

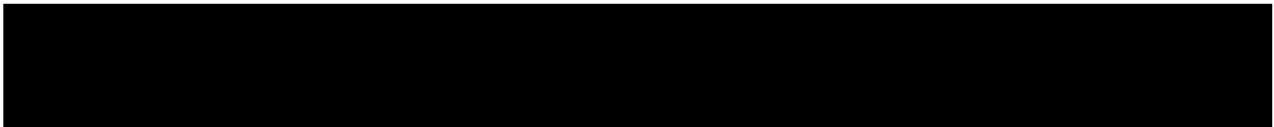
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OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 4  
WEEK OF 1 JUNE - 7 JUNE 1948

25X6A SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS



If Rhee Syngman is able to maintain his present dominant position in South Korean politics his warped personality and the actions of his unsavory associates may jeopardize the life of the infant National Korean Government (page 4).

Chinese Nationalist circles in Shantung reportedly consider the situation there hopeless. Barring an unforeseen and basic reversal of Central Government policy toward Shantung and its provincial leaders, or direct US aid to that area, the possibility that the Nationalists can maintain control of any of the province (except the port of Tsingtao) is becoming remote (page 6). The growing trend of anti-US feeling in China, spear-headed by student agitation against US policy in Japan, continues (page 6).

The US delegation of the UN Good Offices Committee in Batavia is currently making recommendations which it believes will protect future US economic interests in Indonesia (page 8).

The inauguration at Hanoi on June 5 of the new Provisional Central Government of Vietnam, was completed in an atmosphere of extreme tension and elaborate security precautions and emphasizes the tremendous gulf between the newly created government and the peoples under its jurisdiction (page 8).

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

- (1) An asterisk (\*) -- To indicate that all or part of an item is based solely upon information from State's "S/S distribution" series.
- (2) "A", "B", or "C" -- Importance, in B/FE's opinion, of the item, with "A" representing the most important ones.

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## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERALDraper Mission recommends minimum reparations

The recommendations as to the extent of reparations removals contained "B" in the 26 April 1948 report of the "Johnston Committee" (the group headed by Undersecretary of the Army Draper) are even more lenient than those in the 26 February 1948 report of Overseas Consultants, Inc. (see FE/P Weekly 6-12 April). Both Reports in effect advise against the removal of productive facilities (except primary war facilities) which might effectively contribute to Japan's production and potential trade. However, the Johnston Report recommends that "only those primary war facilities in government-owned arsenals should be made available for reparations whereas the Overseas Consultants, Inc. had included privately owned primary war facilities in their estimates.

The following table compares the recommendations as to reparations removals contained in the two Reports:

TABLE: Recommendations as to capacities (and values) of removals for reparations.

INDUSTRY	UNIT (in tons)	Capacity Designated for Reparations		VALUE (thousands 1939 yen)	
		O.C.	Johnston	O.C.	Johnston
Nitric Acid	Metric	107,000	82,000	9,648	8,000
Synthetic Rubber	Metric	900	750	10,236	10,000
Shipbuilding	Gross	385,000	152,300	118,138	50,000
Aluminium & Magnesium Fabricating	Metric	50,000	50,000	21,688	21,688
Magnesium Reduction	Metric	480	480	12,559	12,559
Primary War Facilities	-	-	-	<u>1,475,887</u>	<u>560,000</u>
TOTAL				1,648,156	662,247

Other recommendations made by the Johnston Committee are:

1. Japan's merchant fleet should be substantially enlarged.
2. Japanese trade with the prewar (nearby) markets should be encouraged.
3. Foreign trade, now carried on almost exclusively on a government-to-government basis, should be returned to private channels as soon as feasible.

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4. Policy should be directed toward the establishment of a definitive exchange rate as soon as monetary and economic conditions become sufficiently stable.

5. The present exchange rate of fifty yen to the dollar (the "military exchange rate") should be modified to reflect more nearly the relative purchasing power of the yen.

