

The President

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A REPORT

TO THE

NATIONAL SECURITY COUNCIL

by

THE UNDER SECRETARY OF STATE

on

FEDERAL STATES OBJECTIVES AND COURSES OF ACTION
WITH RESPECT TO JAPAN

February 19, 1953

WASHINGTON



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Main Elements of the Program to Implement
the Courses of Action Enumerated
in Paragraph 7 of NSC 125/2

The following report is a detailed presentation of the present status and future programs relative to the courses of action enumerated in paragraph 7 of NSC 125/2 together, where appropriate, with the assignment of responsibilities. It has been prepared to follow the courses of action as enumerated in paragraph 7 of NSC 125/2.

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NSC 125/2, PARAGRAPH 7, SUBPARAGRAPH a:
POLITICAL COURSES OF ACTION

"(1) Strive to maintain a political relationship of trust and confidence between Japan and the US observing the principle of consultation between US and Japanese authorities on matters relating to all inter-governmental arrangements and agreements, avoiding acts which interfere in Japanese domestic affairs, except to carry out Article 1 of the US-Japan Security Treaty."

I. Present Status

A. In furtherance of this policy the United States maintained strict neutrality in the 1952 national election campaign, endorsing neither directly nor indirectly any political faction.

B. An informal inter-governmental agreement has been reached between the United States and the Japanese Government as to the necessity of joint United States-Japanese defense measures and of a combined command in the event of hostilities or imminent threat thereof. This agreement was the product of discussions between Ambassador Murphy, the Commander-in-Chief, Far East, and Prime Minister Yoshida. Present staff discussions between CINCPAC-Embassy representatives and officials of the Japanese Government, however, have not produced tangible results. The Command envisages the integration of the National Safety Forces from present regional disposition to a command structure which would permit joint tactical use with United States Security forces in case of emergency and planning for the expansion of the NSF with time and strength schedules to enable advanced programming of United States strength and defense responsibilities in Japan.

C. Agreement was similarly reached in August 1952 with the Japanese Government to the loan of heavy equipment for the use of the NSF.

D. An intergovernmental agreement became effective in December 1952 under which we lend certain coast guard-type naval vessels to the Japanese Government in accordance with Public Law 467.

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E. The United States-Japan Joint Committee established under the Administrative Agreement has satisfactorily resolved a number of issues relating to the stationing of United States forces in Japan.

F. In January agreement was reached with the Japanese Government concerning joint measures to be taken to prevent Soviet violations of the territorial air of Japan.

G. The United States and Japan signed a Civil Air Transport Agreement in Tokyo on August 11, 1952, which will enter into effect when it is approved by the Japanese Diet. This agreement in general follows the United States standard form Bermuda-type air transport agreement -- a pattern followed by the United States in agreement with some 30 other countries.

H. The United States, Canada and Japan signed the International Convention for the High Sea Fisheries of the North Pacific Ocean in Tokyo on May 9, 1952. The Agreement will enter into force when the contracting parties exchange ratification. This convention while marking a further step in the conservation of international fisheries in the North Pacific Ocean recognizes the dependence of the Japanese people on fishing and establishes a framework within which Japan and the other nations of the Pacific will be able to work out their fishing problems on an equitable basis.

I. Preliminary negotiations are now being carried on in Tokyo for the drawing up of a Consular Convention and Treaty of Friendship and Commerce.

J. In the field of security export controls, the United States has consulted regularly and extensively with the Japanese, who have also recently been admitted to participation in the multilateral discussions of these matters in COCOM.

K. Japanese religious sentiments of respect for the dead were recognized by the United States in arrangements for a War Dead Repatriation Mission which left Japan in January 1953 to visit various islands under United States control in the Pacific.

L. On September 4, 1952, the President established a Clemency and Parole Board for War Criminals to recommend to him the appropriate United States decisions on recommendations of the Japanese Government, under Article XI of the Peace Treaty, for clemency and parole for Japanese war criminals imprisoned in Japan. To date 30 persons have been granted parole.

II. Future Courses and Responsibilities

This course of action essentially describes a method which should be followed by all agencies and departments of this Government in conducting relations with the Japanese Government. Observance of this method should be continued and all actions of the United States vis-a-vis the Japanese Government should be taken in the light of this guiding principle.

