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OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

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NO. 107

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

INTELLIGENCE HIGHLIGHTS NO. 102
24 MAY to 31 MAY 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Recommendations of the recent Baguio Conference of non-Communist Asian nations (1) emphasized that Asians be heard in world councils on matters affecting Asian interests and (2) suggested the nomination of a continuing liaison officer with the governments represented at the Conference (p. 2).



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The Chinese Communists possess sufficient petroleum stocks to support their military activities but not enough to supply the requirements of industry and transport (p. 4).

NEWS NOTES

[Redacted] Early Korean
election results [Redacted] Burmese Government adding
PVO leaders to its fold.

NOTE: Section III contains a discussion of the trade possibilities for Japan in South and Southeast Asia.

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

GENERAL

Baguio Conference recommendations--The Baguio Conference of seven non-Communist Asian nations, which met 26-30 May, recommended further consultation on matters of common concern but failed to establish formal machinery for an Asian union -- apparently because of Indian intransigence. However, it reaffirmed faith in the UN and recommended joint action of Asian nations in order to exert "due influence" in that body. "A"

Several recommendations with respect to economic and cultural problems in the area were approved. The Conference suggested adoption of measures to ensure fair, stabilized prices for exports; expansion of regional trade; consideration of possible economic specialization; the exchange of teachers and students; and establishment of international study centers.

As expected, Conference recommendations carefully avoided any mention of the "cold war" or the menace of Communist subversion and aggression, thereby indicating that non-Communist Asian nations will continue attempts to remain aloof from the East-West struggle. The most significant recommendations (1) emphasized the common determination of these non-Communist Asian nations that they be heard in world councils on matters affecting Asian interests, and (2) specified Philippine UN representative Carlos P. Romulo as a continuing liaison officer with the governments represented at the Conference. 25X1

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Chinese Communist petroleum position—In spite of the fact that the Communist Far East is a petroleum deficit area, the Chinese Communists have at their disposal sufficient stocks to sustain their present activities against the Chinese Nationalists. However, the immediate denial of petroleum products by the West would, as present stocks become exhausted and requirements increase, seriously hamper future plans of the Chinese Communists to develop their economy.

"A"

The Chinese Communists are believed to have enough aviation gasoline and other fuels to carry out their planned campaign against Taiwan. Aviation gasoline stocks are probably sufficient to sustain the new Communist air force for four to five months at peak operations; diesel and fuel oil have been steadily imported by the Communists during the past year in quantities adequate for the supply of the Communist invasion fleet.

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The Western nations, willing thusfar to export petroleum products to meet the essential civilian requirements of China, have shipped over 100,000 tons to Communist China during the past year. In addition, the Soviet orbit has provided 66,000 tons (see Table II). The principal Western suppliers, US and British companies, have agreed, however, to deny the Chinese Communists products such as aviation gasoline which have a predominantly military value and it is probable that the only important imports of aviation gasoline during the past year consisted of 19,000 tons from Rumania — 14,000 of which were delivered to Dairen in a US-owned tanker within the last two weeks and thus are not included in Table II. Possibly small quantities mislabeled as motor gasoline have been shipped from Hong Kong. Since aviation gasoline for the immediate requirements of the air force is not believed to be in short supply, it appears likely that recent persistent Communist inquiries for aviation gasoline in Hong Kong stem from a desire to resume civil air activity.

Table II

Petroleum imports into Communist China, May 1949 to April 1950 ^{1/}

	<u>Ex-Hong Kong</u>	<u>Ex-Rumania</u>	<u>Ex-Others</u>	<u>Totals</u>	<u>1948 Comm. Imports</u>	<u>Current Annual Requirements ^{2/}</u>
Avigas	—	5.0	—	5.0	250.1	24.0
Mogas	20.2	20.8	—	41.0		200.0
Kerosene	12.6	40.0	—	52.6	102.7	200.0
Diesel & Fuel	54.7	—	11.1	65.8	992.9	240.0
Lub oils	10.0	—	—	10.0	43.0	36.0
TOTALS	97.5	65.8	11.1	174.4	1,389.3	700.0

