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U.S.S.R. - CHINA

The Link Between Peking and Moscow. In Digest No. 4-50 the military aspects of the Communist Threat to Southeast Asia were discussed, with emphasis on the vulnerability of this area. Now that Mao Tse-tung is closeted with Stalin in a conference undoubtedly regarding future policies with respect to Sino-Soviet relations and a further extension of power to the South, it is worthwhile to examine the link between Peking and Moscow. The Chinese Communist leaders certainly are confirmed Marxist-Leninist Communists and not simply agrarian reformers.\* The Peking leaders probably will try hard to widen the base of their popular support and retain their reputation as nationalists while at the same time strengthening the rather unpopular alliance with the USSR. Their success will depend mainly on the degree of subservience that may be required by the Soviet Politburo, which thus far has guided the Chinese Communists by a relatively loose rein. At best, Chinese Communist Party Chairman Mao Tse-Tung has to look forward to many years, probably at least a decade, of industrialization and indoctrination before he has an urban proletariat of sufficient size and loyalty to permit effective socialization of Chinese economy and society. During this period, industrialization will depend on extensive capital accumulation. Assuming that the bulk of it does not come in the form of Soviet or other foreign investment, which seems likely, most of this capital will have to come from the scanty surpluses of China's small-scale agriculture. Consequently, long before basic socialization can begin, Chinese Communist administrative efficiency and peasant loyalties will be severely tested by the problem of extracting this agricultural surplus and using the proceeds as capital for industrialization.

China, in consequence of its size, the primitive character of its economy, and the durability of its cultural tradition, always has proved difficult enough for any regime to manage, let alone remold. It is true, however, that the USSR has developed to new heights of professional skill the theory and practice of capturing and controlling social institutions. Soviet penetration of key units of the Peking administration is now in process, and the USSR, capitalizing on the Sino-Soviet alliance and China's requests for assistance, is installing itself solidly in China, thus reducing the chances for Chinese "Titoism" and reducing the impact on the USSR of whatever dissident movements develop. The ultimate Chinese orientation in international affairs is impossible to estimate with confidence at this stage. For some time at least China will appear an uncertain quantity to Soviet leaders, including Stalin, whose fingers were burnt in dealing with unreliable Chinese revolutionary nationalists a quarter-century ago.

Mao Tse-tung probably will bring back from Moscow a treaty of Sino-Soviet friendship guaranteeing Soviet economic and technical assistance to China and arranging for joint development and use of Chinese military facilities. From the Soviet point of view all these links with China are of long-range strategic value. For the immediate future, the Kremlin probably will continue to tighten the Soviet grip on the increasingly autonomous border areas of Manchuria, Inner Mongolia, and Singkiang. In China proper, privileged Soviet banks and Soviet-owned or joint Sino-Soviet commercial enterprises will serve to influence Chinese production and trade into patterns agreeable to general Soviet objectives. The USSR probably does not wish to become deeply committed in the painful and intricate tasks of reorganizing China's economy to feed its vast population. Nevertheless, many Chinese will hold the USSR and the Peking regime jointly responsible for the famine and inflation that are bound to arouse widespread discontent in the coming year. Resentment is already in evidence among non-Communist Chinese and apparently among a few Chinese Communist Party members over Soviet privileges and economic exploitation of Manchuria, rumored Soviet profiteering in trade, and the influx of Soviet political, technical, and military advisers. If

\* See page 3, Article on High-level Organization of the Chinese Communist Government

U.S.S.R. - CHINA (cont'd)

dissatisfaction against Soviet penetration of the government and economy grows, the Peking regime will be increasingly vulnerable to effective criticism from the nationalist point of view.

The existing strains in Sino-Soviet relations, however, probably will not become critical in 1950. For several years, China probably will be a reliable instrument of Soviet foreign policy, though it will not contribute much to the Soviet military potential. In these years the chief threat China will pose to U.S. interests in Asia will be as a base from which to carry on revolutionary activity elsewhere in Asia.

