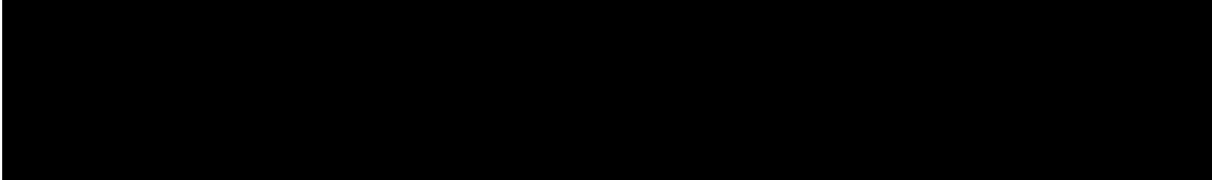


SINGAPORE HIGHLIGHTS--WEEK OF 18 MAY - 24 MAY 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS
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In the South Korean elections of 10 May, neither of the two extreme leftist groups--Rhee Syngman's National Society and the Hankooks--won a majority, and the balance of power is held temporarily by the smaller leftist powers. The Hankooks have the capability of undermining and ending Rhee's present dominant position in any future political crisis (page 3).

Chiang Kai-shek's inability to control the Kuomintang effectively has been demonstrated by the serious intra-party struggle over the naming of a new premier. This struggle, involving key figures upon whom Chiang has relied for years, appears to be a serious challenge to his position of leadership (page 4).

In French Indochina, Ho Chi Minh is expected to launch a campaign of propaganda and terror in response to the formation of a new French-sponsored Vietnam Government under General Xuan (page 6).

A Dutch move to by-pass the Indonesian Republic is evident in a "Federal Conference" being convened in Dutch-held Java on 27 May, apparently without Republic representation (page 6). As reported in the CIA Daily Summary of 28 May, Dutch resumption of "police action" in the near future is much more probable than is a peaceful conclusion of Dutch-Republic political agreement.

In the Philippines, peaceful settlement of the law and order problem has been rendered less likely by the open insistence by Tarao, Hukbalahap leader, that the Huks have the right to bear arms (page 7).

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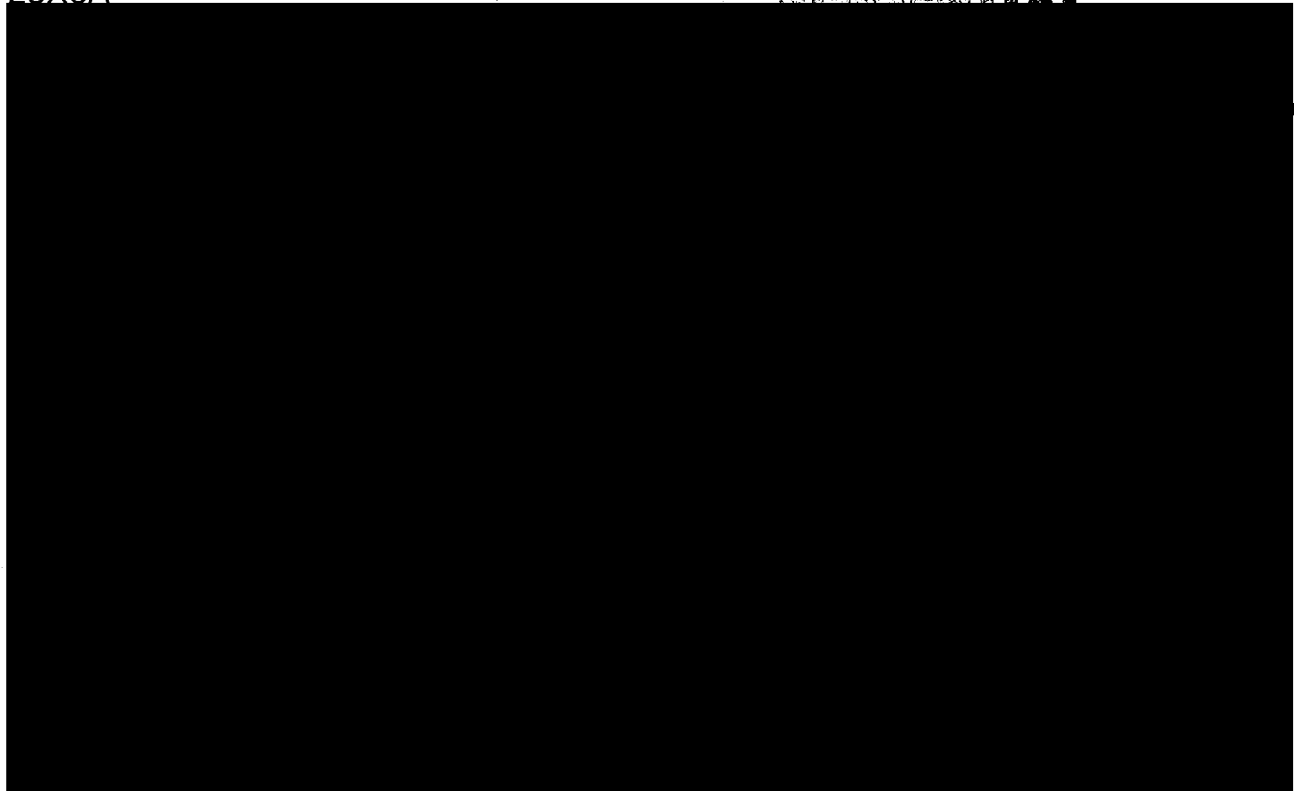
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KOREA

