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NO. 80

DATE: 13 December 1949

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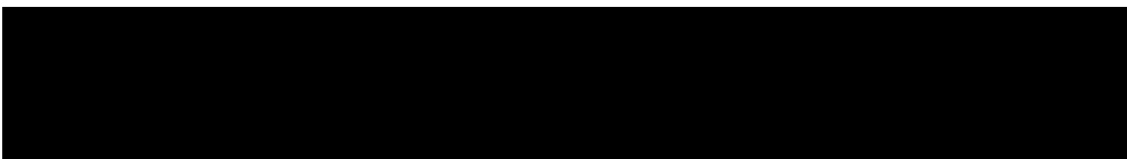
INTELLIGENCE HIGHLIGHTS NO. 80
7 DECEMBER to 13 DECEMBER 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Unrealistic Government policies in the Republic of Korea lie at the root of a continuing inflation that threatens the economic stability of that country (p. 2).

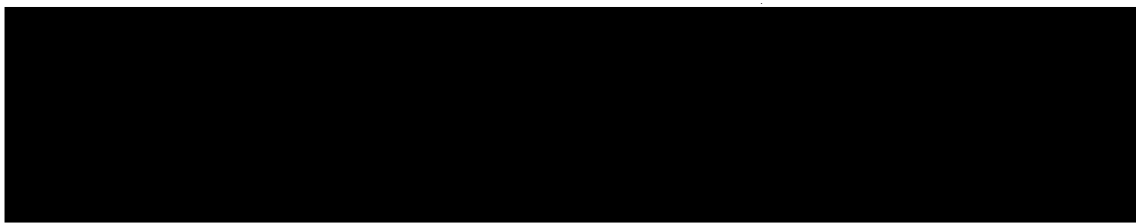
In China, the Nationalist regime has finally withdrawn altogether from the mainland and established a fifth provisional capital on the island of Taiwan (p. 3). Meanwhile, the Communists have begun organization of a new Security Police force (p. 2) and appear to face fewer obstacles to their consolidation of the remote province of Sinkiang (p. 4).

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Following a deft maneuver which robbed the defeated Nationalistas of their support by the Avelino clique of the Liberal Party, the election of Elpedio Quirino to the office of President of the Philippine Republic has been confirmed by a special session of Congress (p. 5).

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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 D/FE opinion with "A" representing the most important.

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-2-

SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

KOREA

Inflation worsens—Despite an excellent autumn harvest which will allow the export of 100,000 tons of rice, spiraling currency inflation continues in the Republic of Korea and threatens to nullify much of the country's US-directed progress toward economic recovery. Currency in circulation has increased 70 per cent since November 1948, and the Government's over-draft with the Bank of Korea has increased 104 per cent in the same period. "B"

Korea's financial plight is due, in part, to the low level of industrial production, and to poor export trade. However, much of the difficulty lies in weak or politically-motivated Government policies which could be corrected by vigorous action. At present, unrealistically low public utilities rates, concealed subsidization of industry by underpricing US aid goods, inefficient operation of Government monopolies, as well as an ineffective tax collection program, are largely responsible for the printing and circulation of more and more currency.

Increasing inflationary pressures are making the task of rehabilitating the Korean economy increasingly more difficult. Development of foreign trade, essential to Korea's survival, can be expected to suffer. The ECA Counterpart Fund (a depository for local currency received from the sale of ECA goods which is used to finance internal reconstruction) already is receiving only half as much Won per dollar expended as is paid at official bank rates. The greatest danger inherent in such an inflationary spiral comes from a lessening of public confidence in the currency and resultant unrest as wages fail to keep pace with rising prices.

CHINA

Communists create new security police—The first detachment of a new uniformed police force, the "People's Public Security Force", has been formed in Peiping. LO Jui-ching, Communist security boss, stated that the new organization will be used to "wipe out bandits and secret agents and suppress sabotage and disturbances by enemies, both inside and outside the country". LO indicated that the Peiping detachment would serve as a model for the creation of similar detachments throughout the military areas and large cities of "new" China. "B"

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-3-

This new security apparatus probably will develop as a political force, a Party instrument for the surveillance and restraint of the People's Liberation Army and other non-political agencies. It will be a compact, tightly-organized force, with permanently assigned officers, hand-picked personnel, and its own equipment, including artillery. As a check on the Army, the new force will tend to reduce the Party's reliance on the peasant-stocked Army, in accordance with the Party's official reduction of the position of the peasantry. Coordinating its work with that of political officers in the Army, the security police probably will come to supervise political activity in the Army. In addition, it may become the overseer of the Army when that body takes up its post-war functions as a mobilized "army for production".

