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CENTRAL INTELLIGENCE AGENCY

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WEEKLY INTELLIGENCE HIGHLIGHTS

NO. 76

DATE: 15 November 1949

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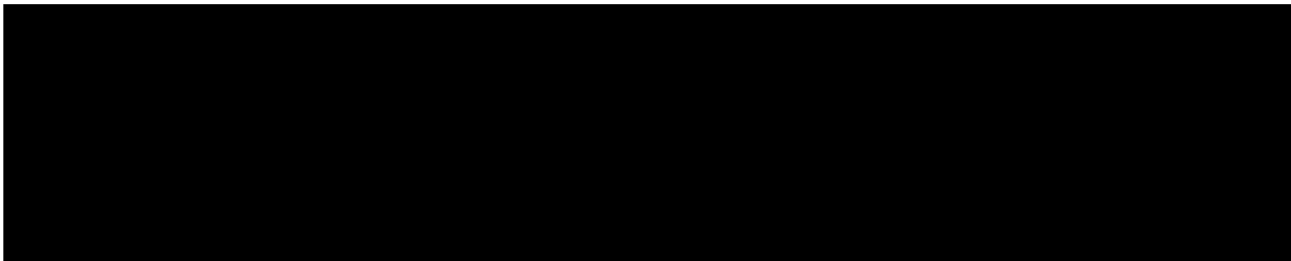
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FAR EAST/PACIFIC DIVISION

INTELLIGENCE HIGHLIGHTS NO. 76
9 NOVEMBER to 15 NOVEMBER 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The Chinese Nationalists are continuing to seek some means of withdrawing PAI Chung-hsi's forces intact into Indochina but French authorities, appreciating the explosive potential of such a move, have stated that only unarmed units will be permitted to enter (p. 2).

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Korean President Rhee's requests for US assistance in building up an air force at least equal to that of the northern Korean puppet regime have received the endorsement of US representatives there (p. 4).

The growing Chinese Communist threat to the refugee Nationalist administration on Taiwan has not yet resulted in any significant attempts at improvement of conditions on that strategic island (p. 5). Meanwhile, on the mainland, Communist currency has once more begun to depreciate after a comparatively stable period of level commodity prices (p. 5).

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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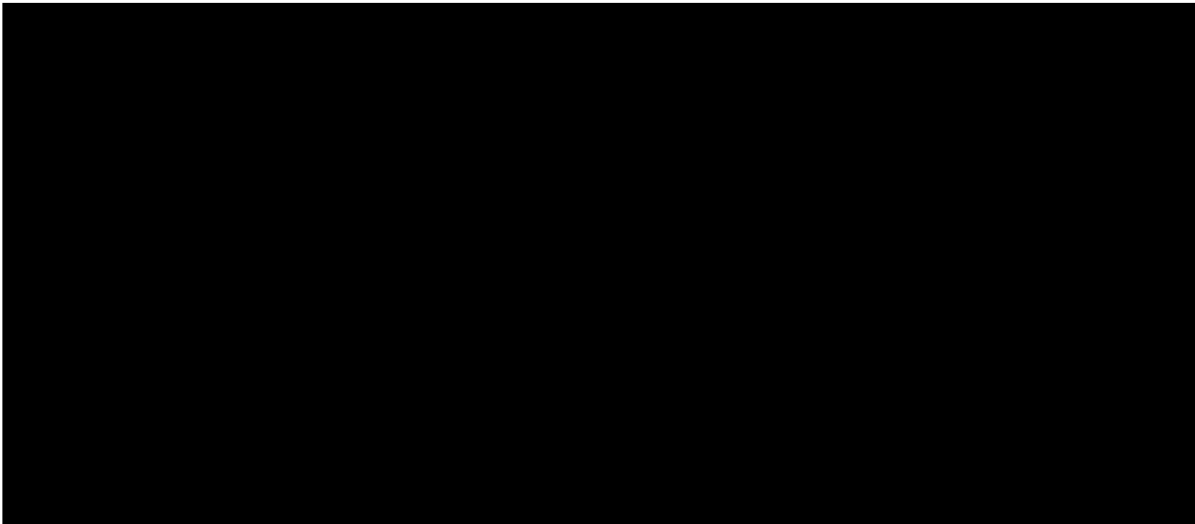
SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Indochinese border problems becoming critical--The importance of Indochina as a barrier against Communist expansion or as a potential asylum for remnants of Chinese Nationalist forces has been emphasized to the US by French and Chinese Nationalist sources as MAO Tse-tung's forces advance through South China. Although the authorities of both the French and National governments are hopeful of involving the US in their own difficulties, their interests in the matter of residual Nationalist forces diverge sharply. Apparently failing in their efforts to secure French authorization for the retreat of Nationalist General PAI Chung-hsi's forces into Indochina, the National Government has recently proposed that the Vietnamese living in China be armed and despatched to Indochina on the condition that they join forces with Bao Dai against Ho Chi Minh. The strength of such a force obviously would be negligible, and its true purpose probably would be to serve as a screen for the entry of Chinese Nationalist troops into Vietnam.

