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INTELLIGENCE HIGHLIGHTS NO. 48
13 April - 19 April 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

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Although the Korean Government is making progress in strengthening the security forces and eliminating dissident elements, the announcement of US troop withdrawal will revive a spirit of defeatism (p. 4).

As the Nationalist-Communist peace negotiations entered their third week, it became more apparent that an "honorable peace" was not possible and LI Tsung-jen would have to decide very soon whether to surrender or fight (p. 6). Communist political strategy includes third "ultimatum" to LI's government (p. 6), and statement of JEN Pi-shih, top Red Politburo member, that the new China must go all out for industrialization (p. 7).

Dutch armed forces in Indonesia paradoxically appear to have intensified their operations against Republican units at same time that Dutch and Republicans are meeting in Batavia (p.10). Meetings open in congenial atmosphere but principal issues remain to be considered (p.10).

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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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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Prospects for most-favored-nation treatment for Japan dim--It now appears likely that the US proposal for most-favored-nation treatment for Japan during the period of the occupation will not be approved by the nations currently meeting in connection with the General Agreement on Tariffs and Trade (GATT). Of the major countries, the UK and Belgium are definitely opposed, and the French only lukewarm. The opposition of the UK is especially important because its position is likely to be followed by the Dominions. The pressure by business interests in these countries, particularly the textile industry, is so strong that it is doubtful that the opposition can be overcome at this time. "B"

In the absence of most-favored-nation treatment for Japan, some countries may impose restrictions on Japanese imports if these imports provide strong competition for indigenous businessmen. However, the failure of the proposal at this time does not preclude its being raised at a more auspicious time, especially after a single yen exchange rate has been established.

Burmese Prime Minister visits India and Pakistan--Prime Minister Thakin Nu's visit to India and Pakistan, where he sought arms and financial assistance for Burma in exchange for rice, was largely a failure. Although the Indian Government may secretly supply a "token quantity" of arms to Burma as evidence of goodwill, it informed Nu that it could not advance a loan until a peace had been negotiated between the Burmese Government and the Karens. The reaction of the Pakistan Government to Nu's requests is not known but it was probably even less encouraging than that of India. The only positive commitment obtained by Nu was the promise of both India and Pakistan to discuss Burma's case informally at the forthcoming Commonwealth Prime Ministers' Conference in London. "B"

Under existing conditions in Burma, financial assistance is not likely to increase materially the export of rice, nor are more arms likely to insure a decisive military victory for the Burmese Government over its numerous antagonists. Nevertheless, the maintenance of a Commonwealth front which insists upon the restoration of a reasonable degree of stability as a prerequisite to assistance may force the Burmese Government to renew its attempts to reach a settlement with the various insurgent groups-- particularly the Karens.

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JAPAN

Japan's self-sufficiency in coking coal claimed--An industrial specialist assigned to SCAP claims that if certain technical and administrative improvements are made, Japan can be self-sufficient in coking coal. He states that Illinois soft coals similar to those in Japan have been treated in such a way that suitable coking coal has resulted. Should this claim be substantiated, Japan would be relieved of the necessity to import coking coal for its steel industry. As a result, Japan would (1) not be so dependent upon Communist areas in China for the most economical source of coking coal and (2) save in foreign exchange. On the other hand, alarm would be created in those countries which still remember Japan's aggressive aims.

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Population problem to be considered--Alarmed by the meteoric population rise in population at the rate of $1\frac{1}{2}$ millions a year in Japan since the end of the war, as a result of "an Oriental birthrate and an Occidental death rate," Premier YOSHIDA has suggested that the issue of birth control be made a formal party pledge for the Democratic Liberals. Further concern is indicated by the Cabinet's decision to set up a deliberative council to study the problem of population pressure.

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If population control secures legislative recognition, Japan will be the first Far Eastern country to take such steps. Japan always has had a surplus population (an expansionist factor used effectively by the militarists). Post-war repatriation of approximately six million overseas Japanese and denial of emigration have made the problem a matter of national concern. If the population continues to increase at the present rate, there is danger of negation of such economic recovery as may be attained.