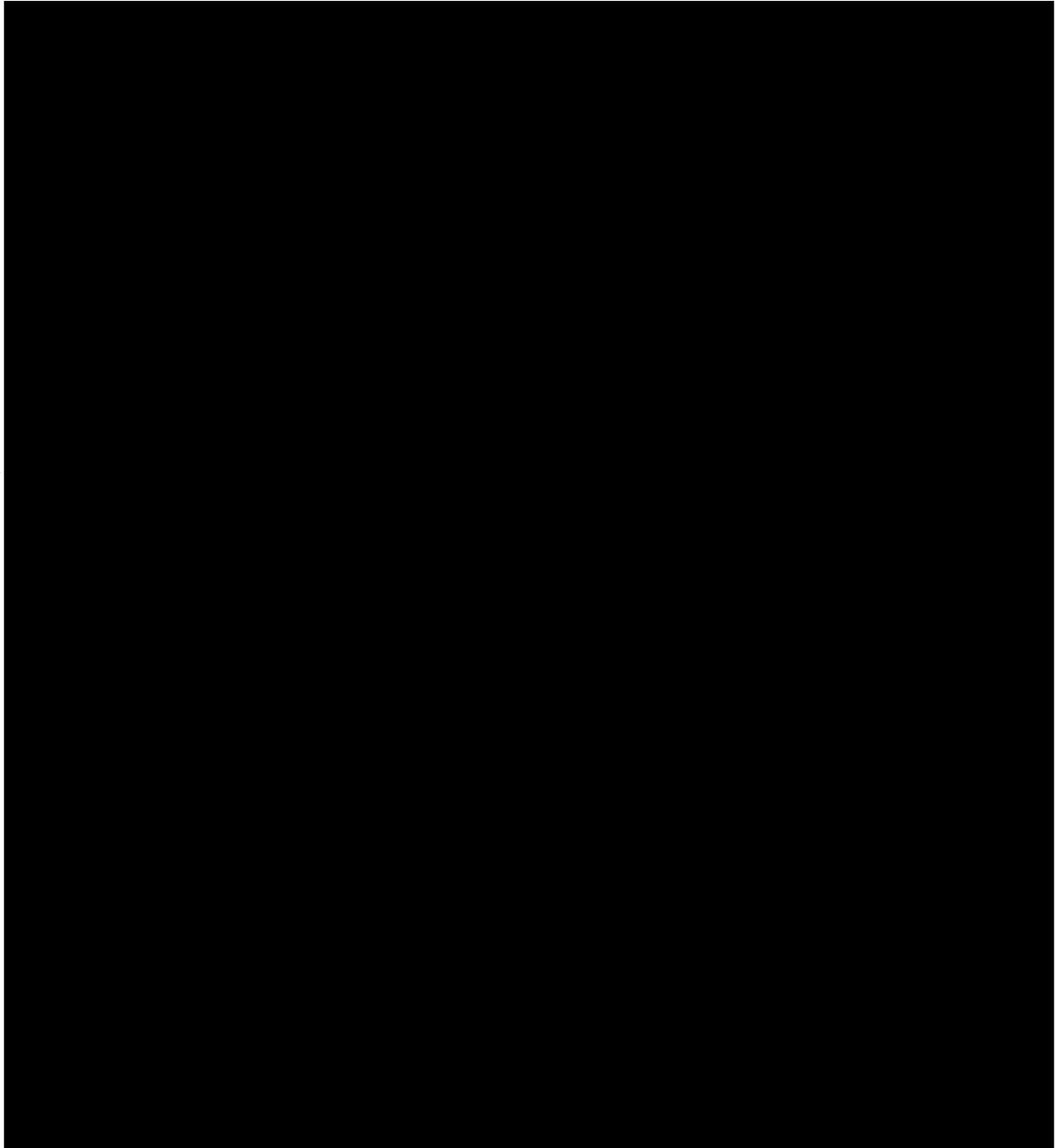
6. Foreign private investments in Japan should be encouraged.

