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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. 28
WEEK OF 17 NOVEMBER - 23 NOVEMBER 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

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A tentative US-Australian resolution recognizing the Republic of Korea as the "lawful government" has been drafted for UN consideration (page 4).

New Zealand and Fiji reach financial agreement on a joint defense plan (page 4).

Early banking reform sought by Japanese to assist in trade revival (page 5). Recent maneuvers in the Japanese Diet have resulted in increased cynicism among Japanese regarding acceptance of democratic practices (page 5). MacArthur's technique of consultation with Allied representatives relative to the Tokyo Trial decisions may prevent Soviet propaganda from claiming the death sentences are the responsibility of the capitalist nations (page 5).

Impelled by increasing fear of an invasion from North Korea, President Rhee has appealed to President Truman for further military support (page 6).

The Chinese Communists have stepped up their Central China drive (page 7). The National Government's dependence on US aid has been underlined in recent appeals (page 7). In attempting to strengthen their international position, the Communists have asserted their unity with the USSR while simultaneously observing generally correct relations with US officials (page 8). A revolt may occur in Taiwan in the event of Nanking's fall (page 9).

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

- (1) "A", "B", or "C" --importance in B/FE's opinion, of the item, with "A" representing the most important ones.

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SUMMARY (continued)

The Phibun regime in Siam is facing difficulties vis-a-vis its military and civilian support (page 10).

In Indochina the French have had limited success in their full "military offensive". Meanwhile in Paris, De Gaulle recommends stronger French control in Indochina (page 10).

Another amnesty proclamation may be presented to the Philippine Congress (page 11).

The reconvening in Indonesia of the Bandung Conference of non-Republicans has coincided with a continuation of direct Dutch-Republican negotiations (page 11).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Assistance from US expected to be primary issue at the 4th ECAFE session

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The United Nations Economic Commission for Asia and the Far East will open its fourth session at Lapstone, NSW, Australia on 29 November. About 100 delegates and alternates will be present and will again undertake to outline a program for Asian recovery. At previous conferences the delegates placed greater emphasis upon political issues arising from their particular political experiences than upon the consideration of economic projects essential to Asian recovery and the meetings produced little except an exchange of views.

Without exception, the countries of the ECAFE region continue to envision substantial US monetary aid both in recovery and for speeding their modernization programs. Their interest in ECAFE centers largely around this objective and to each of their representatives the question of US assistance will remain the primary issue. It is anticipated that the US will be asked to participate in economic missions to explore ECAFE projects appearing to have immediate recovery value and particularly those where US financial participation is desired.

The large Soviet delegation is expected to be particularly active. At the previous meetings, Asian members joined the USSR in opposition to the Western Powers and were successful in inducing the less experienced delegates from countries such as New Zealand, to side with them on issues which were more political than economic. Other controversial issues postponed from previous sessions and awaiting action include the seating of representatives from the Republic of Indonesia and Vietnam, and SCAP's plan detailing Japan's future contribution to reconstruction and the development of the ECAFE region. It is also expected that the China situation will precipitate other debates which will be exploited by the USSR delegation.

Philippines policy bars Chinese refugees

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The Philippine Cabinet has barred admission to all refugees from China except to nationals of those countries with which the Philippine Republic has negotiated treaties of amity. These include only the US, France, Italy, Spain, and China, excluding the United Kingdom and the Netherlands. However, in the case of China refugees will be limited to the present immigration quota of 500 persons annually--a policy which is tantamount to a refusal to admit Chinese refugees. According to the Cabinet decision, US nationals will be allowed to remain in the Philippines for the duration of the emergency but must agree to leave thereafter at their own expense. It is quite likely that the Philippine policy is based largely upon the belief that admission

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GENERAL (continued)

of large numbers of refugees, particularly Chinese nationals, would facilitate the entry of subversive elements would increase their economic hold in the Philippines and would aggravate the current housing and food shortage.

