

SECTION II	(writer)	(div)	(ed)	(copy in)	(stencil)	ORE PICKUPS	SPECIALS	RATINGS
A) GENERAL:	NONE							
B) JAPAN	Comm-intel affairs	✓		25X1A9a				
C) KOREA	Rhee UAS ①?	✓		TO [redacted] - Needs MONDAY				
D) CHINA	YAN'S STATUS MAO'S SPEECH YEN'S CABINET	✓ ✓ ✓		25X1A9a TO [redacted] 100 MONDAY				
E) INDOCHINA	MANCHURIAN SEPARATISM PEASANT RESISTANCE BAO DAI'S SPEECH	✓ ✓ ✓	✓	TO [redacted] BY 11:00 NOON				
F) THAILAND	Parliamentary auth. Phibun	✓	✓					
G) MALAYA								
H) BURMA	NU ATTITUDES + CCP	+		1:45 P				
I) <u>INDONESIA</u>	??							
J) PHILIPPINES								
K) ANZAC								
L) POA								

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FAR EAST/PACIFIC BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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

INTELLIGENCE HIGHLIGHTS NO. 56
15 June - 21 June 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Communist-inspired labor disorders in Japan have not yet received significant popular support, a situation which may alter when the full weight of "rationalization" unemployment is felt this fall (p. 2).

The Korean National Assembly's most recent acts have been largely unfavorable to the Rhee administration and this dispute between the young nation's Executive and Legislature is expected to continue (p.2).

CCP Chairman MAO's latest speech contained a significant bid for political and economic relations with the West (p. 3). Meanwhile, a Manchurian editor has been rebuked for making "anti-Soviet" remarks and the wide publicity given to this action by the CCP implies that such "deviationist" sentiments are not unknown among the Chinese rank-and-file (p. 4).

In his first formal speech, provisional emperor Bao Dai failed to make any direct appeal for resistance group support, a fact which may indicate his lack of success in winning over supporters of Indochinese Communist leader Ho Chi Minh (p. 7).

The Phibun "caretaker cabinet", which resigned last week in accord with the new Thailand constitutional requirements, is expected to reform - with the addition of new personnel - within the next three weeks (p. 8).

A disagreement between Thanin Nu and his Socialist supporters over relations between Burma and the West may threaten the tenuous stability of the Burmese Government (p. 8).

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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- 2 -

JAPAN

JCP-inspired labor disorders on increase--The recent Government Railway employees' strike in the Tokyo area, the clash between several thousand police and sitdown strikers at a Hiroshima steel plant and last month's disorders at the Tokyo Municipal Assembly (where one Communist demonstrator was killed) all serve to indicate the Japan Communist Party's (JCP) increasingly aggressive attitude. The major strike issue has been the "rationalization" of Government and private payrolls required under the new economic stabilization program, which is expected to result in wide unemployment. Thusfar, however, the JCP has failed to obtain much popular support for its strike program.

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spokesman for SCAP's labor division, warning that labor unions may forfeit their privileges by failure to comply with new labor laws, is viewed as Occupation support for the Government's position. In addition to these active restraints, the psychological force of response to authority and traditional conservatism, as well as popular association of the JCP with the unpopular Soviet program of repatriation for Japanese war prisoners, tend to align the Japanese rank-and-file against the Communists at present.

Nonetheless, further disorders can be expected during the next few months as the JCP develops its program of strikes and violence. Peak JCP opportunity to win wider popular support should come this autumn, when mass dismissals have brought the number of unemployed to a new postwar high and before Government relief measures and other actions can deal effectively with the unemployment problem.

KOREA

Executive-Assembly dispute continues--The National Assembly of the Korean Republic reconvened on 13 June without having reached any definite settlement of the points at issue with the Executive that had led to adjournment on 7 May. After listening to a plea from President Rhee for "cooperation," the Assembly made its strongest stand against the Executive to date by voting to override the President's veto of the temporary emergency food bill 128 to 1, overriding another veto 132 to 3, and returning the Land Reform Bill to the President without the changes he had requested, 97 to 19.

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By these moves, however unfavorable to Rhee, the Assembly has softened its original intent to defer any action on administration bills until the

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- 3 -

President complied with their specific demands. Indeed, on 17 June, the Assembly made a considerable concession to Rhee by attaching to the Local Administration Law a provision permitting Presidential appointment of Provincial Governors.

Despite this action, it seems certain that the Assembly will continue to struggle with Rhee for a greater and more independent voice in governmental affairs and it should be clear to President Rhee that he no longer commands a majority on many issues. If Rhee accepts this fact and is willing either to compromise or to cooperate with the Assembly, significant breakdowns in legislation can be avoided. It is more probable, however, that the Executive Branch's inefficiency and Rhee's stubbornness will continue to antagonize the Assembly and precipitate further squabbles detrimental to national unity and stability.