SCAP & Japanese government setback Communists--SCAP has this past week turned down the petitions of two communist-dominated labor federations to send delegates to the Tenth National Convention of Trade Unions of Soviet Russia to be held in Moscow on 19 April. The rejection stated that it is not SCAP policy to authorize Japanese individuals representing only a "segment" of Japan's labor movement to attend the 10th Trade Union Congress in view of the undeveloped state of Japanese labor unions and its consequent inability appropriately to determine its attitude towards international activities.

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Last week, however, SCAP granted four Japanese permission to attend a meeting of the International Labor Organization in Pittsburgh on 20 April. It was pointed out that the ILO is not a national labor organization like the Moscow conference but a conference of representatives of labor, management and government and is affiliated with the United Nations. The Japanese presumably are technical advisors to the SCAP delegation and not delegates, thus complying with Far Eastern Commission directive. The Pittsburgh

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trip is undoubtedly part of the Occupation's democratic orientation policy. The ILO conference will under the circumstances, however, provide Soviet propaganda guns with additional ammunition.

Last week also, the Japanese Government drastically curtailed the future printed propaganda output of the Japan Communist Party (JCP) by slashing the Party's newsprint allocation by over two-thirds. The action was taken on the proposition that newsprint should be rationed to the press of the respective parties on the basis of the votes received by them at the last general elections, rather than on the basis of present circulation. The Communists' monthly paper allocation was cut from 86,000 to 20,000 pounds. There is reason to believe that the JCP "blackmarketed" a portion of its newsprint allocation and channeled the proceeds in the party coffers. The curtailment should have the double effect of hampering party propaganda and cutting off one of the pipelines leading to the party treasury.

KOREA

Communist strength declines--Korean Army action against rebel bands in the Chiri San and Cheju-do areas and continued arrests of leftist leaders have decreased Communist activity in southern Korea in recent months. The special combat command assigned the task of mopping up the Communist-led rebel band in the Chiri San area has killed the rebel leader, Hong Sun Suk, and three other important members. At the same time, intelligence officers of the Korean Army have arrested South Korea Labor Party leader Lee Chung Up and 60 other prominent leftists. "B"

Although Communists in southern Korea probably still can provoke local disturbances when food shortages develop during April and May, they probably cannot threaten seriously the stability of the Republic at this time without large scale assistance from northern Korea.

Rhee announces US troop withdrawal under discussion--President Rhee announced on 18 April that discussions are underway between representatives of the Republic of Korea and the US to establish a date in the course of several months for the withdrawal from Korea of US troops. He said that withdrawal would be possible because the Korean defense forces are now rapidly approaching the point at which they can assure security, provided the Republic is not called upon the face attack from foreign sources (presumably meaning other than forces of northern Korea). Rhee stated that troop withdrawal would not mean a lessening of the US commitment, but that he has renewed US assurances of continued economic, military, technical and other assistances for the safety and welfare of the Republic of Korea. "A"

Despite the assurances of continued US support to the Republic of Korea, the announcement of impending troop withdrawal may be accepted in Korea and the Far East generally as further evidence that the US considers

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the Pacific a secondary zone in the Cold War and is not prepared to stand as firmly against the encroachments of Communism in the Far East as in Europe. The withdrawal combined with the fresh impact of Communist power that will result from the imminent crossing of the Yangtze, will revive last fall's spirit of defeatism in Korea and give impetus to those Korean leaders who advocate "coalition" with the northern Communist regime.

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CHINAPEACE NEGOTIATIONS

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LI must decide soon; surrender or fight-- Although the Nanking Government has been able to prolong the peace negotiations and apparently to obtain minor concessions on such issues as that of "war criminals," its resistance capabilities are diminishing in face of mounting Communist pressure. Consequently Acting President LI and his political cohorts may be impelled by their precarious situation to endorse very soon a settlement offering them no more than temporary nominal participation in a Communist-dominated provisional government, or face a resumption of a military offensive by the Communists. In the latter circumstance; the LI-HO government would probably soon be replaced by other Nationalist groups which have been less closely identified with the peace movement.