Resolution in recognizing Republic of Korea as "lawful government" drafted "B"

Australian initiative has resulted in the drafting of a tentative joint US-Australian resolution which recognizes the Republic of Korea as a "lawful government" having effective control and jurisdiction in South Korea and as based on a "valid expression of the free will of the electorate in that part of Korea." The draft resolution also provides for a new UN Commission which is to work toward Korean unification. While the recognition to be granted the Republic of Korea is more limited than the US and China have wished, the achievement of a compromise resolution should effectively forestall any Soviet attempt to capitalize on dissatisfaction with the South Korean regime expressed by many smaller powers including Australia. The USSR had probably hoped to prevent UN sanction of the new government by offering an ostensibly conciliatory proposal for a North-South federation. Nevertheless, the Soviets are expected to continue in their effort to secure a hearing for delegates from North Korea.

New Zealand and Fiji reach financial agreement on defense plan "C"

Representatives of New Zealand and the Crown Colony of Fiji have reached an agreement on the financial aspects of a defense plan worked out last June between the New Zealand Chiefs of Staff and the Governor of Fiji. Under the June agreement, Fiji's missions were determined to be: (1) provision of a safe anchorage for shipping at Suva, (2) provision of air bases for reconnaissance and defense.

The recent financial agreement provides that New Zealand will bear the expense of air defense and that Fiji will set aside \$600,000 annually, of which \$400,000 will be for the maintenance and training of ground and naval forces and \$200,000 will be for payment on Fiji's wartime debt to New Zealand. The authorities in Fiji desire to build up a small but well-trained ground force as rapidly as possible as a means of maintaining internal security. Any internal threat stems largely from the growing Indian population in the Colony, which now totals some 120,000 as compared with 117,000 Fijians and 4,600 Europeans, and which is politically restive and resentful of its minority representation in the local Government

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JAPAN

Japanese desire early banking reform. Notwithstanding the recommendations of several US Government agencies that Japanese banking reform be delayed, the Japanese generally are now anxious to effect promptly all changes in banking laws considered feasible to supplement efforts at stabilization of various other segments of their economy. The Japanese appear especially interested in strengthening their banks which participate in foreign trade and related services to the extent that they may become less reliant upon Government guarantees and Bank of Japan loans. They have in mind an active role by these banks in an early return of Japanese foreign trade to a strictly commercial basis.

"B"

Political maneuvers promote public cynicism. Recent maneuvers in the Japanese Diet have resulted in increased cynicism among Japanese regarding acceptance of institutions and practices of representative government which have been key points in the Occupation's democratization program. Lacking majority control of the Diet, Premier YOSHIDA has been attempting to limit the business of the current extraordinary session of the Diet to passage of SCAP-requested legislation, and to dissolve the Diet and call for elections which if held reasonably soon would strengthen his party's position in the Diet. In an attempt to damage YOSHIDA's present popularity, the opposition parties have demanded that he commit himself on government policy before dissolution. Leading the attack against dissolution has been the Socialist Party which had been loudest in demanding dissolution prior to the collapse of the ASHIDA Cabinet. The Socialists, claiming to have the support of SCAP's Government Section, raised objections to dissolution on the alleged constitutional grounds that the Premier must obtain the Diet's consent for its dissolution. The question appears now to have been resolved in YOSHIDA's favor by an announcement from the Legal Section GHQ, SCAP.

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In the past week Japanese editorials have been particularly critical of the opposition parties' dependance on parliamentary tactics rather than on political principles. The editors admonish political leaders in Japan to avoid giving the impression that international confidence cannot yet be placed in Japan's democratic development.

MacArthur reviews Tokyo Trial sentences. On 12 November The International Military Tribunal for the Far East passed sentence on the 25 accused involved in the Tokyo Trials. General MacArthur requested the members of the Allied Council and heads of the Allied Missions to "consult" on 22 November with him, which consultation would be given consideration in MacArthur's review of the sentences. At this meeting the heads of missions are believed to have followed the lead of their respective judges on the Tribunal.

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JAPAN (Cont.)

It is understood that when the Tribunal voted for the seven death penalties the USSR judge refrained from demanding the death sentence, presumably on the grounds that capital punishment has been abolished in the Soviet Union. It is possible that future USSR propaganda intended to place the onus for the death sentences on the "capitalist" countries. Since the Soviet Allied Council Member has advised the press that he did not ask MacArthur for any change in the sentences, thereby further committing the USSR to support the Tribunal judgment, Soviet propaganda guns have been spiked, at least partially, by MacArthur's technique of consulting with Allied representatives.

