spending a disproportionate amount of energy, Intell. and vocal power in discussing the Japanese peace treaty. Until recently, Control. political leaders have not only been expecting an early peace treaty but also hoping that Japan might be permitted to be present at the peace table. The political strategy appears to be that the Cabinet signing the treaty will then be able to claim Allied support for its domestic policies. (However, the intransigence of the USSR and the position taken by China make the feasibility of a peace treaty in the near future highly questionable.)

ABBREVIATIONS  
No punctuation necessary.  
CFM, FEC,  
USSR, etc  
are OK.

Control of UK occupation forces in Japan

Effective 1 January 1948 control of the UK occupation force in Japan was vested in the Australian Government and Australian service chiefs. The Chiefs of Staff committee, composed of representatives from the British, New Zealand, and Indian forces, will be dissolved, according to Acting Minister for Defense Drakeford.

Possible Australian labor ban on arms to China

The Australian Waterside Workers' Union is considering the imposition of a ban on loading of arms for the Chinese Nationalist Government.

NOTE: As rule of thumb, any item involving 2 or more FAR EAST countries should be sent to Intelligence Control for incorporation into GENERAL section.

*Margins - 13' - 87'*

~~SECRET~~

the Far East, like Europe, unite in the creation of a Cominform.

Reports from Nationalist circles assert that Communist leaders

Lin Hiao and Li Li-san have opened negotiations with the USSR for exchange of Soviet arms for Manchurian commodities.

Chiang Kai-shek, in his annual "State of the Nation" address on 31 December 1947, described the present Communist menace as coming "as much from without as from within". He declared that the main Red forces must be annihilated within a year, but admitted it would take years to clean up Communist remnants.

#### external affairs

The Chinese Ambassador in Moscow opposed a collective diplomatic corps protest over the new ruble exchange rate, and refused, as Dean of the Corps, to call a meeting with a view toward making such a protest to the USSR. The British Ambassador then agreed to take the initiative and was assured of support from the US Embassy.

Moscow's recent radio blast against the Kuomintang and the new Chinese Constitution represented the strongest attack yet made on the Chinese Government by an official Moscow organ, and, according to some sources in Hanking, reflects a change in tactics toward China on the part of the Soviet Government. Hitherto the Soviet-controlled press in China has maintained neutrality in comment on the Chinese civil war, while the radio and press within Russian borders has refrained from openly siding with the Chinese Communists or directly attacking the Generalissimo.

The Soviet Consul at Peiping has denied the report by the Chief of Staff of the Generalissimo's Peiping headquarters alleging Soviet military aid to the Chinese Communists. The Consul also repudiated the recent story of a Soviet-Chinese Communist agreement for military aid, and used the occasion to emphasize that the USSR recognizes only the Chinese National Government.

Economic - General note: CN \$26,400 billion; US \$296,000,000; "from CN \$84,000 to 90,000"

Finance Minister C.K. Yui, in a report to the Resident Committee of the People's Political Council on 3 January, stated that the National Government budgetary deficit at the end of the year 1947 was 26,400 billion Chinese dollars (or approximately US\$ 296,000,000 at the official "open market" exchange rate). He pointed out that China's foreign trade position showed some improvement in 1947 over previous years, but the unfavorable balance of last year amounted to 4,270 million Chinese dollars.

Currency. The US dollar on the Shanghai black market remained fairly steady the past two weeks, with money continuing tight in face of the demand for lunar New Year settlements. The BM rate was CN 152,000 on 2 January compared with 135,000 of a month ago. The "open" selling rate was increased on 30 December from CN 84,000 to 90,000.

Prices. The general cost of living index for December 1947 reached 66,200 compared with the basic year 1936, an increase of 22% over

November. For the period of 24 to 29 December inclusive an increase of 2.7% was reported in general index of wholesale prices of basic commodities, with food and building materials making the greatest gain.

