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15 December 1947

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Document No. 001 FAR EAST / PACIFIC BRANCHNO CHANGE in Class. ☐Weekly Summary☒ DECLASSIFIED

Class. CHANGED TO: TS S C 9-15 December 1947

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

GENERAL

Date: 17 FEB 1978 By: 011ACAFE

ACAFE concluded its second session in Baguio on December 6 after adopting a comprehensive program outlined by the US for economic rehabilitation of the Far East. A part of the outlined plan, adopted over vigorous USSR protest, provides for a consultative arrangement between the commission and control authorities in Japan and Korea. The USSR maintained that it was unnecessary to set up a consultative framework for Korea since that country was "soon" to be independent.

It had been anticipated that the relationship of Japan to the other Far Eastern countries would be a serious stumbling block on the agenda of this session of ACAPE. Active consideration of this subject, however, was prevented by the protracted debates over memberships to the Commission.

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Sino-Malayan Affairs

The Chinese Chairman of Overseas Chinese Affairs Commission on 5 December expressed concern over the new draft constitution of the Malayan Union. The Chinese claim the constitution is discriminatory to the Chinese in Malaya.

NORTHERN DIVISION

Japan--Political

Katayama Cabinet Crisis Gives Impetus to Conservative Trend in Diet. Frangling within the Social-Democratic Party over a successor

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to Agriculture Minister Hirano who was dismissed early in November by Premier Katayama combined with a breakdown in Democratic Party discipline over the passage of the State Coal Control Bill has brought into clearer focus a conservative trend in the Diet.

Although the recent rift between the National Farmers' Union and the Japan Farmers' Union, right and left wing elements respectively of the Social-Democratic Party, over Hirano's successor has been temporarily patched up, the basic conservative outlook of the National Farmers' Union and its dissatisfaction with the party still remain. Should future disagreements arise the organization might entertain an invitation to join a conservative coalition. The conservative-minded Peoples Cooperative Party, one of the government coalition parties, also took a strong stand on the subject of Hirano's successor and could possibly be induced to join a new conservative party.

After the Democratic Party, another of the present coalition parties in the cabinet, had reached a decision to support the State Coal Control Bill, a right wing faction refused to uphold the party position. Under the leadership of Aon Shidehara, the dissident members have formed a new Diet group, the Doshi Kai. The possibility now exists that the Doshi Kai may join with the Liberal Party, the most conservative party which is encouraging other anti-Socialist forces in the Diet to form a conservative bloc called the National Salvation Party. Such a coalition could conceivably oust the Katayama Cabinet through a vote of "no-confidence". This trend, however, does not necessarily presage an immediate change in the Cabinet. Liberal Party President Yoshida, the probable successor to Katayama, shows a reluctance to assume responsibility for Japan's present economic problems.

Japan--Economic

Reparations. The USSR has rejected the US proposal before the FEC, which was designed to break the deadlock on division of Japanese industrial facilities as reparations. A stalemate had arisen over the inability of the reparations sub-committee to agree on a schedule of percentages for the eleven countries concerned. Thereupon, the US proposed a schedule which would give each country a somewhat smaller percentage than it had hitherto agreed to accept. For its part, the US would receive 28 percent, but of this, 12 percent would be held as a "kitty" for subsequent distribution to the other ten nations on any basis mutually agreeable. With the USSR rejection, the US is striving to secure approval of the other FEC countries.

The refusal by the USSR to accept the latest US proposal is probably another Soviet tactic to delay settlement of the reparations problem, a key factor in the slowness of Japanese economic revival. To the USSR, delay in that revival means, among other things, contin-

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uation of drain on US occupation funds; development of bitterness on the part of the Japanese against the US occupation authorities; and maintenance of uncertain economic conditions which serve as a fertile field for Japanese communist propaganda.