The Nanking Government's weakness reflects the continued struggle for power between LI's following and that of CHIANG Kai-shek. Despite some efforts to present an appearance of unity during the negotiations, the Nanking and Canton groups disagree on peace terms. Recent statements, by Nationalist groups and Kuomintang bodies in Canton and the decisions reached by a secret conference of Kwangtung military and political leaders reflect their opposition to any agreement looking toward coalition government or facilitating a Communist occupation of areas south of the Yangtze. Moreover, CHIANG Kai-shek's uninterrupted direction of top military commanders, his renewed refusal to release gold reserves, and his continuing interest in Taiwan as evidenced by T. V. SOONG's recent visit to that island indicate his intention to oppose any "sell-out" peace and to hold himself in readiness for possible resumption of the Presidency. Increasing activities of Kuomintang leaders and reports that the Kuomintang Central Executive Committee may be convened in a plenary session at Canton on 5 May, point to their preoccupation with the outcome of the peace negotiations as a political turning point and to their preparations for organizing continued resistance.

Communists deliver third "ultimatum"-- The Chinese Communist Party (CCP) has announced officially that formal peace negotiations in Peiping will be concluded on 20 April, and that the Nanking government, if it intends to sign the Communist-dictated "peace agreement," must sign on that date. The terms of the draft agreement--"eight articles and 24 provisions"--amount to the demand that the Nanking government transfer its political authority to a Communist-controlled "coalition," order all Nationalist armies to stand by for "reorganization" by the CCP, and assist the Communists to realize such transfer and "reorganization" in fact as well as on paper; an early step would be an

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unopposed crossing of the Yangtze by Communist armies. As previously noted, Communist armies, whether opposed or unopposed, will probably cross the Yangtze in the near future; the CCP is simply giving the Nanking government a choice of casting its lot with the "coalition" or attempting to resist it. This is the third "ultimatum" to be given the Nanking government by the CCP in the past two weeks, and the Nanking government will probably have yet another period of grace, for possible reconsideration, prior to the actual resumption of the military offensive. However, this is the first occasion on which the Communist deadline has been publicly announced. Regardless of the outcome of the current peace talks, the Communists will open negotiations separately with local Nationalist authorities as the Communist armies move into South China.

Communists go all-out for industrialization. Enlarging upon Chairman MAO Tse-tung's recent remark that "the wresting of a nation-wide victory is but the first step," JEN Pi-shih, fourth-ranking member of the Politburo of the Chinese Communist Party (CCP) and the Party's leading economist, states that the military victory of the CCP is now an accomplished fact, and therefore that intensive efforts must be made toward the industrialization of China. In line with MAO's view in 1947 and 1948 that "the ultimate goal of the new democratic revolution...is to transform an agricultural country into an industrial country," and the Central Committee's decision last month that the Party must shift its emphasis from work in the countryside to the rehabilitation and development of urban industry, JEN gives the goals of China's industrialization as national defense, economic independence, a higher standard of living, and a strong foundation for "the future change to socialism."

The CCP's immediate efforts will include (1) the rapid development of state-owned enterprises, through large-scale investment in them of resources and manpower, and (2) the direction of agricultural produce to urban and thus industrial ends, in order to supply food and raw materials for the industries, and exports to exchange for necessary rehabilitation imports. JEN claims that China can rehabilitate its existing industry in three to five years, which is probably true. His other and more important contention, that China can be industrialized--i.e., that industrial output will amount to 30 or 40% of the national income, rather than the present 10%--in 10 to 15 years, is very doubtful. Nevertheless, JEN's speech is significant, in that it demonstrates the CCP's belief that "the long march" to economic victory has begun, and that state-controlled industries are the most reliable vehicles for this march.

Congress of Chinese New Democratic Youth League opened in Peiping on 10 April. The importance of this organization in the eyes of the

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CCP is attested to by the fact that six of the twelve members of the CCP Politburo are on the Presidium of the Congress. Delegates to the Congress are said to represent 189,800 League members; others attending represent the All-China Federation of Labor, the All-China Democratic Woman's Federation, the All-China Students' Federation, and the North Korean Democratic Youth League.

As the Soviet CP employs the Komsomol, so the CCP plans to utilize the Chinese New Democratic Youth League: as an auxiliary mass organization to mobilize the youth for various Party purposes. Politburo member JEN Pi-shih, addressing the Congress on 13 April, declared that the CCP attaches great importance to the establishment of the New Democratic Youth League, in that, in mobilizing the people, emphasis must be laid on mobilizing youth. The League is to be "a unified organization of youth masses" in which education in Marxism-Leninism is to be carried out systematically. The social basis of the League will be wider than that of its predecessor, the Young Communist League; although its main basis will be young workers, peasants and revolutionary intelligentsia, the League will also unite all "progressive youth" of various strata.

