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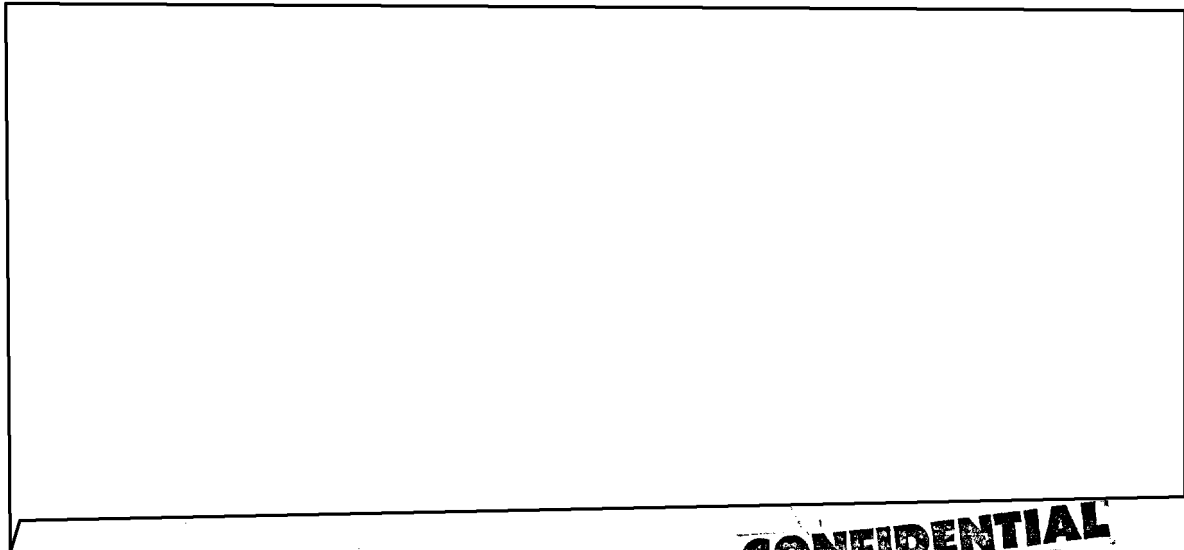


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OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC DIVISION

INTELLIGENCE HIGHLIGHTS NO. 99  
3 MAY to 9 MAY 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Forthcoming Japanese elections for 132 seats in the Diet's Upper House probably will see some losses on the part of YOSHIDA's Liberal Party, scattered gains for opposition parties, and a slight rise, if any, in Communist holdings (p. 2).

The Chinese Communist tendency to play down "Sino-Soviet Friendship", which was underscored on May Day, is believed to be in deference to Chinese nationalist sensibilities (p. 3). Meanwhile, anti-inflationary gains on the Chinese economic scene are expected to be only temporary (p. 3).

The newly-announced Huu cabinet in Vietnam reflects increased prominence for the Cochinchinese "autonomists", while the elimination of two under-secretariats may reduce the degree of Vietnamese participation in US economic activities (p. 4).

Although USI threats of military action against the Amboinese secessionists are probably hollow, establishment of a "provisional blockade" of the Southern Moluccas -- even if only partially successful -- may result in the withdrawal of local support from Ambon's militants (p. 5).

President Quirino has returned to Manila after a protracted stay at Baguio, in an attempt to mend political fences: on balance, it is believed that the general dissatisfaction with his administration will continue to grow in strength (p. 5).

NEWS NOTES

Three Asian conferences...Hainan's iron ore...Recruiting for Manchurian industry..."State of preparedness" in Thailand.

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in D/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

JAPAN

Upper House election campaign—Japan's political machines opened their campaigns for the 4 June Diet Upper House elections last week, with the start of the rigidly limited thirty-day period during which electioneering is legal. A total of 125 Upper House seats — half the number which were filled in the general elections of 1947 — are up again this June, together with seven vacancies. Some of these will be filled by constituencies, while others will be filled from the nation at large. In view of the paramountcy of the Diet's Lower House, this Upper House election will be of interest more as an indication of public confidence in Premier YOSHIDA's majority Liberal Party and as a test of present sentiment toward Japan's other parties than as a critical test of strength.

