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

WORKING PAPER

WEEKLY INTELLIGENCE HIGHLIGHTS

NO. 71

DATE: 11 October 1949

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AUTH: **HR 70.2**
DATE: **11-25-75** REVIEWER: 372044

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

INTELLIGENCE HIGHLIGHTS NO. 71
5 OCTOBER to 11 OCTOBER 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

25X6A

The newly-formed "Peoples' Republic of China" is expected to press both Western and Eastern nations for early recognition (p. 3). Meanwhile, the imminent fall of Kwangtung presents the weakening Nationalists with new military and political problems (p. 4).

The situation in the French-controlled Indochinese province of Cambodia appears to have degenerated in recent weeks (p. 5).

Reaction to Chinese Communist successes, combined with political instability, presents the Thai Government with growing problems (p. 6).

Both Republican and Federalist delegations to the Round Table Conference on Indonesia appear determined to withdraw from The Hague unless adequate progress is made in the negotiations in the near future (p. 7).

As election-time draws near, it becomes apparent that US security interests in the Philippines will be best served by a victory for Quirino over his intensely nationalistic rival, Laurel, although such a victory is by no means assured at present (p. 7).

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.

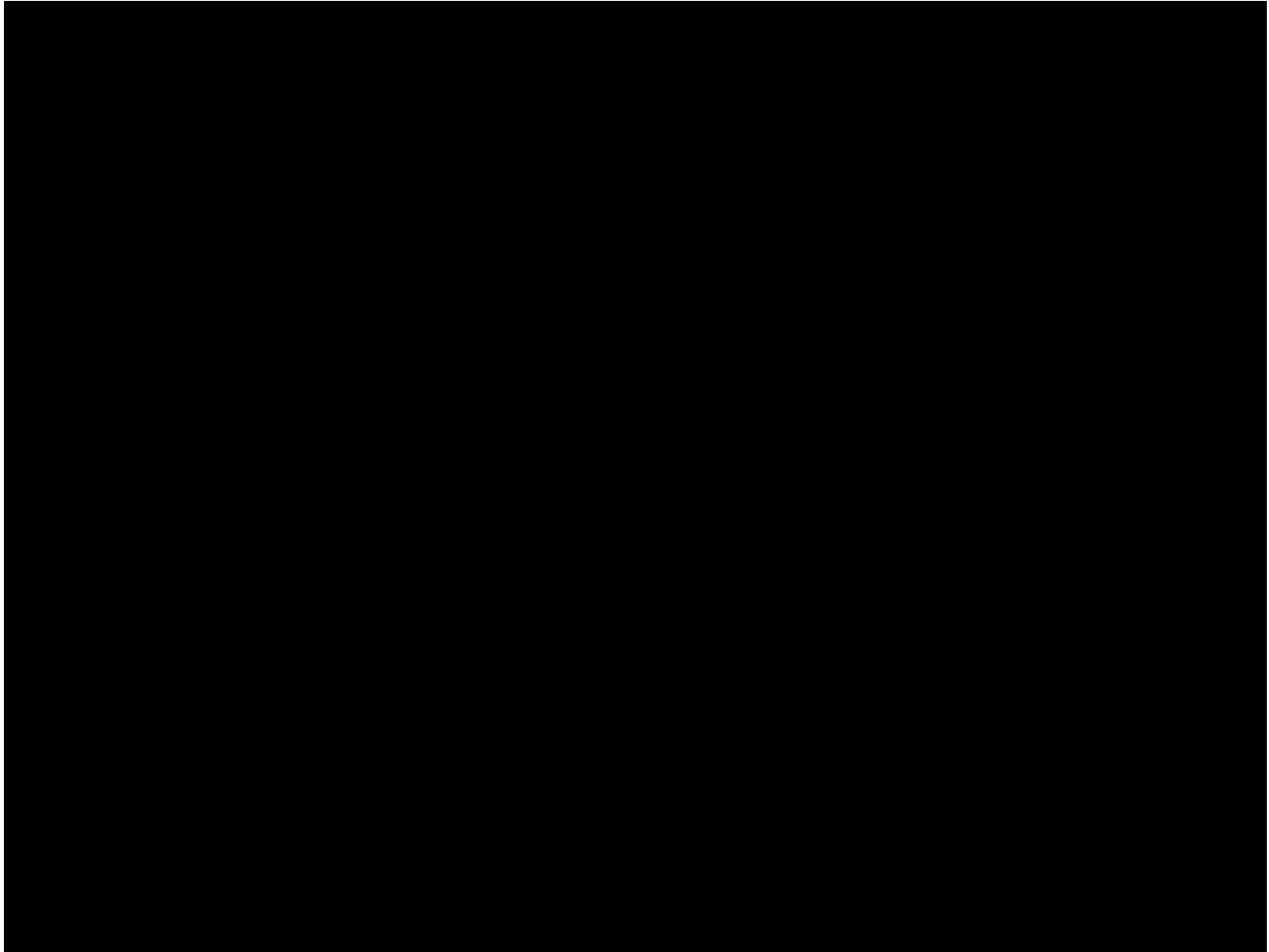
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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

25X6A



KOREA

NEWS NOTES

Army shakeup--The Korean Defense Ministry last week announced the relief of Major General Chae Byung Duk as Army Chief of Staff and the relief of Brigadier General Kim Suk won as Commanding General of the Korean Army's First Division. Brigadier General Shin Tae Yong has been appointed acting Chief of Staff. Primarily an administrative officer, Shin is not considered qualified for the position. Brigadier General Chung Il Kwon, generally

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considered the outstanding officer on the Korean General Staff, remains as deputy Chief of Staff.

No reason has been given for the relief of General Chae but it has long been rumored that both President Rhee and Defense Minister Shun Sung Mo feel that Chae, neither particularly efficient nor honest, should be assigned to Ordinance, a field in which he had long experience in the Japanese Army. General Kim, previously high in Rhee's favor because of his aggressive attitude along the 38th Parallel, may face trial for misappropriation of Army funds and equipment and for involvement in smuggling across the Parallel.

Trade talks--Korean-Japanese talks, resumed in Seoul this week, will attempt to solve Korea's difficulties in carrying out terms of the trade agreement reached last April. Major Korean problems are (1) the inferior quality of many export goods and (2) the unfavorable balance of payments that will result from the inability to export surplus rice. The April agreement provided for \$29 million in Korean exports to Japan in return for imports valued at \$49 million. ECA funds were to finance \$25 million of Japanese imports, which would have resulted in a foreign exchange gain of some \$6 million for the Koreans.

Only \$2 million of Korean exports, however, have been accepted by the Japanese and an unseasonable drought has so reduced the rice crop that export of that grain will realize only \$4 million rather than the \$16 million originally estimated. Thus, the young Republic faces another deficit year in 1949.

CHINA

Communists will press for recognition--The Communist-controlled "Peoples' Republic of China" is expected to maintain maximum pressure upon the nations of Asia and the West - through threats directed toward the former, and discrimination against the nationals and possessions of the latter - in an attempt to gain rapid de jure recognition as the national government of China. The immediate recognition of the Peoples' Republic by the Soviet Union and its satellites, while welcomed by the Chinese Communists, is insufficient to satisfy their desire for prestige, trade, and succession to the National Government's position in international organizations. "A"

The Communists are aware that most of the independent governments of the Far East are presently inclined to follow the lead of the US and/or UK: that Australia, New Zealand, Thailand, Burma and the Philippines will not accord

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