Like the Soviet Komsomol, the Chinese New Democratic Youth League is envisaged as something more than an ordinary youth organization. The Komsomol's early activities included the conscription of its members for fighting the civil war, and the assignment of youths to work in industry and to wage political campaigns in the villages. CCP Politburo members addressing the Congress of the New Democratic Youth League last week declared; that youth must be mobilized to participate actively in the military crossing of the Yangtze, and that a youth league will be formed in the People's Liberation Army; also that youth must be mobilized to take part in the rehabilitation of industry and agriculture, with youth leagues formed in factories, schools and countryside, special emphasis being placed on the cities.

Future Role of Aircraft in the Chinese Fighting. Some 38 ex-Nationalist bombers, fighters, transports, and trainers, operational at the time of acquisition, plus approximately 20 pilots have been added in the past six months to the Communist armed forces, either by capture or defection. Despite numerous low-value reports of the existence of a Communist air force, this is the first concrete information that the Communists possess operational aircraft and have the men to fly them. Up to the present, however, no credible report has ever been received that these planes have been used in a combat operation. Severe limitations in air-craft, spareparts, fuel, lubricants, and trained personnel have curtailed, and will probably continue to curtail the operation of a Communist air force. The most critical shortage is the lack of aviation gas. Although the Communists did capture significant stocks of Nationalist aviation fuel these are probably sufficient only for future small scale combat operations or transitional training of Communist pilots in US-type ships; failure to follow the latter course means Communists

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must depend on politically unreliable Nationalist defectors.

The Nationalist air force, in a move to reduce the probability of further defections, brace the island's defenses, and keep the air force out of immediately threatened areas, has transferred some 5/6 of its tactical aircraft to the island of Taiwan. With only some 100 tactical craft left on the mainland, the main body of the airforce, out of the grasp of LI's government, remains one of the major adjuncts of the Generalissimo's continuing power in Nationalist China. But deep confusion and a low state of morale exist in the ranks of the Nationalist airforce and some 2/3 of the aircraft on Taiwan are currently grounded, as a result of lack of proper maintenance. Although the CAF has recently been bolstered by the addition of a considerable number of US F-47's, F-51's and Canadian Mosquitoes, the majority of these are still in the lock areas, uncrated.

In the extremely unlikely event that the Nationalist airforce is committed to a last ditch defense along the Yangtze, the Communists may use these newly acquired planes to cover their crossing. More likely is that neither the Nationalist nor the Communist air arm will ever become major factor, capable of swaying the course of China's civil war.

Communist oil shortage serious due to US ban-- US oil companies, "B"
have agreed to limit the shipment of oil and cut all shipments of aviation gas to Communist-held North China, Manchuria and North Korea.

The Communists are short of petroleum products, especially gasoline, lubricating oils, kerosene and fuel oil. Petroleum supplies have come from three sources: captured stocks; stocks from the USSR via Manchuria; and shipments from Hong Kong. The captured stocks were of fair size, i.g. 42,000 barrels in Tientsin, but were probably consumed by LIN Piao's army. The Soviet gas, reportedly 26,000 barrels for February and March, and of very low grade, also went to LIN Piao's army. Imports of petroleum products from Hong Kong totaled 16,000 barrels in March and 8,000 barrels for the first half of April; some of this went to ports of the Shantung peninsula. While this gas may satisfy a large part of North China's minimum needs, China as a whole has been consuming 15-20 million barrels annually since the war, and 10-12 million barrels would be the least the Communists would need after unifying China.

Imports of this magnitude cannot be obtained from the Soviets, nor from other Asiatic sources such as the NEI, not only because of limited production but also because much of the imports must be in refined form. Thus the Americans and the British have virtually monopoly control over large-scale supplies of petroleum; the control of petroleum shipments to the Chinese Communists is now, and especially later, an effective weapon against the Communists.

