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INTELLIGENCE HIGHLIGHTS NO. 103
1 JUNE to 6 JUNE 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The orderly Korean elections have demonstrated a lack of much popular support for either of the Republic's major political factions and have left the balance of power in the hands of independents (p. 2).

The Peiping regime has reiterated its promises of fair treatment for capitalists, while continuing policies which make the business community despair (p. 3).

The military situation in North Vietnam appears to be increasingly favorable for the French, according to US eye-witnesses (p. 4).

Burma's Prime Minister has indicated a desire to resign his office in July, in order to devote himself to religious activities (p. 5).

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The US may be gravely embarrassed by proposed Indonesian actions in support of the insurgent Ho Chi Minh regime in Indochina (p. 6).

Although the military picture in the Philippines is somewhat brighter, political and economic affairs continue to cause gloom (p. 7).

NEWS NOTES

Peiping seeks equipment from West...Chinese troops arrive on Burma's border...Soviet Minister to Thailand called home.

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

KOREA

Election results--The 30 May elections in southern Korea, while not productive of a victory for either of the major political factions, constituted a significant demonstration of the fact that democratic procedures have not been entirely set aside in the Rhee administration's program of eliminating subversive Communist elements within the Republic. Some 90 percent of registered voters participated in the generally quiet and orderly elections which independent observers, including the members of the UN Commission on Korea, agreed were held in a free and fair atmosphere. Pressure by the police and government undoubtedly was exerted in favor of selected candidates in local areas but, significantly, several administration favorites were defeated, while several "moderate" candidates, charged by the Government with pro-Communist views or secret Communist support, were elected.

In general, the electorate appeared more concerned with important local issues such as food and inflation than with the issue of Communism; they expressed this concern by failing to support incumbents as well as some well-known government officials who were candidates. Results from 206 of the 210 electoral districts show that only 31 of the 164 incumbent assemblymen retained their seats. Indeed, 127 of the newly elected candidates are not formally committed to any political group. The opposition Democratic Nationalist Party (DNP) dropped from 67 to 25 seats, while the pro-administration Great Korean Nationalist Party (GKNP) retained only 25 of its previous 70. In addition to general voter antipathy toward the old Assembly, the unexpectedly heavy losses suffered by the opposition DNP may be attributed to the stigma still attached to the Party as representative of the conservative land-owning interests. GKNP losses, in turn, probably are not attributable so much to that Party's support of President Rhee as to its lack of grassroots organization.

Although the new Assembly will remain predominantly rightist, the alignment of the 127 successful "independents", who constitute an unorganized majority, will not be clear until some months after the Assembly's first meeting in mid-June. It is probable that the situation will parallel that which followed the 1948 elections, when a large number of independents, generally critical of the administration, gathered in a loose coalition and held the balance of power between anti-Rhee and pro-Rhee forces. In the short term, the election's most significant result is the large turnover in Assembly membership and the consequent loss of experienced legislators. Although the general calibre of the new Assembly probably is higher than the previous group, there will be considerable inefficiency and delay in the legislative process until the new members find their feet.

CHINA

Communists plug "private enterprise"--Although most Western observers take a dim view of the prospects for private business under the Peiping regime, the Communists are once more endeavoring to reassure private capitalists regarding their future in China. At a recent Ministry of Labor conference, labor boss LI Li-san declared, "to advance industrial progress at present, it is necessary to make use of the private capitalistic enterprises of the country for a time. All private capital that can be used will not only be protected by the government, but will be aided." Subsequently, MAO Tse-tung, discussing measures to clarify the relationship between State-run and private companies, asserted that "the Government has no intention...to compete with private enterprise."

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Such declarations are reiterations of previous Communist statements concerning the role of private capital in China. In the "Common Program" adopted last September, the Communists declared that "the People's Government shall encourage the active operation of all private economic enterprises beneficial to the national welfare and people's livelihood, and foster their development." Recent evidence, however, has indicated that such statements are mere lip service to the principles of the "New Democracy." Advertisements appearing in the Shanghai press during the past few weeks, for example, have urged factory managers, who abandoned their plants in despair at the difficulties of doing business under the Communists, to return to their jobs. Meanwhile, high business taxes, confiscatory exactions of Victory Bond pledges and competition from a growing number of State trading enterprises have continued to force many businessmen, who at first believed that business could continue profitable under the Communist regime, to seek only the salvage of what little remains of their investments.

