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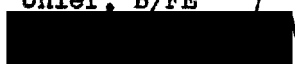
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FAR EAST/PACIFIC BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 58
6 JULY - 12 JULY 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Chiang Kai-shek and Philippine President Quirino, meeting in the Philippines, a Pacific Union (p. 2).

Not recommended

Recent Communist-inspired demonstrations against mass dismissals have failed to win public support. Japanese efforts to exploit the political repercussions of the mass dismissals may be expected to place considerable pressure upon SCAP especially if lack of improvement in economic conditions results in a reversal of public antipathy towards the Communists anti-Yoshida offensive (p. 3).

People's Army continues troop concentrations in border area (p. 4).

In China CCP Chairman Mao, in explaining his concept of a "democratic dictatorship", told the Chinese people that they would soon be living under a police state and that China would follow the path of the USSR (p. 5). The beating of a US consular official in Shanghai was the latest manifestation of anti-foreign feeling in that city; anti-foreignism has now developed into a struggle between local Communist authorities and the US Consulate-general (p. 6).

Republican leaders, recently returned to Jogjakarta, are improving their position (p. 8).

Bao Dai's weak cabinet and failure to visit Hanoi further depress his chances of success (p. 8).

New Phibun Government is encountering considerable opposition in Parliament to a vote of confidence (p. 9).

The Marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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- 2 -

SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Sino-Philippine statement recommends Pacific union.--On 11 July, Philippine "A" President Elpidio Quirino and Generalissimo Chiang Kai-shek, in a joint statement, recommended the formation of a Pacific union to "contain and counteract" Communism. The statement was issued following two days of talks at Baguio, in the Philippines, to which Chiang had flown at his own request to discuss Sino-Philippine affairs and relations of the two countries with other Pacific nations. According to press reports, Chiang and Quirino agreed in their conference that the Philippines, China, and the Republic of Korea will form the nucleus of the proposed union and that representatives of other Pacific countries, including the US, should be invited to participate in a preliminary international conference to consider aspects of its formation. Since independent attempts to obtain definite US commitments have been unsuccessful, the three principals apparently hope to exert pressure upon the US through a collective approach.

A Pacific pact was first proposed in Australia last March. The proposal was further stimulated by President Quirino later the same month when he urged the US to "take the lead in the Far East and not concentrate her entire attention on Europe." President Rhee of Korea almost immediately echoed the idea. The US, upon whom the ultimate success of the plan rests, clearly indicated last May that it was not considering a defensive pact for the Pacific along the lines of the Atlantic Pact. However, the US has expressed more recently "every sympathy with and interest in efforts of peoples of the Pacific area to develop close cooperative relationship and to move toward common counsel and mutual assistance on the vital problems of the area." Without US support, a Pacific union would probably develop into a pressure group expending its efforts at obtaining US aid rather than pressing toward positive achievement within the limits of its own strength.

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JAPAN

Political Repurcussions of mass dismissals accentuated--Recent Communist-inspired demonstrations against the Japanese Government's mass dismissals have failed to win public support. The first political assassination since the end of the war coming on top of scattered violence has tended to alienate public opinion despite sympathetic mass opposition to the occupation-required dismissal program which violated the custom-based paternalistic pattern for avoiding large-scale unemployment. Every political group in Japan from extreme right to extreme left may be expected to exploit, at the expense of the occupation, the forthcoming dismissals expected to total close to 170,000 by the end of September. "B"

Leading the drive on the right is the conservative party of Premier Yoshida which sees on the labor unrest aggravated by the mass dismissals an opportunity to unite conservative forces in Japan on the basis of anti-communism and to consolidate conservative political power through the strengthening of central government authority especially in police matters. To the extent that such steps promote increased governmental stability in the short run, the Yoshida Government may expect to win eagerly desired independence from SCAP control and modification of SCAP instituted reforms.

Both the center and the left are basing their political strategy on attacks on the Yoshida Government. In the face of occupation responsibility for measures unpopular with trade union elements, the center parties have little choice but to attack both the conservatives and the Communists. Such tactics are likely to heighten the factionalism evident within these parties and by hastening the probable rupture between right and left, further weaken the influence of the center.

On the extreme left the Communists may be expected to time future movements to maximize the effects of the coincidence of the mass dismissals this summer and the Soviet return of Japanese PW's, many of them converted to Communism. Furthermore they may be expected to utilize alleged government repression to maintain pressure for the formation of a joint front of left wing political and labor organizations.