Divergent views on troop withdrawal--On 17 June, Kim Yak Soo, Vice Chairman of the National Assembly and leader of approximately 60 assemblymen who have consistently advocated withdrawal of all foreign troops from Korea, presented a petition to the UN Commission on Korea (UNCOK) requesting abolition of both the USSR and the US military missions that have replaced occupation forces in the north and south. In response, Major General Chai Byung Duk, CG Korean Army, called Kim and his colleagues "traitors" and 141 other assemblymen presented a petition to UNCOK on 20 June strongly opposing Kim's request for the withdrawal of the US Military Mission. The petition stated further that American troops should not be withdrawn at the present time because Korean Security Forces are still "too weak." "C"

UNCOK probably will table both petitions, but the incident is significant as an indication of the number of assemblymen who still doubt the capabilities of their own security forces. At the same time, demonstrations and rallies organized by officially-sponsored youth and civic groups during the past week have repeated familiar demands for a Pacific Pact and more arms, indicating that Rhee, like the majority of assemblymen, continues to be exceedingly apprehensive over US troop withdrawal.

CHINA

CCP softens "anti-imperialist" line--The Preparatory Committee for a Political Consultative Conference, meeting in Peiping on 15 June, heard Chairman MAO Tse-tung's bid for international recognition and foreign trade. This first session of the Committee, attended by 134 representatives of "various democratic parties, ...people's organizations, ...minority groups, ...overseas Chinese organizations and the CCP," decided upon the elements ("no reactionaries") to be represented in the Political Consultative Conference and elected a standing committee to determine its agenda, to draft a Constitution, and to draw up "general plans" for the future government of China. It thus "A"

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- 4 -

appears that the future Political Consultative Conference will adopt a Constitution and proclaim a National Government of China without the intermediate step of a National Assembly.

Last week's preparatory meeting was attended by five of the top members of the CCP's Central Committee: MAO Tse-tung, CHU Teh, CHOU En-lai (who presided), LIN Tsu-han, and LI Li-san. Also present, and delivering speeches of approval, were LI Chi-shen of the Kuomintang Revolutionary Committee, SHEN Chun-ju of the Democratic League and TAN Kah-kee, overseas Chinese leader on a visit from Malaya. Chairman MAO defined the meeting as preparation for "the swift convening of the new PCC to form a democratic coalition government." "Only thus can China free herself from her semi-colonial and semi-feudal fate," MAO declared, describing at length the injuries suffered by China at the hands of "the imperialists and their running-dogs, the Chinese reactionaries."

However, in a significant departure from the CCP's propaganda line of the past three years, not once did MAO or any other speaker at the session identify the US as the imperialist enemy. Significantly, MAO stated that "we only oppose the imperialist system and its...schemes against the Chinese people. We are willing to...establish diplomatic relations with any foreign government on the...basis of equality... provided it is willing to sever relations with the Chinese reactionaries. The Chinese people are willing to carry out friendly cooperation with all countries of the world in restoring and developing international trade..."

The rehabilitation and development of the Chinese economy was thus recognized in MAO's speech as one of the two principal tasks facing the "People's Democratic Republic of China"---the other being the suppression of anti-Communist "remnants" in China. It is highly probable that this consideration impelled MAO to desist temporarily in denouncing the US. For the next several months, CCP propaganda may continue this attempt to maintain an equilibrium between the Party's commitments to international Communism and China's enormous need for trade with the West.

CCP censures anti-Soviet statement--In rebuking the editor of a Harbin newspaper for "anti-Soviet" remarks, the CCP has admitted to the world for the first time that not all elements of the Party are happy about relations with the USSR. The editor, HSIAO Chun, well-known novelist and guerrilla leader, had suggested that it was time for "imperialists of various colors" to withdraw from China, and, further, that "all foreigners should treat us with respect and equality; if they are Soviets, they should respect us all the more." HSIAO was reprovved for succumbing to Western propaganda about "Red imperialism," and for failing to understand that the USSR "cannot possibly become the oppressor of other peoples."

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- 5 -

The temptation to commit "deviations" of this sort is probably strongest in Manchuria, where the USSR holds Port Arthur and has not yet opened the port of Dairen. Soviet citizens share in the administration of public utilities in major Manchurian cities, the USSR is a joint operator of the Chinese Changohun railway (and perhaps a number of other enterprises) and some thousands of Soviet railway troops and technicians are resident. Manchurian agricultural surpluses, moreover, have been exported in quantity to the Soviet Far East despite the fact that North China could profitably absorb a greater share of those surpluses than it is presently receiving and surpluses are needed for export to the West. Although the CCP press has stated that the industrialization of China is to be based on heavy industry developed in Manchuria with Soviet assistance, as yet the USSR, which despoiled Manchuria's industrial complex in 1945, has not been credited by the CCP with assisting the CCP's efforts to restore the Manchurian economy in any way.

