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INTELLIGENCE HIGHLIGHTS - WEEK OF 20 APRIL - 26 APRIL 1948

GENERAL

Chinese National Assembly demands "hard" peace for Japan

Despite recent statements by Chinese National Government officials indicating support for the US liberalized rehabilitation program for Japan, the Chinese National Assembly, at Nanking on 21 April, passed a 14-point resolution on the Japanese peace treaty which reflects continued popular fear of a resurgent Japan. The resolution, providing for the retention of the veto by the Big Four in a conference to be held in China, calls for the abolition of the emperor system, the destruction of the Japanese military industry including metal and chemical industries, limitation of Japanese industrial capacity to the 1928-30 level, restriction of Japanese imports, prohibition of a Japanese army, navy, air force, or secret police, limitation of Japanese territory to four home islands and a purge of textbooks and imperial institutions. At the same time the resolution calls for acknowledgment that China suffered most in the war and the granting to China of 50% of total reparations. The resolution also asks for the cession to China of the Ryuku Islands. The resolution further demands that Japan be controlled for 50 years by a Four-Power control organ, and that Allied troops continue in occupation of all principal Japanese cities.

Constitutionally the National Assembly does not have the power to determine national policies, nor do its resolutions bind the Government. However, as an expression of the majority view of some 3,000 Assemblymen, chosen by direct election, this resolution clearly indicates that, official assurances to the contrary, sentiment favoring a "hard" peace with Japan is deep-seated among politically-articulate Chinese.

Southeast Asia League currently inactive

Since the Siamese coup d'etat of November 1947, activities of the Southeast Asia League have apparently been suspended because of the Aphaiwong Government's disinterest and the marked antipathy of the succeeding Phibul Government towards the organization and its leaders. (The League is a loosely-organized Southeast Asian federation formed in Bangkok in September 1947 by "representatives" of Siam, Vietnam, Laos, Cambodia, Indonesia, Malaya and Burma.) Premier Phibul opposes any such movement on the grounds that it could be a vehicle for Communist or Chinese penetration. With the recall to Indochina in December 1947 of the League's Vice-President, Tran Van Giau (Bangkok representative of the Viet Minh), the Communist flavor of the League was markedly reduced, but it still retains a left-wing label. Because of the extremely unsettled conditions in Burma, it is not anticipated that League headquarters will be moved from Bangkok to Rangoon, as was rumored, nor will its activities in Bangkok be increased in the near future. It has been further reported that the recently-arrived Soviet diplomatic representatives in Bangkok