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KOREA

The existence of the government to be established in South Korea will be most precarious if Rhee Syngman is able to seize effective control. Regarding himself as the chosen leader of the Korean people, Rhee is obsessed with a desire for personal power. Although his success in obtaining this power is far from assured, he has acted since the elections as if his direction of the affairs of the new state required mere formal

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KOREA (Cont.)

confirmation and as if he were not aware of <sup>25X6A</sup> the strength of potential ~~25X6A~~ opposition to his future program. [REDACTED]

[REDACTED] He has already stated privately that he will accept US military and economic aid but only on his own terms. Rhee's adherence to this stand might well imperil the operation of any future US aid program. Rhee's vanity also makes him fair game for self-seeking Korean and US political adventurers and US "empire-builders" interested in obtaining "concessions" for the exploitation of Korean markets and resources. Moreover, with Rhee in control, the new government may be denied the services of many of the scarce high-level native administrators and technicians in South Korea. Lack of any US guarantees of support for the South Korean regime against probable North Korean aggression and knowledge that there is no place for them under Rhee may cause many moderates and non-partisans, now occupying responsible Interim Government posts, to oppose the government or to refuse to associate themselves with a regime which is morally and physically incapable of opposing an ever-present Communist menace.

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CHINA

Shantung has again emerged as a major theater of Chinese military activity. Communist units from the Weihsien area, from north of the Yellow River, and from the Central China sector are gathering in southwest Shantung and along the Honan-Anhui-Kiangsu border, west of Haichou. Action along the Tientsin-Fukou rail line from that city to Tsinan, Shantung provincial capital, has resulted in Communist interdiction of the railway above and below Tsuyang as well as in the capture of Taian and Tawenkou, important rail towns. Nationalist circles in Shantung reportedly consider the situation hopeless and despair of any amicable and mutually helpful relations with Nanking. Barring an unforeseen and basic reversal of National Government policy toward Shantung and its provincial leaders, or direct US aid to the province, the possibility that the Nationalists can continue to control any of the province (except the port of Tsingtao) is quite slim. The continued Communist delay in developing a major offensive in Manchuria suggests that earlier purges of the more intelligent and successful farming elements, the draft of able-bodied young men, and the seizure of farm animals are now necessitating the use of Communist army units for requisite spring planting.\* The situation there remains pregnant, with mobile Communist units still favorably disposed for early all-out attacks. "A"

The serious proportions of the growing anti-US feeling in China, as spearheaded in student agitation against US policy in Japan, was emphasized during the past week by a strongly reproving speech by US Ambassador Stuart. This movement has been countered to some extent by restrictive measures of the Shanghai authorities, the failure of agitators to rally the bulk of the students, the aroused action of a previously dormant middle group of the public and students, and a modified attitude of the critical Ta Kung Pao. At the same time, Foreign Minister Wang Shih-chieh, in denying any ill feeling among the general public against the US, said that China and the US held divergent views on the disposal of war-supporting industries in Japan, but that he was convinced that neither would "countenance Japanese rearmament." "B"

Prospect of Sino-Soviet Discussions Regarding Sinkiang. With General Roschin back in Nanking as Soviet Ambassador to China, it is entirely possible that Sino-Soviet talks leading to an informal modus vivendi for maintenance of Chinese sovereignty in Sinkiang may ensue. Such an understanding might call for a kind of Soviet mediation in the nine month old deadlock between Chinese authorities in Sinkiang and the dissident Ili Group. Although the Chinese military position in Sinkiang has been improved by an increase of garrison strength and by completion of a new highway to Sinkiang, Chinese forces could not withstand an Ili attack with any considerable Soviet support. Some Chinese Army officers in Sinkiang predict such an attack for this year, possibly by August. Therefore Soviet mediation of all points of dispute in Sinkiang might from Nanking's point of view appear desirable. "B"

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The Chinese will probably attempt to reach an understanding with the USSR before acceding to the Ili demand for removal of Hanking-appointed Governor Masud Sabri. To achieve this, China would probably have to grant substantial economic concessions to the USSR. Soviet demands in Sinkiang at the present time might perhaps be influenced by the following factors: (1) The Sino-Soviet Aviation Agreement covering the operation of an airline from Hami in Sinkiang to Alma Ata in the USSR can be terminated by the Chinese in June 1949 (effective September 1949). Since the terms of the agreement are highly favorable to the USSR, Moscow will want it extended. (2) The USSR has tried unsuccessfully to maintain a large consulate at Lanchow, an important city on the main route from China proper to Sinkiang. The USSR has tried in the past to have the aviation agreement extended to include operations from Hami to Lanchow and, although the Chinese have resisted, continued Soviet interest can be assumed.