"(2) Take such steps as are feasible to achieve membership for Japan in the United Nations and other international organizations."

I. Present Status

A. Under the sponsorship of the United States, Japan is already a member of the specialized agencies of the United Nations; namely, the International Telecommunications Union, the International Bank for Reconstruction and Development, the Universal Postal Union, the World Health Organization, the International Labor Organization, the International Monetary Fund, the Food and Agriculture Organization, and the United Nations Educational, Scientific and Cultural Organization. Japan is also an associate member of the Economic Commission for Asia and the Far East. Japan has been admitted to the International Materials Conference with representation on the Copper, Lead and Zinc Committee, the Tungsten-Molybdenum Committee, and the Sulphur Committee; the International Cotton Advisory Committee and the International Wheat Council. Japan has acceded to the International Convention for the Regulation of Whaling of 1946, the International Wheat Agreement of 1949, the Telecommunication Convention of 1947 and the Universal Postal Union Convention of 1947. Japan has also sent representatives to the United Nations Ad Hoc Commission on Prisoners of War.

B. Japan has cooperated in the United Nations in carrying out the resolutions of the General Assembly and the Security Council in combatting aggression. The Japanese Government on June 23, 1952, applied for admission to the United Nations. The United States submitted a resolution on August 28 to the Security Council recommending Japan's membership in the United Nations. This resolution was vetoed by the USSR. In mid-December 1952 the United States, at the request of the Japanese Government, introduced a resolution in the General Assembly, which was subsequently passed by vote of 50 in favor - 5 (the Soviet bloc) opposing - 4 abstaining,

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indicating that the General Assembly believed Japan should be admitted to membership in the United Nations and requesting the Security Council to note this sentiment.

C. Japan has applied for membership in General Agreement on Tariffs and Trade.

D. Japan's application for membership in International Civil Aviation Organization, dated August 19, was received by ICAO on August 27 and was presented to the General Assembly on September 8. On November 6, 1952, the application was considered in a plenary meeting of the General Assembly and a resolution was passed under which the General Assembly will inform ICAO that it has no objection to the admission of Japan to the organization.

II. Future Courses

A. Since the USSR has vetoed Japan's application to the United Nations, the United States should through its information media and its discussions with Japanese officials make it clear that the USSR bears full responsibility for denying Japan admission to the UN. The United States should continue to support strongly Japan's application for membership at any time the membership question arises in the UN, giving full consideration to the possibility of non-voting membership for Japan through a resolution of the General Assembly should the Japanese so desire. Should the United States in the future accept in principle the idea of a "package" deal on membership, such acceptance should be conditioned on the inclusion of Japan in such an arrangement.

B. Japan's participation in GATT is discussed under 7c(3).

C. With respect to ICAO, the United States should strongly support and vote in favor of Japan's membership in ICAO.

III. Responsibilities

Department of State and those agencies of the United States Government having an interest in the determination of United States policies with respect to certain international organizations.

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"(3) Negotiate with Japan on behalf of the Unified Command, the establishment of appropriate rights and responsibilities for all United Nations forces engaged in the Korean action when within the national boundaries of Japan."

I. Present Status

The United States Government, acting as the Unified Command, has assumed responsibility for securing an agreement with Japan to determine the status of members of forces of the United Nations other than those of the United States while in Japan, and to determine the extent of the assistance which Japan will give to the United Nations operation in Korea. Ambassador Murphy, assisted by the Chiefs of the Commonwealth Missions in Tokyo, opened negotiation of such an agreement with the Japanese on July 7, 1952. Agreement has been reached on certain articles of a technical and non-controversial nature. The following controversial issues remain unresolved:

1. Exercise of criminal jurisdiction over members of the United Nations forces;
2. The use of Government-owned facilities cost-free by United Nations forces;
3. The extension of the agreement to cover forces of nations which are not United Nations members but which are participating in the United Nations operation; and
4. The assumption of responsibility for damage in Japan caused as a result of combat operations.