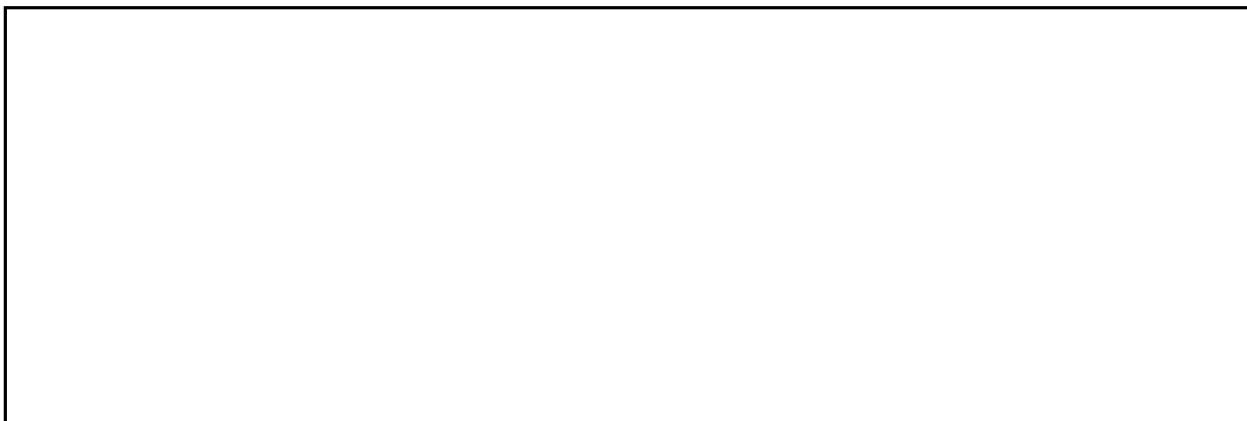
^{1/}These are preliminary calculations based on possibly incomplete data, but they are nevertheless roughly indicative of the quantities imported. Imports from the Soviet Far East have been small, if any, and no estimate of them is included. Domestic production has been omitted as a source of supply, since the output of the two major producers, at Yumen in Kansu, and Fushen in Manchuria, has been small and mostly limited to local distribution.

^{2/}Current annual requirements (1) assume that the Communists will continue to reduce consumption wherever possible by strict rationing to essential uses and by converting, where feasible, power and other plants to the use of coal and (2) take into account the curtailment of oil-burning shipping and the conversion of the Shanghai Power Company — which consumed a fourth of 1948 imports — to coal for its fuel.

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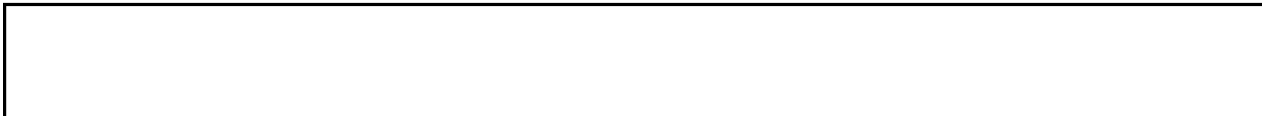
Although the Communist regime is believed able to meet its immediate military requirements for petroleum products, it will fall far short of fulfilling the needs of the Chinese economy. It is estimated that current annual civilian requirements total 700,000 tons of oil products while the Communists are only importing at a rate of about 200,000 tons, thereby necessitating a considerable curtailment of China's industries and transportation. Owing to the Communists' tight foreign exchange position and the inability of the Soviet Union to provide a major share of China's current annual petroleum requirements of 700,000 tons, it is estimated that the Communists will be unable to restore industry and transport to full operation in 1950.