Foreign Trade. Reports from Nanking on 27 December reveal that the State Council has approved a measure to increase import duties by 50% effective 1 January, on all commodities except cotton, rice, wheat flour, gasoline, kerosene, and diesel oil. This is another round in increasing budgetary revenue, which, if trends continue, will be offset by increased expenditures because of rising prices.

Budget. The State Council is reported to be studying a CN 90 trillion budget for the first half of 1948; a huge sum compared with the CN 4.3 trillion set up for the 1947 budget.

Views on Economic Conditions by Foreign Minister Dr. Tang Shih-chieh. Dr. Tang reports that the Cabinet feels only a stabilized currency can improve the economic situation; that military expenditures cannot be reduced and that increased taxes are ineffective against constantly depreciating currency. He agrees that stabilization of the currency alone would be insufficient, and must be accompanied by adequate improvements and reforms in other fields. Concerning US aid to China, Dr. Tang has raised no objection to the inclusion of those reservations included in aid plans now in effect or being prepared for Europe. (FE/P comment: general unstable currency and inflation are results, not the basic cause of China's present economic ills.)

→ OK. "FE/P estimates, believes, etc." for all division opinions."

Transportation: Railroads. According to recent information the railway situation China worsens in the face of continued Communist offensives. Between 50 and 60% of all rail lines are now disrupted. The only lines which have consistently remained open are the Shanghai-Nanking line, the Canton-Hankow and the line in Communist territory from Lanchouli to Suifenho in Manchuria. The railway from Tientsin to Chinhuangtao was open on 2 January after having been almost constantly inoperable since 10 December, but further breaks are expected. In most cases ties are burned and rails are removed which makes repair almost impossible. No double-tracked lines are consistently in service in China since rails from one line have been removed to repair the other.

UNRRA Fish Catches. The government appears reluctant to intervene in the Shanghai fish market dispute over UNRRA's efforts to increase catches and bring prices down in opposition to the fish monopoly who wish to reduce catches and keep prices up. The question is just how far will the government go in bucking the powerful vested fishing interests. (Re FE/P Weekly 22 December 1947).



SIAM

The Siamese provisional government last week proclaimed the repeal, by Royal decree, of the emergency powers held by the Army since 20 Nov 47. These emergency powers had enabled the military to make legal house-searches and arrests in order to insure the preservation of peace and order and to forestall possible counter-coup activities. The announced reasons for the repeal of these powers were that the present regime is now free from attack, that peace and order is established, and that the Police Force is capable of handling the present situation.

W/A Branch feels that this proclamation was issued probably for either or both of two objectives: (a) to remove grounds for opposition charges that the Army has too much power and is in a position to control the elections at the end of January, and (b) to win foreign recognition by creating an aura of responsibility and tranquility about Siam and the present regime. If the latter objective is achieved, the opposition groups, in attempting to stage a forceful comeback, would be placed in the role of rebelling against a stable and duly recognized Government. As the situation exists at present, a successful return to power by the opposition would negate the question of recognition since foreign recognition of the Thamrong Government continues.

BURMA

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Burma became a sovereign independent republic, known as the Union of Burma, on 4 January at the precise moment ordained by certain Buddhist astrologers, after some disagreement, to be the most auspicious for Burma's future. Burma enters into independence with the most honest Government in its history, enjoying the support and assistance of the UK, but nevertheless beset with several difficult problems. The major problem is the establishment of a strong central Government and effective administration under a constitution, the provisions of which permit the formation of almost any type of Government. The realization of anything approaching good Government depends, to a large degree, upon the continued internal cohesion of the Anti-Fascist League, the dominant political organization in Burma. Friction within the AFL has been reported on several occasions since Aung San's death, and its disintegration would lead to chaos throughout the country. The development of effective administration is handicapped by the shortage of qualified administrators which will continue as long as Burma's educational system continues to deteriorate. Lawlessness is still rampant and unchecked in various parts of the country, often instigated by dissident personalities and political factions - notably the Communists. Minorities, both foreign and indigenous, pose another serious problem. Although most of these ethnic groups have made an uneasy truce with the predominantly Burmese Government and have accepted the constitution, tension continues, particularly among the Karens.