The key issue is criminal jurisdiction. The other controversial issues can probably not be resolved until a solution has been found to this question. The Japanese are primarily interested in securing jurisdictional rights comparable to those in the NATO Agreements. It is therefore unlikely that agreement can be reached on this subject until the nature of the Senate action on the NATO Agreements is known.

II. Future Courses

The United States Government in cooperation with the Commonwealth Governments will endeavor to settle the remaining issues and complete the negotiation of the United Nations Forces agreement.

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III. Responsibilities

The United States Embassy in Tokyo, in cooperation with CINCFE has responsibility for carrying on the negotiation under instructions from the Departments of State and Defense, and with the concurrence of the Treasury Department in such steps as have a bearing on tax and monetary problems.

"(4) Encourage Japan and other free countries of the Pacific area to develop relationships which will contribute to their security and the development of their economic ties through such arrangements as may be determined to be consistent with the interest of the US."

I. Present Status

A. Security.

1. Under the Security Treaty, signed at San Francisco on September 8, 1951, Japan grants and the United States accepts the right to dispose United States land, sea and air forces in and about Japan. Such forces may be utilized to contribute to the maintenance of international peace and security in the Far East and to the security of Japan against armed attack from without.

B. The reestablishment of Japan's political relations with other free nations of the Pacific area as a prerequisite to the development of security and economic ties.

1. While Australia, New Zealand, Vietnam, Laos, Cambodia, Ceylon and Pakistan have ratified the Japanese Peace Treaty, the Philippines and Indonesia have to date failed to ratify the Treaty. The United States and the Philippines have exchanged ratification of the Mutual Defense Treaty, despite the original understanding with the Philippine Government that ratification of the Japanese Peace Treaty was part of the package.

2. India and the National Government of China have signed bilateral peace treaties with Japan which have now entered into force.

3. Negotiations between Japan and the Philippines with respect to reparations have recently taken a favorable turn, and it now appears possible that the Japanese will make sufficiently concrete offers to the Philippines to produce an agreement. This agreement should lead to action by the Philippines Government to ratify the Peace Treaty.

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4. Negotiations between Indonesia and Japan resulted in an interim agreement on reparations. However, no agreement was reached on fishery problems, Japan established a Consulate General at Djakarta and a Consulate at Surabaya in early August 1952. Recent efforts by the Japanese to explore the reparations problem with Indonesia produced no immediate result.

5. Tensions between Korea and Japan were lessened by a friendlier atmosphere resulting from President Rhee's visit to Japan in January 1953 as the guest of General Clark. In order that momentum of this good will not be lost, both Governments were informed of the hope of the United States that Korea and Japan resume the negotiations for the establishment of normal relations and the settlement of outstanding issues. Preparations for preliminary talks are now being undertaken in Tokyo.

6. The state of war between Burma and Japan was terminated on April 30, 1952.

7. Thailand never declared war on Japan. There is a Japanese Government Overseas Agency at Bangkok.

8. Diplomatic relations between Japan and the Associated States are expected to be established in the near future.

9. The Japanese Government has sent several official and semi-official good will missions to Southeast Asia.

II. Future Courses

A. Security.

1. Continue to explore the possibilities of collective security arrangements in the Pacific area which would include Japan.

2. Keep the Japanese Government informally advised, in so far as is feasible, of security developments taking place in the Pacific area.

B. Japan's relations with other free nations of Asia.

1. The United States should encourage the governments of the Philippines and Indonesia to ratify the Japanese Peace Treaty. In accordance with its commitments at

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the Peace Treaty Conference at San Francisco, the United States should take such steps as are feasible to assist the Governments of Indonesia and the Philippines in their negotiation of reparations and fisheries agreements with Japan pursuant to the provisions of the Peace Treaty.

2. With respect to Korea, the United States while avoiding direct participation and negotiation between Korea and Japan should continue to endeavor to create through its Embassies a favorable atmosphere for the negotiation of mutually acceptable agreements.

3. Through the implementation of the economic and military courses of action the United States should lay the groundwork for the eventual development of closer integration of security and other relationships among the free nations of the Pacific.

4. The United States should continue to assist in the development of constructive relationships between Japan and Southeast Asia.

5. The United States through its representatives in the field and through its informational media should endeavor to allay fears of a resurgence of Japanese aggression and economic exploitation.