Economic Development. Two bills have been passed by the Diet, which are of major importance to the Japanese economy. Passage of the State Coal Control Bill represents the Matayama Government's only success in the current session in putting through important legislation which is designed to revive the limping industrial structure. The coal shortage is one of the chief causes for the failure of Japanese industrialists to attain a level higher than 45 percent of the 1930-34 level (the period which the P.C. deems the standard to be sought for stable economy). State control of the coal industry was felt by the Matayama Government to be the answer to the complaints by the coal companies that they had neither sufficient capital funds nor other resources to expand their production. Considerable opposition to the bill made the Government yield to amendments which tend to preserve the position of the mine owners and operators under a limited state control.

Also passed was the economic decentralization bill, which provides for splitting Japanese companies into small units and contains provisions which are intended to prevent control by any one company over more than a minor portion of the Japanese economy. The bill is a major step in SCAP's program to abolish the zaibatsu and to ensure the denial of opportunity for revival of giant combines whose policies might lead to future aggression.

Foreign Trade. Negotiations between SCAP and a banking group for financing of Japanese imports and exports through a revolving fund are still in progress. Under this plan, SCAP would pledge \$137,000,000 in Japanese gold and jewels as security for a self-liquidating loan. Most of the groundwork for the loan has been completed, but certain legal questions remain to be resolved.

Korea

The recent currency conversion in North Korea serves as further confirmation of the existence of a Soviet plan to establish there an independent government, as a legal obstacle to implementation of the UNCA resolution on Korea. In addition this step will render more unstable the present critical economic situation in South Korea.

Beginning 4 December and continuing for a period of about five days Soviet occupation currency and Japanese-issued Bank of Chosen notes were exchanged for new currency issued by the North Korean

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People's Council. Individual persons were permitted to exchange 200 won, and heads of families 500 won, at the rate of one for one. All excess currency had to be deposited in state banks where it will be frozen for about two months. The announcement of the conversion precipitated a buying panic which was halted only by restriction of trading to state-owned stores and by the reduction of prices at these stores to about one-tenth previous levels.

The North Korean People's Council has recently directed the drafting of a "Korean" constitution and the preparation of a legal code. When these measures are considered along with the currency conversion, it becomes apparent that the USSR is proceeding with a plan of establishing a legal basis for recognition of the North Korean puppet regime as the independent government of Korea. This would clear the way for Soviet troop withdrawal. The new currency was issued by the People's Council of North Korea, not by the occupation authorities, and the conversion measure was hailed by Radio Pyongyang as a move of "great political significance in accelerating the formation of a United Korean Government". It is not clear whether the preliminary panic was part of the Soviet plan, but the subsequent reduction of prices was designed to have a deflationary and stabilizing effect on the North Korean economic situation, to convince the people that conversion was a praiseworthy measure and to instill confidence in the new currency issue.

The uncertain conditions of release (no rate of exchange for the frozen deposits has yet been announced) will induce many North Koreans to hoard bank of Chosen currency for illicit purchases in South Korea where it is still negotiable. This will result in a great influx of currency into South Korea which will accelerate the inflationary spiral and encourage speculation. Bank of Chosen notes turned over to the North Korean government for exchange can be used as funds to finance agents of Soviet policy in South Korea. There are no immediately effective measures which American occupation authorities can adopt to halt this currency influx.

According to press reports the exchange rate will be announced by the North Korean regime on 4 February. The People's Council is to meet at that time and the new "Korean" constitution will be presented for its approval. Hence it is reasonable to conclude that the Soviets have scheduled the completion of their preparatory work in North Korea for the beginning of February. Recognition of the "legal" and "independent" government of Korea and the withdrawal of Soviet troops, if decided upon by the Kremlin, will probably take place at that time.

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CHINA DIVISION

Military

Communist general Chen Yi has moved additional units southward over the Lunghai rail line and, according to press reports, has launched an attack on Kaifeng, strategically important Nationalist rail point. Meanwhile, Liu Po-cheng has moved westward across the Ping-han railroad as Nationalist pressure on his Tsienshan bases continues. In Shantung, terrorist activity by the Communists is said to be driving additional refugees into Nationalist-held cities. The number has reached 220,000 in and around Tsingtao, where the refugees seriously encumber the city's administration. The Nationalists finally opened to traffic the Tsinan-fuhou sector of the Tsin-pu rail line on 11 December.