Beyond China. Whatever else is envisaged in the Politburo's plans for the Peking Communists, the USSR plainly proposes to use the China base in its drive to spread Communism in Asia. As of 1 January 1950 a kind of Cominform of the Orient has been set up in Peking under the designation of "Liaison Bureau" of the Communist-controlled World Federation of Trade Unions (WFTU) (see Digest 44-49). It will facilitate Soviet control of Asiatic labor groups, among which opposition to Communism is slight and unorganized, and set up new labor federations where they do not exist. The Chinese representative on the Bureau, one of the four "responsible" members (with the representatives from the USSR, Australia, and India), will be able to exploit the sympathies of overseas Chinese. The function of the Peking Liaison Bureau is indicated in recent Chinese Communist propaganda, calling for Communist labor cadres to assist in the "armed struggle" for "national liberation" particularly in the more vulnerable "colonial" areas of South Korea, Indochina, and Indonesia. (SECRET)

CHINA

Reported Soviet Desire for China Ports. The Soviet Union has reportedly demanded of Mao Tse-tung full control of seven key ports in north China. In addition to Dairen and Port Arthur, which are already entirely supervised by the Soviets, Russia now wants Chinwangtao, Haichow, Chefoo, Weihaiwei and Tsingtao. If this information should prove true and Peking agrees to the demands of Moscow, the possession of these ports would provide the USSR with naval bases from which, with the necessary ships and aircraft, the Yellow Sea could easily be dominated. (RESTRICTED)

CHINA

The Communists may be stepping up their timetable regarding a precipitation of the question of Hong Kong's status. Concurrently with the development of complications in the British - Communist recognition alignment, the Communist press and radio are intervening more and more in Hong Kong policies. Two main points that have been attacked by the Communists are the deportation of undesirables and the way in which local authorities have handled labor disputes. This Communist attitude is nothing new, but in the case of Hong Kong it may indicate that the British position is not as secure as might have been expected. (SECRET)

CHINA

High-level Organization of the Chinese Communist Government. The new Chinese government is under the absolute control of the Chinese Communist Party, even though it is widely publicized by the Communists as being a "coalition Government". The Standing Committee of the Central Executive Committee of the Chinese Communist Party is the Politburo

CHINA (cont'd)

of China, and its members are the real rulers of China. They are: Mao Tse-tung, Chu Teh, Liu Shao-chi, Jen Pi-shih, Chou En-lai, Kang Sheng (Chao Jung), Lin Tsu-han (Lin Po-chu), Tung Pi-wu, Chen Yun, Peng Te-huai, Dao Kang, and Peng Chen.

In general, the higher personnel in the Government may be loosely grouped into four main categories: (1) the "power holders"; (2) the "policy makers"; (3) the "elder statesmen", and (4) the "sops to coalition".

The "power holders" are those actually occupying the titular positions of power, such as Mao Tse-tung, Chairman of the Government; Chou En-lai, Premier and Minister of Foreign Affairs; and Chu Teh, Commander-in-Chief of the Communist Armies.

Prominent among the "policy makers" is Liu Shao-chi, chief formulator of policy, writer of manifestos, and a rabid Stalinist; Li Li-san, who holds the important post of Minister of Labor; and Kao Kang, who is in control of Manchuria. The last two named are Moscow-trained Stalinists. Po Yi-po, Minister of Finance, is another policy maker. These men, while holding relatively important posts in the Government, exercise their real power behind the scenes.

There is also a group of elderly men, Communists of long standing, who enjoy considerable prestige in the Party. While they do not have, for the most part, prominent administrative positions, they have the role of "elder statesmen", traditionally a position of influence in China. This group includes such persons as Lin Tsu-han, Kao Kang, and Tung Pi-wu.

The "sop to coalition" group comprises those who control a great deal of support and appeal among vital segments of the population. Such persons as Madame Sun Yat-sen, Li Chi-shen, Kuo Mo-jo, Fu Tso-yi, and Shen Chun-ju have been given positions of seeming prominence in the regime, but actually their influence is practically nil. They are the window-dressing for the real managers of power, and their seemingly important positions are inducements to minority party members and dissatisfied members of the Kuomintang "to climb on the bandwagon." When the new Government resorts to another Party purge, following the classic Soviet pattern, these people probably will be the first to go, if they have out-lived their usefulness.