In view of the unlikelihood of an early amelioration of widespread economic hardships in Japan, some reversal of present public attitudes towards the Communists' anti-Yoshida offensive is not improbable. In such an event, the capabilities of the Japanese Government to meet labor resistance to the reduction-in-force provisions of the stabilization program without additional SCAP assistance may be in question. SCAP may then be faced with the following alternatives: (1) to permit strengthening of internal security organizations at the risk of discrediting post-war police reforms, (2) granting additional funds directly allocatable to work relief projects, or (3) both. Pending attainment of goals of Japan's

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- 4 -

economic recovery, not likely in the foreseeable future, the cost of maintaining an orientation to the US may be expected to remain high.

KOREA

Peoples Army Troop Movements--Recent reports indicate that the People's Army is continuing to move into positions closer to the 38th parallel. Headquarters of the Second Division is believed to have moved from Hamhung down to Wonsan on the east coast with subordinate units deployed further south along the Wonsan-Seoul corridor. Reported movement of elements of the Third Division from the northeast port of Nanam to Hamhung may indicate the entire Division will come south to positions vacated by the Second Division. On the west coast, Headquarters of the First Division reportedly moved in May from Pyongyang to Sariwon, only 30 miles north of the border. "E"

Although some of these movements are not confirmed, they are logical steps in further consolidating People's Army administrative and tactical control of the border area. With the People's Army moving into closer support of the North Korea Border Constabulary along the parallel, the prospect of major border incidents is increasing and it is probable that Peoples Army troops may join with the Border Constabulary in border battles against Republican troops in the early future.

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- 5 -

CHINA

Chairman MAO outlines his Police State. MAO Tse-tung, Chairman and "A" recognized leader of the Chinese Communist Party (CCP), in a 1 July article celebrating the 28th anniversary of the founding of the Party, explains the concept of "democratic dictatorship," and informs the 450,000,000 people of China that, for their own good, they will be living under a rigid police state. MAO's article, composed in the logging didactic style of Comrade Stalin, is apparently addressed to an unindoctrinated audience ("young comrades who have just joined the Party and have not read Marxism-Leninism"), and is as orthodox as if it had been written in the Kremlin. There are, however, five references to "world Communism," a prospect which Soviet spokesmen are too tactful to mention.

MAO promises, of course, that the State will eventually "wither away," but that, until the advent of "world Communism," every effort must be made to strengthen it, especially its instruments of coercion and punishment. MAO admits that the charge of the opposition--"You are dictatorial"--is correct: "Yes, dear gentlemen, you are right; we are really that way." The "democratic dictatorship" is a dictatorship of "the people" over the "reactionaries." It is, of course, the CCP alone which determines who are "the people" (those supporting the CCP) and who the "reactionaries" (those opposing the CCP). This dictatorship, which must safeguard the revolution so long as it is threatened by "imperialism, domestic reactionaries, and classes," takes as its first task that of "strengthening the people's state apparatus," particularly the "people's army, people's police, and people's courts." MAO also suggests the fate of uncooperative and unrepentant "reactionaries"--concentration camps and slave labor.

Throughout his article, MAO reaffirms the CCP's fidelity to Moscow, acknowledging the CCP's debt to Marx, Engels, Lenin and Stalin, and commiserating with those Chinese scholars who "sought truth in the West" but were disillusioned by "imperialist aggression"; this is also a warning to pro-Western Chinese intelligentsia. MAO admiringly traces the growth of Soviet power, credits the USSR with being the "main force" in World War II, and states that the postwar policy of the US confirmed the CCP in its decision to unite its forces with those of the USSR, its satellites, and Communist Parties everywhere. MAO repeats the frequent assertions of CCP leaders that there is no "third road," that one must join either the forces of "imperialism" or of "socialism," and, probably in preparation for a more active and open Soviet role in China, explains that the revolution in China could never have succeeded without help from those "international revolutionary forces" to which the CCP has bound itself.

Turning to China's economic problems, MAO correctly foresees a "grave problem... (in) educating the peasantry" to accept collectivization; nevertheless it will be done, because, as the USSR discovered, it is essential for "complete and consolidated socialism." MAO admits that China at present "depends on foreign countries economically," but, perhaps anticipating an effort by the West to exploit that weakness, dismisses as "childish"

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- 6 -

the notion that the CCP program for China cannot succeed without US-UK aid or that disinterested assistance from such sources is conceivable. The alternative, for China, is to follow the path of the USSR, i.e., for the State to extract the maximum surplus value from every element of Chinese society. That is what MAO proposes: "The Communist Party of the USSR is our best teacher."