Neither the Hankooks nor Rhee Syngman's National Society, the two major rightist groups, secured a majority in the 10 May elections in South Korea. Although so-called "independents" hold a plurality of seats, a more realistic break-down of the election results indicates that the Hankooks and the Rhee machine will have about equal strength with the balance of power held, at least temporarily, by the smaller political parties. Kim Koo's Korean Independence Party is the largest of these lesser groups. If Kim, despite his attendance at the Pyongyang conference, still has authority in his party, he may be able to utilize to his own advantage the stalemate of the major groups.

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Rhee, who derives his strength from his extensive political machine, was expected to win a generous plurality of seats. However, his present parity with the Hankooks is dependent on the precarious support of ambitious General Lee Chung Chun's Dai Dong Youth Party. Moreover, it is possible that in their long-standing contest with Rhee for political supremacy, the wealthy Hankooks have been able to infiltrate and capture some parts of Rhee's machine at the lower levels. For the present, however, the two groups will maintain an uneasy coalition, with the Hankooks supporting Rhee for president. Rhee will attempt to get himself elected as a "strong" president on the "American" pattern while the Hankooks will struggle for the adoption of the "French" system with Kim Sung Soo as premier. Although Rhee may be successful in this initial struggle, should his egocentricity produce an eventual political crisis (e.g. frustration of any future US aid program), the more astute and flexible Hankooks will have an excellent chance of seizing real control of the government, leaving the obdurate Rhee in a position of prominence only at their sufferance.

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-4-

CHINA

Struggle within Kuomintang

Chiang Kai-shek's difficulty in forming a new cabinet for China has "A" revealed a serious struggle within the inner circle of the Kuomintang. Apparently Chiang no longer has unchallenged control over the Party and his inability to rely on the support of certain key Party leaders from whom he has drawn his strength in the past is a more dangerous threat to Chiang's position than that presented by any liberal opposition under Li Tsung-jen.

The present struggle has stemmed from the Legislative Yuan which is controlled by the conservative CC Clique and must approve the appointment and actions of the new president of the Executive Yuan. The more likely candidates for the position, Chang Chun, Ho Ying-chin and T. V. Soong, were all reluctant to accept the position since they doubted their ability to command a majority in the legislature. The appointment of Wong Wen-hao to this position, which was approved by a large majority of the Legislative Yuan on 24 May, was only a compromise and has not solved Party differences.