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There is as yet no evidence that a Chinese Communist invasion of Indochina is contemplated, although Chinese Communist sympathy for the Vietnamese, as well as the withdrawal of French forces along most of the Sino-Vietnamese frontier, may be expected to encourage and facilitate smuggling of arms and other indirect assistance to the Vietnamese.

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KOREA

Rhee wants air force--Reports continue to indicate that northern Korea has developed a decided advantage over southern Korea in air capabilities. The matter is of major concern to President Rhee and his defense officials, and both General Roberts (Chief of the US Military Advisory Group in Korea) and Ambassador Muccio have recommended implementation of a program of US aid to supply to the Republic immediately 40 F-51 type fighter craft, plus necessary advisors and equipment.

"B"

The northern Koreans are believed to have at least 30 adequately armed high-performance fighter aircraft, plus miscellaneous training, observation, and transport planes. Northern Korean pilots are being trained in the USSR and Soviet advisors are believed to be working with the northern Korean air force.

The southern Korean air force, in contrast, consists of 16 liaison aircraft, suitable only for observation and artillery spotting. 10 armed AT-6 trainers are now on order, paid for with limited Korean foreign exchange. The air force cadre includes enough former Japanese and Chinese air force veterans to make use of 40 fighters, following transition training. The cadre could be expanded to support 100 planes within 6 months. The Republic of Korea does not have the funds, however, either to purchase the aircraft or essential supplies.

The defensive capabilities of the southern Korean security forces would be materially enhanced by US-supplied aircraft. Such US action, moreover, would prevent Rhee's expenditure of Korea's meagre foreign exchange, which is essential for the Republic's economic rehabilitation. Increasing the strength of the air force, however, would increase the confidence of the offensively minded Republican Army as well, and could increase the danger of a Rhee-directed invasion aimed at regaining "the lost territories" of northern Korea.

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In Burma the emergence of at least three factions within the Burmese Socialist Party presages important political changes in the near future (p. 9).

As the result of a recent Philippine Supreme Court decision, President Quirino is faced with the necessity of calling a special session of Congress (p.10).

NOTE: A B/FE summary of a recent cable from Moscow which is considered a particularly interesting analysis of the question of recognition of the Chinese Communists is contained in Section III, p. .

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

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GENERAL

Rhee-CHIANG Military Agreement?-- [REDACTED] during "A" the Rhee-CHIANG conversations at Chinhae (Korean Coast Guard Base) on 6-7 August, military cooperation between Korea and Chinese Nationalists was discussed on lower levels by authorized representatives. The discussions are alleged to have resulted in tentative agreement for the exchange of Nationalist ships, aircraft, arms, and ammunition for Nationalist use of Korean ports and airfields including Chinhae, Inchon, Pusan and Cheju-do. Later reports that the new Korean Ambassador, Shin Suk woo, was carrying an "important message" to Canton for CHIANG, suggest that Rhee may have confirmed the agreement.

Korean military leaders and President Rhee are known to feel that their need for additional aircraft and patrol vessels is urgent and they have explored various possible means of supplementing the equipment supplied by the US Government. In view of their impatience for aircraft and ships and other circumstances of the Rhee-CHIANG meeting, it appears possible that Rhee has attempted to obtain military equipment from CHIANG.

CHIANG's interest in a military agreement with Korea is consistent with his continuing attempts to associate the Nationalist cause with a US-supported Pacific military union. Furthermore, Nationalist use of Korean bases might materially assist the blockade of Chinese Communist ports.

