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SEC I (SUMMARY T&D)

Gen: (X) J'p'n: (4) Kra: N- (1) S- (1) Gra: (5) Ind: (1)

Rma: (X) Mla: (✓) Siam: (✓) Ppp: (1) Ala: (X)

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THIS WAS A WEDNESDAY PRODUCTION

SEC. II (SPEC. DEV.)

Writer	Div ok	ed	writer	Div ok	ed
A) GENERAL			I) BURMA		
B) JAPAN	25X1A	✓	J) INDONESIA	✓	✓
C) N.KOREA	TO TYPING	✓	K) PHILIPPINES	✓	✓
D) S.KOREA	25X1A	✓	L) AUSTRALIA		
E) CHINA	III see HOLD - lost on	✓	M) N.ZEALAND		
F) INDOCHINA		✓	N) PAC. ISLS.	HOLD	25X1A
G) MALAYA			H) SIAM	✓	✓

OTHER ITEMS NONE 14

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 AUTH: HR 70
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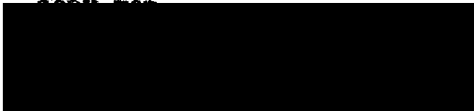
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FAR EAST/PACIFIC BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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

INTELLIGENCE HIGHLIGHTS NO. 35
12 JANUARY - 19 JANUARY 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The Japanese Government is readying legislation for submission to the new Diet, designed to tighten controls over labor unions (page 2). Meanwhile, the Japanese people remain cool to the impending elections (page 3). SCAP has given a green light to foreign investors interested in the Japanese market (page 2). The appointment of Dean Acheson as US Secretary of State has produced favorable comment (page 2).

In Korea, both the northern and southern regimes are given priority to the expansion of their armed forces (page 4).

CHIANG Kai-shek's tottering regime has lost North China and the fall of Nanking and Shanghai appears likely in the near future (page 6). Despite individual peace efforts on the part of many top politicians, no unified peace front has developed in Nationalist China (page 7). Meanwhile the Government speeded up preparations to evacuate Nanking (page 7), as top Communist MAO Tse-tung demanded unconditional surrender of CHIANG's regime (page 8).

The Philippines delegate to the Pan-Asian Conference on Indonesia has been instructed to do his best to prevent anti-western developments (page 10).

Progress is reported in joint Malayan-Siamese plans to clear their common frontier of guerrillas (page 11).

French negotiations with ex-Emperor Bao Dai have reached a crucial stage (page 10).

Indonesian Republican officials remain adamant regarding cooperation with the Dutch (page 11).

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

JAPAN

SCAP okayes limited private foreign investments in Japan. As part of its program to rehabilitate the Japanese economy, SCAP has issued a directive to the Japanese Government which will have the effect of expanding foreign private investments in Japan. Post-war commercial entrants, who can show that investments will "contribute to Japanese economic rehabilitation", are placed on an equal footing both with "non-Japanese who have been continuously resident in Japan since 2 September 1945" and, except for property transactions, with Japanese nationals and firms. "B"

Removal of existing discriminatory legislation against foreign business enterprises should lead to cautious investment in Japan, restrained by factors such as: (1) shortages within Japan of materials, facilities, services; (2) Japanese fears of "foreign domination, (3) instability of Japan's "natural" markets in the Far East, (4) uncertainty as to the level of Japanese industry to be permitted by the Allied Powers and. (5) possibility of renewed restrictions after execution of a peace treaty. Interested foreign firms include an English company which had a pre-war 67 percent share in the Toyo Babcock (boilers), the US Reynolds Metal Company (aluminum), Caltex (petroleum) and several electric companies.

Japanese optimistic over Acheson's appointment. Appointment of Dean Acheson as the Secretary of State has been received with enthusiasm in Japanese press and government circles thus far. Comment compared Mr. Acheson's civilian background to General Marshall's military career, and noted that Acheson has gone on record as favoring restoration of Japanese economy in contrast to the Marshall Plan's primary interest in Europe. Japanese interpretations of the change's significance ranged from expectation of minor reorientations in the Marshall attitude to a policy of strengthening of Japan's position in the Far East. Regarding the latter outlook, it should be recalled that the Japanese, aware of hidden meanings in their own public pronouncements, frequently view Occidental personnel changes as indications of covert policy changes. "B"

Government prepares revisions of basic labor laws. The YOSHIDA Government is preparing proposals for revision of existing basic labor legislation relating to private industry. It is intended to introduce these in the new Diet which YOSHIDA's Democratic-Liberal Party hopes to control. The YOSHIDA Government intimates that the planned revisions are essential if the Japanese Government is to implement the new US economic directive (See B/FE Weekly #32). Government initiative reflects the attitude of YOSHIDA's conservative backers who have criticized many of SCAP's labor relations principles as being experimental and unrealistic. In the past the Democratic-Liberal Party has unsuccessfully urged modification of these laws in the face of insurmountable Socialist opposition in the Diet. "B"

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JAPAN (Cont.)

