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INTELLIGENCE HIGHLIGHTS NO. 87  
8 FEBRUARY to 14 FEBRUARY 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The Korean Defense Ministry has overspent its budget and the police are expected to follow suit, thus worsening the dangerous inflationary trend in the economically unstable young Republic (p. 2). Meanwhile, a recently-introduced bill to reduce the power of the Executive appears to have a chance of passing the Assembly, despite Rhee's opposition (p. 2).

In China, wide publicity given to US charges of Soviet imperialism, coupled with vehement but confused Chinese Communist denials, may well contribute to public discontent (p. 3). The Communists are taking strong measures to rid their economy of dependence on US imports (p. 4) and there are some indications that the Shantung port of Tsingtao will come to have a special "extraterritorial" status under the USSR (p. 5).

East and West having "chosen sides" in Indochina, local propaganda efforts by both teams in Vietnam are intensifying. Thusfar, Ho's line appears to be a more likely recruit-gatherer than Bao Dai's (p. 6).

Five of the Dutch-erected "states" in Indonesia have voted to cede their powers to the new federal government and other states are expected to follow suit in a trend which may mean eventual unification of the whole United States of Indonesia under a single administration (p. 6).

NEWS NOTES

Japan buys Burmese rice...NOZAKA speaks again...Chinese Communists welcome US departure...Macao government under pressure... Bangkok conference meets...Stranded Moros in Saudi Arabia.

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

KOREA

Deficit defense spending threatens Rhee regime--Uncontrolled and excessive spending by the Ministry of National Defense is contributing to the Korean Republic's mounting deficit. Apparently unconcerned over the serious implications of deficit spending, the Ministry of National Defense has already exceeded its FY 1950 appropriation by more than 5 billion Won (equivalent to US \$5 $\frac{1}{2}$  million at the official rate). While the police, under the Ministry of Home Affairs, have managed to stay within their annual appropriation so far, an additional allocation will have to be made to maintain present levels of police activity. "B"

Present National Defense expenditures are complicated by political log-rolling and maladministration which contributes little to actual defense. The Army is particularly guilty as the largest spender. Although funds have been appropriated for an authorized strength of only 100,000 men, rations are issued to 120,000, and other direct monetary benefits are extended to almost 200,000 members of various "reserves" and para-military organizations. Expenditures are often made by individual unit commander without adequate accounting or prior approval of Finance Officers.

Strong representations from the US Military Advisory Group in Korea have resulted in the Ministry of Defense's reluctantly agreeing to reduce defense allocations in the coming quarter from some 8 billion Won to 4.3 billion Won. This reduction, which is to be effected by eliminating essentially political expenditures for "reserves" and by cutting the high man-per-day ration allowance, has not as yet been approved by the State Council or the President. There is ample reason to suspect that the recommendation will meet strong opposition in that quarter, since responsible Korean officials apparently consider the exceedingly grave economic consequences of continued deficit spending of less importance than the internal and external Communist threat.

Amendment to reduce executive power--President Rhee has formally announced the introduction in the National Assembly of a bill proposing to amend the constitution by reducing the power of the executive and making the Prime Minister and Cabinet responsible to the Assembly. The proposed amendment must be considered for at least thirty days before coming to vote, and will require a two-thirds majority of 133 Assembly votes to become law. "B"

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The issue of the "strong executive" as opposed to the "responsible cabinet" system of government first developed during the writing of the Korean Constitution in the summer of 1948. At that time, the conservative and influential Hankook Democratic Party (now the Democratic-Nationalist Party) favored a "responsible cabinet" system, primarily because the party had no hope of preventing the election of Rhee as President. Rhee has always felt very strongly that, under the unsettled conditions in Korea, the Republic could survive only with a strong executive and has expressed fear that factionalism and an unstable government, impotent in a time of internal crises, would result from application of the "responsible cabinet" principle. In voicing his present opposition to the proposed amendment, Rhee has attempted to prove his personal disinterest in the power of the executive by stating that he fully intended to retire at the end of his four-year term.

The conservative Democratic-Nationalists are leading the present campaign to amend the constitution, partly because of dissatisfaction with their share of cabinet and government influence. The move is supported by elements of all factions in the Assembly, however, because of the Assemblymen's desire to exert more direct influence on government policy, operation and administration. The Assembly is aroused by government inefficiency and police brutality, but has been intimidated or ignored by the executive when presenting demands for reform in the past.

Pro-administration opponents of the amendment in the Assembly now admit that the proposal has a chance of passing. It still appears, however, that Rhee will be able to exert sufficient pressure to prevent the passage of any amendment that significantly reduces the power of the executive this spring.

#### CHINA

Peiping reaction to US charges of Soviet imperialism--For the past month, the Chinese Communist and Soviet press and radio have given wide publicity to US charges of Soviet imperialism in China. Rather than rationalizing the Soviet position in terms of Sino-Soviet "friendship" and the obligations of "proletarian internationalism," recent Communist comment on the US charges has tended instead to minimize and even to deny Soviet privileges in China, specifically in Manchuria and Sinkiang.