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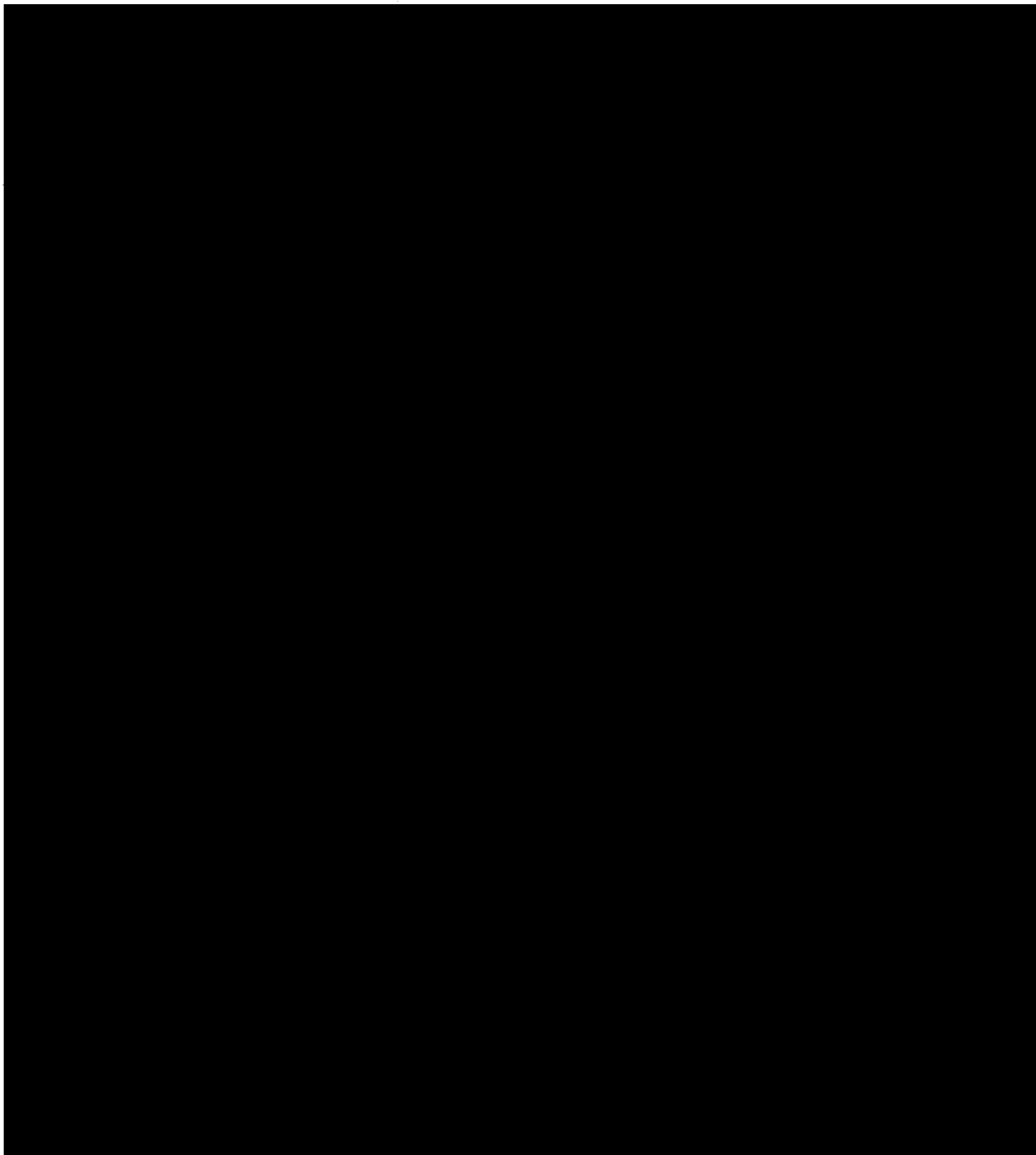
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GENERAL (Continued)

have not as yet approached the remaining key members of the League. Nevertheless, it is likely that effective Soviet contact with the League will be established if a projected reorganization takes place and conditions favorable to a transfer to Rangoon develop.

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First loan against OJEIRF reported. The US Export-Import Bank has announced that it will join with a private banking syndicate in making a \$60,000,000 loan to finance shipments of US cotton to Japan. The Export-Import Bank will furnish \$29,000,000 of the credit and the remaining \$31,000,000 will be furnished by the private banking syndicate. The bank's statement said that Japanese mills are to make textiles from the cotton. Forty percent of the cotton cloth will be consumed in Japan and the rest will be sold in Japan's prewar export markets.

The loan will be the first to be made against the "occupied Japan export-import revolving fund" (OJETIF), set up last August to finance purchase of cotton in Japan. Originally, the revolving fund consisted of \$137,000,000 worth of assets of precious metals, owned by the Japanese Government and not definitely subject to restitution. However, the Export-Import Bank has announced that the fund now consists of \$104,000,000 in gold, \$18,000,000 in silver and \$378,000 in US cash, all of which was turned over to the fund by occupation authorities.

KOREA

Possible ratification of "Constitution" for North Korea. After repeated postponement of action on the "Draft Provisional Constitution," it has now been announced that on 28 April the North Korea People's Council will meet in extraordinary session to discuss further this draft constitution of the "Democratic People's Republic of Korea."

The timing is such that if ratification takes place on the 28th, as is now expected, there will be the fullest political impact to offset the significance of the elections in South Korea. The current Soviet-sponsored North-South "unity" conference offers an opportunity for presenting for ratification a constitution incorporating the "ideas and recommendations of democratic elements in South Korea." In addition, ratification of the constitution in its present form will ipso facto establish a provisional government of "all" Korea with a temporary capitol in Pyongyang.