The Government's proposals come while the public still remembers how use of dispute tactics in late 1948 by coal and metal miners', electric power workers' and seamen's unions threatened interruption of critical operations and fulfillment of production goals. At that time, SCAP rejected the suggestion that the strike bans embodied in the revised National Public Service Law which covers Government workers be extended to private industry. SCAP, however, indicated that the Government, if compelled, may restrain labor activities in industries affecting the public interest. Following issue of the US economic directive, SCAP officials advised trade unions to "cooperate" in fulfillment of the program, with the result that most disputes have been settled.

In view of SCAP's statements that labor's fundamental rights will be preserved, as well as the success of persuasive tactics to date, it is not likely that Japanese conservative attempts to "put labor in its place" will be effective. SCAP has pointed out that management bears a responsibility equal to labor's, in assisting economic recovery through increasing efficiency of operation. Moreover, the economic stabilization program implies that conservative forces must accept greater rather than less controls. SCAP has pointed out, however, that the new program calls for temporary surrender of some privileges and immunities and that Japanese labor will be expected to bear its fair share of sacrifices. Whether Japanese trade unions will do so willingly, in emulation of British labor, remains to be seen. The YOSHIDA Government's conservative tactics probably will tend to push labor towards the extremist camp.

Japanese cool to 23 January elections. Reports indicate a growing Japanese indifference toward the democratic electoral process which they face on 23 January, for the third time since the Occupation. Winter weather in northern Japan, which has limited campaign audiences, is blamed for part of the apathy. Of greater importance is the stringent restriction on campaign funds, imposed by the new election laws, which has severely limited campaign publicity. Under the present regulations, newspapers are prohibited from supporting candidates, thus further reducing public interest. Another factor is that the Japanese public tends to vote for a well-known candidate rather than a political party, and many of the best-known names were discredited in recent political scandals, causing their supporters to lose interest.

Fewer candidates registered for this election, which may indicate continuation of a trend first shown by the smaller poll turnout in the 1947 general elections, compared to 1946. Japanese women, who voted for the first time during the Occupation, appear unenthusiastic over their new role in the democratic era, judging by the fact that there are 45%

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JAPAN (Cont.)

fewer women candidates in this election than in 1947.

The weather, lack of newspaper backing and the scandals which have not to date touched the Communists, are all counted on to make the "hard core" vote of the extreme leftists, who are not so affected by these factors, proportionately more effective.

KOREA

Program for expansion of North Korean People's Army under way. A number of indications point to an attempt to increase the North Korean military forces both in strength and numbers. It is learned that recruiting quotas for men and women in the 18-25 age group are to be set up and filled by local People's Army county headquarters. Centers for the training of new recruits are being established. Confirmation of the existence of an armored regiment has been received. "B"

It is significant that security measures are reported in regard to the accelerated recruiting program. Inductees are being carefully screened and only those in complete sympathy with the government of the North Korean puppet state are admitted to the ranks of the People's Army. It is highly possible that earlier recruits showed some evidence of dissatisfaction and the screening system is designed to keep dissidents out of the expanding Army.

The People's Army is currently estimated at 50,000 men. Any substantial expansion will further drain the labor pool already seriously depleted by labor conscription, imprisonments, the flight of refugees and the existing military force.

South Korean Security Forces increase strength. Internal and external threats to the security of the Republic have stimulated Army recruiting and have caused an acceleration of training with new arms and equipment. The former Constabulary, now officially the Korean Army, is aiming at a strength of 65,000 men. (See B/FE Weekly #30) The addition of over 15,000 recruits since 24 November 1948, drawn principally from rightist youth groups, has brought the Army's present numbers to approximately 62,500 men. "B"

The Army is being supplied with infantry and infantry support weapons, up to and including 105-mm howitzers. The formation of horse cavalry units, needed to patrol the rugged terrain along the 38th Parallel, has been delayed in order to concentrate on cannon and anti-tank companies which would be more essential in the event of defensive engagements with

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KOREA (Cont.)

the North Korean People's Army.

Army expansion has been conditioned by political considerations. There has been an attempt to draw recruits equally from all rightist youth groups. Officer promotions and appointments are made in terms of previous Japanese or Chinese military experience and the individual's influence in various political parties. If the effort at balance is successful and all groups feel they are adequately represented, the result may be a decrease in existing internal political rivalries. It is more probable, however, that the struggle for political control of the Army will continue to the detriment of its unity and combat efficiency.