That the men dominating the regime intend to brook no unorthodoxy appeared most clearly in a recent publisher's conference in Peking where the decision was handed down that all writings opposed to communism or to the "New Democracy" are to be banned from publication and from sale on the public market. (SECRET)

CHINA

Macao-Indochina Mutual Aid Pact The recently concluded Hong Kong-Macao Mutual Aid Pact (Digest 3-50) has been followed by a roughly similar Macao-Indochina Pact, signed in Macao on 18 December by French and Portuguese representatives. The pacts were negotiated under Portuguese initiative as a result of instructions from Lisbon to sign such pacts with all countries having colonies in nearby areas. They have been negotiated under the terms of the Colonial Alliance of 1936, which was signed by Great Britain, France, the Netherlands, and Portugal.

CHINA (cont'd)

The pact with France provides for (1) each party to protect the other's sea lanes and installations, (2) mutual military assistance, (3) Indochina to provide Macao with 300 tons of food stuffs and 300 kilograms of raw materials monthly in exchange for medical supplies, and (4) an option for the renewal of the pact one year from the effective date thereof.

Despite the provisions for mutual military assistance in the pacts, Macao officials are bending over backwards in an effort to appease the Chinese Communists in the hope of warding off the loss of Macao to China. Thus, despite U.S. protestations, the Macao government, for example, handed over in January two million dollars worth of U.S.-claimed equipment to the Chinese Communists. This equipment included one complete radio manufacturing plant considered an extremely important addition to Communist aviation. (SECRET)

TAIWAN

Little Improvement and Some Added Trouble. Although the military situation is improving somewhat as a result of stressing quality rather than quantity in troops, there continues to be many adverse factors. The command structure reflects the influence of politics in the appointment of Ku Chu-tung as acting Minister of National Defense, an appointment considered to be poor. Generalissimo Chiang Kai-shek has completed his implementation of a policy of liquidating the power of those who might threaten his supremacy. He is sitting tight on his island waiting for the U.S. to put him back in power and is retaining generals such as Liu An-chi who are considered unqualified.

The Formosan training program has hit a snag in the attitude of the trainees (Digest 5-50). These new men were trained by the Japanese in middle schools and find their Chinese instructors unqualified and incapable to train them. They are sincere in their desire to serve, but expect at least Japanese standards in food and equipment. They are used to commands in Japanese and find the language barrier a difficulty. (SECRET)

INDOCHINA

USSR Recognizes Viet Minh Communists. The USSR has followed Communist China in recognizing formally the Viet Nam Republic under Ho Chi Minh (Digest 4-50). The Soviets, to emphasize their interest in the establishment of a Communist state in Indochina, rejected sharply on 1 February a French note of protest against the Soviet action. The Soviets obviously hope to offset the anticipated recognition of Bao Dai by the Western powers and by most Commonwealth nations. Open Soviet and Chinese Communist assistance to Ho is now expected, thereby strengthening Viet Nam resistance at a time when Communist pressure throughout Southeast Asia is rapidly mounting. The current tactics of Ho's forces clearly are to make sporadic attacks over as wide an area as possible in order to disperse and weaken the French ground forces. Already, reports indicate a deterioration of the French military situation in Tonkin, with the native population adopting extremely strong anti-French nationalist feelings, even among those Tonkinese who are not pro-Communist. The French have retaliated in part by indiscriminate raids on, and destruction of, native villages, actions which probably will further build up bitterness against the French. (SECRET)

INDOCHINA

Cost of the War to the French. The French government has expended considerable of its armed personnel strength and financial resources in prosecuting the post-war struggle in Indochina.

Since the beginning of the armed conflict with Ho Chi Minh's resistance movement in 1946 until the end of 1948 French military expenditures in Indochina have reached an estimated total of \$741,110,000. Of this amount \$590,000,000 has been spent on the Army, \$101,360,000 on the Navy, and \$49,750,000 on the Air Force. The expenditures have risen sharply in 1949, and another increase is foreseen in the 1950 budget.

