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FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 53  
25 May - 31 May 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

While the USSR proposal of Japanese peace treaty discussion before the CFM offers ammunition to the Japanese Communist Party, the reaction of conservative Japanese elements has been unfavorable (p. 2).

The puppet regime of northern Korea, playing on Republican fears of the growing power of Communism in Asia, is sponsoring a "unification" drive. Thus far, response from southern Korea is limited (p. 2).

Some five weeks after the initial Yangtze crossings, the Chinese Communists have crowned their conquest of the valley with the capture of Shanghai. Failure to destroy Nationalist forces in the area, however, has kept their victory from being complete (p. 3). Meanwhile, the escaping Nationalist defenders have scorched or removed many of the valley's port and transportation facilities (p. 4).

A difference of opinion between the French and Bao Dai's Vietnamese supporters regarding implementation of French agreements with the ex-Emperor may delay establishment of the provisional government (p. 6).

Jose Laurel, Nacionalista candidate for presidency of the Philippine Republic, has outlined his intended campaign platform (p. 7).

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

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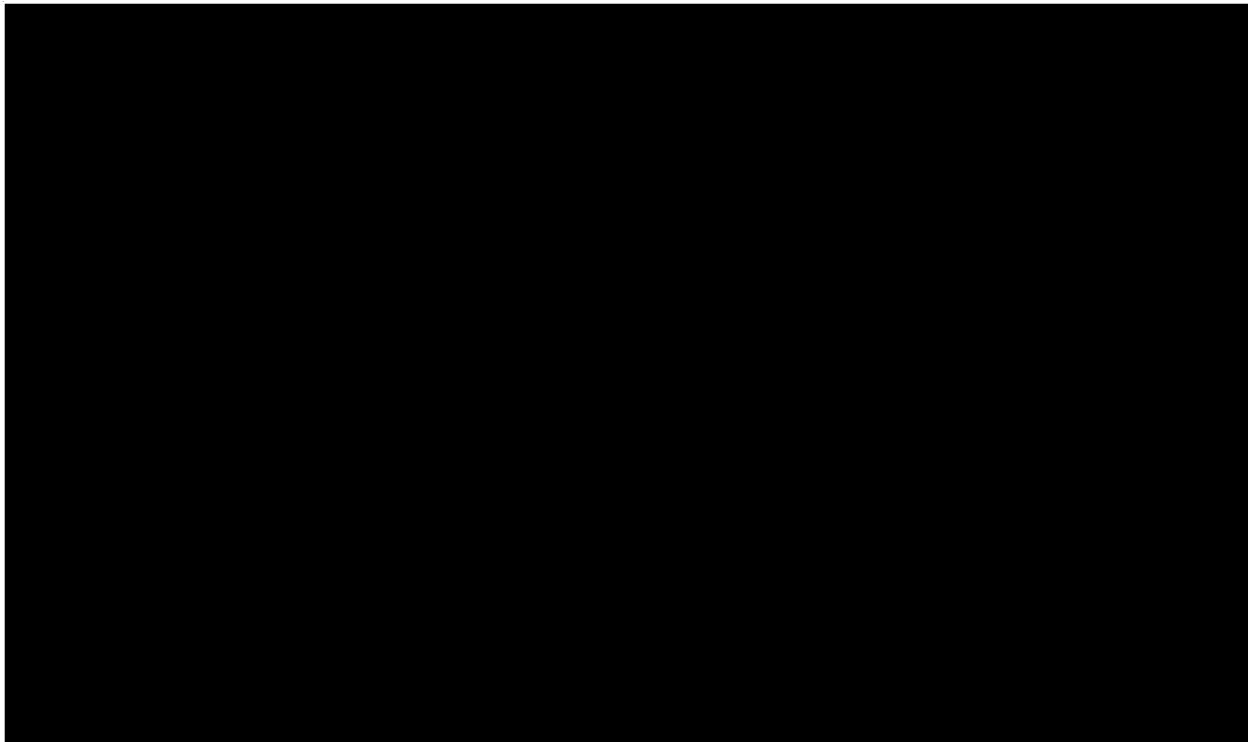
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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

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KOREA

Northern regime promotes "unification" front--On 17 May, Radio Pyongyang "B" broadcast a proposal from various southern Korean political and social groups for a joint North-South conference of political groups for the purpose of promoting unification of Korea. The proposed meeting was held subsequently in Pyongyang on 25 May and officers were named to draw up a program for the preparation of an inaugural convention of the "Democratic Front for the Attainment of Unification for the Fatherland." This program is to be submitted to the second meeting of the preparatory committee early in June.

Following the completion of US troop withdrawal from southern Korea during the next few weeks, the pressure of rising Communist power in Asia will be increasingly felt by the leaders of the Korean Republic. The northern puppet regime may well be anticipating an increased willingness on the part of southern politicians to make their peace with

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with the north through the convenient instrument of a "unification front." This latest Communist-sponsored front movement is probably designed as an opportunistic vehicle for southern Koreans who may wish to board the northern Korean bandwagon. At present, the movement is receiving support in southern Korea only from the underground Communist front organizations. Both Kim Koo and Kim Kiusio, who went to Pyongyang in 1948, have issued statements characterizing it as a Communist fraud.