Communist Anti-foreignism--The recent arrest and three-day detention "B" of a US consular official by Shanghai police, during which time the American was "utterly beaten," climaxes a series of recent anti-foreign manifestations. Since shortly after its capture, Shanghai has been the focal point of anti-foreign incidents which have been highlighted by Communist-tolerated coercion of foreign businesses by labor groups out for profit and to settle old grudges. However, with the beating of a US official by Communist police, the anti-foreignism which the Party encouraged but in which it was not directly involved and could later disclaim, spilled over to include Communist officialdom and became, thereby, a Party responsibility. The Party press and radio have thus far been media through which anti-foreign feelings were spread: e.g., when the British vessel, Amethyst, was shelled in the Yangtze, the Communist press and radio charged the British had opened fire on Communist troops after "intruding" (without Communist permission) upon China's "great inland waterway" and promised that the Communists would always protect the "territorial sovereignty" of the country. The more recent arrest of the US Consulate-general official was represented to the people of Communist China as indicative of Communist intolerance of "imperialist provocative actions" by foreigners who treat the Chinese with "arrogance, roughness or slight." The Communists have publicized apologies and confessions by foreigners accused of wrong doing; devices aimed at the domestic propaganda market with success. As a matter of fact the Party may have been a trifle too successful in turning the attention of the people outward, and has touched off a series of incidents over which it no longer can exercise firm control. Since the Communists are now themselves involved, they must either carry the campaign to its logical end and drive all foreigners out of Shanghai, which they probably wish to avoid, or modify their approach and attempt to re-create at least a temporarily tolerable atmosphere for foreigners. They will probably choose the latter, since no parallel should be drawn between the Shanghai incidents and the ill-treatment of US consular personnel (perhaps even worse and certainly of longer duration), which has been encountered in Mukden and Dairen, for there the Communists probably do desire to drive the US out.

CCP MONETARY DIFFICULTIES

By giving the Peoples Bank Notes certain attributes of commodity currency, "C" the CCP hopes to maintain public confidence in the monetary system of the Communist government. The objective of Communist measures is to

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- 7 -

assure the public that the value of savings will not be impaired because of currency depreciation. Money deposited in banks as savings is credited to the account of the depositor in terms of the currently prevailing price level. When the savings are withdrawn, the depositor receives an amount equivalent in purchasing power to his original deposit. In other words, if the index of commodity prices rises two-fold, the saver is entitled to withdraw twice the amount of PEN he originally deposited. In Shanghai, the index for calculating purchasing power is based on the prices of rice, cotton yarn, vegetable oil, and coal briquettes.

An attempt is also being made to maintain the purchasing power of wages. Labor contracts that are currently drawn in Shanghai, for example, provide for wages fixed in terms of rice equivalent. As the price of rice goes up, so does the money wage received by the worker.

The monetary innovations of the CCP have thus far proved ineffective to prevent a substantial inflation. In the last week of June, the price of rice in Shanghai doubled; the black market quotation for US dollars went up by about 50 percent. Thus, with trade in the community at a virtual standstill because of the Nationalist blockade, and with working crews that they may not lay off without incurring exorbitant severance pay expenses, business firms must dissipate working capital to meet labor costs that keep soaring with every increase in the price of rice.

The current CCP experience indicates that price inflation remains a formidable problem to plague Chinese governments despite measures to maintain purchasing power parity. The evidence of the PEN depreciation suggests that the Communists, like the Nationalists, have been meeting government deficits by resort to the over-issue of paper money. Commodity shortages, in part because of the Nationalist blockade, have also been contributed to the sharp price rise. Until the restoration of peace and the attainment of political stability, the CCP will no doubt continue vulnerable to the serious psychological and economic handicaps of a deteriorating currency.

"g"

CHIANG resumes Nationalist leadership--CHIANG Kai-shek's self-initiated, secretive journey to the Philippines and his conferences with President Quirino on a Pacific Pact and Sino-Filipino cooperation strikingly demonstrate his return to leadership of Nationalist China. Although CHIANG's mission was technically unofficial, it marked a new and significant tactic in China's search for foreign aid. CHIANG's trip to Baguio, following his recent participation in an important military conference in Taiwan, heralds his resumption of an overt dominant role in Nationalist China and the virtual termination of LI Tsung-jen's national influence. CHIANG probably will visit Canton shortly to direct personally Nationalist policy in his capacity as Chairman of the projected Kuomintang Emergency Policy Committee.