French manpower losses, too, have been heavy. From 1945 to the end of 1948 an estimated 15,000 army personnel were reported killed or missing. In the same period the Navy lost approximately 250 men and the Air Force 400 men. The drain on French manpower resources is considerable, for about one-fourth of the total French Army is at present committed to operations in Indochina. (SECRET)

BURMA

Significant Pro-Communist Attitude. The trend toward closer cooperation of the government with the West, which at the height of the Karen rebellion asserted itself in a willingness to accept military assistance from the Commonwealth countries and to relax the rules governing the exploitation of Burma's mineral resources by foreign enterprise, has been checked lately by Burma's eagerness to ingratiate itself with Communist China and by the recent inclusion of three Socialists in the cabinet. The Burmese Socialist Party, from which the present government derives its chief political support, has always subscribed wholeheartedly to Marxist ideology and has lately revealed strong, pro-Russian and pro-Chinese Communist sympathies. It is to be expected, therefore, that increased pressure by the Socialists from within and by Communist China from without will force the Thakin Nu government to move to the left again. It is doubtful, moreover, that any program of financial assistance that the Commonwealth countries may devise following their recent meeting at Colombo will be to reverse this trend.

Despite the leftward trend and the pro-Soviet tendencies of the Socialists, Socialist-inspired invitations to establish diplomatic and other relations with the USSR and Communist China have been unsuccessful to date. A U.S. observer in Burma believes that the international Communists may be failing to capitalize on the situation because of a reluctance or unwillingness to abandon the Burmese White Flag Communists who, though not too strong a group, are in armed opposition to the Government. (SECRET)

BURMA

Government Plans Major Drive on Karens. The Burma War Office is planning a major operation into the heart of the Karen so-called "Kawthulay State" from a concentration area around Pegu. The plan is to secure Nyaunglebin (in the Karen-held territory), then drive north along the Toungoo road as far as Penwagon, destroying all possible Karen defending forces. Troops to be employed include roughly the equivalent of one reinforced brigade of Regulars, plus UMP and "Sitwundan" units. The operation is expected to take several months. Karen armed strength is estimated roughly to consist of a fairly well organized so-called "Toungoo Division" of about 6,000 (largely in the Toungoo-Nyaunglebin area); about 7,000 to 8,500 other troops in various units elsewhere, guerrilla elements and various non-uniform forces, as well as an auxiliary element called the "Volunteer Force"

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BURMA (cont'd)

varying possibly from 2,000 to 5,000 (largely in the Toungoo-Nyaunglebin area). These latter troops assist and reinforce the "regulars" when necessary. The total of the Karen force is 15,500 to 19,500.

A factor in the War Office's decision to execute this operation is the fact that the Karens apparently are running low on ammunition. No decisive suppression of the Karen insurgency, nevertheless, is expected. The extent to which the government actually prosecutes the operation will depend probably upon the nature of the situation as it develops along the Burma-China border (Digest 5-50). The crisis created by Chinese Nationalists and Communists entering Burma temporarily has eased, according to Burmese Army sources, and most of the armed Chinese Communists are believed to have withdrawn. (SECRET)

THAILAND

Political Intrigue Unabated. In an effort to head off a possible coup d'etat, the possibility of which had arisen as a result of recent mounting opposition to Premier Phibul's regime on the part of military and civilian groups (Digest 1-50), Phibul was reported on 29 January to have countenanced the arrest of Lieutenant General Luang Kach Songgram and several other officers. Kach subsequently departed for Hong Kong by plane. Corrupt Lt. Gen. Kach, although originally a member of the "Coup Party" which helped put Phibul in power in the first place, reportedly had been seeking to secure the support of the bulk of the army for himself, possibly in anticipation of an attempt to seize power. Although Kach's departure from the scene possibly may diminish significant dissension among the ranks of the "Coup Party", the inter-service schism between the Army and the Navy remains as an unstabilizing factor. Thus Phibul suddenly dismissed the head of the Air Force in December because the latter had had close associations with a member of the opposition group and Phibul desired the solid backing of the Air Force. (The Navy during 1949 sought to swing the weight and influence of the relatively neutral Air Force to its side.) (CONFIDENTIAL)

MALAYA

British Troop Strength. United Kingdom and Colonial troop strength in Malaya has dropped slightly because of British reinforcement of Hong Kong. Units in Malaya and Hong Kong are part of the British Far Eastern Land Forces (FARELF), the current over-all strength of which is 48,100. In Malaya there are 30,600 men. Of this total 15,200 are British troops and 15,400 are mainly Gurkhas, Malays, and Indians. In Hong Kong, there are 17,500 Army troops, 15,000 of whom are British and 2,500 are Gurkhas. (SECRET)

