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OFFICE OF REPORTS AND ESTIMATES

TRANSPORTATION DIVISION

Weekly Intelligence Summary No. 84

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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

Despite some evidence that the USSR is expanding civil air transport operations into China, Communist transport officials appear eager to discuss the re-establishment of domestic air communications with representatives of US airlines. These officials are particularly anxious to institute regular air services between Peiping, Mukden, and Harbin in the north and Shanghai in the south. Certain US air interests, moreover, are promoting such plans in the belief that they will secure a preferred position in China's future civil air program. (Item No. 1, B)

Chinese Nationalist authorities appear unwilling or unable to enforce their "closure" of the port of Shanghai with respect to US-flag shipping. The US Embassy Office, now located at Hong Kong, has reported its belief that the Nationalist Navy (which is controlled from Taiwan by Chiang Kai-shek) may have released two previously detained Isbrandtsen Line vessels without Foreign Office approval or knowledge. Meanwhile, a third vessel of this line has successfully defied the closure, although it was halted by gunfire and temporarily detained by an intercepting Nationalist naval craft. (Item No. 2, A)

A program of road construction and surfacing in Venezuela, under which the extraordinary sum of 130 million Bolivars (\$39 million) has been appropriated for the ten months ending June 1950, appears designed principally to attain certain political ends, despite the country's great need for improved transport facilities. (Item No. 3, C)

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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. Despite some evidence that the USSR is expanding civil air transport operations into China, Communist transport officials appear eager to discuss the re-establishment of domestic air communications with representatives of US airlines. These officials are particularly anxious to institute regular air services between Peiping, Mukden, and Harbin in the north and Shanghai in the south. Certain US interests, moreover, are promoting such plans in the belief that they will secure a preferred position in China's future civil air program.

The USSR already has a unique advantage over other countries in respect to Chinese air transport, by reason of the recently renegotiated air agreement with the Nationalist Government, which will undoubtedly be recognized by the Communist officials at Peiping. This agreement stipulates that a joint Sino-Soviet airline shall enjoy a monopoly of air cargo and passenger operations in Sinkiang Province. (In practice the airline is managed and operated by Soviet personnel.) This route has now, according to reports, been extended 700 miles east to Lanchow.

It is also reported, as yet without confirmation, that trained Soviet airline personnel are being sent to Peiping to prepare facilities for expanded Soviet air services, possibly from Chita through Harbin and Peiping to Shanghai. An air connection from Lanchow to join this route, perhaps at Peiping or through Hankow and Nanking, would be a reasonable assumption.

A possible explanation of interest shown by Communist officials at Shanghai and Peiping in US-operated internal air routes may be that (1) the USSR is either unwilling or unprepared at this time to operate a domestic air network for the Chinese Communists, but is desirous of establishing satisfactory communications between key points in China and the USSR; and (2) expert technical aid is urgently needed by the Chinese Communists for the rehabilitation of domestic airfields and operation of scheduled services. (Confidential)

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SURFACE TRANSPORTATION

2. Chinese Nationalist authorities appear unwilling or unable to enforce their "closure" of the port of Shanghai with respect to US-flag shipping.

In connection with the release of the FLYING CLIPPER and FLYING INDEPENDENT, the Isbrandtsen Line cargo vessels which were intercepted and detained upon their departure from Shanghai (see D/Tr Weekly No. 83), the Foreign Office has stated that they were allowed to proceed on grounds of "expediency". The Nationalist action allegedly resulted from Foreign Office concern over cables from Chinese Missions at Seoul (presumably regarding the ECA cargoes for Korea and about 120 Korean refugees aboard the FLYING INDEPENDENT) and at Washington. During a discussion with US representatives on the day following actual release of the two vessels, however, a Foreign Office official made no mention of their release, and two days later the Foreign Office was still unable officially to inform the Embassy Office regarding the action. These circumstances have led the Embassy Office to believe that the decision to allow these two vessels to proceed may have been taken by the Chinese Navy independently of the Nationalist Foreign Office. The Nationalist official declared, however, that the third Isbrandtsen vessel, the FLYING TRADER, which had slipped into Shanghai following the interception of the other two vessels, would be intercepted by the Chinese Navy when it attempted to depart Shanghai. (A fourth Isbrandtsen ship is scheduled to arrive shortly.)