It appears doubtful, however, that Rhee would permit Nationalist forces to operate against Communist China from Korean bases. Such action would risk adverse repercussions from the US and unpopular reaction from the Korean people who have an inherent distrust and dislike of the Chinese. Furthermore, the presence of Nationalist forces in southern Korea probably would incite military action by Communist forces from the north to eliminate once and for all the remnants of anti-Communist resistance from southern Korea.

It may be that Rhee plans to use the possibility of extending the Nationalists Communist conflict to the US-nurtured Korean Republic only as a bargaining point in requests for more US ships and planes.

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Arms Smuggling in Southeast Asia--The existence of a large international arms smuggling syndicate based in Manila and operating throughout Southeast Asia and perhaps extending to China is currently being revealed by the Manila press. Although there is no evidence to suggest other than profit motives behind the transactions, public disclosure of large-scale smuggling may have unfavorable repercussions upon the Philippine Government's relations in Southeast Asia. The US may also be embarrassed since most of the firearms are of US origin and were obtained from US war surplus stocks in deals which in many cases involved US citizens.

"B"

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Complete details of the arms syndicate are still lacking but the Manila press alleges that high Philippine and other Southeast Asian government officials are involved. It is claimed that blackmarket rice, presumably from Thailand, and gold bullion and diamonds from Indonesia have been used for payment. It is believed that opium has also been a medium of exchange. The complete story concerning smuggling activities has yet to be disclosed. Certain Philippine officials, including one of the brothers of President Quirino, are said to be involved in arms deals and will probably bring strong pressure to bear upon Quirino to hush the whole affair.

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KOREA

North Korean Premier vague on unification--Premier Kim Ilsung, in a major policy speech to the opening session of the Supreme People's Assembly in Pyongyang on 8 September, gave no indication that the "Democratic Unification Front" intends to carry out "elections" in all Korea this month. There was also no indication that military action is contemplated this fall to overthrow the Republic of Korea. The speech, which dwelled at great length on past achievements and future tasks within northern Korea, failed to present any concrete program for the attainment of unification. Although Kim stated at one point that the People's Army stands ready to "mop up" its enemies, the general tenor of his speech seems to call for an indefinite continuation of familiar tactics of "peaceful" subversion of the Republic by guerrilla warfare, propaganda, and infiltration.

"B"

Korean food deficit to continue--The Korean food situation is still believed to be serious despite recent reports that the 1949 crop will reach 95% of the 1948 crop. Reasons given are the necessity to export grain and the fact that foods were imported in 1948. ECA estimates a grain deficit of some 3 million "suk". (6.67 "suk" to a metric ton.)

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As ECA has committed its funds to essential rehabilitation of the economy, it has said that no funds will be diverted to food imports. Fear is expressed that the Korean Government's plan to export a million suk of rice in return for a larger amount of coarse grains may involve ECA in just such an expenditure. This could come about if, after the coarse grains had been imported, the Korean Government failed to collect enough rice for export to cover the cost of the imported grain.

A further source of concern is felt over the matter of Korea's foreign exchange. The recent trade treaty between Japan and Korea was largely predicated on Korea's having a net foreign exchange gain of \$16 million from its rice exports. Present indications are that, even if the Koreans are able to export a million suk of rice, only \$4 million net gain will be realized. A method must be found for financing Japanese imports or the progress of economic rehabilitation will be seriously jeopardized.

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CHINA

Military lull continues--The Chinese Communists scored no major advances on the military fronts during the past week and their efforts to lure the non-Communist Suiyuanese into the fold have proven unsuccessful so far. However, the Nationalists appear to have made no significant progress in their search for a coherent program of opposition and military stagnation continues. Meanwhile, the Communist forces reportedly have landed successfully on Pingtan Island, off the coast of Fukien, and, according to later Communist claims, have overwhelmed the island's defenders. CHEN Yi's forces moving toward Amoy are said to be on the outskirts of Changchow, just 25 miles northwest of their objective. CCP capture of Amoy will give the Communists continuous control of the Fukien coast and a base for their promised attack on Taiwan. Communist regulars on the northern borders of Kwangtung made no appreciable progress during the past week, but an early break through of these forces to Canton is expected. Rains in Shensi are reportedly delaying the southward movement of Communist legions in the Chinling Mountains. The Chinlings rise between the Communist positions in the Paochi area and the defensive bases of HU Tsung-nan in Nancheng.