INDONESIA

Progress in Unification. A major development in shaping the future of the new United States of Indonesia (U.S.I.) is the gradual dissolution of some of the Federalist states originally carved out of Republican territory by the Dutch as a result of Dutch military action. As a result of the Westerling revolt in West Java (Digest 5-50), the U.S.I. regime has taken over direct control of the State of West Java. The South Sumatra Parliament, in addition, has voted in favor of ending its separate existence. The process of abolition of states is well advanced also in East and Central Java and in Madura. This development



INDONESIA (cont'd)

represents a victory for the astute, experienced political leaders of the old Republic who now occupy almost all of the important posts in the central USI Government. These leaders are working for the reduction of the USI to one state, or at most 3 or 4 States, in contrast to the large number — approximately 16 — existent at the time of transfer of sovereignty in December 1949. (SECRET)

INDONESIA

Dutch Move To Isolate New Guinea's Economy. Since the future status of Dutch New Guinea still remains to be settled this year and since both the Dutch and the United States of Indonesia desire the area, it is already a bone of contention between the two. The Dutch now appear to be attempting to develop a pattern of economic isolation of New Guinea from Indonesia. The Netherlands Government has appointed the Singapore subsidiary of the Netherlands firm, Hagemeyer Trading Co., as the sole exporter-importer for Netherlands New Guinea. The subsidiary is to be renamed New Guinea Import and Export Co. and will ship textiles, vehicles, and construction material from Singapore. (SECRET)

SOUTHEAST ASIA

Possible Soviet Financing. Soviet financing of subversive and guerrilla activities in Southeast Asia may be accomplished by means of gold transported to this region from the USSR via Sinkiang (China), Tibet, Bhutan (Northeast of India), and Burma to Kong Kong for conversion to other currencies. Actual distribution centers reportedly are Bangkok (Thailand), Saigon (Indochina), and Macao (Portuguese colony near Hong Kong). There is no evidence of gold actually being smuggled to the Philippine Islands. The existence of a greater quantity of gold in Hong Kong may be indicated by the fact that the free market price of gold in Hong Kong is only 44 dollars per ounce as compared with 54 dollars in Manila. (SECRET)

SOUTH KOREA

Coast-watcher System. As a result of North Korea's recently intensified efforts to employ the east coast water route to move guerrillas and supplies into South Korea (Digest 5-50), a coast-watcher system has been initiated along the east coast of South Korea. Personnel from the Navy, National Police and the Great Korean Youth Corps are being utilized. At present, a continuous watch is being maintained between Poangdong and Wolsong, while a partial watch system is being conducted between Wolsong and the 38th Parallel. Ultimately, it is planned that the entire coast line will be placed under surveillance. (SECRET)

JAPAN

Trade with China Urged. Despite existing large-scale economic support from the U.S., strong economic pressures continue building up in Japan for a resumption of the large-scale pre-war Japan-China trade. Thus Premier Yoshida Shigeru on 3 February told the Budget Committee of the Lower House that Japan was ready to send trade representatives to Communist China as soon as SCAP would permit. He stated that large-scale smuggling was already in existence and that the Japanese Government believed such exchange should be legalized as soon as possible. Such a policy also has been advocated strongly by Japanese Communists. Official efforts, however, have been made to redirect the pattern of Japanese trade so as to replace the former Northeast Asia trade with Southeast Asia trade. Many

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JAPAN (cont'd)

Japanese, nevertheless, apparently believe that this will not suffice when and if large-scale U. S. economic subsidies cease. (RESTRICTED)