Wong Wen-hao, an outstanding Chinese geologist, chairman of the National Resources Commission and a follower of T. V. Soong, is considered an able and honest administrator. Despite his association with the Political Science Group, he has remained outside intra-party rivalries, but with no political following of his own, he may be relied on for his loyalty to the Generalissimo rather than for any independence of action. His position will be difficult since he will be subject to pressures from Chiang on one side and the Legislative Yuan on the other.

Current Military Situation in China

Widespread Communist offensives, anticipated for the month of May, have "A" failed to develop and the Chinese military scene during the past week continued to be permeated by a general attitude of expectancy. Military activity was confined to the general North China area around Peiping and to the Central China area northwest and west of Hankow and involved comparatively small numbers of troops. In the latter area Communist units, reportedly irregulars, captured Laohokou, important Han River city, looting important stores of food and materiel. One source describes recent Communist activity in west Honan as a foraging expedition, necessitated by supply shortages in the Tapieshan area. According to this interpretation, the Communist timetable for the crossing of the Yangtze River has been consequently disrupted.

As yet no broadscale fighting has broken out on the Manchurian front where the main Communist regular troop strength is as yet uncommitted but is moving westward to the Chinchou area. The Communists in North China have been harrasing all railway communications leading out of Peiping, apparently

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in preparation for the Manchurian offensive. Communist troops attacked the western outskirts of Peiping, isolated Kalgan and Chengteh, continue to threaten Tatung, and, following the capture of Linfen, now menace Yen Hsi-shan's stronghold at Taiyuan. These actions suggest that the Communists are presently attempting to draw Fu Tso-yi into the mountains on the Hopei-Chahar-Suiyuan-Shansi border in order to inflict as heavy losses as possible upon his troops before bringing the battle into the coastal plains surrounding Peiping and Tientsin. These Communist efforts will utilize only a fraction of available Communist troops with the majority being reserved in western Liaoning for action when the Nationalists begin to move troops to save North China.

Change in the Shantung military and civil administration is indicated by "B" persistent rumors that the National Government is about to relieve Wang Yao-wu of his military command (2nd Pacification area) and the governorship of Shantung. One of the more able Government commanders, Wang has been actively considering the establishment of an autonomous regime in the key province of Shantung under his own leadership. Wang was reported to have been one of the chief supporters of Vice-President Li Tsung-jen. Li, incidently, has been notably quiet since his election to the Vice-Presidency and apparently is coming to the realization that his reforms will be difficult to implement over the opposition of Chiang Kai-shek so long as the latter still controls the Army, the Government finances, and the Party machine.

Nanking's dissatisfaction with Sino-Soviet relations has found recent "C" expression in the Ministry of Information's publication, the Daily Tribune. Commenting on the newly arrived Soviet Ambassador's statement that the Sino-Soviet Treaty was a manifestation of friendly feeling, the paper stated that it could not agree with Soviet interpretation of the agreement; that China's position would be very different today if Manchuria had been handed over intact to the National Government; and that it would have been easy for the Soviet Government to have honored the spirit of the Treaty by expressing its abhorrence of the armed (Communist) revolt against the Government of its "friend and ally". The paper added, however, that the Ambassador's arrival provided the occasion "to clear up a number of misunderstandings and suspicions".

A new import regulation, the Central Bank Circular 131, has created "C" consternation among China importers. This circular requires an importer to 1) deposit with the Central Bank, at the time of approval of the import license, 50% of c.i.f. value of import, in local currency at prevailing official open market rate of exchange, 2) deposit additional margin, as required, whenever the official rate is subsequently modified upward, and 3) settle final foreign exchange, at the time of arrival of goods, at the official rate prevailing at that date. The announced purpose of this circular is to reduce the "exorbitant" profits hitherto possible to importers buying exchange at unrealistic low official open market rates prevailing at time of issuance of licenses and disposing of their goods, upon arrival, at black market level commodity prices. A majority of the import and banking concerns consider the regulation unworkable and believe its enforcement will have serious repercussions on the economy. The fact that the regulation was adopted seems to have impressed observers and Chinese with the stringency of the National Government's foreign exchange position despite US commodity aid.