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CHINA

Nationalists lose North China, fall of Nanking and Shanghai imminent. The Chinese Communist forces of Gen. LIN Piao quietly took possession of the important North China city of Tientsin following the capitulation of its defenders on 15 January. In consequence, twelve additional Chinese Communist columns have been released which may well be utilized to augment Peiping's present besiegers, thereby ensuring the rapid success of an all-out attack against the city. However, the Communists, not wishing to pay the price of such a blitz operation or to jeopardize their popular front appeal, probably will not attack the historic city, but tighten their stranglehold instead and force FU Tso-yi to make a "deal," flee, or surrender. Therefore, Peiping's capitulation can be expected within the next two to three weeks.

After Peiping falls, the Communists will have at least eighteen additional columns for further employment elsewhere. The next likely course of Communist action north of the Yangtze appears to be an operation against ill-defended Tsingtao. The capture of Tsingtao would virtually ensure the early fall of Taiyuan in Shansi, since Taiyuan's major supply route is via air from Tsingtao. After Taiyuan falls, the small forces of HU Tsung-nan at Sian could be dealt with successfully by Communists moving south from YEN Hsi-shan's former domain.

In Central China the Nationalist's battle has been lost. The Government is withdrawing its second-rate, hopelessly outnumbered forces to a defense line along the Yangtze River generally extending from Hankow to Shanghai. Meanwhile, the Communist forces of Gens. CHEN Yi and LIU Po-cheng are regrouping and preparing to cross the Yangtze. This operation will probably be in the form of a three-pronged envelopment with one force moving southeast along the Tientsin-Pukou Railroad toward Pukou and Nanking. Another force would move down the Grand Canal and cross the river between Nanking and Shanghai, thence turning west toward Nanking. The third force would move south from the Pangfou sector and cross the river in the vicinity of Wuhu, thence turning east toward Nanking.

In the Hankow sector, PAI Chung-hsi will continue to be successfully contained by Communist forces to the north of his position. When Nanking falls Shanghai and Hankow cannot be far behind as PAI will be forced to make a deal or withdraw southward when attacked by a major force. It now appears likely that the Communists will occupy Nanking, Shanghai and all territory north of the Yangtze and east of the Yellow river, with the possible exception of Taiyuan and Sian, by March.

Nationalist losses through combat casualty, capture, or defection during the past six months have been slightly over one million men, their remaining combat strength is now estimated at approximately 400,000. On the other hand, the Communist armies totalling over 1,500,000

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men, of increasing efficiency and drunk with victory, are capable of driving virtually unopposed, through south China to Canton by spring thereby forcing CHIANG's remnant Government to withdraw to Taiwan.

National Government preparations to move from Nanking in the near future have become increasingly apparent. Canton is the probable ultimate destination for most units. The Communists' delay in pressing on towards the capital has given the Nationalists the opportunity to effect a more or less orderly withdrawal of the Government, in contradiction to earlier estimates that the flight would be completely disorganized and confused. Plans for the removal of the archives of various ministries have been made and personnel, excepting key men, are reportedly being given the opportunity to resign or to be evacuated from Nanking. Preparations are also being made for adequate housing of the Diplomatic Corps in Canton. This more or less orderly withdrawal of the National Government will make it more difficult for any accredited foreign missions to refuse to accompany the Government to a provisional capital. At the same time, the removal of the archives and the dispersion of trained personnel will keep the Communists from taking over an intact administrative organization in Nanking and substantially increase their administrative difficulties.

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The lack of any organized peace front becomes apparent as more and more elements in Nationalist China try to bargain with the Communists for their personal security. Peace overtures on a group and individual basis, rather than on a governmental level, have increased since the Communists refused CHIANG Kai-shek's bid for peace at his own price. FU Tso-yi in North China has been engaged in peace talks with the Communists on a regional basis. LI Tsung-jen, who had formerly sent emissaries to the Communists in Hong Kong, is now reported to have sent two representatives to meet with the Communists at Shihchiachuang. PAI Chung-hsi, who continues to urge the Generalissimo to seek peace, is reported to be prepared to negotiate a truce with the Communists in cooperation with other regional leaders in the Southwest. At the same time, local groups such as the Shanghai City Council are also attempting to take the initiative for peace. All these efforts, however, are apparently being checked by a small group around CHIANG, including HU Shih. This clique continues to urge CHIANG to hold out through the coming year, counting on the outbreak of a Soviet-American war to renew US assistance to the National Government.

