Approved For Release 2008/03/06 : CIA-RDP78-01617A006100030072-8

8 JUL 1949

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1. CHINA: US pressure recommended to ease Shanghai situation--US Consul General Cabot in Shanghai, in an analysis of the disquieting pattern of recent events in Shanghai, reports that: (a) the only law in Shanghai is that of the Communist military authorities; (b) foreigners are often subjected to an invasion of their fundamental rights; and (c) on the basis of available information, events in Shanghai are believed part of a normal pattern of revolution rather than a deliberate Communist plan. Cabot points out that foreign firms are currently losing heavily but fears that if they try to close down, foreign nationals may find themselves virtually held for ransom, with the approval or acquiescence of Communist authorities. Cabot believes that if the US is to pursue an antagonistic policy toward the Chinese Communists, it would be better to get all Americans out of Shanghai (and if necessary pay them for their property losses) rather than leave them where they are subject to Communist retaliation and where their continued presence under such circumstances will lead to further incidents. Cabot therefore, in the hope of forcing the Communists to do something about the situation in Shanghai, recommends that the US request permission from Communist authorities in Peiping to evacuate by commercial ship or planes all Americans desiring to leave Shanghai.

(CIA Comment: CIA believes that the Chinese Communist Party, while officially committed to the protection of foreign interests, welcomes the opportunity provided in Shanghai for channeling the demonstration of popular dissatisfaction with present conditions toward foreigners rather than the new Communist regime. The Communists thus hope indirectly to warn the western powers that their future in China depends upon the establishment of friendly diplomatic and commerical relations with the new regime. Because the Communists do not wish US commercial interests to withdraw from China at this time, however, a withdrawal threat might well induce the Communist Party leadership to order local authorities in Shanghai to ease the situation.)

Document No. 006
NO CHANGE in Class. ☐
☐ DECLASSIFIED
Class. CHANGED TO: TS S (C)
NEXT REVIEW DATE: 4 Apr 77
Auth: DDA REG. 77/1763
Date: 13/3/78 By:

CONFIDENTIAL

State Dept. review completed

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