Criticism of HSIAO was reprinted as far south as Nanking, on the grounds that HSIAO's view has a "representative character." The Party leadership is thus warning the rank-and-file throughout China that expressions of anti-Soviet feeling will not be tolerated. However, HSIAO has been under fire without being liquidated for the past ten months, a fact that suggests HSIAO has a certain support within the Party. While HSIAO's views are not in accord with the present Party line, it is possible that the Party will later find it useful.

Emphasis on cash crops brings resistance---The CCP's program to expand the production of such industrial crops as cotton is reportedly encountering resistance among Chinese farmers who have indicated a preference for the planting of food crops in drought-ridden areas of North China. Communist propaganda in recent months has stressed the necessity of supplying Chinese textile mills with native cotton and freeing them from dependence on foreign supplies. "C"

In the light of past ratios between cotton and grain prices, the individual farmer has been doubtful of the profit possibilities in shifting to cotton. In meeting the price of foreign cotton in Shanghai, the farmer had, in the past, to accept a return that, because of high transportation costs and large middleman's profit, was considerably below the city price. The present unfavorable harvest prospects generally confirm the farmer in his reluctance to plant cotton in place of food crops.

CCP policy in the face of reluctance to expand cotton acreage will probably be first to reiterate the need for more cotton production to free China from dependence on American and other foreign supplies. Second,

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- 6 -

practical measures may be adopted to effect a cotton-grain price ratio that will encourage the shift to cotton. One such measure may take the form of promising to buy up all cotton at a favorable price. An additional measure would relate to tax payments in kind; taxes can be so fixed that payments in cotton will be less burdensome to the farmer than payments in grain.

PAI "can't cook rice"--The commander of the only anti-Communist force in south China capable of offering the Communists any resistance worthy of the name, PAI Chung-hsi, claims to be running out of money, arms and ammunition for his troops. PAI came to Canton last week, reportedly to inform LI Tsung-jen that unless he was quickly and adequately supplied with these necessities he "could not go on." PAI observed that "you can't cook rice if you have nothing but water." PAI is not at all hopeful that necessary supplies will be forthcoming from the Generalissimo's stocks. He implied that only the US could keep him in the field against the Communists and he is scarcely more hopeful of aid from this source. Accordingly, PAI is preparing to complete the withdrawal of his own personal troops into Kwangsi, assigning less trusted units to fight required delaying actions. "B"

Although delayed somewhat by floods in south China, the Communists are going ahead with preparations for an offensive and have concentrated approximately 18 armies in the areas surrounding Nanchang and Wuchang. In addition, some 50,000 Communist irregulars in Kwangtung stand ready to aid the advance. The most likely target for the drive will be Canton with Communist field forces moving south along the Kan and the Hsiang Rivers and thence along the East River and the railway into the provisional Nationalist capital. PAI, whose forces probably will not be in the path of such an advance, will not be initially disturbed. Once Canton falls, probably during August, PAI's three tenuous connections with the sea, the West River, the highway from Canton, and the highway from Fort Bayard, will be interdicted. Even in the unlikely event that the Generalissimo should relent or the US attempt to supply PAI directly, few such supplies could then reach him.

Cut off from the Generalissimo's Nationalists and militarily isolated from Szechwan, PAI would soon be forced into the role of a purely provincial warlord. Although his position could be fairly strong for some time, PAI may choose instead to come to terms with the Communists. LIU Fei's recent arrival in Canton from Communist-occupied Peiping suggests that the CCP is exploring this possibility. LIU, former vice-Minister of National Defense under PAI and later military member of the Nationalist peace delegation in Peiping, is believed to have brought Communist peace proposals to

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- 7 -

the Kwangsi clique. The leaders of this clique, LI and PAI, do not presently seem to be in the mood to accept peace with the Communists, but the next few months may bring a change in their views.

LI can't cook--Formation of a small Kuomintang Emergency Policy Committee, with CHIANG Kai-shek as chairman and LI Tsung-jen as vice-chairman, indicates the latter's acquiescence to the Generalissimo. The new committee is the directing organ for the Party and the National Government, long advocated by the CC Clique for the sake of "unity." The membership consists almost entirely of CHIANG's stalwarts, so that any effort by LI to follow an independent policy will intensify resentment and disunity. "C"

CHIANG's influence is also reflected in the new YEN Hsi-shan cabinet, composed largely of right-wing Nationalists such as CHEN Li-fu. HO Ying-chin declined to continue in the Defense Ministry and the outstanding new nominee, HU Shih, refused to accept the post of Foreign Minister. The new cabinet is weak and faces insuperable problems. However, CHIANG apparently wants to prevent the LI Government's disappearance from mainland China and reportedly has given the Finance Minister certain promises of support.