#### CHINA

Military Situation--With the occupation of Shanghai on 25-26 May, the Chinese Communists completed their current offensive in the Yangtze valley. Within 36 days after initial crossings, they occupied Nanking, Hangchow, Hankow, Nanchang and Shanghai, thus securing all of the valley's large cities with the single exception of Changsha. The Communists failed in another major objective, however; they were unable to neutralize the Nationalist forces defending the valley. "A"

Shanghai: After being delayed temporarily by an unexpected Nationalist defense in the northern section of Shanghai, the Communists outflanked the lightly-held Government positions north of Soochow creek, forced their capitulation and completed the occupation of Shanghai. Meanwhile, other Communist units drove west across the mouth of the Whangpoo River to occupy Woosung and cut the Nationalist retreat route. This move came too late, however, to prevent the escape of large numbers of Nationalist troops, who joined the Nationalist evacuation fleet moving south toward Taiwan and Fukien, after destroying military supplies and installations.

South China: PAI Chung-hsi, who was not subjected to a direct attack at Hankow, was able to move almost his entire force south from the Yangtze towards Kwangsi, his home province. The Communists continued to follow cautiously in his wake, but so slowly that it appeared PAI would reach defensive positions near the border of Kwangsi before they overtook him. PAI is expected to fight in defense of his native province when the Communists finally move into position to attack. Further east, Communist General LIU Po-cheng's troops were quiescent in southern Kiangsi and northwestern Fukien for a second week. Nationalist claims that they had reoccupied Nanping, 85 miles upriver from Foochow in Fukien were countered by Communist accounts of successes further to the north where Ningpo, an old treaty port in Chekiang, was reported taken.

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Northwest China: Despite conflicting reports, it now appears that the Communists have, in fact, occupied Sian, the capital of Shensi, and that the Nationalist troops of HU Tsung-nan have withdrawn southward. A Peiping report states that PENG Teh-huai will be joined by NIEH Jung-chen in an offensive in this area. It is as yet unclear whether the eventual direction of this strengthened Communist force will be south to Szechwan or west into Kansu.

Nationalist Demolitions:--Not since the Soviet sack of Manchuria has China suffered war damage as extensive as that of the past fortnight in the Yangtze valley. Retreating Nationalists destroyed or removed port and transportation facilities as well as river and ocean shipping. They scorched the largest shipyard in the Far East, Kiangnan dockyard in Shanghai. Warehouses, wharves and oil-storage tanks in lower Pootung were also damaged by shell fire. "B"

The destruction inflicted on the Nanking railroad station and adjoining piers and ships in the latter part of April was the first indication that the Nationalists would not abandon the Yangtze area in the same quiet manner as in North China and Manchuria. On 16 May, the port of Hankow was reportedly crippled by the destruction of most of its facilities when 24 vessels were scuttled in the harbor.

Shanghai, however, suffered the most. Destruction of the Kiangnan dockyard, on 22 May, eliminated facilities capable of building some 100,000 tons of shipping a year and repairing hundreds of small vessels. Many ships in the Whangpoo River were burned, scuttled or cast adrift by the Nationalist defenders. In addition, the Nationalists reportedly destroyed military installations at and around the Kiangwan airfield as well as shipping facilities at Woosung, near the mouth of the Whangpoo. The Nationalists seemed primarily interested in preventing the Communists from inheriting intact the extensive shipping, port facilities and military supplies in the Yangtze area and little effort was made to destroy large factories and utilities.

Local currencies to replace G. Y. --The variety of currency in non-Communist China today reflects the fragmentation of the economy that has followed the disintegration of central authority. Since the gold yuan has become almost valueless, local areas have been left without an adequate medium of exchange and are now taking upon themselves the task of creating a new circulating medium. If the present trend of events continues, each non-Communist province will have its own monetary unit and trade between provinces will be handicapped both by the lack of uniform currency and by provincial efforts to maintain the value of local currency by prohibiting the export of specie. "C"

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In the southwest, delegates from Szechwan, Sikang, Kweichow and Yunnan are meeting to consider plans for political and economic autonomy. Plans for exclusion of the gold yuan, establishment of a joint treasury for the area and issuance of a silver certificate currency have been discussed.

Meanwhile, as a temporary measure, individual municipalities are contemplating issuance of local currency. In Chungking, the mayor is backing a plan for the municipal bank to issue silver notes against deposits of silver. In Foochow, the Chamber of Commerce is reported to have issued a local currency with silver backing.