"B"

With 35 of their 60 Upper House seats coming up for reelection, YOSHIDA's Liberals are facing some internal restiveness, due to dissatisfaction with YOSHIDA's one-man rule of the Party and to factionalism between old-line politicians and one-time bureaucrats. Externally, the Liberals will be dogged by opposition charges of responsibility for such unpopular but Occupation-required legislation as the 1950 balanced budget, the Local Tax bill, and other matters which reflect the Dodge austerity line. The opposition will also attempt to connect the Liberals with scandals now under investigation. The Liberal Party stands to lose some seats unless the public can be persuaded that the Occupation is to blame for these unpopular measures and that no other party could do better under the circumstances.

The 70-seat RYOKUFUKAI, (Green Breeze Society) — a group of conservative independents who work closely with the Liberals — has 29 seats coming up for reelection. The extent of the RYOKUFUKAI's success will depend in part on the reputation of individual candidates and the degree to which the public can be persuaded that they are not responsible for unpopular legislation. The RYOKUFUKAI may succeed in breaking about even.

Because of their opposition status, which permits them to capitalize on unpopular legislation, the People's Democrats and the Socialists stand to gain in the election. The People's Democrats (an amalgamation of the Democrats, People's Cooperatives and the New Political Council) will have the wider field of support, while the success of the newly reorganized Socialists will depend upon winning the vote of non-Communist labor.

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Only 3 of the 5 Communist Upper House seats come up for reelection. The Communists have nonetheless nominated 45 candidates and have announced their support of 5 "party friends" as well. While unemployment and current depressed economic conditions play into Communist hands, these factors probably will be offset by the retrogression in popularity which the party has suffered since last summer as a result of the publicly-revealed Japanese Communist subservience to the USSR, the charges that Japanese Communists have delayed POW repatriation, and the factionalism within the Party. While it seems highly unlikely, in consequence, that the Communists will duplicate their success of 1949, when they received nearly 10% of the popular vote, they could, however, gain a few Upper House seats.

#### CHINA

Sino-Soviet friendship--Since the return of Chairman MAO Tse-tung from Moscow, Chinese Communist leaders have largely avoided public discussion of the Sino-Soviet alliance. Even in his May Day address, for instance, LIU Shao-ch'i, generally regarded as the most rabid Stalinist of the CCP leaders, listed the Sino-Soviet treaty in last place among the factors favoring China's reconstruction, and did not mention, in his list of the Party's "present duties," the development of Sino-Soviet amity. "B"

This apparent Chinese negligence is in striking contrast to the practice of Eastern European satellite leaders, who declare their gratitude and fidelity to the USSR on every conceivable occasion. The comparative restraint of the Chinese, however, does not in itself indicate that Chairman MAO and his lieutenants are altering their Stalinist orientation. It is believed that the CCP is following this policy not because of disillusion among the Party leadership with the fruits of Soviet "friendship", but out of deference to the forces of Chinese nationalism.

Temporary inflation check--In recent weeks, Communist propaganda has called attention to improved economic stability in China. Independent evidence supporting these assertions includes a decline in the price of rice in Shanghai (off slightly during March and April) and a 15% drop in the Parity Deposit Unit (a commodity index based on the prices of rice, coal, cotton cloth, and edible oils). "B"

A similar reversal in price movements occurred last summer, when rice dropped from PEN 60,000 to PEN 36,000 per picul during August and September. By November 1949, however, prices had returned to their former levels and had risen to new highs by February 1950. It is expected that the present downward movement will similarly spend itself and the inflationary trend revive once more.