Owing its existence and prerogatives to the Party, the new force will be a loyal and reliable weapon for the Party leaders, and represents a further concentration of power in their hands. Once the security police has been firmly established, the CCP will be able to reduce resistance to, and in some cases, to insure compliance with, policies such as the 'leadership' of the urban worker and Sino-Soviet 'friendship', which have proven unpopular in practice. However, the organization is still in its infancy, and, for the next few years, the Party will have to continue to rely primarily upon the loyalty of the Army.

Nationalists move to Taiwan—Transfer of the National Government of China to a fifth "provisional capital" in Taipei marks the Nationalists' loss of virtually all mainland China. The reported anti-Nationalist coup in Kunming probably provides a general pattern for the future of remaining Nationalist mainland areas in western Szechwan, Sikang and southern Kwangsi. Loss of the mainland also serves to reduce the Nationalists' claim of being the Government of China in the eyes of nations who base recognition on territorial control.

"A"

Concentration of Nationalist remnants on Taiwan can be expected to increase economic and military instability on the island, thus heightening Taiwanese unrest and stimulating Communist penetration. The dissatisfaction, bickering and tendencies toward non-resistance and defection which are evident already in the Nationalist Navy, Air Force and Army, as well as in Nationalist political circles, will be materially heightened. The long-standing struggle between Governor CHEN Cheng and Taiwan Defense Commander SUN Li-jen will be sharpened. To the top-heavy administrative structure, which includes the Kuomintang Emergency

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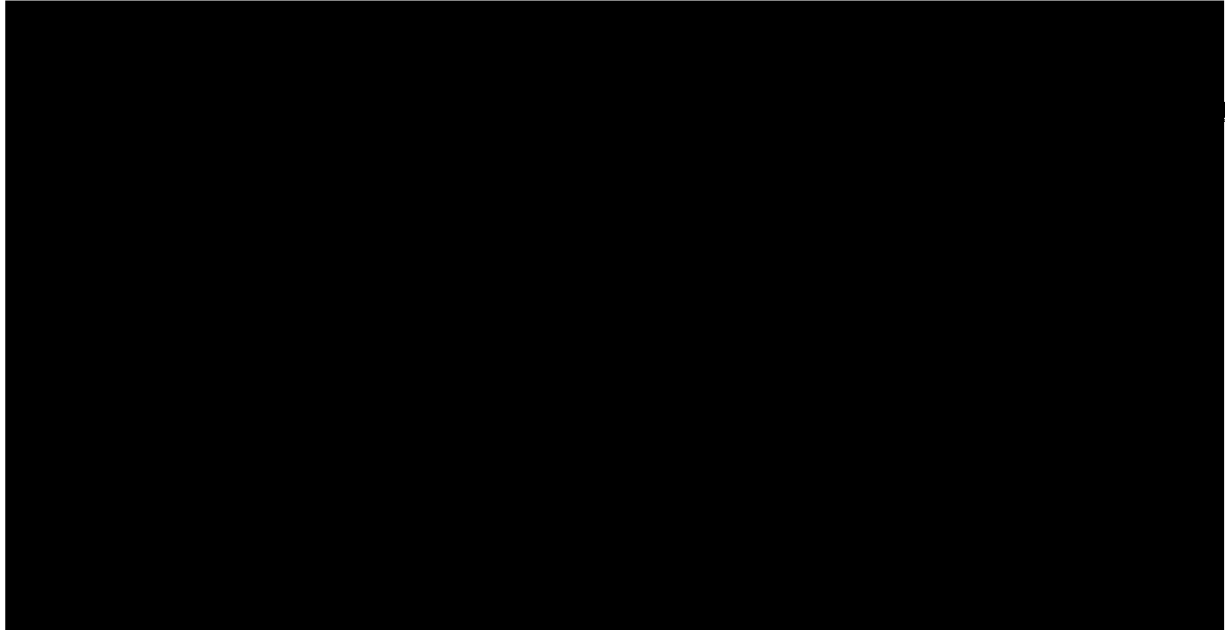
Committee and CHIANG's "Party Leader" Office, will be added the remnants of the Executive Yuan, headed by YEN Hsi-shan. Conflicts between Central Government and provincial officials probably will add to the confusion.

Apparently aware of their hopeless situation, the Nationalists are publicly admitting their inability to hold Taiwan without extensive aid. With a view to appealing more effectively for US assistance, Nationalist reformers such as K.C. WU and SUN Li-jen may persuade CHIANG to replace Governor CHEN with a well-regarded civilian administrator. However, any such new governor would face insoluble problems and would also be under CHIANG's control. Nonetheless, the Nationalists probably will step up their appeals for further US help for Taiwan. At the same time, Acting President LI's group may make competitive appeals on behalf of Hainan.