Suggest "with the Government (which is predominantly Burmese)"

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BURMA

SECRET (continued)

Economically, the country has made slow but steady progress towards rehabilitation, except in areas most affected by lawlessness, and is now almost able to pay its own way with receipts received largely from the export of rice. The Government's policy, avowedly leftist, is the socialization of land and industry. Despite considerable talk of drastic measures, it appears that socialization will be carried out gradually, legally, and by the payment of compensation for expropriated property.

It is essential therefore that the AFL, which sponsors the current Government, maintain its present unity and integrity at least for the next two years, if Burma is to become an economically and politically stable nation responsible for its internal tranquility and international reputation.

AUSTRALIA

SECRET

FLC negotiations with Australian Government. The US Foreign Liquidation Commission representative, Sydney, has reported that the Australian Commonwealth Government requests immediate occupancy and use of US Navy facilities in the Manus area. A representative of the Commonwealth Government expects the purchase price to be a token figure without regard for the original investment. The FLC representative reports further that he has been unsuccessful in obtaining favorable Australian reaction to a one- parcel deal involving New Guinea installations, British Lend-Lease surplus and Manus. The Commonwealth Government maintains that any such deal is a favor to the US and has indicated that it is prepared to exert any means necessary to settle on its own terms. Currently the Australian Government has indicated an intention to withdraw any interest in Manus if terms are not accepted, in which case it may publicly cite the "unreasonable" US demands as making its plans for Manus impossible. While recognizing the political advantage of acceding to their request regarding Manus, the FLC representative has recommended that a price be set on a take-it-or-leave-it basis.

Suggest avoiding use of variations that might confuse quick uninformed reader.

Good-will mission to India. At the request of the Indian Government, Australia is sending a scientific good-will mission to India which is expected to arrive in January. Its function is to report on scientific developments in Australia and the application of science to natural resources. It is probable that the use of atomic energy will be one of the topics of discussion. The importance of the mission is indicated by the caliber of men composing it, most of whom are leaders in the fields of Physics, Industrial Chemistry, Agricultural research, and Electrical Engineering.

Economic. An interesting effect of the dollar shortage is the impetus given to Australia's export trade and manufacturing industry. Increased production at lower costs is necessary to enable Australia to compete in the dollar market. The Government is considering restrictions on home consumption in order to take advantage of export opportunities.

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-4-

AUSTRALIA

XXXXXXXXXX (continued)

Domestic prices are expected to rise somewhat in 1948. The 40 hour work week, (instituted 1 January), the abolition of federal subsidies, and the rise in overseas prices are contributing factors.

NEW ZEALAND

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Military. Plans for the post-war Air Force envisage maintenance of five squadrons comprising 4,000 regular officers and men together with 2,000 non-regular personnel. Total cost when the force is fully established is estimated at 4,500,000 pounds a year. The plan has been approved by the Defense Council and enabling legislation is now being prepared.

PHILIPPINES

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Reactivation of Philippine Constabulary. Of considerable importance, in view of continued reports of possible major disturbances in the Philippines, has been the reactivation of the Philippine Constabulary on 1 January as scheduled with the former Chief of the Military Police Command, Brig. Gen. Mariano Castaneda, as its head. While it is not now considered likely that Castaneda will be involved in any overt move against the Roxas administration it has been established that a strong feeling of mutual distrust exists between President Roxas and Castaneda. This situation tends to weaken President Roxas' ability to deal effectively with the problem of law and order at a time when dissident elements continue to threaten and will probably result in rather adroit shifting of top personnel in both the Constabulary and Armed Forces.

~~SECRET~~