Despite this seeming contradiction between Communist promise and performance, it appears probable that private enterprise will continue to occupy a large sector of the Chinese economy for the next several years. Many of the difficulties besetting private firms have not resulted altogether from deliberate Communist designs. The stagnation of trade, in large part a result of the Nationalist blockade, has militated against profitable operations by private concerns and induced Communist harassment of business--such as refusal of permission to close shop or discharge workers--which would not have been necessary under more favorable circumstances. A return to higher levels of economic activity in the second half of 1950 should ease some of these difficulties, and it is noteworthy that in Manchuria and north China, where economic conditions have been more favorable than in the south, recent reports indicate an increase in the number of private factories in operation.

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Although the Communists consider it expedient to avoid "adventurist" measures toward commerce and industry at present and private enterprise is allowed in such important sectors of the economy as textile manufacture and other light industries, the trend is unmistakable. Thus, businessmen are buying raw materials from government corporations, are looking to government banks for much of their credit requirements, and are dependent in large part on government enterprises as customers of their finished products. Moreover, in the field of foreign trade and in domestic trade to a lesser extent, private firms are being supplanted by state trading corporations, while operations by private capitalists are subject to very restrictive limitations.

INDOCHINA

Military situation in Tonkin--On the basis of first-hand survey of rural areas in the Red River delta, US officials have reported that French military action has largely cleared the delta and that tens of thousands of Vietnamese have been streaming into the cleared area during the past two months. Among these persons, antipathy toward the Ho regime is strong and the US observers believe that the refugees may form the first real peasant support for Bao Dai, particularly if US economic and medical assistance is judiciously given. North Vietnam's Governor, Nguyen Huu Tri, an able, efficient, and intensely nationalistic official who has established a corps of provincial administrators in his own image, is believed to offer first-class material for the implementation of such a US aid program, although the unpopularity of Premier Tran Van Huu --whose own bailiwick of South Vietnam presents almost reverse conditions-- together with the exaggerated suspicions of the French regarding US aid, are expected to present something of an obstacle.

Emphasis on food conservation in recent broadcasts by the Ho radio indicates that the French strategy of keeping Ho's forces out of the rice-rich Red River delta may be showing results. It has been noted, however, that the majority of the refugees entering the French-held areas are old men, women and children, a fact which suggests that the Ho regime may be deliberately encouraging the movement in order to increase the French burden, while the Resistance concentrates on the development of its army and speeds the influx of arms from China. A spectacular rebel attack, featuring four 105mm howitzers, was recently launched against the French post at Dongkhe, some ten miles from the Sino-Vietnamese frontier, and near the headwaters of one of the branches of the Sikiang. Although eventually repulsed, the attack showed both augmented Resistance materiel and a determination on the part of Ho's forces to weaken French defenses along the China border.

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BURMA

Possible change of Prime Ministers—The Burmese Prime Minister, Thakin Nu, has reiterated his intention of relinquishing public office at the earliest opportunity in order to devote himself to religious meditation. [REDACTED]

[REDACTED] Nu has indicated a desire to resign on 19 July 1950 when he hopes that the "Peace within One Year Plan" will have been successfully fulfilled.

The logical successor to Thakin Nu is Lt. Gen. Bo Ne Win, the Deputy Prime Minister and Commander-in-Chief, who is considered to be already de facto head of the Government. It is possible, however, that Ne Win will prefer someone else to hold the office of Prime Minister, but it will be someone who would be amenable to his direction. Besides his control over Burma's armed forces, Ne Win is supported by an important segment of the influential Socialist Party. Furthermore, his prestige has been greatly enhanced by recent military victories over Karen and Communist insurgents and for the part he played in negotiating the "surrender" of the rebellious People's Volunteer Organization. Finally, there is some indication of friction between the worldly Ne Win and the ascetic Nu. Therefore, should Nu tender his resignation, as he has done in the past, there is a good possibility that it will be accepted this time.