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INDONESIA

Republican position improves—Internal political tension in Republican circles has eased considerably within the last few weeks. This improved situation is evidenced by the fact that no serious incidents have been reported since the Republicans took over Jogjakarta Residency from the Dutch on 30 June and by the enthusiastic welcome by the populace of Jogjakarta accorded Sukarno, Hatta and other Republican officials upon their return from Bangka on 6 July. "B"

The Republican cabinet has already met and is considering approval of commitments made by the Republican delegation recently at Batavia. Serious differences of opinion within the cabinet seem less likely now that Sjafruddin and other members of the Republican "Emergency Government" have returned to Jogjakarta from Sumatra and are prepared to relinquish their emergency powers. Any real opposition to the government is expected to come from the Indonesian Communist Party (PKI), which has increased considerably in numbers and prestige since the Dutch "police action" began in December 1948.

INDOCHINA

Bao Dai's position weakening—On 1 July, two months after his return to Vietnam, Emperor Bao Dai finally announced a government for his new state. He will serve as both Chief of State and Prime Minister, while General Xuan, president of the Provisional Central Government since June 1948, will act as Vice Premier and Minister of National Defense. The influential Vietnamese editor of "Echo du Vietnam" has been appointed Foreign Minister. The Interior portfolio is temporarily reserved to Bao Dai because, as yet, a minister has not been selected to fill this position. He may be holding the post open for a member of the resistance. The other cabinet officials, chiefly undersecretaries, are either technicians or representatives of minor parties and religious groups. "B"

Reaction in French-controlled areas to these appointments has been primarily one of "wait and see" in South Vietnam and disappointment in North Vietnam. While one representative French official expressed fear that there were "too many anti-French ultra-nationalists" included, most Vietnamese feel that the majority of the cabinet officers, whose talents and influence appear questionable, are not the leaders required to attract the non-Communist nationalists from Ho Chi Minh. There have been indications, also, that some of the ministerial posts were announced without the permission of the appointees. From the Ho Chi Minh-controlled zone the resistance radio broadcast an expected diatribe describing the "sullen mixture of puppets" and "third-rate lackeys" who have emerged as a result of the efforts of "French imperialism."

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- 9 -

Bao Dai's position may have been further endangered by the continued postponement of his projected official visit to Hue and Hanoi, where "the deterioration of the newly erected triumphal arches by action of the tropical sun and rains since the date originally fixed is probably symbolic of a similar deterioration of whatever Bao Dai sentiment then existed." It is becoming evident that whatever psychological benefit could have been derived from an early visit by the Emperor has now been lost.

The cool reception accorded the announcement of Bao Dai's cabinet and his diminished prestige in the Hanoi area are additional indications of the tremendous task to be accomplished by the Emperor. His chances of success, therefore, remain fairly remote under existing circumstances.

THAILAND

Phibul Government sharply criticized--The new Thai Government, formed 28 June, is encountering extensive critical debate in Parliament from the opposition Democrat Party prior to a vote of confidence. Apparently opposition tactics are intended to capitalize politically through radio broadcasts of the Parliamentary proceedings. The Democrats, led by ex-Premier Khuang, are devoting the weight of their attack on army and police interference in politics, upon misuse of army appropriations, and upon the wide-spread favoritism of the Phibul regime. Khuang has told Premier Phibul, who is bearing the brunt of the opposition's attacks, that a detailed reply to questions concerning army appropriations is a prerequisite to a vote of confidence. "B"

When the new Government came before Parliament for approval, the opposition successfully defeated a move to consider the cabinet as a unit and embarked upon a ministry by ministry examination. It appears that the debate will continue for several more days if other ministries are subjected to the same lengthy criticism as have the Defense, Interior and Education Ministries. It is believed, however, that the opposition is not prepared at present to record a vote of non-confidence in the Phibul Government despite mounting popular and Parliamentary dissatisfaction. Presumably, the military clique supporting Premier Phibul is considered by the Democrats to be too firmly in control for the latter to risk harsh retaliation for a Phibul defeat in Parliament.