Chen Li-fu, vice-president of the Chinese Legislative Yuan, will be in the United States during June attending the Moral Rearmament Conference in Hollywood. For months he has expressed a desire to study democratic institutions in the US. Chen Li-fu controls the powerful and ultra-conservative CC Clique which includes many of Chiang Kai-shek's staunchest supporters, but, in the political developments of the past two months it appears that Chen Li-fu has not always produced the results desired by the Generalissimo. The question therefore arises as to whether Chiang is using the time-honored measure of a trip abroad to punish Chen Li-fu. "C"

Currency Reform. Although several sources report that small denomination notes chiefly of \$1, 2, 5, and 10.00 are on order or being printed in Hong Kong and Rangoon, and that new silver coins are being minted in the US, presumably for introduction into China of a new currency, Hollington Tong, Government Information Office spokesman has dismissed as "premature" reports of an imminent currency change in China, and declared that apart from the US aid program the Chinese Government has made no request for US support in currency reform. Tong said though the government has had a currency reform plan for a long time, it is still uncertain when this will be put into practice. He flatly denied reports alleging that silver dollars are being minted in the US or Mexico in anticipation of a currency change. In an explanation of the recent action by the Ministry of Finance in lifting the ban on silver coins after 12 years, Tong said their possession and sale to the Central Bank are approved, but private trading in silver is still unlawful. "C"

Private Exchange Holdings. A group of Legislative Yuan members headed by Chien Kwan-san, has begun drafting rules for expropriating Chinese holdings abroad. Also 84 legislators were reported to have submitted a resolution on 2 June demanding the registration of properties held by key officials in the government. The resolution was described as seeking to "prevent corruption and establish honest government." "C"

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**SECRET**INDONESIA

Powers contemplated for NIU court affect future US economic interests in Indonesia. The extent to which the court of the proposed Netherlands-Indonesian Union will restrain the political and economic freedom of the United States of Indonesia (USI) is another of the problems currently being discussed by the Dutch and the Republic of Indonesia and is interpreted by the US delegation of the UN Good Offices Committee (USGOC) as an issue directly affecting US interests. The Dutch take the position that individuals and corporations are to have the right to appeal to the Union court. The Republic considers that this feature would protect Dutch corporations in Batavia to the disadvantage of the Republic. USGOC believes that US enterprises would have a more favorable position in a USI court than in a Union court. USGOC further concludes that should the USI and the US sign a commercial treaty, US interests would best be served if a court outside the USI were not in a position to interfere in contracts pursuant to such a treaty. USGOC has offered pertinent suggestions regarding Netherlands-Indonesian economic relations as defined in the Union proposals. While a Netherlands-Republic economic agreement cannot itself assure US equality of opportunity in Indonesia, USGOC feels that considerations (including US financial support) which bear on the future US position in Indonesia offer an opportunity for economic agreements with a USI which are favorable to the US. USGOC believes that restrictions on USI sovereignty as currently envisaged by the Netherlands could only react against prospects of a western orientation of the USI and could lead eventually to complete dislodgment of Netherlands interests in Indonesia.

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FRENCH INDOCHINA

Elaborate security precautions mark inauguration of new government. The inauguration at Hanoi on 5 June of the new Provisional Central Government of Vietnam, which was completed in an atmosphere of extreme tension and elaborate security precautions included the signing of an agreement by French High Commissioner Bollaert, former Annamite emperor Bao Dai and General Nguyen-van-Xuan formally recognizing Vietnam's "independence" within the framework of the French Union. French officials in Indochina insist that Xuan, the first President of the new Government, is completely on his own and that he will get advice and assistance if he specifically requests it. However, in view of the opposition in France to the few concessions already made it is unlikely that agreements on either assistance or concessions in the diplomatic, military or economic fields, which will insure stability in Indochina, can be negotiated by a government under Xuan. The uncertain future of the Xuan Government is underlined by a report from the US Consul in Hanoi that the whole week end of festivities surrounding the launching of the new government emphasized the tremendous gulf between the newly created government and the people under its jurisdiction.

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## SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

No Contributions.**SECRET**