The only group which could conceivably prevent Ne Win from dominating the Government is the Socialist Party, but such a development is unlikely in view of Ne Win's comparatively strong political and military position, the existence of a personal following within the Party, and the Party's difficulties with factionalism over whether Burma should accept Western aid or seek closer alignment with the Communist world. In any case, it is unlikely that a Ne Win-dominated Government would effect any immediate or drastic modification of present Burmese policies. Such a Government, however, would probably tend to be opportunistic and dictatorial, and reflect Ne Win's personal principles and prejudices. Ne Win, who has always been bitterly anti-British and will probably continue to regard them with deep suspicion, is presently friendly to the US. This attitude is undoubtedly motivated, in part, by the general's desire for US military and economic assistance, but also denotes his awareness of the threat to Burma's independence posed by Communist China. Ne Win, therefore, whether or not he actually assumes the office of Prime Minister, appears to be in a position to give Burma greater stability than it has enjoyed in the past two years -- at least over the short run. In doing so, however, he is likely to make dangerous enemies, including many Socialists, whose party he has used to rise to power, and to incur the displeasure of Communist China, which heretofore has refrained from openly denouncing the Burmese Government.

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INDONESIA

USI views on Indochina problem--Public and parliamentary pressure in Indonesia has reached a point where the USI may either follow the suggestion of a vocal leftist minority in the USI House of Representatives and extend recognition to the insurgent Ho Chi Minh regime in Vietnam, or, more probably, call for a conference of Asian nations to discuss the Indochina

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question. While actual recognition of the Ho regime appears to have been postponed for the present as a result of parliamentary maneuvering, even the calling of a conference by the USI could be expected to be embarrassing to the US.

As early as 28 March 1950, a motion calling for immediate recognition of the "Democratic Republic of Vietnam", together with the "People's Republic of China", was submitted by a group of fifteen pro-Communist members of the House. Although the matter was not discussed at that time, due to the press of more urgent business, a quite substantial body of Indonesian opinion continues to view the Ho regime as genuinely nationalistic and worthy of support. This view has been furthered by the activities of two of Ho's publicity men, Tran Mai and Dang Chan Lieu, who arrived in Djakarta on 8 May and have been busy in the hustings ever since.

The recognition motion was reintroduced in the House in late May, at which time a substitute motion, calling for a further study of the recognition question and preparations for an intra-Asian conference to seek a solution of the Indochina conflict, was introduced by a conservative leader, Natsir. The Natsir motion was adopted on 3 June, in a close vote, 49 to 38.

While immediate USI recognition of Ho thus appears to have been postponed, the possibility that such action may occur in the future cannot be dismissed. Such an action would have a considerably adverse impact upon the US position in Indochina and throughout Southeast Asia, might well precipitate similar action by Burma and India, and would make it virtually impossible to arouse that widespread popular confidence in the French-sponsored Bao Dai regime which is believed essential to the success of current joint French-US efforts to establish an effective, independent and non-Communist Vietnamese state.

Initiation of an intra-Asian conference on Indochina, in turn, would make it well-nigh impossible for either the US or France to continue to view the Indochina conflict as purely a domestic problem, of concern only to France and the three Indochinese states. If such a conference is called, Burma and the Philippines probably would participate, and Nehru, who is due to arrive in Indonesia shortly, probably would not hesitate to assume a prominent role.

PHILIPPINES

Deterioration continues—Although prospects for the Philippine Government's anti-Huk operations are currently somewhat brighter, the political scene continues to be dominated by the widening breach between Vice President Lopez and President Quirino

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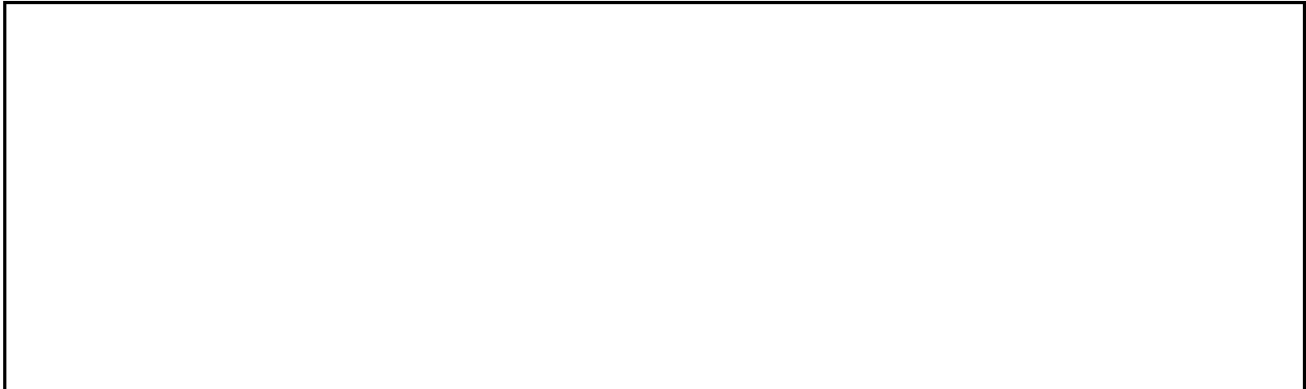
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25X6 [redacted] There is now some indication that Lopez' position may be substantially strengthened by support from Jose Laurel's opposition Nacionalista Party. Quirino, in turn, is also seeking Nacionalista support [redacted]