Internal

The Chinese National Government has not yet announced the results of the election conducted on 21-23 November to choose members of the National Assembly, the body which, with its election of the President of the Republic, will put into effect China's new constitution. The difficulty of determining the extent of minority representation, and the problem of maintaining the fiction that the new Government will have been popularly elected, are factors which are probably causal to the present inaction. In view of this delay, the Government will probably postpone the convocation of the National Assembly until late February or early March, and will promulgate a provisional statutory law that will be effective during the interim period between the expiration of the validity of the draft constitution of the Kuomintang and the time of the convening of the National Assembly.

The anti-US propaganda of the Chinese Communists—began in 1944 upon US Ambassador Hurley's departure from China—has continued for three years, growing steadily more violent in tone. "Imperialist butchery" and "aggressive invasion of the sacred soil of China....in league with the slavish traitor, Chiang Kai-shek", are samples of recent Communist invective directed against the US. This week, both US Ambassador Stuart and an experienced newspaper man have noted that this Communist propaganda is having a marked effect on Chinese public opinion, especially among Chinese University and intellectual groups. Stuart expressed the opinion that the United States Information Service in China should embark on a positive program to demonstrate that the USSR is the real imperialist power in the Far East.

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External Relations

Unconfirmed reports from China, dated October 1947, indicate Soviet-Polish cooperation and plans in China. The Soviet is reported to be backing Polish registration and repatriation, while Polish officials are to carry on the work of some Soviet officials in event of a diplomatic break between the USSR and China.

The Chinese Foreign Office protested on 9 December to the British Embassy over the eviction of Chinese residents of Hong Kong, claiming administrative jurisdiction. The British Ambassador, in a Reuters interview, explained the eviction by saying it was purely administrative and made in the interests of health and safety.

Economics

The black market US dollar exchange experienced wild fluctuations for the third consecutive week. The rate soared from CNY 133,000 at the beginning of the week to 160,000, then dropped to 142,000 on 10 December. Commodity prices soared proportionately despite the government's efforts to hold prices down. This upheaval was primarily caused by the issuance of new large denomination notes of 1,000, 2,000, and 5,000 Customs Gold Units, equivalent to CNY 20,000, 40,000 and 100,000 reported released in Shanghai 10 December. The previous largest note was CNY 10,000. General black market transactions eased following pressure on economic police and law enforcement agents to crack down on under-cover dealings. These new note issues will boost the total currency in circulation to another record high. Total issue was CNY 28,061 billion up to 5 December, compared with 3,726 billion in circulation on 1 January 1947. At this rate the note increase for the month of December is expected to be near the November percentage of increase, which was 26 percent over the previous month.

Industry

It is reported that the National Government plans to furnish all cotton to domestic mills, take the finished yarn and cloth, and give the mill operators a reasonable profit. Cotton, which is one of the favorite speculative commodities, is an extremely scarce item in Shanghai. This would be another step by the government to engage in private industry. Because of the dark prospects in business recovery some industrialists are reported leaving Shanghai to open mills in Hong Kong. As conditions worsen it is expected that more industry will leave Shanghai.

Minerals

A tungsten ore processing plant, producing 50 tons (concentration 65 percent) monthly, is reported located in Hong Kong. Negotiations are under discussion by a US firm to purchase the entire output. The USSR has acquired for some time past virtually the total output.

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Transportation

Train service between Tsinan and Lukou was reported resumed on 11 December. The Hudken-Weiping line is open at present, but the trip requires four days. Less than 40 percent of China's railways are now open to traffic.

SOUTHERN DIVISION

Australia

Political. Following Parliamentary passage of the bill to nationalize the Australian banking system, the Governments of South Australia and Victoria joined the private banks in appealing to the High Court for an injunction restraining the Government from taking over the banks until hearings on the Constitutionality of the measure could be held.

The Prime Minister is seeking an amendment to the Constitution to provide for permanent Government control over rents and prices. A referendum, required for such an amendment, is scheduled for May 1948.

The Labor Government in Tasmania received a severe setback when Premier Cosgrove was indicted on charges of corruption. If the Opposition forces an election, as it may well do, it is unlikely that Labor would be returned to office.