Developments in Sinkiang--The death, last September, of the two most important leaders of the pro-Soviet Ili Group in western Sinkiang, Achmad Jan, top political leader, and Ishak Beg, C-in-C of the Ili Army, will facilitate the extension of Chinese Communist control over that remote province. "C"

Basically, however, the USSR's strategic stake in Sinkiang still holds. As in Manchuria, the government of Sinkiang will be strongly Soviet-influenced, and will give top priority to Soviet interests. Thus, the long-range prospect that the province will become a Soviet satellite area remains the same.

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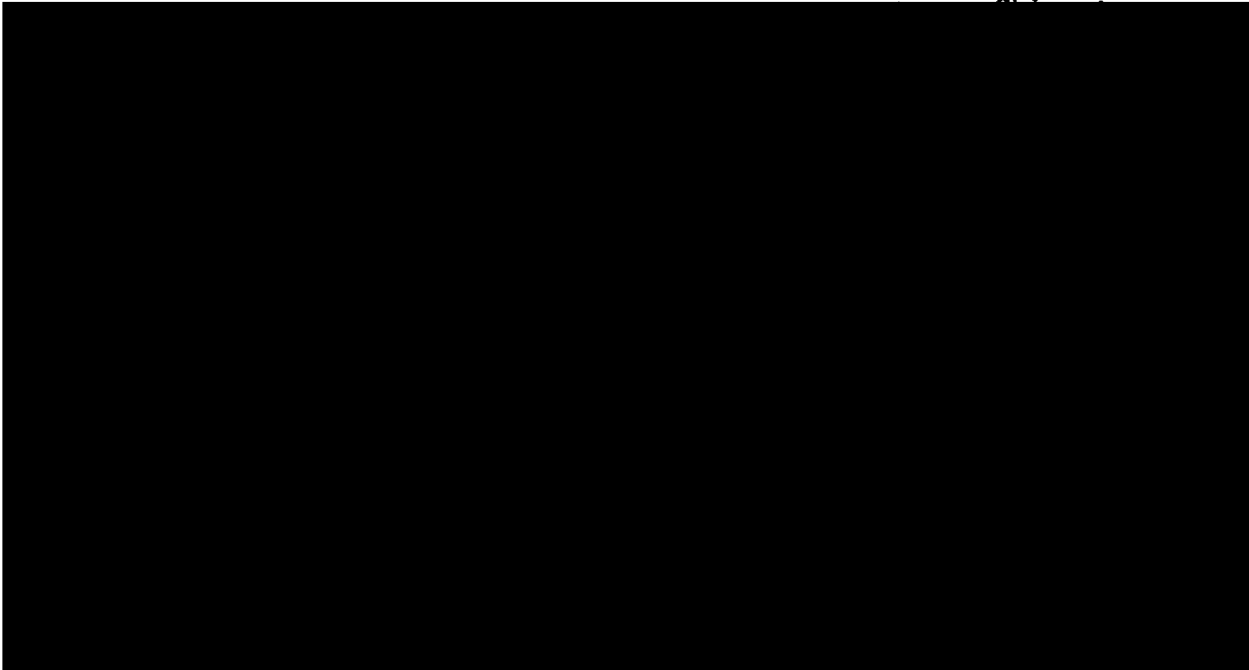


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PHILIPPINES

Quirino's election officially proclaimed--Supported by a reunited Liberal Party, President Quirino and Vice-President-elect Fernando Lopez, were declared officially elected by a special joint session of Congress on 13 December. The clearly partisan 64-15 vote resulted from a reconciliation which Quirino effected on 11 December with Senator Jose Avelino, who split the Liberal Party last May by establishing an independent wing. Quirino and Avelino reached agreement with the concurrence of 12 Senators, representing both Liberal Party factions, who constitute a majority in the 23-seat Senate. According to the press, the Senators signed an agreement pledging among other things: (1) cooperation of the two factions in proclaiming the election of President Quirino and Vice-President-elect Lopez; (2) reinstatement of Senator Avelino as President of the Senate; (3) election of acting Senate President Cuenco, a Quirino follower, as Senate President pro tempore and Avelino's eventual successor. Quirino has reportedly offered Avelino a top diplomatic post in South America. The first two provisions were implemented on 13 December and it is probable that the Senate has already acted upon the third.