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Although the Communists point with pride to their presumed success in arresting inflation, the present levels of depression and unemployment in China have been more important factors in holding prices down than has Communist skill in currency management. Although the Communists are continuing to cover the larger part of their deficit by resort to the printing press, the resultant inflationary pressure has been offset in past months by a decline in buying power attendant to the severe depression. An additional deflationary force in past months has been the uncompromising Victory Bond drive, which has withdrawn some money from circulation and has forced businessmen to liquidate stocks in order to meet their assigned bond quotas.

Although the business depression and the Victory Bond drive have been temporary deflationary forces, the increase in the amount of currency in circulation has continued to increase the inflationary potential. Following the end of the Nationalist blockade and with a return of trade to Shanghai and other cities, this increased potential will once more be translated into rising prices. For the remainder of 1950, at least, continued inflation is expected to be one of the Communists' major economic problems.

#### INDOCHINA

Huu's cabinet--The new cabinet announced by Vietnamese Premier Tran Van Huu involves no drastic personnel changes. Like his predecessor and political rival, Nguyen Phan Long, Huu will hold the Foreign Affairs portfolio in addition to the premiership. The Ministry of Defense, formerly held by a member of the Tonkin-based Dai Viet party, will go to the Commander-in-Chief of the military forces of the quasi-religious Cao Dai sect. The most significant weakness of the new cabinet is its failure to include any but one of the prominent Catholics and fence-sitters whom Huu is known to have urged to participate.

"B"

Of the nine ministerial posts, six are held by Cochinchinese, a distribution of power which suggests that Premier Huu has been influenced by the long-standing demands of certain wealthy French and Cochinchinese interests for a more or less autonomous Cochinchina within the State of Vietnam. This suggestion is strengthened by Huu's abolishment of the Ministry of the Interior on the ground that such governmental functions can be adequately discharged by the individual governors of Tonkin, Annam, and Cochinchina. Huu's elimination of the under-secretariats of Agriculture and Health would appear to be unfortunate from the standpoint of fuller Vietnamese participation in the application of anticipated US economic aid in these fields.

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INDONESIA

Blockade of the "Republic of South Moluccas"—Following an apparent failure to end the Ambonese secessionist movement by negotiation, the USI has ordered the enforcement of a "provisional blockade" of the rebel "Republic of the South Moluccas". If this measure is not effective in ending the dispute, USI authorities further threaten to land troops on Ambon — the rebel administrative center and the only significant area of the self-announced "independent" state.

"B"

The USI threat of force against Ambon is believed to be no more than a gesture, since the 386 sq. miles of Ambon could be quite strongly defended. Of greater though as yet undetermined significance is the imposition of the USI's blockade. Although a complete curtailment of Ambon's imports would work severe hardship on the inhabitants of the island, who depend heavily on imported rice and other products, such a rigid blockade is probably beyond the USI's capabilities. Even a partial blockade, however, may induce the local population to withdraw its non-toc-firm support of Ambon's militant secessionists.

PHILIPPINES

Opposition to Quirino continues—Congressional opposition to President Quirino has continued unabated, and there is little evidence of any "element of strength" in the President's political position. Quirino, who until recently has remained in the summer capital at Baguio, has been forced to return to Manila in an attempt to repair the wide breach which has developed between himself and Liberal Party leaders.

"B"

In the face of strong Congressional dissatisfaction with his administration, Quirino has asked for approval of legislation which would grant him broad emergency powers. These powers -- allegedly justified by unsettled world conditions -- would enable Quirino to take over industrial establishments, suppress subversive activities, prohibit strikes and lockouts, regulate prices and requisition public services when Congress was not in session.

[Redacted]

Meanwhile, Vice President Lopez continues to make speeches calling for strong leadership in social reforms, and a Senate investigation of a "massacre" by Constabulary forces [Redacted]

[Redacted] adds fuel to the fires of public discontent.

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Although Quirino has also invited rival Nacionalista leaders to meet with him, in order to discuss cooperation with the administration, it is not likely that such cooperation can be achieved without substantial Liberal concessions to Nacionalista political appetites.