"C"

Implementation of the National Government's plan to use Taiwan as an anti-Communist base is stimulating native Taiwanese resentment against Chinese rule. Recent reports indicate a continued influx of Nationalist military and civilian personnel as well as the transfer of governmental units to Taiwan. Governor CHEN Cheng reportedly will

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be appointed soon as director of a Communist-suppression campaign in Southeast China, Taiwan included. In their frustration over conditions of Nationalist military rule, native groups may soon manifest their resentment of continued US aid to the National Government, for example, the recent visit of US naval vessels to Taiwan to unload US ammunition for the Nationalist Army.

Dissident leaders confer with Communists regarding provisional government. LI Chi-shen, head of the Kuomintang Revolutionary Committee, as well as various Democratic League and other minor-group representatives, have left Hong Kong and Nationalist China recently, bound for Manchuria, or for North China where a meeting reportedly is to be held at Shihchiachuang. These leaders, many of them intellectuals possessed of slight political strength or aptitude, apparently feel the time has come to visit Communist areas and find out what their future role in a non-Kuomintang, Communist-dominated provisional government will be. While LI avowedly expects to be "president" and others hope to receive posts at the national or local level, some of the visitors are chiefly concerned with constitutional issues. From the Communist viewpoint, their chief importance may be in furnishing some basis on paper for claiming establishment of a "coalition" provisional government. "E"

Communists demand unconditional surrender of Nationalists. MAO Tse-tung's official reply to CHIANG Kai-shek's New Year peace proposal was a list of demands which, if accepted, would amount to the unconditional surrender of the Nationalist regime. MAO's eight demands were: (1) punishment of "war criminals" (at least 43 government leaders); (2) abrogation of the Constitution (adopted in 1946 without Communist participation); (3) abolition of the Kuomintang's "traditional institutions" (example: the tradition of dating events from 1911, the birth of the Republic); (4) reorganization of the Nationalist Armies (presumably their elimination, or inclusion in Communist forces); (5) confiscation of "bureaucratic capital" (a Communist phrase which means all large holdings); (6) agrarian reform; (7) abrogation of "traitorous" treaties; and (8) convocation of a political consultative conference, excluding all "reactionary" (anti-Communist) elements, and transfer of all power from the Kuomintang to a "democratic coalition" (Communist-controlled) government. There is no possibility that the National Government, as presently constituted, will comply with the demands. MAO's reply, however, is not mere rhetoric. Whether this or any successor Nationalist regime complies or not, and whether the Communist demands are to be realized through peace or war, it is clear that the Communists intend to carry out this program. "A"

US Consulate in Tientsin may be isolated. The US Consulate-General in Mukden has been isolated since early November when the Chinese "B"

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Communist administration closed down the Consulate's radio. A Communist spokesman in Hong Kong recently stated that the question of communication with the US Consulate in Mukden "is part of the larger question of the US attitude" toward the forthcoming Communist-controlled government of China, and will "depend upon the course of US policy."

The US Consulate-General in Tientsin, as of the second day of Communist occupation, retained the use of its radio and consular personnel had complete freedom of movement, but the political officer of the Communist forces told the Consul-General that "as the US does not recognize the Communist government, there could be no formal official relationships." While the Communist officer did state that "informal friendly discussion" and presentation of grievances "would be welcome at any time," it is quite possible that the Consulate-General in Tientsin will lose both the use of its radio and its freedom of movement, and become as isolated as Mukden.

Arrangements for resumption of Sinkiang-Soviet trade, embodied in a new Sino-Soviet trade pact, will soon be put into effect, according to a report from the US Consul in Tihwa. The fact that the USSR has cooperated in trade arrangements on a governmental level with Sinkiang represents a major development in Soviet policy toward Sinkiang. Since withdrawal from the province in 1943, the USSR has refused to conclude any commercial agreement on whatever terms with the Tihwa Government. Resumption of trade at this time indicates Soviet approval of the newly appointed Sinkiang Governor BURKHAN and will greatly strengthen the pro-Soviet provincial coalition government which is expected to result from BURKHAN's appointment.

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In exchange for the renewal of Sinkiang-Soviet trade which is vital to the success of any Sinkiang provincial regime, the Soviets are reported to have secured Chinese acceptance of the Ashan zone of northeast Sinkiang. Outright Soviet annexation of Ashan zone would represent recognition of what has been a virtual fait accompli for the past three years. Since early 1946, Ashan has been completely Soviet-dominated and a mining expedition, guarded by Soviet troops, has been actively mining wolfram in that area.