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INDONESIA

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Dutch military operations in Indonesia-- Dutch military units appear to be increasing their operations against remnants of the Republican Army (TNI) at a time when pre-negotiation discussions are taking place in Batavia. Dutch commandos have moved north from Bandoeng for action against units of the crack Siliwangi Division which have ignored a Dutch military ultimatum ordering them to cease fighting and to align themselves with the Dutch. It is reported that even before the expiration of the deadline for the ultimatum, Dutch commandos infiltrated one Republican battalion and killed the commander, a brother of an official in the pro-Republican Pasundan Government of West Java. In other areas the Dutch forces have also been active. From 8 through 10 April Dutch ground troops and bombers were engaged with 4,000 Republican troops southwest of Jogjakarta with resulting Republican casualties of approximately 1,500. Such actions will cause Republican distrust to mount and may make an eventual settlement with the Dutch impossible.

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These actions on the part of the Dutch military underline one of the problems confronting Dutch officials at The Hague, i.e., their control over militarist elements currently controlling the Netherlands government at Batavia. The Commander of the Dutch Forces in Indonesia and the High Representative of the Crown have consistently represented a reactionary and unconciliatory section of Dutch political thinking. Even if the Dutch delegation currently engaged in the Batavia discussions adopts a moderate attitude in dealing with the restoration of the Republic, there will yet remain the problem of coordinating conflicting points of view among Dutch officialdom as a whole.

Dutch and Indonesian representatives meet in Batavia-- The first formal negotiations between the Dutch and Republicans since May 1948 opened in Batavia April 14th in compliance with a March 23 Security Council directive. Major problems on the agenda are: (a) restoration of a Republican Government at Jogjakarta, (b) cessation of Dutch and Republican military operations, and (c) determination of the date and conditions of a proposed round-table conference at The Hague. The UN Commission's attempts to reconcile the Dutch and Republican viewpoints were hampered on the eve of the Batavia meetings when the heads of both delegations made informal statements to the press criticising each other's interpretations of the Security Council directive. The Dutch spokesman criticized the prior Republican demand for restoration to Jogjakarta as an unfair emphasis on one of the three points scheduled for consideration. However, the first two Batavia meetings have taken place in a congenial atmosphere and the Republicans have expressed satisfaction with the attitude of the Dutch chairman, Netherlands UN Ambassador Van Roijen.

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INDONESIA (continued)

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There are indications that the Dutch may eventually agree to a qualified return of Republican leaders to Jogjakarta but it is doubtful that they will meet the Republican demand to withdraw completely their military forces from the area. Despite considerable suspicion, the Republicans are hopeful that international disapproval of Dutch "police action" will force the Netherlands Government into a more conciliatory attitude and facilitate a solution of the problem. In this connection, the appointment of Van Roijen as head of the Dutch delegation at Batavia indicates a possible willingness to defer to international considerations.

INDOCHINA

"Favorable" elections in Cochinchina apparently will result in Bao Dai's return-- The elections to the new Cochinchina Territorial Assembly, which will convene on 19 April to consider unity of that state with Tonkin and Annam, evoked gratifying participation by rural Vietnamese voters but little interest in the metropolitan area of Saigon. There was 90% abstention in Saigon which was probably caused by insufficient time for a regular campaign, lack of experience with voting procedures and, most important, threats from Viet Minh resistance groups. Chances for unification, however, appear moderately good at this time in view of the favorable attitudes of the successful candidates. "p"

The latest information indicates that Bao Dai will return as scheduled on 25 April, but to Dalat in southern Annam rather than to Saigon. He will remain under French protection without participating officially in the Vietnamese Government until the French National Assembly has approved the unity of the three Vietnamese states, an action delayed by its recess until after 17 May.

Referring to the possible success of the projected Bao Dai regime, President Kuan of the present Provisional Central Government of Vietnam, has suggested again the possibility of Ho Chi Minh's inclusion in the new government as the only step which would restore peace in Indochina. It is quite likely that the present French Government will discourage a rapprochement between Bao Dai and Ho Chi Minh and would only consider such a development if it becomes an alternative to being driven out of Indochina.