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A Chinese Communist industrial-commercial mission which toured Manchuria last fall and was quoted at length at that time on the blessings of Soviet friendship and the value of Soviet assistance, has been re-interviewed in order to refute the "foolish, shameless and mean" allegations by the US. In all of Manchuria, they report, there is "absolutely no sign of interference with China's internal administration," and "every important policy" is referred to Peiping for approval. "Soviet experts concern themselves only with technical issues," and the "immense contributions" of the USSR have been confined to "recommendations." Further, Manchurian communications are "100%" controlled by the Chinese, there are no Soviet military forces outside the Port Arthur naval base area, and in the entire Northeast there are only three enterprises under "joint operation."

Peiping has not found it difficult to dismiss Western journalists' "reports" of a "Harbin pact" and a "Moscow pact" as fabrications, which they apparently are, and thus to discredit the official US charges to some degree. However, the furious tone of Chinese Communist response to the Acheson statement on Soviet encroachment indicates that the bulk of the charges struck home in China. The Peiping regime apparently hopes to pacify Chinese public opinion by proclaiming alternately or simultaneously (a) that Soviet privileges are entirely consonant with Sino-Soviet friendship, and (b) that no such privileges exist in any case. The publicity given the US charges and the vehemence and confusion of the Communist rebuttal, however, will probably contribute to the discontent of the Chinese public over USSR encroachment.

Communists reducing dependence on US trade--Strenuous efforts to shake off dependence on the US as an export outlet and source of supply have been initiated by the Chinese Communists. Government import and export organizations, which dominate the foreign trade field in Communist China, have been ordered to cut their trade with the US and give high priority to the development of commerce with other areas, such as the UK and Western Europe. Although the Communists realize that the US is the only feasible source of some items of supply, they apparently hope to minimize direct dependence on the US, even in these cases, by developing indirect channels for procurement through Hong Kong or South American intermediaries.

In the past, the US has been the principal source of China's imports and, with the exception of Hong Kong, her main export outlet. Some 40% of China's recorded import trade and over 25% of her export trade were directly with the US in 1946-48: even after the

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Communist takeover of mainland ports, the US maintained its prominent position in the China trade. Chinese Communist efforts to cut this commerce with the US will be reinforced by other developments, such as the imminent exit of American business men and consular officials from the mainland, a shortage of dollar exchange, and the conclusion of barter agreements with other countries.

Success in developing new channels for foreign commerce will reduce one of the Chinese Communists' major vulnerabilities in the cold war -- the adverse effect of export controls and other measures of economic warfare on the part of the US. To attain the announced object of industrial rehabilitation, the Communists depend heavily on imports of items such as railway equipment, pumping machinery, copper wire, and machine tools, which US export controls threaten to cut off unless other sources of supply are found. With the demonstrated reluctance of [redacted] other countries to go along with the US in restricting the export of such items to China, the Communist effort to find alternates to US sources of supply probably will achieve some success.

Status of Tsingtao--There are indications that the Shantung port of Tsingtao may be marked for a unique status among China's major cities as an area of special Soviet influence and/or control.

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The potential value of Tsingtao as a Pacific naval base may well be making the fate of that city one of the subjects under discussion at Moscow. The aforementioned straws in the wind suggest a strong possibility that the forthcoming Sino-Soviet treaty will contain some provision for special Soviet status in the city, such

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as the establishment of a mission for training the Chinese Communist navy. Any reference of Tsingtao in the treaty, if included, certainly will not be presented as an abridgement of Chinese sovereignty, but may well indicate the city's possible future detachment from purely Chinese control.

INDOCHINA

Propaganda intensified--The sudden concentration of international interest on Vietnam, as a result of the formal designation of Ho Chi Minh and Bao Dai as the respective champions of Soviet and Western interests in that area, has brought a concurrent stiffening in the propaganda line of each champion. For the first time since its appearance in 1945, the Ho Chi Minh Government has praised the USSR, while spokesmen for Bao Dai have pledged themselves to fight against a movement "which serves foreign interests."

Despite Bao Dai's achievement of US and UK recognition, there has been no new tendency on the part of the Vietnamese to accept the Emperor as the symbol of Vietnamese nationalism. In terms of the struggle for the loyalties of the local population, in contrast, Ho's establishment of diplomatic relations with the Communist regime in China has provided him with a new advantage. The fear, respect and hostility which the Vietnamese feel toward China, Communist or otherwise, constitute a strong political current. A government which is able, as Ho's apparently has been, both to conciliate the Chinese, to obtain an implied promise of material support, and at the same time to promise that any invading troops (including those of Communist China) would be attacked, is not likely to suffer from comparison with the Bao Dai Government in the eyes of an average Vietnamese who is applying the "tool-of-a-foreign-power" yardstick.

