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

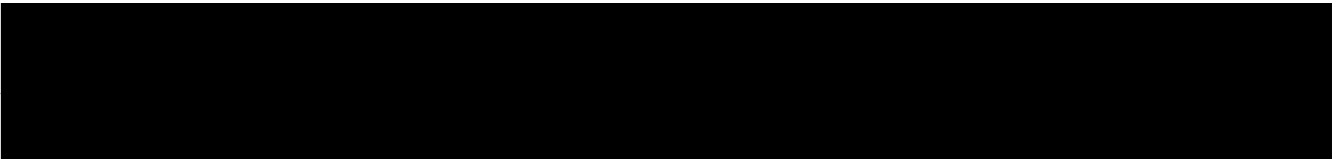
INTELLIGENCE HIGHLIGHTS NO. 7
WEEK OF 22 JUNE - 28 JUNE 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

US efforts to "crank-up" the Japanese economy have begun with the passage of pertinent Congressional appropriations and the grant of credits by a US banking syndicate. These actions are primarily designed to stimulate the Japanese textile trade (page 3).

Anti-US and anti-government agitation in China may place in jeopardy the US/China Treaty of Friendship, Commerce and Navigation. US-Sino negotiations for a bilateral agreement on the China Aid Program are pursuing a tortuous course (page 4).

Conflicts appear to be developing between US economic interests in Siam and the US sponsored recovery program for Japan (page 4).



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The United Nations Temporary Commission on Korea (UNTCOK) may refer the question of formal recognition of the new Korean National Assembly to the September meeting of the UN General Assembly. The US and China are attempting to secure early recognition of the regime by UNTCOK since such action would serve to enhance the prestige of the new government (page 5).

While it appears that the fighting in the China civil conflict was not on the grand scale reported by Nationalist spokesmen and the press, the most severe nationwide economic crisis yet to appear was set off by the announced

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

- (1) Double asterisk (**) -- placed at beginning and end of information based solely on "S/S distribution" series.
- (2) Single asterisk (*) -- to flag item containing "S/S distribution" series.
- (3) "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)

fall of Kaifeng. Discouraging military, political and economic news added impetus to chaotic conditions on all commodity and exchange markets (page 6).

Although the Dutch reactions to the proposals of the US-Australian Delegations are generally unfavorable the presentation of the proposals at this time, as well as the postponement of US loans to the Netherlands Government, appears to have forestalled the resumption of widespread armed clashes between Dutch and Republican forces (page 8).

Showdown on Burma's leftist unity program expected 1 July meeting (page 8).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

US moves to aid the rehabilitation of Japanese economy

Three steps have been taken by the US or US interests in the month of "A" to aid in the rehabilitation of the Japanese economy: (1) the establishment by the US Congress of a revolving fund of \$150,000,000 available to the Secretary of the Army for the purchase of natural fibers in the US for processing in the occupied areas, (2) the appropriation by the US Congress of a \$1,300,000,000 fund for government and relief in occupied areas (GARIOA), part of which may be applied by the Secretary of the Army to economic rehabilitation in Japan, Korea, and the Ryukyus, and (3) the final execution of an agreement to provide Japan with \$60,000,000 of credit against the Occupied Japan Export-Import Revolving Fund (OJEIF).

The \$150,000,000 revolving fund legislation (not to be confused with OJEIF) empowers the Secretary of the Army to issue notes for purchase by the Secretary of the Treasury. The proceeds of these notes are to be used by the Secretary of the Army to purchase natural fibers (i.e. cotton, wool, flax, mohair) for processing in the occupied areas (chiefly Japan). Upon sale of the processed goods either in the domestic market of the occupied areas or for export, a sum equal to the amount withdrawn from the revolving fund plus interest would be returned to the fund in US dollars.

The GARIOA appropriation permits the Secretary of the Army to determine how much economic rehabilitation aid should be afforded Japan, Korea, and the Ryukyus. The initial request of Congress by the Department of the Army for this aid was \$150,000,000, but it is estimated that probably no more than \$100,000,000, if that much, will be available, about 70 percent for Japan and 30 percent for Korea. However this amount will be supplemental to the actual relief funds for Japan which will probably amount to about \$400,000,000, a sum similar to that spent for relief in Japan in the last fiscal year.