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CHINAMilitary

There were further indications last week that the Communists are about to launch their spring offensive in Manchuria. They were busily completing repairs on recently captured rail lines, particularly in the Hsinlitun-Tahushan and the Anshan areas. Although the main body of Lin Piao's troops were in the region between Tiehling and Changchun and capable of striking in either direction, new concentrations of Communists were reported near Ihsien just north of Chinchou and along the Great Wall mountain passes. It is possible that these latter forces may become the initial striking force in the new offensive, attacking the Nationalist salient along the Peiping-Mukden railroad from Tientsin to Chinchou. Recent Communist actions in the Tatung-Kalgan sector forced the Nationalists to redeploy the forces which would have been used to counter such a blow. These units are still vainly groping for the main body of the attacking Communists. Irregular Nationalist forces penetrated into Communist territory south of Tientsin, captured several Communist bases, but have apparently been forced to withdraw.

The Nationalists, in line with a newly enunciated policy of evacuating points "having little strategic importance", announced that Tolun, in Chahar, and Yen-an, the ex-Communist capitol, had been abandoned. The loss of Yen-an, occupied by the Nationalists in March 1947 with no little fanfare, represents (as did its capture) mostly a psychological change. It is, however, at least symptomatic of a general worsening of the Nationalist picture in Shensi, where late Communist moves have resulted in the interdiction of the important Sian-Lanchou highway, and a threat to Sian itself. Communist forces in Central China continue to move in a general northwesterly direction; units are presently active in the Han River basin of the Hupeh-Shensi border region where they have taken Yunhsien and Hsunyang, near Ankung.

Political

The vice-presidential election now in process in the National Assembly has widened the split within the Kuomintang. After the first two ballots in which Li Tsung-jen carried a substantial lead over Sun Fo with Cheng Chien trailing in third place, all three candidates withdrew their names from the ballot. General Li charged that, despite the Kuomintang announcement that it would be an open election, the Party had given its support to Sun Fo. Sun's supporters attempted to discredit Li by charging that he planned a coup d'etat if elected. An attempt is now being made to persuade the candidates to run again. Li Tsung-jen, considered a "reform" candidate, has drawn much of his support from those factions dissatisfied with the old guard. His election in the face of Kuomintang opposition would indicate a show of independence on the part of the Assembly delegates and a defeat for the Generalissimo, who appears to be backing Sun Fo behind the scenes. If Li should be defeated he may be expected to continue his drive for reform while some reports intimate that he might even attempt a military coup although at present the latter appears unlikely.

Apparent acceptance by Chiang Kai-shek of a program of land redistribution

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reflects the awareness of the Chinese National Government that positive measures of agrarian reform can no longer be postponed without loss of the allegiance of the peasant population to the Communists. The program, endorsed at a recent meeting of Central China military and civil authorities, authorizes the redistribution of all land in excess of five mou (slightly less than one acre) per person in areas recovered from the Communists or in danger of Communist infiltration. The conference also recommended that a similar program be later extended throughout China. However, because of Chiang's fear of losing landowner support, it is likely that, even in the areas under current discussion, his endorsement of the plan will turn out to be merely a political maneuver and that actual reform will not be effective.

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The USSR continues to withhold clearance for the US Consul General/Soviet-controlled Dairen. Since the Soviet has refused entry to Dairen to any non-Soviet ships, US consular personnel and couriers are dependent on Soviet transportation. The last courier to Dairen two months ago is still waiting at Vladivostok for return transportation.

Eastern Mongols in government-held Manchuria have chartered a plane to fly from Mukden to Nanking early next week carrying eleven Mongol representatives. The group will meet in Nanking other Mongol groups from Jehol, Chahar, Ninghsia, Sikang and Sinkiang, and will petition the government to implement autonomous administration for Mongolia. Eastern Mongols desire to have Mongolian areas now embraced by Liaopei, Heilungkiang, Nunkiang and Hsingan provinces with hsien status, excluded from provincial administration and organized into Mongol administered mong (provinces) divided into hoshun (hsien).

Economic

Private Holdings Abroad. Finance Minister C.K.Yui told the National Assembly that the government is still seeking US and UK intervention in disclosing private Chinese deposits in the United States and Great Britain.