NEWS NOTES

Three Asian conferences are scheduled for the remainder of May. A Commonwealth Consultative Committee will convene on 15 May at Sydney, to discuss recommendations for economic and technical assistance to South Asia and to consider approaches to governments outside the Commonwealth "with a view to enlisting their collaboration." On 16 May, the sixth session of ECAFE will be held in Bangkok. A Soviet walk-out over the question of Chinese representation has already occurred in a preliminary committee meeting on 9 May, and the USSR will probably not participate in ECAFE's regular session. Finally, on 26 May, President Quirino will convene his conference on a projected Asian union at Baguio.

The capture of Hainan by the Chinese Communists presents Japan's steel industry with the loss of one of its cheapest and best sources of iron ore. During 1949, Hainan supplied 346,000 tons of Japan's total imported 1,518,000 tons of ore. The Japanese Government's 1950 program calls for importation of 1.7 million tons of ore, a quantity which is only potentially available from other Far Eastern sources. Thus, although the Chinese Communists will not be able to use Hainan ore as a means of exerting much trade pressure, both Hainan's present stockpiles and future production will be available to the Communists as barter for Japanese manufactured products.

The Northeast People's Government actively campaigned throughout China proper during April to recruit technicians for work in Manchuria. Several thousand technicians, mostly semi-skilled trainees, have been attracted by the relatively high salaries and free transportation offered. This campaign is an important indication of Manchuria's acute need for industrial personnel and is consistent with the priority given Manchurian industrial development over the rest of China.

Thailand's Premier Phibul, warning of the "worsening situation" in Southeast Asia, has alerted the police and armed forces against any disorders resulting from internal or external threats. Referring to a Royal Decree of 12 April authorizing martial law if the Government deems it necessary, Phibul described his order not as martial law but as a "state of military preparedness", not necessarily indicating that war is imminent. Publication of the Phibul communique may be designed to give public evidence of Royal blessing for the Government's anti-Communist policy and foreign alignment with the West and may reduce anti-Government criticism in Thailand.

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SECTION III. Communist Plans for Asia



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1. The Trade Union Conference of Asian and Australasian countries, sponsored by the WFTU, was designed in fact to promulgate a strategy of Communist conquest in Asia and to set up the organizational apparatus for its execution.

(a) The conference ratified a coordinated plan of aggression for Communist Parties in the Asiatic countries from Iran eastward. It divided these countries into three blocs: the Communist states (Mongolia, North Korea and China); the non-Communist countries considered fairly vulnerable to conquest (Vietnam, South Korea, Indonesia, Thailand, the Philippines, and Malaya); and the non-Communist countries in which victory is still relatively distant (Iran, Pakistan, India, Ceylon, Burma and Japan). Implicitly taking the USSR, China and North Korea as "base areas" for the coming campaigns, the conference prescribed a progressive program of isolation and subversion for the non-Communist countries similar to that successfully employed in China.

(b) The conference distinguished two phases of Communist revolution in each East Asiatic country. The first phase consists of a naked Communist struggle for national military power. The second phase consists of the employment of such power by the local Communist Party to create an "urban proletarian" government.

(c) In the new WFTU Liaison Bureau for Asia, the conference created an instrument for unified command. Its functions are set forth in language that asserts the identity of trade unions and Communist movements. The Bureau is empowered to assist the "trade union organizations" to carry out the decisions of the "WFTU executive," to conduct propaganda, to gather intelligence, and to participate directly in the leadership of the individual Communist Parties.

2. If put into effect, the strategy of the conference may be expected to affect the various Asiatic countries in the following ways:

(a) In Vietnam, South Korea, Indonesia, Thailand, the Philippines and Malaya, military operations will be given highest priority. The conquest of the states of Southeast Asia appears to hinge on a Communist victory in Indochina and the successful "reorientation" of Thailand.

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(b) India, Pakistan, Burma, Ceylon and Japan appear due, in varying degrees, for the initial stages of political division and isolation.

(c) The duties assigned to China and North Korea in the plan to Communize Asia presuppose a high degree of political stability in those two areas and may therefore conflict with the simultaneous attempt to hasten revolutionary changes in those areas.

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