"A"

Reports from Peiping state that FU Tso-yi's "escape" from the city was with Communist contrivance and with Communist "advisors". FU apparently was sent to Kueisui, capital of Suiyuan, to arrange for a peaceful turnover of the province, where the present leaders have refused to accept Communist terms. Despite Communist desire to take the area by negotiation and thus eliminate any possibility of opposition from that sector, FU has not yet succeeded and it is suspected that he may not be lending himself wholeheartedly to the effort.

CCP laying groundwork for "peacetime" army--With the coming of comparative peace to wide areas of Communist-held China, the CCP has begun to concentrate upon defining the proper position in the Communist hierarchy of its post war army. It appears that, once its primary military uses are come to an end, the army is to be shorn of a large measure of its power. As the military phase of the Communist revolution draws to a close, the power of the PLA in areas already liberated is being carefully curtailed. The top political leaders, MAO Tse-tung and LIU Shao-chi for example cannot continue to tolerate the great popularity of military leaders--LIN Piao and LIU Po-cheng for example--nor can they permit them to gain positions from which the preeminence of the political leadership could be threatened. However, the exigencies of the present military situation require that, in areas of active combat, this debilitating of the military must be delayed or held in abeyance.

"B"

The Party has lately taken the following steps to clarify this post-war subordination of the military. It has abrogated North China's war service regulations which had provided the legal basis for mobilizing the

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area's population and resources. It has broached plans for the creation of a "modern" army in Manchuria. It has set up various "bandit suppression" bodies to occupy the troops and keep them away from the corrupting influence of city life. It has introduced a new organizational twist into the army reducing large numbers of combat troops to garrison status. It has separated certain commanders whose influence is distrusted from direct command of their troops, split up the forces of other, and transferred still others from the areas where their power had been based.

The Communists have added a series of organizations called Military Areas, garrison commands charged with the maintenance of peace and order, to their Field Armies, whose responsibility remains the successful completion of assigned tasks of liberation. Following liberation, the Field Armies are either: (1) moved as a unit to another area for further operations; (2) retained intact to garrison the area liberated; or (3) split with a contingent to each assignment. LIN Piao was deprived of his carefully nourished position in the Northeast (Manchuria) under the press of military necessity. He was shunted from the Northeast to North China and from there into Central China. He is now committed to operations near Hengyang in southern Hunan. The military authority in the Northeast has passed to the Northeast Military Area under KAO Kang and CHOU Pao-chung. KAO is concurrently chairman of the Northeast People's Government and CHOU has been in Manchuria since 1931, first as an anti-Japanese guerrilla and later as a top subordinate of LIN Piao. After the liberation of North China, NIEH Jung-ghan's North China command lost two of its three major units. These were dispatched to assist PENG Teh-huai in the liberation of the Northwest. The unit which remained in North China then formed the nucleus of the North China Military Area under NIEH's command. Chen YI in East China and PENG Teh-huai in Northwest China now command both Field Armies and Military Areas and may remain in control of the areas they are now liberating.

The steps taken are but preliminary to the Communists' principal task in this regard--that of demobilization. They must find or create positions which offer returns commensurate with the contributions of military leaders but which at the same time will not provide these commanders with springboards from which they could eventually challenge the elements presently controlling the Party. Demobilized troops must be assured of an adequate means of livelihood to keep them loyal to the concept of a Communist China and out of the ever-present armed bands opposing that concept. No Chinese regime since Dr. SUN's revolution has successfully dealt with the "tiger" of demobilization, but the CCP has made a start.

Manchurian harvest prospects poor--Estimates based on the scanty available information indicate that this year's Manchurian harvest will be extremely short and will at best provide only a small exportable surplus. Since the war Manchurian crop acreage has been sharply reduced and the weather conditions throughout the present growing season have been the most adverse in many years. The acreage reduction is one result of widespread unrest which

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has discouraged farmers from cultivating in excess of their own immediate needs. In addition curtailment of railroad services has restricted cultivation on the more remote farms. Export markets have been inaccessible, further reducing the production of cash crops for market. Drought, an ever-present agricultural hazard, has materially damaged current crops in north and central Manchuria. No rain fell in Kirin Province until late July and the drought extended for still another month in Heilungkiang and Sungkiang. The major crops, wheat and soy beans, will have suffered most since they are less resistant to drought than millet and maize. In southern Manchuria, where kaoliang is the foremost crop, the Liao River, which runs through its richest agricultural area, was flooded by excessive rains during June and July, and nearly one million acres of crop land in Liaohsi and Liaoning were reported damaged. In addition the Chinese Communists in Manchuria have been unable to provide the farmers with sufficient fertilizers, proper irrigation, transportation, tools, draft animals and other agricultural stimulants formerly available.