NEWS NOTES



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Early and incomplete unofficial reports from Korea's first independent election indicate that: (1) guerrillas and underground agents in southern Korea directed from northern Korea failed to prevent orderly conduct of voting; (2) nearly 90 percent of the eligible voters went to the polls; (3) several "moderates" who boycotted the UN-sponsored election in 1948 and who were publicly accused by the administration last week of having Communist backing apparently won victories in Seoul against leading candidates of the two major conservative parties; and (4) many incumbents and regular candidates of the two major parties were defeated. It now appears that Yun Chiyung, leader of the Great Korea Nationalist Party, and one of the most effective supporters of the President in the Assembly has been defeated by a "moderate", Won Sei Hoon. However, the balance of power between Rhee supporters and the Democratic-Nationalist Party — which desires to acquire more influence through the establishment of a "responsible cabinet" type government — will not be clarified until some time after the new Assembly convenes and the political alignments of successful "independents" are more apparent.



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Negotiations by the Burmese Government with the People's Volunteer Organization (PVO) leaders for a cessation of the PVO rebellion have been virtually completed and a formal announcement to that effect is expected soon. Although they cannot speak for their widely dispersed followers, the return of the PVO leaders to the Government fold could represent a significant step toward the restoration of law and order to Burma and the reassertion of Governmental authority over considerable territory.

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SECTION III. Trade Possibilities for Japan in South and Southeast Asia

In the spring of 1950, a US mission under Stanley Andrews was dispatched to the Far East, "in an effort to make a broad appraisal of the food and trade situation as it relates to a food and raw material supply for Japan in exchange for Japanese goods." Noting that the possibility of expanding Japanese trade with Southeast Asia is dependent upon that area's political and military situation, the Andrews Mission set forth the following conclusions:

Japan is presently producing 80-85% of its total food consumption. Because a more desirable ration, nutritionally, should be provided and because it is doubtful that the Japanese can increase their local food production sufficiently to offset the rate of population increase, however, Japan cannot reasonably expect to maintain its present record. Given reasonable stability in certain Southeast Asia countries (Burma, Indochina, Thailand, Indonesia, Korea, and Formosa), by 1952, Japan should be able to procure food supplies from that area sufficient to meet some two-thirds or more of its basic food import requirements. In turn, the Southeast Asian market for Japanese goods, especially textiles and small consumer items, is substantially in excess of the amounts contemplated in present trade agreements. Furthermore, Japan can assist the development of Southeast Asian agriculture by (1) presenting an assured market for increased food production, (2) supplying fertilizers and farm machinery, and (3) providing technicians to assist in the improvement of agricultural techniques and the servicing of Japanese agricultural equipment.

Selected observations of the Andrews Mission on several Southeast Asian countries follow:

Thailand--Rice production and exports, which compare favorably with pre-war levels, reflect an apparent economic and political stability. Prospects for increasing production are encouraging. Thailand's major present imports from Japan consist of cotton textiles and industrial machinery. In turn, four-fifths of Japan's imports from Thailand will be rice (300,000 tons).

Indonesia--Although a food deficit area since 1945, largely as a result of transportation difficulties and internal disturbances, the country is expected to become self-sufficient in food within two years. Indonesian and Japanese representatives are negotiating a trade agreement whereby, for the most part, Indonesia will import Japanese textiles while Japan will receive crude rubber.

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Malaya--Rubber and copra production has been emphasized at the expense of food crops for many years, and rice production in 1948-49 was only some half of the local requirement. Crude rubber is Malaya's largest single export to Japan; imports are chiefly cotton textiles.

Burma--Although approximately 72 percent of the cultivated land is devoted to rice, civil disturbances have considerably curtailed rice production for exports. As a result, available exports from the 1949-50 crop are estimated at only somewhat over 800,000 tons as compared to annual exports of about 3 million tons in the pre-war (1935-1940) period. Under present trade agreements, four-fifths of Japan's purchases in Burma will be rice. In turn, Burma will import cotton and small-scale "cottage industry" equipment.

The Philippines--Present food production runs some 88% of consumption and the remainder is made up by rice imports, principally from the United States. Principal Philippine imports from Japan in 1950 will be iron and steel products, textiles and rolling stock: exports to Japan will be abaca, copra and iron ore.

Taiwan--Before World War II, the island was a major source of Japanese food, especially sugar and rice. Since the war, sugar has been exported to Japan, but not rice. A wide variety of Japanese goods are imported, primarily cotton textiles and machinery.

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