KOREA

Rhee appeals for further US aid. The South Korean Government, faced with the visible evidence of a reduction of US troop strength in Korea, fears that the US may be undertaking complete troop withdrawal. The Government does not believe that their own defense forces are presently adequate to withstand the threatened attack from North Korea. The result is a spreading conviction that Communist domination is inevitable and the development of an atmosphere of fear and defeatism which may produce a large scale opportunist movement for "coalition" with the North Korean regime.

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In an attempt to bolster public morale and to increase the prospects for survival of his government, President Rhee appealed to President Truman on 19 November for the indefinite postponement of US troop withdrawal and the immediate establishment of an American Military and Naval mission to assist in further training of the Korean defense forces. The demand for the retention of US troops was also expressed in a resolution of the Korean National Assembly requesting UN approval for continued maintenance of US troops in Korea. Rhee and the Assembly will continue to press for some statement committing the US to either retain tactical troops in Korea or to otherwise guarantee the territorial integrity of the Republic of Korea.

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CHINA

The Communists have stepped up their Central China drive, only a few days after the Nationalists claimed they had broken the back of the Communist attack, with a "major victory" along the Grand Canal east of Hsuehou. The Nationalist 7th Army Group and several additional divisions were destroyed in this "major victory," and subsequent Nationalist attempts to reopen the Hsuehou-Nanking Railway were firmly opposed by the Communists and halted. The main effort in the latest Communist drive, in which 11 columns are participating, is from the southeast and east where the principal Nationalist defense forces are in danger of being encircled and cut off from the garrison in Hsuehou. In addition Nationalists in the Pangfou and the Mengcheng areas are in danger of being separately encircled. Should the encirclement of these Nationalist pockets of resistance be quickly achieved, the Government units involved will probably choose capitulation rather than annihilation, with the resultant collapse of the defense complex north of Nanking.

"A"

In North China, there were indications that a major Communist effort might possibly be undertaken in the area east of Peiping. FU Tso-yi, Nationalist Commander, may stay in the Peiping-Tientsin area for at least one major engagement, prior to being forced to withdraw into Suiyuan.

The National Government's dependence on prospects of greater US aid has been evidenced in recent appeals by CHIANG Kai-shek to President Truman and also by public statements of Ambassador KOO and Madame CHIANG. The absence of any new US pledge of support for CHIANG has served to prolong the cabinet crisis occasioned by the resignation early this month of Premier WONG Wen-hao. Certain prominent leaders, including CHANG Chun and HU Shih, have refused to take the premiership unless greater US aid commitments are forthcoming. Moreover, despite CHIANG's continuing opposition to peace negotiations with the Communists, an increasing number of high Nationalist officials are maneuvering to bring about such action. While leaders such as CHANG Chih-chung continue to favor a peace based on the principle of coalition government, another group which includes Vice President LI Tsung-jen hopes to reach a compromise which might provide for a non-Communist administration in the area south of the Yangtze. Although both groups probably have contacted Communist representatives, neither apparently has ascertained probable Communist terms. In their frustration over CHIANG's veto of their proposals, some leaders would welcome US assistance in trying to force his retirement.

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China may protest Soviet actions to the UN Security Council, seeking a resolution which would, at most, find Soviet actions a "threat to peace,"

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or, at least, call upon all nations to refrain from obstructing the National Government or assisting the Chinese Communists. The possibility of such an action has been suggested by acrimonious exchanges between VISHINSKY and Dr. T. F. TSIANG, Chinese UN delegate. Such an appeal might gain wider public recognition of the international character of the Chinese civil conflict and public sympathy for the National Government's position, but China would find it extremely difficult to substantiate its charges. Soviet actions in Manchuria, while obviously obstructive, nevertheless adhered to the letter of the Sino-Soviet Treaty; the USSR permitted the Chinese Communists to 'capture' large stocks of Japanese materiel; in addition, the USSR probably has trained personnel and supplied advisers, but there is no proof of such Soviet activity or of direct material aid. While the Soviets undoubtedly rigged the plebiscite by which Outer Mongolia became 'independent,' the Chinese Government consented to the plebiscite, and the various border incidents since that time have been of minor significance. No Security Council resolution could affect the progress of the Chinese civil war. A Chinese appeal to the Security Council might even backfire, as the USSR could argue that US aid to China must cease while the appeal is being examined. If the US were to support a Chinese appeal, the US position vis-a-vis a future Communist-dominated government of China might be compromised.