On 6 June, SCAP approved the formal agreement for a \$60,000,000 credit by US banking interests to finance shipments of US cotton to Japan. The credit will be made against the fund consisting of precious metals set up last August to finance purchase of cotton in Japan (See FE/P Weekly 20-26 April 1948).

These actions have been taken to furnish Japan with sufficient working capital to "crank-up" its economy since Japan has no other means at present to finance the purchase of the requisite raw materials.

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GENERAL (continued)

US-China treaties and agreements

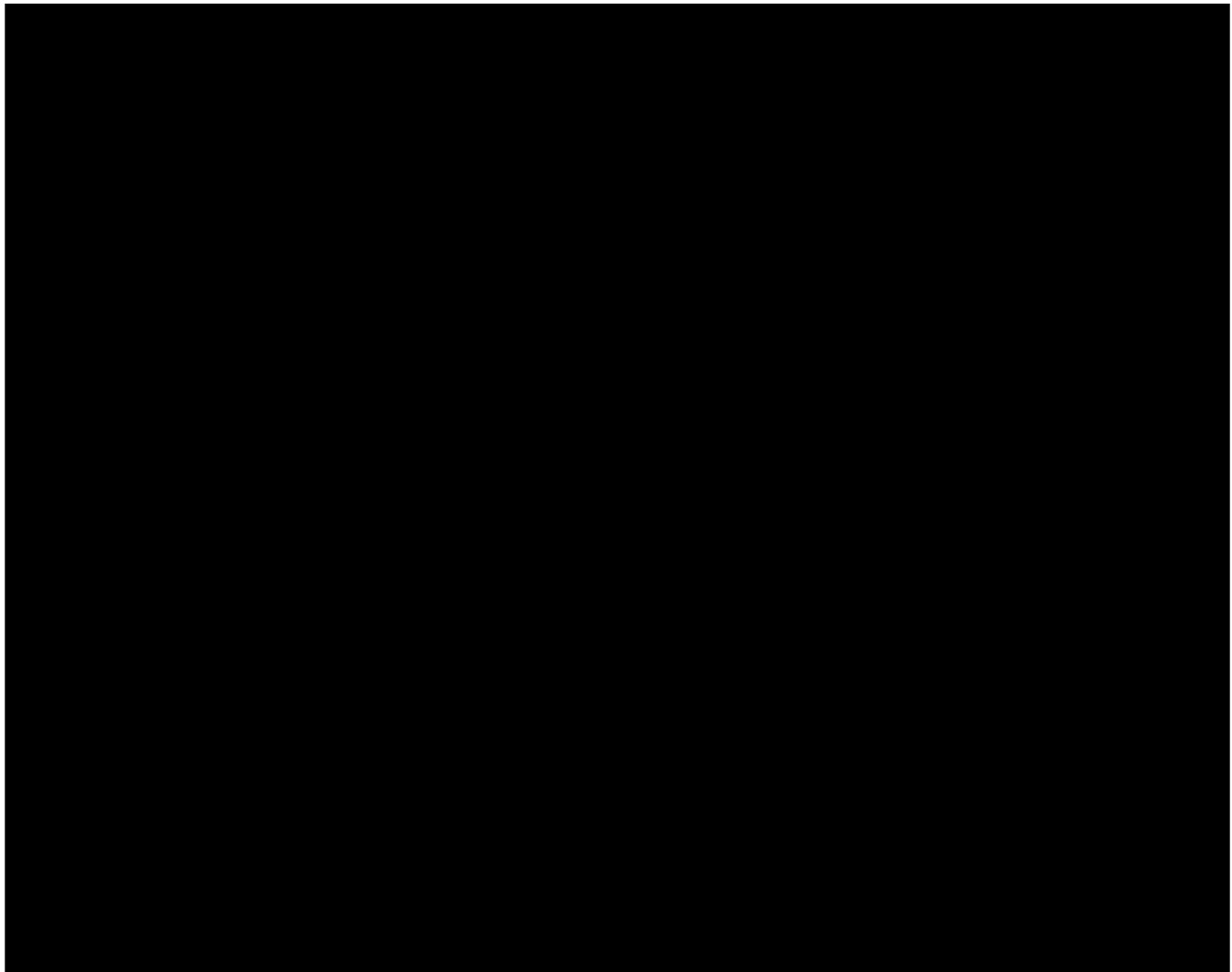
The US/China Treaty of Friendship, Commerce and Navigation signed at Nanking November 4, 1946, was approved for ratification June 2, 1948 by the US Senate. The approval included a reservation regarding copyrights, and the Nanking Embassy has been asked to ascertain if the Chinese Government is prepared to exchange ratifications of the Treaty, including the Senate reservation. The US desires that this act be accomplished by the Chinese Government Executive Branch rather than through the Legislative Yuan. There is a fear that, in view of the present anti-American and anti-government agitation in China, the whole Treaty may be placed in jeopardy if referred to the newly elected and independent minded Legislative Yuan. "C"