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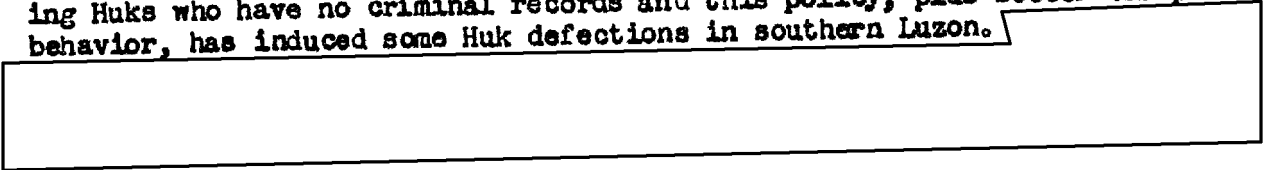
[redacted] The Lopez-Quirino contest demoralized the recent session of Congress and prevented the passage of important legislation including expanded tax measures.

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In addition to political difficulties, the Philippine Government is faced with ever-worsening financial problems. The Government has exhausted its legal credit with the Central Bank, has drawn heavily from a Government-owned trading bank and has utilized sinking and trust funds. Cash balances are practically all spent and even the new tax measures which the administration is considering will be insufficient to cover the budgetary deficit. Moreover, commodity shortages induced by import controls, combined with deficit-financing, are causing constant price rises. The US has agreed to send a mission to the Philippines in order to survey the Republic's economic structure and to recommend joint US-Philippine measures designed to strengthen it, but an early solution to present economic problems is not in prospect.

In some respects, the military situation is brighter. The Government's newly-organized Ground Force combat battalions are replacing the Constabulary in anti-Huk operations with some success. Field training is achieving good results and troop discipline and morale are reportedly high. Quirino has announced that the Government would be lenient with surrendering Huks who have no criminal records and this policy, plus better troop behavior, has induced some Huk defections in southern Luzon.



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NEWS NOTES

USSR shortcomings in assistance to Peiping are ironically demonstrated by recent Communist approaches to western firms for replacement equipment to be used in Manchurian power plants, since most of the missing equipment was looted by the USSR in 1945. The shortage of electric generating capacity is Manchuria's No. 1 deficiency, and present realizable power capacity is probably only one fifth of that attained by the Japanese in 1944 (300,000 kw. as against 1,500,000 kw.). In contrast, coal production and railroad operation have been nearly restored to half the 1944 rate. The Communist inquiries suggest that the Soviet loot was either irreparably damaged in transit and subsequent storage or has been installed in hydroelectric projects in eastern areas of the USSR.

A Shan sawbwa (chieftain) who recently arrived in Bangkok from Yunnan has informed the US Embassy that an estimated 5,000 regular Chinese Communist army troops have moved up along the Burma Road in western Yunnan and have reached Burma's northeast border. The Sawbwa reports that these troops have garrisoned the principal villages near the border and have initiated patrols which are enforcing severe travel regulations and eliminating the transborder movement of persons and goods.

The Soviet Minister to Thailand is leaving Bangkok on 3 June. His departure may be connected with the departure of Derevyanko and staff from Tokyo. The US [redacted] in Bangkok concur that in view of the imminence of increasing anti-Communist efforts in Southeast Asia, the USSR may be consulting urgently in order to determine immediate steps to counteract the western strengthening of the region.

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