The only details now available concerning the subsequent detention of the FLYING TRADER are those radioed by the ship's Master to the Isbrandtsen agent in Shanghai. According to this report, the vessel was halted by gunfire from a Nationalist warship and ordered to anchor, after the Master had ignored previous signals from the naval craft in accordance with standing orders from the vessels' owners. The warship anchored close by, awaiting orders from the Nationalist Government. The following morning, however, the naval vessel gave the signal to depart and thereupon left the scene. It is not yet known whether the Foreign Office was consulted regarding the FLYING TRADER's release.

In view of the disintegration of Nationalist authority, it is probable that action in both interception incidents was taken by the Chinese Navy on direct orders from Chiang Kai-shek, irrespective of Foreign Office policy. This conclusion is supported by the fact that the Chinese Navy is directly controlled from Taiwan by Chiang, who has a continuing interest in the maintenance of favorable relations with

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both the US and Korea, particularly the latter. Moreover, it is known that an appeal from the Chinese Ambassador in Korea for the release of the FLYING INDEPENDENT and FLYING CLIPPER was made directly to Chiang, as well as to the Nationalist Foreign Office.

Regardless of the origin of the Navy's orders, it appears that the Nationalists have chosen merely to demonstrate their ability to intercept "blockade-running" vessels without risking the consequences of a more serious incident involving US-flag shipping. There is no indication, however, that vessels of other countries would escape more drastic Nationalist action. (The cargo of an intercepted British vessel, for example, was confiscated by the Nationalists some time before the first two Isbrandtsen vessels were detained. Despite this incident, at least one more British vessel is reportedly scheduled to arrive at Shanghai in the near future.) In any event, the Isbrandtsen Line's successful defiance of the Nationalists has substantially weakened the effectiveness of the Shanghai closure declaration and may also prejudice the ability of the Nationalists to apply the closure to other coastal cities, such as Canton, Swatow and Amoy, which have recently been occupied by Communist forces. (Secret)

3. A program of road construction and surfacing in Venezuela, under which the extraordinary sum of 130 million Bolivars (\$39 million) has been appropriated for the ten months ending June 1950, appears designed principally to attain certain political ends, despite the country's great need for improved transport facilities.

The road program includes 625 miles of construction and reconstruction, and 500 miles of surfacing. The major item is improvement of the central highway route which runs northeast and east along the Andes Highland from San Cristobal, near the Colombian border, to Caracas. From Caracas, the highway runs southeast on the Llanos Plain to Soledad, which is across the Orinoco River from Ciudad Bolivar. Improvements will also be made on branch highways leading from this central highway to other portions of the Llanos, and to the Caribbean lowland on the north.

The stated purpose of the program is to relieve unemployment and to promote agricultural production by providing adequate means for the transportation of farm produce to city markets. In view of the small number of unemployed in Venezuela, however, and the fact that transportation requirements for agricultural produce have not suddenly increased, it is probable that these are not the principal purposes behind the large expenditure of funds planned. Moreover, the appropriation of 130 million Bolivars for a period of ten months appears excessive when

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compared with the total of only 208 million Bolivars spent on highways in the ten-year period 1936-45, and with the average annual expenditure of only 31.4 million Bolivars estimated under the ten-year highway construction plan published by the Venezuelan National Highway Commission in 1947.

It seems likely, in view of the foregoing circumstances, that the program being undertaken is at least partially motivated by the Government's desire to achieve the following purposes: (a) to give the Venezuelan people immediate, tangible evidence of activities by the present government in their behalf, which may help to allay some of the popular dissatisfaction with the Military Junta now in control; (b) to increase the mobility of troops, as a means of rapidly suppressing any revolt (an important part of the program is improvement of the central highway serving the most populous portion of the country, where the danger of an uprising is greatest); and (c) to provide patronage for local political leaders as a means of gaining or strengthening support for the present government. . (Confidential)

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