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Terrorism expected as result of formation of new French-sponsored government. A campaign of propaganda and terror, instituted by Ho Chi Minh's Viet Minh government, is expected as a result of the formation of a new French-sponsored Provisional Central Government of Vietnam under General Nguyen-van-Xuan. General Xuan, a French citizen and since last October president of the Provisional Government of South Vietnam, on 20 May was "unanimously chosen" to head the new government by delegates from Tonkin, Annam, and Cochinchina. The formation of the Xuan government, which postpones a government under the former Annamite emperor, Bao Dai, nevertheless has Bao Dai's approval. Furthermore Xuan has announced that he would sign an agreement with French High Commissioner Rollaert, in Bao Dai's presence, on the day following the proclamation of the government on the "first lucky day of the June moon." A French Foreign Office official stated that although de facto recognition will not now be granted, the Provisional Government will have the status of an associated state in the French Union. General Xuan has pointed out that the evolution of Vietnam will proceed within the legal framework of the French Constitution, reaching at some future date full maturity and dominion status. Notwithstanding these elaborate plans, neither influential Vietnamese nationalists nor French officials believe that the new government has much chance of survival. The French, who because of domestic considerations in France are unable at the present to make any major change in colonial policy which will involve the granting of more liberal concessions to the new provisional government, realize how quickly Viet Minh terrorism could jeopardize the success of the Xuan regime and have redoubled their security precautions.

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INDONESIA

Dutch moves to by-pass the Republic. An elaborate "Federal Conference" to be attended by the heads of autonomous states and areas is to be convened on 27 May at Bandoeng, in Dutch-held Java, by Lt. Governor General Van Hook. This conference, to which the Republic of Indonesia has apparently not been invited, represents a Dutch move to strengthen its influence in the existing Provisional Federal Government. A Republican request to hold an "All Indonesia National Congress" at Batavia from May 24 to 26 as a counterpoise to the Bandoeng conference has been prohibited by the Netherlands Indies Government on the grounds that all political convictions will be adequately represented at Bandoeng. These moves are projections of the basic difference between the Dutch and Republican positions in regard to the Republic's status in an interim government.

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The Dutch objective has been to transfer sovereignty to a United States of Indonesia in which the Republic would be in the minority. The Republic, which considers itself the champion of nationalism for all of Indonesia, has insisted upon representation commensurate with its influence and therefore has demanded a majority position in any federal government. The Bandoeng Conference is further evidence that the Republic may be forced to enter an interim government and the United

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-7-

INDONESIA (continued)

States of Indonesia on Netherlands terms or that it will be by-passed entirely. If the Republic is by-passed the inevitable unrest would enable the Dutch to argue before the United Nations Security Council that such disturbances were a civil conflict in which the Dutch would be obliged to protect their interests. The US Delegation of the UN Good Offices Committee takes a serious view of the Bandung conference and in an effort to resolve the imminent deadlock, is prepared to offer a compromise plan which contemplates the establishment of a provisional federal government on the basis of general elections throughout the area without regard for the present state boundaries.

PHILIPPINES

Settlement of law and order problem less likely in view of Taruc letter. The possibility that the law and order problem in the Philippines will be settled amicably through surrender and the granting of amnesty is much less likely in view of a letter which Luis Taruc, supreme commander of the dissident Hukbalahap, is reported to have sent to an Associated Press correspondent in answer to a series of questions. In this letter Taruc states that he is still a member of the Philippine Communist Party, demands the right for Huks to bear arms regardless of property or educational qualifications, and objects to various infringements of Philippine sovereignty by the United States. The Philippine Government's apparent answer to Taruc's attitude has been the appointment of General Guillermo P. Francisco (Chief of the Constabulary during the Japanese occupation) as technical assistant on police matters and the appointment of Teofilo Gison (pre-war Secretary of the Interior and Secretary of Justice in the Laurel war-time puppet Cabinet who was convicted of treason by the People's Court and later granted amnesty as a result of a proclamation by the late President Roxas) as a technical adviser to President Quirino in charge of provincial and municipal administration.

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