Widespread hunger and scattered famines are in prospect for Manchuria this winter. These conditions will increase the already existing anti-Communist discontent and may lead to further armed uprisings. Little if any food will be available for North China, where famines will be epidemic. It appears unlikely therefore that Manchuria will be the attractive haven for North China's excess population as envisaged by the North China People's Government. Moreover, major food shortages in Manchuria will result in a great curtailment of that area's contribution to the USSR Manchurian trade pact.

BURMA

New political schism possible---The position of the Burmese Socialist Party (BSP) in Burmese politics, since its leaders resigned from the Cabinet in April 1949, has been relatively obscure. Two trends, however, have become increasingly discernable. First, BSP and Government policies have diverged to a considerable degree since April. The now comparatively conservative Government has shown a growing tendency to align itself more closely with the West and defer the implementation of nationalization policies, while the BSP has continued to advocate a program of extreme and more immediate leftism. Second, there appear to be forming at least three factions in the BSP: (1) an ultra-leftist group under U Ba Swe, the party's General Secretary, (2) a group led by former Foreign Minister U Kyaw Nyein which is perhaps somewhat less radical than Ba Swe's and (3) a group which follows Defense Minister and Supreme Commander, Ne Win. As matters now stand, the BSP controls the Parliament and has reluctantly acquiesced to the Government's more conservative approach to Burmese problems. Both Socialist and Government leaders probably recognize the serious consequences which could result from new political crises, and have thus avoided a major ideological collision. Nevertheless, important political changes in the near future are entirely possible. In this respect there are a number of possible developments.

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Ne Win, who has meticulously avoided identifying himself with any political organization or expressing his views on controversial issues, figures prominently in all of them. First, it is possible that Ne Win will continue to support the present Government and its policies, and that the BSP will regroup into two factions: those supporting the Government and those opposing it. Second, the Socialists may attempt to regain control of the Government and restore a program based upon complete state socialism. However, to accomplish this aim, they would at least require Ne Win's tacit consent, and probably be forced to accept his leadership. Third, Ne Win may attempt to assume personal control of Burmese affairs.

PHILIPPINES

Special session imminent--As the result of a recent Supreme Court decision nullifying two of his executive orders providing for appropriations in FY 1950, President Quirino is faced with the necessity of calling a special session of Congress--a measure which he would prefer to postpone until after the November election. "B"

Last May when it appeared that Quirino forces had lost control of the Senate, the regular session of Congress adjourned suddenly without passing the budget and other important legislation. Instead of calling a special session of Congress, Quirino decided to use emergency powers derived from a law passed in December 1941 which has never been repealed. By executive order he authorized a budget for FY 1950 and a fund of \$6,000,000 for the November elections.

In July the Nacionalista Party brought a petition before the Supreme Court challenging the constitutionality of Quirino's use of the emergency powers in peacetime. On 16 September, by a majority vote of 6-2, the Supreme Court held that the executive orders were issued without authority of law. The Court's decision becomes effective within 15 days and the Commissioner of the Budget reportedly has stated that if President Quirino fails to call Congress into session before the end of that period, the release of further funds will be halted.

Should a special session of Congress be called, Quirino forces are likely to face political defeat in the Senate where they no longer control a working majority. A Nacionalista-Avelinista coalition may be formed to depose the pro-Quirino acting Senate President and elect a man of their own. There is also a possibility that supporters of Jose Avelino, Quirino's rival for the Presidency, within the Liberal Party, will be able to obtain his readmission to the Senate from which he was suspended by Quirino forces last April. Such a favorable change in the political fortunes of Avelino may draw vacillating Liberals from Quirino back to Avelino thus further dividing the Liberal vote and further improving the chances of Nacionalista candidate Jose P. Laurel.

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