Chinese Communists attempt to strengthen their international position. "B"

The Chinese Communists have recently reasserted their unity with the USSR, and have adopted a position which is both firm and correct toward the US. The Communist radio has declared that "no agreement between the Kuomintang and any foreign government can either preserve the rule of the Kuomintang or protect the interests of the foreign government concerned." Further, that "any military or economic aid to the Kuomintang" will be regarded as "an act of hostility against the Chinese Nation," and, "if the US should dispatch its armed forces for either all-out or partial protection of the Kuomintang...the consequences would have to be borne by the US." The statement declares that the Communists "are willing to establish equal, friendly relations with all foreign countries,...and to protect the interests of all nationals of foreign countries." In Mukden, the only test case to date, the Communists have closed down the US Consulate's radio, but otherwise they have been fairly agreeable and have evidenced a desire for limited cooperation. It appears that the Communists will not abase themselves to gain US favor, but that they realize the advantages of diplomatic relations. It is possible that the Communists, by behaving correctly toward the US, aim at avoiding total subservience to the USSR.

Communist rehabilitation of Mukden makes progress. Since taking

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over Mukden, the Communists have proceeded as follows: order was quickly restored, with strict police control to prevent looting; food was made available at effectively controlled prices; an educational program was instituted to acquaint the people with Communism; public utilities were restored, and major industries returned to production. The resumption of normal rail traffic is now a major Communist undertaking. The Communists are finding it necessary to utilize Nationalist administrative and technical personnel under the leadership of Communist workers. The rehabilitation and administration of the large areas now coming under Communist control is a tremendous job, and the Communists may have considerable difficulty in handling the problems they will have to face. However, the methods which they are now employing are quickly gaining for them the support of the people, who have long been the victims of Nationalist economic deterioration and governmental inefficiency.

Taiwan's independence from China is the early revolutionary goal of the Formosan League for Re-emancipation, a non-Communist underground organization which has headquarters in Hong Kong. League leaders assert that a revolt will be launched when Nanking falls and that it will have organized popular support. Since Nationalist officials plan to use Taiwan as a refuge and as a potentially important war base, they have attempted unsuccessfully to influence League activities. League leaders also have rejected Chinese Communist bids for cooperation. In seeking US good will and potential economic and military aid, they have stressed their non-Communist, pro-American program and the important role which an independent Taiwan might have in the non-Communist Far East. Although the League's capabilities appear limited when judged by its known leadership, organizational strength, and material resources, Taiwanese dislike of Chinese rule and rapid weakening of the National Government may render formidable a well-timed revolt.

The long-standing deadlock in Sinkiang between Chinese officials and pro-Soviet Ili dissidents may be resolved through an understanding between the USSR and CHANG Chih-chung, top Chinese official for Northwest China. Developments during the past six weeks indicate a more conciliatory attitude on both sides, and suggest that a comprehensive settlement may be drawing near. In view of the imminent collapse of the National Government, and of CHIANG Kai-shek's rejection of CHANG Chih-chung's suggestion for negotiations with the Communists, the latter may turn to carve out a domain for himself in China's Northwest, and thus may enter into an arrangement with the Soviets for sharing in the benefits of Sinkiang. The Soviets, for their part, might well undertake to reconcile the Ili Group with CHANG Chih-chung, in exchange for Chinese acceptance of their terms for renewal of the Sino-Soviet Airline, and other economic concessions in Sinkiang. This would assure them a friendly neighbor in Sinkiang, and facilitate eventual consolidation of Soviet control over the entire province.

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SIAM

Phibul regime faces difficulties vis-a-vis its military and civilian support. Strong Cabinet and military objection to the unauthorized use of Defense Ministry foreign exchange funds may prompt Premier Phibul to rid his regime of the corrupt and unpopular Army Deputy Commander Luang Kach. The special committee appointed to investigate Luang Kach's activities has found that a prima facie case exists. Following this development, Premier Phibul informed the press that the case has been assigned to police investigation, the character of which depends, in large measure, upon the attitude of Police Deputy Director-General Phao. While Luang Kach and General Phao have been close friends and leading figures in the ruling military clique, recent reports would indicate the development of a growing antagonism between them. Although the expressions of strong disapproval of Luang Kach probably have given Premier Phibul serious cause to reassess his position vis-a-vis the military and civilian elements supporting him, available information does not indicate that Premier Phibul has yet developed sufficient alternative military and financial resources to replace those which Luang Kach has provided.