PHILIPPINES

Administration defends Philippine foreign policy-- As a result of recent anti-Administration criticism of Philippine orientation toward the US at the expense of Southeast Asia relations, President Quirino and the "p"

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PHILIPPINES (continued)

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Undersecretary of Foreign Affairs have been forced to explain and defend Philippine foreign policy. The Government has been accused by presidential aspirant Claro Recto (Minister of Foreign Affairs during the Japanese occupation) of attaching itself so closely to the US that "it neglected to develop closer ties with neighboring Asiatic nations now struggling for freedom." He also predicted failure of the proposed "Pacific Pact" since the Philippine US-oriented foreign policy precluded common interests with other Asiatic nations.

In reply, President Quirino stated at press conference on 11 April that: (1) the Government has consistently espoused the cause of Asian countries and has sought closer relations with them; (2) the Government has not blindly followed American policy; and (3) the proposed "Pacific Pact" is predicated on the political and economic independence of Asian countries. To illustrate the Government's interest in Asia, Quirino cited efforts to conclude treaty of amity with India and to initiate diplomatic relations with Siam as well as special missions which had been sent to Ceylon and Korea. He mentioned Philippine policy toward Spain and Indonesia as evidence that the Administration has acted in opposition to implied US wishes. Quirino indicated, however, that the Philippines would continue a general policy of close cooperation with the US.

In support of the President's policy statement, Undersecretary of Foreign Affairs Felino Neri declared that support of subject peoples in their aspiration for self-rule is one of the "cardinal objectives" of Philippine foreign policy. He cited the Administration's friendly policy toward Indonesia and revealed that the Government expects to give "sympathetic consideration" to a request for a \$500,000 loan made by the Republic's "government-in-exile" in New Delhi.

Alleged MacArthur statements favoring Quirino cause anti-US reaction— "g"
Public revelation of statements, purportedly made by General MacArthur, favoring Quirino for the presidency in the November election have resulted in sharp criticism of the US by the anti-administration press and political leadership. According to roving Ambassador Gallego, who has recently returned from Tokyo, MacArthur favors Quirino's election as president and stated that should a collaborator (i.e. Jose P. Laurel, president of the Japanese-sponsored "Republic") become president, US aid to the Philippines would be terminated. The US Embassy in Manila reports that the MacArthur statements are furnishing President Quirino's opponents—especially the two collaborationists, presidential aspirants Laurel and Claro M. Recto—with ammunition to whip up nationalist sentiment against US "intervention" in Philippine internal affairs.

While Quirino has expressed annoyance with Gallego for publicly quoting MacArthur, the President has told the US Chargé in Manila that the

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statements would actually strengthen his presidential campaign "because the people will believe MacArthur before they will Recto or Laurel." Most Filipinos resent any attempts by aliens to interfere in their domestic affairs and are keenly sensitive to charges that they are US puppets, but fear that the US might end financial aid to the Republic is considerable and is Laurel's most vulnerable political weakness.

AUSTRALIA

Loss of Communist influence indicated— Australian Communists have suffered significant reversals in recent months. Such a trend, if continued, could effectively nullify much of the Communist Party strength which reached considerable proportions during the war years and may reduce Communist capabilities for industrial sabotage in the event of war. Recent anti-Communist activity can be attributed, in part, to the tense international situation and Australia's position in the "Western bloc." The development represents a sharp departure from postwar apathy (within trade unions and the Labor Party) which has permitted Communist penetration and effective control of 7 of the 9 most important trade unions in Australian industry. "A"

The Labor Government continues to maintain its traditional policy of non-intervention in the affairs of the Communist Party per se but has taken important steps to improve its internal security agency and to screen government employees in sensitive positions. In addition, the Government has recently indicted the Communist Party Secretary-General for sedition.

Within the trade unions, anti-Communist elements have been increasingly successful in their drive to eliminate Communists from key posts. The non-Communist executive body of the Australian Trade Union Council is strengthening anti-Communist factions within its union affiliates and has urged enactment of legislation to protect trade unionists against Communist control. Some unions, such as the Public Service Clerical Association, and the Australian Workers Union have banned Communists from all official positions. Among the more spectacular instances of the decline in Communist strength was the failure on 12 April of a 24-hour industry-wide work stoppage inspired by the Communist-dominated Ironworkers Union.

On the State level, anti-Communist sentiment is even more apparent. Australian crowds have recently broken up Communist meetings in Queensland, New South Wales, and Victoria and on 13 April the Communist Party leader in Victoria was arrested while addressing a gathering of railway workers.

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