"B"

Prior to the agreement, Quirino forces held a majority in the House of Representatives but not in the Senate, where Avelino Senators had reached an agreement with Nacionalista Senators to prevent

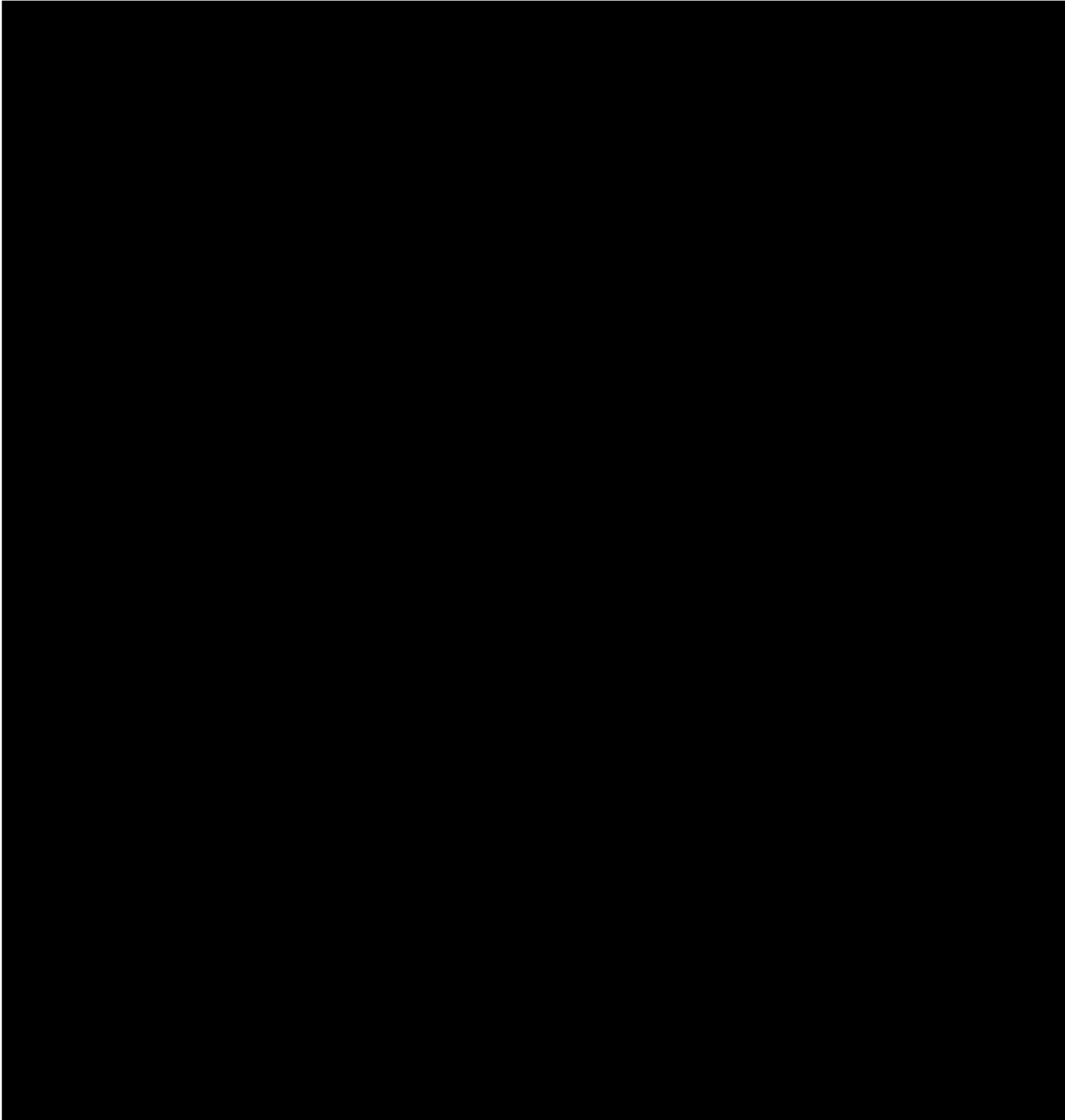
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or delay the proclamation of Quirino's election in the joint canvassing session of Congress. (See D/FE Weekly #79.) The reconciliation of the Liberal factions nullified this agreement and defeated Nacionalista efforts to cancel Quirino's election.

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-7-

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S.E.A. NEWS NOTE

New Burmese concessions offered to Karens--The Burmese Foreign Minister, E Maung, has indicated that the Burmese Government is willing to make even greater concessions for a peaceful settlement of the Karen rebellion than were originally reported. Maung stated that his Government was prepared to (1) restore Lt.Gen. Smith Dun (a Karen) to his post as Commander-in-Chief of Burmese military forces, (2) permit the Karens to establish their own police force, (3) grant them complete cultural autonomy and (4) invite US and UK representatives to witness negotiations as impartial observers, so that the Karens will be assured of the Government's sincerity.

These additional concessions increase the attractiveness of the Burmese Government's peace offer to the Karens and it will be difficult for the Karens to remain obdurate in the face of such an apparently genuine Burmese desire for settlement.

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