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INDOCHINA

French have limited success in fall military campaign. The French "military offensive", which was launched early in November in the Hanoi area, has resulted in the extension of French control through the capture of two important provincial capitals northwest of Hanoi. Viet Tri, which fell on 7 November to airborne troops, is located at the juncture of the Red and Black Rivers and was an important center for Viet Minh river communications. From the French standpoint, it appears that the occupation of this key point may result in an improvement in the security of river traffic.

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The lack of organized resistance by the Viet Minh to this offensive is still unexplained. It may be a sign of internal weakness or that they are concentrating forces elsewhere. However, Viet Minh military strategy may be aimed at another over-extension of French lines of communication, which resulted in a failure of French objectives in the 1947 fall offensive. Despite this absence of formal resistance to French troops in the field, there has been increased guerrilla and sabotage activity within Hanoi which the French are unable to prevent and which minimizes the success of any organized French operations.

De Gaulle recommends strong French control in Indochina. The policy for Indochina which De Gaulle recommended at a recent press conference appears much less liberal than that contained in the proposals published last month in an RPF resolution. In stating that haste was unnecessary, he specified

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INDOCHINA (continued)

that a French solution must come about at some future time by negotiating "when it became possible with anyone who was really representative in Indochina, provided there was no question of dealing with enemies of France." De Gaulle also stated that the present arrangements were only provisional and he considered it essential to return to the idea of free and independent states within an Indochinese federation, which federation in turn would be a member of the French Union. Such a plan would imply French responsibility for defense of the area, for foreign policy and for economic control. This stand on the Franco-Vietnamese problem is a decided retreat from the solution initiated by former High Commissioner Bollaert and supported by present High Commissioner Pignon, and would probably result in less cooperation from the Vietnamese.

PHILIPPINES

Second Huk amnesty may be presented to Philippine Congress. Despite the Government's current military campaign against the Hukbalahap, there is some indication that another amnesty proclamation will be presented for approval by the Philippine Congress when it convenes next January. Interior Secretary Sotero Baluyut, informed that some dissidents in Laguna Province are reluctant to surrender without assurance of protection, has indicated that he may present the matter to President Quirino. While it is possible that Quirino may again offer amnesty to the Huks, he will probably demand that the Huks surrender their arms and seek assurance that another amnesty proclamation will be acceptable to Congress and to the Philippine public which are now supporting the Government's anti-Huk campaign. Until Congress convenes, however, present Constabulary operations against the Huks will probably continue. Although both President Quirino and his Constabulary Chief are optimistic, it is not expected that dissident resistance will be eliminated in the near future. "B"

INDONESIA

Reconvening of Bandoeng Conference coincides with continuation of direct Dutch-Republican negotiations. The Dutch-sponsored Bandoeng Conference of non-Republican Indonesian Federalists reconvened on 19 November. A high Netherlands official told the Conference that the States-General had made it possible to introduce the interim government arrangements, providing for a United States of Indonesia (USI), before 1 January in compliance with the wishes expressed by Federalist representatives at The Hague in October. The Republic of Indonesia has again been invited to participate in the USI. The Dutch representative stated that he trusted that the Conference would be "found willing" to undertake any necessary consultations regarding changes in the draft interim arrangement that the Republic might suggest, with the proviso, of course, that such changes did not meet with any "essential" "A"

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INDONESIA (continued)

objections" of the Conference or of the Netherlands Government.

It is significant that the Bandoeng Conference was reconvened at the same time that a large, top-level Dutch delegation was being sent to Indonesia to continue direct negotiations with the Republic. These developments may indicate that the Dutch are making a genuine effort to reach a peaceful settlement with the Republic, although it is unlikely that basic Dutch policy has been appreciably altered. The dispatch of an influential delegation to the Republic, however, may be designed to create the impression that the Dutch have done everything in their power to amicably settle their differences with the Republic. Failure would then appear to leave the Dutch with no alternative to resort to police action through the interim government. The Bandoeng Conference may also be a further step, particularly if direct negotiations fail, to develop the illusion that the trouble in Indonesia is purely indigenous factionalism with the Dutch merely acting as arbiters and protectors of Dutch interests.

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