The Sino-US negotiations for a bilateral agreement on the China Aid Program, scheduled to be signed on July 3, are pursuing a tortuous course, with the US trying to nail down the Chinese Government to specific controls and undertakings, and the Chinese Government seeking to avoid such definite commitments as "undesirable and unnecessary."

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KOREA

A decision concerning the formal recognition of the Korean "National Assembly" and the government to be formed by it may be left to the UN General Assembly (UNGA) by the UN Temporary Commission on Korea (UNTCOK). At present UNTCOK is reported to be split on this question with China, El Salvador and the Philippines in favor of granting official recognition while Australia, Canada and India are opposed. The French representative, who had apparently favored a Philippines-proposed resolution granting formal recognition, is now reported to have given indications that he will abstain if the resolution is put to a vote. The Chinese government is endeavouring to persuade the Indian government to change its position while the US is making representations to the French Foreign Office. However, the Indian government has indicated that it prefers to wait for an UNGA decision, and if Syria should again participate in UNTCOK activities, its attitude would probably be unfavorable to recognition. Hence it is possible that UNTCOK will be deadlocked on the question even if the French delegate should support the resolution. If UNTCOK continues to refuse to grant more than tacit de facto recognition, the prestige of the Korean Assembly and the stability of the future Korean Government will be impaired.

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CHINA

That fighting in the Chinese civil conflict was not on the scale "A" reported in the Nationalist press or by their military spokesman was attested to by a series of aerial flights over Changchun, Tsuyang, and Kaifeng which were made by both Embassy officials and civilian travellers. At the very time that the press was filled with reports of bitter fighting, heavy casualties, extensive artillery barrages, and cities enveloped in flames, these eye witness accounts failed to reveal any fighting on the reported scale and led one major news agency to make the not completely unwarranted observation that both sides fight harder on paper than anywhere else. This may be at least partially the result of incorrect and incomplete information received by supreme Nationalist headquarters in Nanking. Field commanders evidently report all contacts with the enemy, however minor, as major battles. Furthermore, indications are that supreme command orders receive only that degree of compliance which Nationalist field commanders care to give them. The Communists, however, continue to maintain their military ascendancy despite certain difficulties besetting their continued expansion.

The most severe nation-wide economic crisis yet to appear was set off "A" by the announced fall of Kaifeng to the Communists. Discouraging military, political and economic news added impetus to chaotic conditions prevailing on all commodity and exchange markets. Shanghai went on a buying spree last Saturday (26 June) as the Chinese dollar depreciated 100% in 48 hours to CN \$5,000,000 plus for US \$1 on the blackmarket. Rice prices reacted slower, but reached a reported new high of CN \$18,000,000 a picul on Saturday (26th). No single cause appears completely responsible for this new decline. The following are cited as contributing factors: (1) growing spread of Communist military strength in Central China, (2) dumping unlimited printing press money in leading Commercial centers, (3) ineptitude in all phases of the administration, (4) increasing inability of the government to administer effective economic controls, and (5) rumors that Chiang Kai-shek had been taken into custody at Sian.

The Shanghai Market.