PHILIPPINES

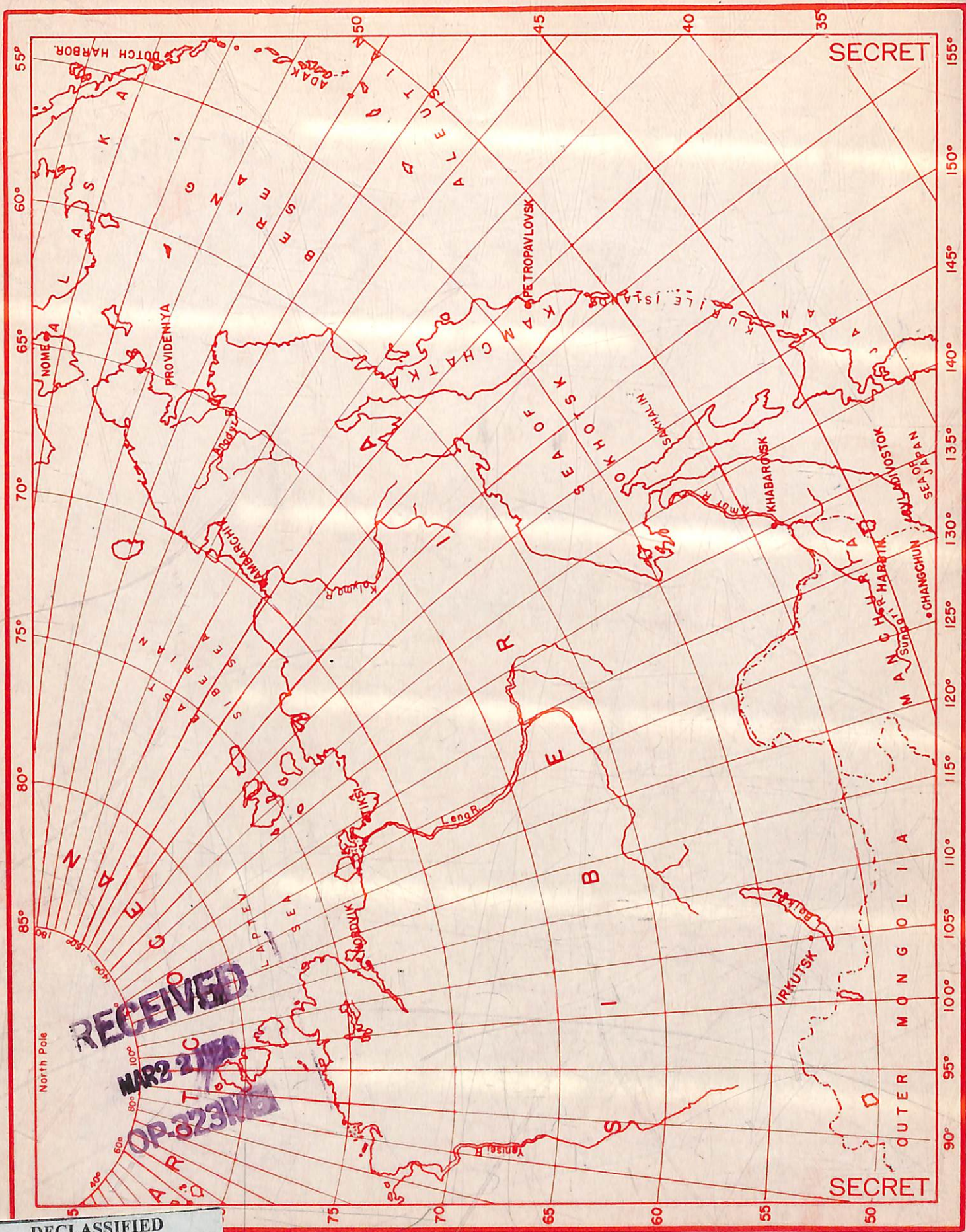
Important Communists Allegedly Join Huks. Previous reports of increased activity by Communist-oriented Hukbalahap guerrillas (Digest 3-50) have been followed by a report of the disappearance from Manila of Mariano Balgos, Secretary General of the Philippine Communist Party, and Guillermo Capadocia, co-founder and former Secretary General of the Party, who are alleged to have joined the Huks. In letters purportedly addressed by them to the left-wing Congress of Labor Organizations, in which they hold offices, they explain their action in terms of the repressive measures of the Philippine Government against labor and the administration's use of force and fraud to secure President Quirino's re-election. There is such a large measure of truth in these criticisms against the Government that most Filipinos probably will accept the reasons given as representing the true motives of Balgos and Capadocis. However, the real reason is probably the necessity for them to comply with the Communist Party line laid down at the recent Peking WFTU meeting (Digest 50-49) calling for an armed struggle against established governments in the various countries of Southeast Asia, including the Philippines.

Meanwhile, the government is endeavoring to improve its defensive capabilities by increasing Constabulary strength from 17,000 to 20,000 men, in order thereby to combat the danger involved in its current dangerously thin spread of troops. (CONFIDENTIAL)

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