In Sinkiang, silver has been replacing depreciated paper currencies. Because of its scarcity, however, silver alone does not provide the province with an adequate circulating medium and the banks have supplemented the circulation of silver by issue of silver notes, purportedly redeemable in specie on demand. To prevent a drain of specie from the province, a ban has been imposed on the export of silver. To the extent that this ban can be maintained, trade between Sinkiang and other regions will tend to fall into a barter pattern.

It is unlikely that provincial and municipal silver notes can long circulate at face value. The banks do not have large enough silver reserves to provide the basis for any considerable circulation of paper money. The inability to muster sufficient reserves derives from two factors; first, the scarcity of the metal in the provinces and second, the extraordinarily high reserve ratios which are now necessary if the paper currency is to maintain its face value. In fact, with the present low ebb of confidence in the stability and security of local government, it is doubtful that a reserve ratio of much less than 100 percent would be adequate to maintain the face value of such currency.

#### NEWS NOTES

Cabinet falls--Resignation of HO Ying-ohin and the attempt at appointment of CHU Cheng, colorless Kuomintang elder, as HO's successor mark a further weakening of the Nationalist political structure. Although HO may remain as minister of National Defense, his resignation as Premier evidences his unwillingness to continue at the head of a hopelessly feeble and divided administration. Nomination of seventy-two-year-old CHU, former President of the Judicial Yuan, indicates virtual exhaustion of Acting President LI's political resources. Meanwhile, right-wing Kuomintang leaders continue their efforts to restore CHIANG Kai-shek to open control of the National Government, possibly through creation of a new policy-making

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body which might give some appearance of Kuomintang unity. CHIANG still remains somewhere in the Taiwan-Foochow-Amoy district, however, apparently awaiting the further loss of prestige which LI's regime will suffer when it flees Canton. At that time, CHIANG may heed the pleas of his closest associates and resume presidency of whatever remains of the Nationalist regime.

USSR curtails activities--During the past weekend, the Soviet Consulate in Shanghai was closed, activities of the Shanghai office of the official Tass News Agency were suspended and Ambassador Roschin, only top diplomat to follow the National Government to Canton, departed for Hong Kong en route to the USSR.

INDOCHINA

Division over Auriol-Bao Dai agreements--A conflict of opinion has arisen between officials of the French Overseas Ministry and the Vietnamese who are supporting Bao Dai as to ratification of the 8 March Auriol-Bao Dai agreements by the French Government. According to the Vietnamese Governor of Tonkin, Bao Dai will remain officially inactive until after formal French approval of the agreements, an action which the Vietnamese anticipate at an early date. In contrast, officials of the Overseas Ministry in Paris have indicated that the agreements will not be submitted to the French Assembly for approval, but will serve instead as the basis for negotiation of a formal treaty.

"B"

The French timetable for implementation of the Bao Dai experiment is based on the theory that the ex-Emperor did not sign the agreements as a chief of state but merely as the "most representative element of Vietnam." Thus, officials in Paris do not wish to "impose" these "informal" accords upon Vietnam before a "freely-elected" government has been established. Instead, they wish Bao Dai to create a "provisional government" which will operate until the formation of the French-envisioned "popular" government. At that time, consideration will be given to a permanent treaty incorporating the June 1948 Baie d'Along pact, the 8 March agreements and supplementary conventions treating with details. The target date for completion of this treaty is 31 December 1949. It is stressed that France considers an enlargement of its 8 March concessions a distinct possibility.

Latest reports from Bao Dai's secretariat indicate he will announce a small provisional cabinet soon after final French Assembly approval of a bill permitting unification of Cochinchina with Tonkin and Annam. However, Bao Dai's plans seem to be based on the expectation of early ratification of the 8 March pact as well. They may possibly be deferred indefinitely when it becomes apparent to him that the French schedule does not include this ratification.

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PHILIPPINES

Nacionalista platform to be dictated by Laurel--Shortly after his selection as the Nacionalista Party nominee for President, Jose Laurel stated that his personal ideas would form the basis of the Party's platform. In a press statement issued on 23 May, the day after his nomination, Laurel defined these "personal ideas." He again denied that he was anti-US and stated that he favored continuation of friendly US-Philippine relations on a basis of mutual advantage and reciprocity. However, he insisted that certain agreements (presumably military and trade treaties) should be revised. Laurel hinted that Philippine foreign policy would be nationalistic with greater emphasis on relations with Asian countries.

"B"

In considering internal policy, he specified the economic situation as the most important problem and warned that the Philippines may face a severe economic crisis within the next five years unless "radical remedies are emphatically applied." Laurel attacked Quirino's policy regarding the Huks and said the problem should be more carefully studied and whatever policy adopted should be "relentlessly implemented to the bitter end." He said his administration would concern itself with the welfare of the common people and include more liberal plans for the disposition of public agricultural lands.

The ineffective legislative session, which concluded on 20 May without action on any major issues, as well as the record of political bickering within the Quirino administration has given Laurel the opportunity to develop an effective platform during the coming months. Prospects for Nacionalista success in the November elections, moreover, are strengthened by the continuing split in the majority Liberal Party.

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