Textile Mills Moving to Hong Kong. The National Government is seriously concerned over the large scale migration of Shanghai cotton mills to Hong Kong, which is affecting employment and depriving the government of import/export revenues. Chief reasons for leaving China are: (1) import/export difficulties, (2) foreign exchange controls, (3) unstable economy and (4) military uncertainties.

Uranium. The Mineral Survey Board of the National Government reports that uranium has been discovered in Kwangsi.

Currency/Prices. Prices rose slowly during the week in the Yangtze Valley, but sharply in the Peiping area as a result of a temporary accumulation of idle funds in the Peiping area. The US dollar bought CN \$700,000 on the Shanghai blackmarket while it reached CN \$860,000 to 1 at Peiping.

The Shanghai Market:	US \$ Exchange (Selling Rate)		Wholesale Price of Rice per 172 lb picul
	Official "open"	Blackmarket	
This week (23 Apr 48)	CN \$328,000	700,000 (20 Apr)	CN \$3,950,000
Week ago (16 Apr 48)	328,000	640,000	3,500,000
Month ago (23 Mar 48)	258,500	500,000	3,800,000
Year ago (23 Apr 47)	12,000	20,000	180,000

The Legislative Yuan has approved the issue of an unfixd number of short-term treasury notes for the purpose of absorbing outstanding currency. Past efforts of this nature have not succeeded.

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SIAM

Letter reveals objectives of military group. A revealing letter addressed to Premier Phibul (also Army C-in-C) appeared in the Bangkok press last week. It was signed by Army Deputy C-in-C Phin and Army Assistant C-in-C Kach the most aggressive and ambitious of the November coup group. The letter stated that since Phibul is now needed by the nation to solve national problems (the high cost of living, influx of aliens, etc), the military group suggests an agreement with him on the following points: (1) that he continue to give advice to the military groups; (2) that the position of C-in-C be left vacant during the time he is borrowed by the nation, that the administration of the Army be temporarily entrusted to the Deputy and Assistant C-in-C who should continue to hold their present positions and that all Army transfers and appointments be approved by Phibul; and (3) that the military group and the Army should give support to politics and pledge their support to Premier Phibul. The signers also request that they or their representatives be permitted to "sit beside you (Phibul) at every meeting of the houses of Parliament." The letter concludes with the earnest hope that Phibul would grant these requests.

This letter is believed to be an open attempt by these Army leaders to bargain with Phibul for more authority and prestige in return for their continued support.

MALAYA

May Day Demonstrations may climax labor disturbance. Singapore harbor has been paralyzed by strikes called by the Singapore Federation of Trade Unions (SFTU) and the Singapore Harbor Laborers' Union (SHLU). Originally, the strike was a combination of a demand for higher wages and a protest against police raids on Union headquarters. Subsequently, however, the strikers presented a list of 31 demands and indicated that the strike would continue until the demands were met. Both the SFTU and the SHLU are Communist-dominated and there are very strong indications that the strike was engineered by union leaders without consulting the workers.