The Nationalists appear virtually paralyzed in the face of the CCP threat to Canton. Most Nationalist leaders and government employees are either fleeing to Taiwan or preparing to serve the Communists. The Foreign Office has already urged foreign diplomatic missions to prepare for a move to Chungking. The Nationalists will be further discouraged by evidence that only minor diplomatic officials, if any, may go to Chungking, as well as by failure of their latest efforts to obtain assurances of US aid. Although LI may continue for a while as a Nationalist figurehead, he is reportedly concerned over the pessimistic outlook of his Kwangsi associates, and may retire before long to make peace in his home province.

INDOCHINA

Sweetness and light in Vietnam--An exchange of letters in Saigon between French High Commissioner Pignon and Bao Dai last week advanced the 8 March Franco-Vietnamese agreement one step further toward realization. Simultaneously, Bao Dai proclaimed his leadership of the newly unified state of Vietnam and assumed the provisional title of Emperor. In a formal public address, he emphasized that Vietnam's mission was cooperation "with all countries who wish to defend the conception of life based on peace, democratic principles and respect for individual liberties." "B"

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- 8 -

Although he promised that a future constitution will be drafted by the people, the provisional emperor declared it necessary that he "take over direction of the state" for the present, in view of the grave international situation and the impossibility of holding elections immediately. Bao Dai stressed the ending of Cochinchina's colonial status and its restoration to a unified Vietnam, and promised that the Franco-Vietnamese accord would be submitted to the envisioned future Vietnamese Parliament for approval. In considering internal administration, the provisional emperor outlined a broad social program for the attainment of improved education, labor legislation, standards of living and land reforms.

Despite previous reports that contacts have been made between Bao Dai's entourage and the non-Communists who support Ho Chi Minh, the provisional emperor failed to make any direct appeal to resistance groups. This omission may indicate that so far he has had little success in winning over Ho's followers. In addition to the personal feuds and individual political aspirations among Bao Dai's immediate adherents, failure to gain support from resistance elements may well prolong formation of the working government which appears essential to the success of the Bao Dai experiment.

THAILAND

Parliament reconvenes--Following a special parliamentary election earlier in the month, Parliament reopened on 15 June and the "caretaker" Phibul Cabinet resigned as required under the new constitution of 23 March 1949. Phibul is almost certain to be reappointed Prime Minister by the Privy Council and to form another government, including new personnel, within the next three weeks. "C"

The lower chamber of Parliament (House of Representatives), according to the constitution, must express approval of a new cabinet. Although the Phibul regime does not control a single-party majority in the House of Representatives, the recent election of a Phibul supporter as presiding officer of the House indicates that a Phibul cabinet probably will have a working majority.

BURMA

Socialist split threatens Government--The Burmese political scene may be further complicated by a developing disagreement between Prime Minister Thankin Nu and his Socialist Party supporters. In a major parliamentary address on 14 June, Nu admitted Burma's inability to establish industries "C"

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- 9 -

by its own efforts and recommended seeking the aid of friendly nations to obtain capital, technicians and executives. He also stated that it was desirable for Burma to enter into mutually beneficial economic and defense treaties with countries having common interests. The Nu speech represents a notable shift towards the center and clearly implies a desire to align Burma more closely with the West. By contrast, the Burmese Socialist Party (BSP), in a recently-issued statement praising the Chinese Communists, denounced Anglo-American "imperialism." The BSP stand may have been motivated by opportunism, by the dominant position of its ultra-leftist leader, U Ba Swe, or by genuine Socialist interest in agrarian reform. Nevertheless, it appears to be diametrically opposed to Nu's proposed policy.

The first test of these opposing views will come with introduction of the Government's Minerals Bill, which would admit foreign capital for the development of Burma's mineral resources. Socialist reaction to the bill will provide definite indication as to the extent, depth and seriousness of the possible impending split between the Government and the Socialist majority in Parliament. The outcome is problematical. The extreme possibilities would include the complete withdrawal of Socialist support of Thankin Nu, resulting in the collapse of his relatively moderate government, or the development of a serious fragmentation in Socialist ranks. It is believed, however, that strong efforts for a compromise will be made since both the Government and the BSP presumably recognize the seriousness of a crisis at this time.

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