Hong Kong begins direct trade with Chinese Communists. According to a late report, a Norwegian freighter recently departed from Hong Kong bound for the South Manchurian port of Antung. Other reports from Hong Kong indicate that a modest commerce with Manchuria, via North Korea, has existed for several months. Chinese merchants in Hong Kong have visited Manchuria, according to these reports, in order to make barter arrangements, since Manchurian and North Korean currency is unacceptable in payment. Official figures on imports from Korea from September through November total NK\$ 20 million, as compared with HK\$ 14 million for the first 8 months of 1948, thus suggesting that indirect trade with Communist Manchuria has been going on for some time.

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PHILIPPINES

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Quirino dictates cautious policy at Asian Conference. Philippine policy at the New Delhi conference of 20 January, if carried out according to the instructions of President Quirino, will be cautious and designed to discourage the formation of an anti-western bloc. It is probable that Carlos P. Romulo, the Philippine delegate, who has promoted the idea of a Southeast Asia union for several years, will hold to the spirit if not the letter of Quirino's instructions.

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Romulo will probably emerge as a prominent spokesman at the conference. He is expected to take a strong stand in favor of a regional bloc which can exert pressure upon the UN, but he may also be depended upon to counter, as much as he can, any anti-western inclinations of other delegates.

INDOCHINA

French-Vietnamese negotiations at decisive stage. The French negotiations with Bao Dai appear to be reaching a climax. A 13 January French Cabinet meeting was held to formulate instructions for French High Commissioner Pignon who interviewed the former Annamite emperor in Cannes on 16 January. Following this visit Bao Dai announced that he would study the French Government's proposals for the conclusion of a Franco-Vietnamese agreement. When told that his prompt return to Vietnam was desired by the French Government, Bao Dai reiterated that this move would depend upon French satisfaction of Vietnamese aspirations. In this connection, General Kuan, president of the Provisional Central Government in Vietnam, recently stated that although the Vietnamese population "ardently" desires the ex-emperor's return, such action is subordinate to the fulfillment of demands for real independence. These demands continue to include Vietnamese control of the Army, foreign relations and finances, including establishment of a new currency which will not be tied to the French franc. The French Overseas Minister in contrast, has stated publicly that, although the new Vietnamese state should have full internal sovereignty, there must be a

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INDOCHINA (continued)

certain limitation imposed on external sovereignty "to assure the coherence and efficacy of the French Union." It is apparent that so far as Bao Dai is concerned, the decisive stage in negotiations has arrived. While the French remain optimistic, there are no indications either in France or Indochina that an agreement with Bao Dai can be reached which will in any substantial way improve the shaky French position in Indochina.

SIAM

British and Siamese cooperate on control of insurgent bands. Efforts by the British administration of Malaya to effect closer Siamese cooperation in the control of Communists and bandits on the Malay-Siam border are meeting with some success. A joint conference held last week in southern Siam resulted in a nine-point agreement which established the basis for exchange of information and maintenance of military liaison. In addition, the Siamese have been invited to send a group of officers for jungle warfare training in Malaya. A subsequent conference has been scheduled to discuss a Customs program for the common border.

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The underlying motives of the UK in promoting Siamese cooperation and good will are: (1) to give visible support to the only functioning indigenous anti-communist regime in Southeast Asia, (2) to assure Malaya continuing access to Siam's rice exports and (3) to strengthen Britain's commercial position in Siam in the face of US competition. To this end, the British have not only favored Siam with UK export priorities but have also agreed to provide sufficient arms to equip five infantry battalions of the Siamese Army.

INDONESIA

Dutch fail to win support of leading Republicans. Statements by interned Republican Premier Hatta who was visited on Bangka Island by the Security Council's Good Offices Committee, confirm the Republic's will to resist a settlement on Dutch terms. His stand, and that of other officials, indicates that the present Republican policy of guerrilla activity and noncooperation on a political level will be continued. Former Premier Sjahrir, released from internment in Sumatra in order to confer with the Dutch Prime Minister visiting in Batavia, told Republican colleagues that he had accepted the Dutch invitation only to obtain information on the internal situation. A few non-Republican leaders, while unwilling to oppose the Dutch openly, have agreed to use delaying tactics to prevent the immediate establishment of an interim federal government. The Premier of the pro-Dutch State of East Indonesia, who has the support of Republican sympathizers in areas outside the Republic, is one of the leaders in this movement.

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INDONESIA (continued)

The inability of the Dutch to secure competent personnel with which to staff an interim government, together with an increase in the number and intensity of Republican guerrilla attacks on Dutch communications and properties, will cause considerable internal pressure on the Dutch at Batavia. External pressure will continue to be exerted by Far Eastern countries at the New Delhi conference, and, perhaps, by Security Council action.

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