	<u>US \$ Exchange (Selling Rate)</u>		<u>Wholesale Price of Rice per 172 lb picul</u>
	<u>Official "open"</u>	<u>Blackmarket</u>	
This week (25 Jun 48)	CN \$480,000	CN \$3,600,000	CN \$15,500,000
Week ago (18 Jun 48)	480,000	2,100,000	10,100,000
Month ago (25 May 48)	480,000	1,250,000	6,700,000
Year ago (25 Jun 48)	12,000	50,000	480,000

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In North China Communist military pressure upon the Peiping-Mukden railroad continued but shifted to that section of the line southwest of the coal port, Chinlungtao. This latest series of comparatively small-scale attacks has kept this important line cut almost continually over the past several weeks. Communist columns of Nieh Jung-chen, which recently have seen action along the Peiping-Suiyuan and more recently along the Peiping-Mukden railways, have wheeled westward, assaulting the Peiping-Changteh line south of Kupeikou Pass and attacking Kupeikou. Later pressure from Nationalist reinforcements has apparently eased the situation in both places. Except for the continued siege of Changchun by second line Communist troops, the Manchurian front was quiet with Nationalist commanders unwilling to commit their troops and resources to offensive action and the Communists, according to some reports, afflicted with a real or potential pinch in their food supply. In Honan Nationalist troops, as expected, have reportedly re-occupied Kaifeng following a Communist withdrawal. The Nationalists now claim to have surrounded about five Communist columns in the area south of Kaifeng, but in the past the Communists have invariably broken out of such envelopments. Along the Tientsin-Pukou in southwest Shantung the Nationalists say they have regained Taian, but admit that the Communists have breached the defenses of Tsuyang. "B"

The previously noted unwillingness (or inability) of the Generalissimo to liberalize the base of his regime was again evinced last week when he named Chen Yi governor of Chekiang and Tu Li-ming deputy chief of the Central China Bandit Suppression Headquarters. Chen, who gained widespread notoriety for his malevolent speculations as governor of Fukien and then of Taiwan, is an old-line follower of Chiang Kai-shek; Tu's carpetbagging regime in Manchuria as well as his professional incompetence are held to be one of the chief contributions to current Nationalist troubles in the North-east. "B"

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INDONESIA

Dutch reactions to proposals of US-Australian GOC Delegations generally favorable.* Although the Netherlands Delegation in the UN Good Offices Committee (GOC) in Indonesia has dismissed the US-Australian Delegations' proposals for a future federal structure in Indonesia by refusing to discuss them,** there are now indications that the Netherlands Government at The Hague is carefully considering the proposals and that it may react favorably to a few of the recommendations contained in the joint paper. Representatives of the Netherlands Embassy in Washington have expressed their views on the subject to the US Department of State and have protested that Netherlands sovereignty during the interim period would be limited considerably more under the new plan than it had been under the January 1948 Renville Agreement.*** A flat rejection of the joint working paper of the US-Australian Delegations would confront the GOC with the difficult problem of arriving at a satisfactory basis for further negotiations. The problem of the GOC still remains that of providing for Netherlands sovereignty until that sovereignty has been transferred to the United States of Indonesia and at the same time insuring that the Republican Government receives fair representation in both interim and federal governments which are envisaged for Indonesia.. It would appear that the presentation of the US-Australian plan at this time as well as the postponement of US loans to the Netherlands Government has forestalled the resumption of widespread armed clashes between Dutch and Republican forces.

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*BURMA

Showdown on leftist unity program expected 1 July. Burma's future political alignments may be decided at a scheduled 1 July meeting of the Supreme Council of the Anti-Fascist Peoples Freedom League (AFPFL), the directorate of the coalition political organization which sponsors the present Burmese Government. A governmental crisis, which was precipitated by Prime Minister Thakin Nu's announcement of a leftist unity program and his retirement on 20 July as Prime Minister, will probably reach a climax at this meeting in the expected showdown between the Peoples Volunteer Organization (PVO) and the Socialists (the two strongest elements in the AFPFL). The opportunistic PVO which the Government fears may join the insurrectionary Communists, has refused thus far to support the Government's leftist unity program. The Prime Minister and other elements of the AFPFL appear to be concerned about reaction in the UK and US to present trends in Burma, and have attempted to explain that they advocate only a neutral course. However, the showdown at the 1 July meeting and a possible defection of the PVO from the AFPFL, increases the likelihood of more political violence favorable to the Burmese Communists.

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