Meanwhile, some indication that strengthened morale and possibly material aid have resulted from the new Ho-MAO entente has appeared in increasingly vigorous Resistance activity throughout Vietnam. Under these circumstances, the Vietnamese, wary of endless promises but mindful of concrete developments, may well be less apt than ever to swing toward support of Bao Dai, emphatically persona non grata to the Peiping Government.

INDONESIA

Unification trends--Less than two months after the birth of the United States of Indonesia, five of the sixteen member "states" have voted to surrender their powers to the federal government and a similar move is being considered by at least four others. The five areas

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which have voted their own liquidation were originally parts of the old Republic of Indonesia, established by the Linggadjati Agreement of March 1947. These territories (West Java, East Java, Central Java, Madura and South Sumatra) were established by the Dutch as autonomous areas following their seizure during the two "police actions" against the Republic. Since West Java, East Java, and Central Java, together with the remaining Republican area near the south-central coast of Java, administered from Jogjakarta, constitute the whole of the island, it appears possible that all of Java will be joined in a unitary state dominated by Jogjakarta. Alternatively, these autonomous areas may choose to become provinces under direct authority of the new federal government. Until such time as the question is decided by some sort of plebiscite, however, the self-liquidated areas will be administered by a federal commissioner.

Indonesian leaders feel that this trend toward centralization is politically wholesome and will result in more efficient administration. They characterize this eradication of the vestiges of Dutch control as true expressions of the people's will in attempting to rid themselves of abnormally-imposed political structures. The movement has not been entirely a voluntary expression of popular will, however; a number of Indonesian leaders, including President Sukarno, have pressured the local regimes.

Should a single administrative structure for the whole of the USI emerge, it will possess several obvious advantages over the federal system conceived at the recent Hague conference. The limited number of trained administrators in Indonesia could be more efficiently utilized and the reduction of numerous large and expensive local staffs would lessen the Government's financial burden. In addition, such a system would help to eliminate the rivalries among local administrators which have created some political instability and could diminish the feeling of Indonesian national consciousness which USI leaders are now endeavoring to foster.

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NEWS NOTES

The Japanese will buy 170,000 tons of rice from Burma during February and March at £ 40 (sterling) per ton. This sale will stiffen Burma's resistance to Commonwealth efforts to force a price reduction to £ 38. Burma's most immediate benefits are expected to derive from: (1) the creation of a new market for accumulated rice stocks, thus reducing the strain on extremely limited storage facilities, and (2) receipt of badly-needed cash with which to resume the purchase of paddy from local cultivators.

In response to Japanese Communist leader NOZAKA Sanzo's published "self-criticism" last week, Democratic Liberal Party members in the Diet promptly queried the Government on its intentions toward the Japan Communist Party, in view of its openly international character and violent revolutionary aims. NOZAKA as promptly denied that he had ever advocated revolution in Japan.

The YOSHIDA Government is pressed to be awaiting a sufficiently flagrant Communist violation of Japanese law to serve as an excuse for suppressing the Party either completely or in part. The Communists, in turn, are very much aware of the conservative threat facing them in the event of Party-incited violence. NOZAKA's most recent statement lends added weight to the contention that Japanese Communists will not willingly and without great USSR pressure, overstep the fine line which separates vociferous criticism from the employment of overt force.

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The withdrawals of US officials from China appears to have been expedited by the Peiping regime's recent announcement that it will welcome such officials' departure, and the sooner the better. There is still a chance, however, that certain US representatives will be held for display in "espionage" trials, or will be the victims of retaliation for Nationalist air raids.

The Portuguese administration of Macao has been cited by Kwangtung Governor Yeh Chien-ying for aiding Nationalist naval vessels and violating Chinese territorial waters near the colony. Simultaneously, the Chinese Nationalist press claims that Macao is being used by the "Cominform Far Eastern Branch" for transshipment of smuggled military supplies destined for Communists in China, Indochina, and Thailand.

The Bangkok Conference of US chiefs of mission in the Far East is currently in session. The purpose of the meeting is to exchange information and opinions on the several major problems facing the US in Asia. Among the topics under consideration are plans for a Japanese peace treaty, the question of recognition of Communist China, the dilemma posed by the situation in Indochina and the overall US objective of containing Communism in the area.

Repatriation of 1,800 Philippine Moslems, who arrived in Saudi Arabia on 26 September 1949 en route to Mecca, continues to be delayed pending a Philippine Government guarantee to pay approximately \$124,000 in pilgrim dues to the Saudi Arabian Government. At least some of the pilgrims' plight is apparently the fault of a leading Philippine Moro, former Senator Pendatun, and the manner in which he handled arrangements for the pilgrims which has been described as reflecting "much discredit upon his character". After being warned that the US would cease representing Philippine interests in Saudi Arabia unless some control is established over next year's pilgrimage, the Philippine Government has promised to take all necessary steps to prevent a recurrence of the unfortunate incident.

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