Economic. All dollar import licenses were cancelled in line with the aid to Britain currency conservation program. Exceptions to the order were those covering goods (a) shipped before 21 October; (b) shipped under irrevocable letter of credit; and (c) listed as having high priority, such as replacement parts for industrial machinery.

Additional cuts in imports of auto chassis, tobacco, newsprint, gasoline, and film remittances were announced.

Australia's dollar position has been worsened by the spread of the Tally Clerks strike, which has held up wool exports thus cutting off temporarily an important source of dollars.

Burma

Possible Pro-Socialist Split. District leaders of the Peoples' Voluntary Organization, (PVO), a semimilitary group originally inspired by Aung San and one of the two principal elements of the Anti-Fascist League (AFL), are meeting in Rangoon to consider the ratification of the merger between the PVO and the Socialist Party, the other important faction of the AFL. This Socialist-proposed merger was to become the Marxist League, designed to replace the AFL as the dominant political

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organization in Burma. Early reports indicated that the merger would be rejected and socialists removed from the government, however, the Socialists later appeared to be regaining some ground when it was reported that the Marxist League was still under consideration, and that the present cabinet would continue in office until about 4 January 1948, (Burmese independence day, at which time IVO nominees would replace some of the socialists.

Since Aung San's death personality clashes have developed within the APL over the question of leadership. Kyaw Myein, the ambitious Socialist Home Minister, in particular, has been untiring in his efforts to dissolve, or at least reduce the effectiveness of the IVO. It therefore appears that this meeting is a IVO maneuver not only to consolidate their own organization, but to gain political dominance in Burma at the expense of the Socialist. Since the IVO has a virtual monopoly of the APL military strength their policies will undoubtedly prevail and if the present situation precipitates a showdown with the Socialists, there exist three possibilities. First, little or no changes will be made in the present working agreement between the two groups. Second, in order for the Socialists to remain in the government they may have to accept a subordinate role, possibly to the extent of losing their political identity as socialists, in a new organization. Third, the Socialists may be expelled by the IVO whereupon they may attempt to join forces with the Burma Communist Party, the less doctrinaire of Burma's two communist parties, or operate independently in opposition to a IVO controlled government. If, in case of such a split, the IVO failed to maintain its solidarity and a firm grip on the government, it is possible that the Burmese political scene will take on the familiar pattern of numerous political parties which evolve more about personalities than policies. Of these three possibilities, the second appears the more likely, i. e. a compromise between the IVO and Socialists whereby the Socialists will retain a certain amount of influence in the government.

Siam

Despite claims that the military has been completely separated from the Siamese provisional government, in accordance with US and UK intimations of displeasure at military control, the Siamese Army continues to harp on the "Communist-Republican menace" against which they claim to have acted, in part, to establish the present government. This is the general line of the pressure campaign to gain US recognition; and the fact that the Army is so insistent on this point indicates the political nature of the present military authority, whether it is "withdrawn from politics or not". Statements by leaders of the regime clearly indicate that the instigators and leaders of the November coup d'etat believe that this new regime, oriented to the right and including men known for their anti-communist stand, will succeed in

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winning support and recognition from the US. This belief was and still is based primarily upon US efforts to counter communism in Europe and China, as implemented by the Truman doctrine and the Marshall Plan.

The coup group, believing that Siam can offer a great deal as an anti-communist center in Asia is attempting to create the impression that they have acted "in accordance with American ideals", and to this end have charged Mai Phiri, Elder Statesman sponsor of the ex-government, and the Free Thais with being a communist threat to Siam. Collaboration with the Chinese Communists in Siam and the Vietnam is also attributed to the Free Thais. These elements have misinterpreted and widely publicized as a "little Marshall Plan" a suggestion by the US delegate, LCAH, that each Asiatic country requesting aid should examine its economy to determine its self-help capabilities.

It is believed that the present regime will continue to misinterpret US policy in regard to Siam and that they will become increasingly dissatisfied with the US position as they feel that they are implementing it in Asia.

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