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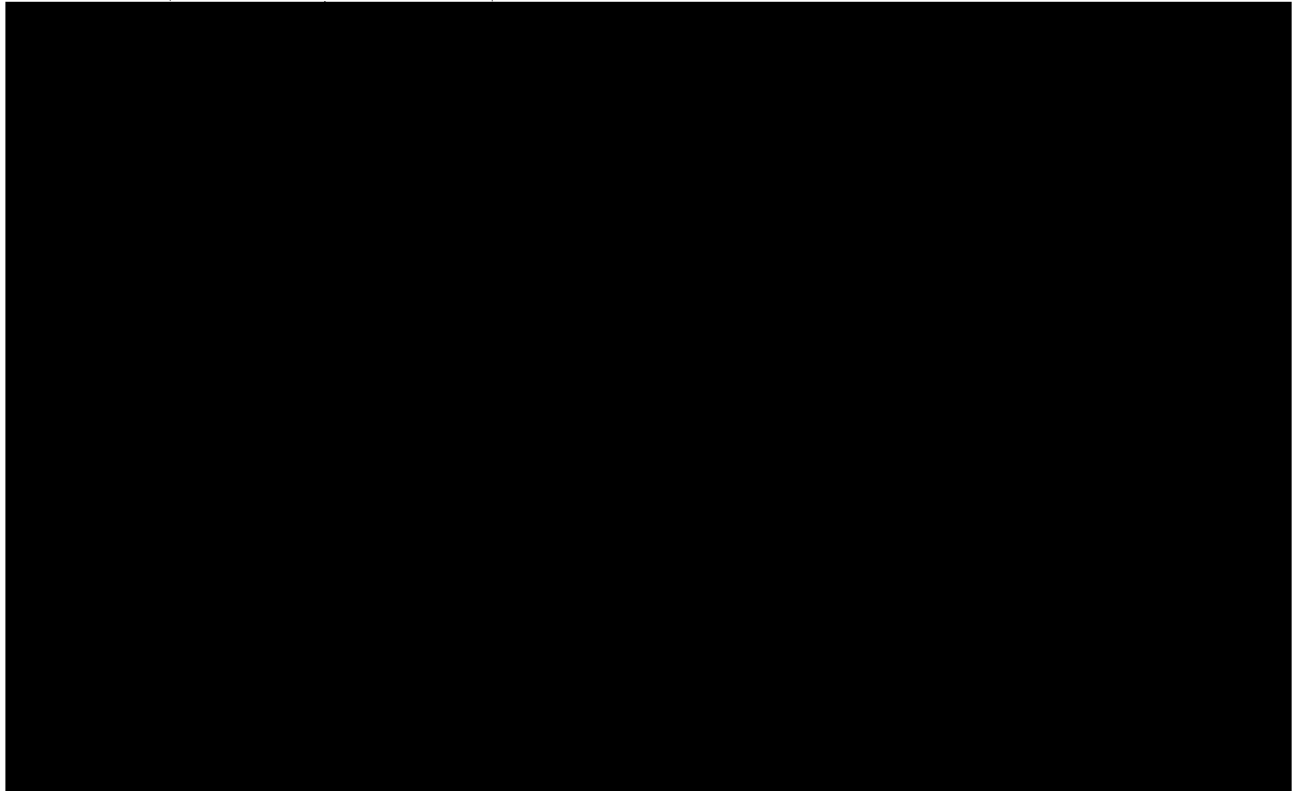
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MALAYA (continued)

These activities may be a prelude to demonstrations by the Malayan Communists on May Day. The SFTU has issued a manifesto, dated 12 April, calling on laborers "to unite more closely with Communist circles in Malaya, to strengthen the labor front, and to be prepared to face the British imperialistic anti-Communist campaign." Several slogans, to be shouted during May Day activities, were written into the manifesto, one of which was "support the good leadership of the Malayan Communist Party." Scattered incidents of violence may occur during the strike and the May Day demonstrations but it is believed that UK security forces are capable of controlling the situation.

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PHILIPPINES

Philippine veterans may oppose Laurel as President. The most significant opposition as far to election of Jose P. Laurel as President in 1949 appears to have developed under the leadership of Brigadier General Macario Peralta, Chairman of the Philippine Veterans Board and National Commander of the Philippine Veterans Legion. Peralta requested that records and information be made available by the US Army for use in a campaign against Laurel and stated that such action was equally vital to the United States and to the US Army. General Peralta has threatened to resign and fight the administration "to the last ditch" if President Quirino appoints Laurel to a Cabinet post as currently rumored.

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PHILIPPINES (continued)

Peralta, who was an effective leader of one of the largest guerrilla groups in the Philippines during the Japanese occupation, has emerged as the chief spokesman for almost half a million veterans since his recent unanimous election as National Commander of the Philippine Veterans Legion. The veterans' leader publicly opposed the late President Roxas' 28 January amnesty proclamation for political and economic collaborators and claimed credit for the Congressional delay in its ratification. General Peralta has also taken an active part in supporting pending legislation designed to secure greater participation of Filipino veterans in armed forces promotion lists.

It is likely that under Peralta's leadership the veterans organization will continue to oppose Laurel. This opposition may have been inspired largely by the fear that passage of US legislation extending GI benefits to Philippine veterans would be jeopardized if Laurel assumes public office.

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