III. Responsibilities

The Department of State and the Department of Defense are the responsible agencies with the usual operating procedures and relationships. MSA is concerned with those aspects of the program which involve the economic development of countries in which it is operating.

"(5) Encourage Japan to preserve and maintain the principles and practices of Representative Government."

I. Present Status

A. During the Occupation substantial alterations in the institutional structure and political power patterns of Japan were sponsored in an effort to encourage the acceptance and development of the principles and practices of representative government. While there is reason to hope that these efforts will be carried forward by the Japanese themselves,

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they cannot now be considered firmly established or fully operative in the political life of Japan. Moreover, it is expected that the Japanese will undertake certain formal or substantive changes in these newly established procedures and practices to adapt them to what they may regard as the exigencies of the Japanese situation.

That such changes have already begun is indicated by various administrative and legislative measures proposed or adopted by the government during the past year, notably those designed to effect a recentralization of governmental structure and function, including reorganization of the administrative structure of the central government and of the educational and police system, the proposed revision of local autonomy laws, passage of the Anti-Subversive-Activities Law and revision of basic trade union legislation. While these measures in and of themselves are not necessarily prejudicial to the principles and practices of constitutional democracy they have raised the danger, in the light of Japan's prewar political traditions, of a gradual reconcentration of political power in groups only slightly responsive to the checks of representative government and of a reinstatement of certain instrumentalities of authoritarian control.

B. It is probable that the position of the United States in Japan and its ability to assist Japan economically have served indirectly to support those groups within and without the government which have opposed substantial revision to basic political reforms introduced by the Occupation.

C. Both in public statements and in conversations with Japanese government officials the United States has continued to encourage support for the principles and practices of representative government.

II. Future Courses

A. Japan faces the difficult and perennial problem of the reconciliation of security and freedom not only in a period of pressing domestic and international tension but in the context of political traditions which are heavily weighted in favor of security. The impact of this circumstance and these traditions upon the future of constitutional democracy in Japan is more likely to be expressed in attitudes and procedures than in structural changes in the established institutions of representative government.

The clear necessity for insuring an adequate defense against the threat of international and domestic communism complicates the efforts of Japan to meet the problem here

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suggested and the efforts of the United States to support and assist in this task. It is important, however, that the United States in its public statements, official acts, and government-to-government contacts continue its efforts to counter such attitudes and practices as may be prejudicial to representative government by making clear its own attitude of high regard for the principles and practices of such a political system.

B. Similarly, it is recognized that positive United States efforts to give support to these principles and practices may be interpreted by the Japanese as undue intervention in their domestic affairs and that resentment of this nature could prejudice over-all relations between the United States and Japan. This question should receive continuing study by officers in the Department and in the Embassy.

C. Taking into consideration such possible limitations, however, the United States should continue to give public support and encouragement to the efforts of the Japanese government directed toward such goals as the maintenance of basic civil liberties, the strengthening of a democratic trade union movement, and advancing the objectives embodied in the agrarian reform program and in anti-monopoly and anti-cartel legislation. Whenever possible, the Japanese government should be alerted to the dangers - both internally and in the light of probable international reaction - implicit in the re-establishment of political institutions or procedures reminiscent of prewar authoritarian patterns.

D. Wherever possible the United States should give support and encouragement to non-governmental organizations and specific groups which have demonstrated a special interest in continuing support for the principles and practices of representative government.

E. The United States should not attempt to guarantee the preservation intact of specific, Occupation-sponsored political reforms; rather the emphasis should be placed upon providing support to the continuing development at all levels of the Japanese body politic of such values and attitudes as will effectively deter the erosion of the foundations of representative government established since the end of the war.

F. The United States should encourage active Japanese participation in international organizations, such as ILO and UNESCO, in which Japan will be associated closely with representatives from other constitutional democracies in the consideration of common problems.

III. Responsibilities

Department of State, Department of Labor

"(6) Encourage and appropriately assist Japan to deal with the internal Communist menace in ways believed most effective and desirable and (B) encourage Japan to reach a realistic appraisal of the dangers inherent in 'business as usual' relationships with the Soviet Union and Soviet-dominated governments."

I. Present Status

A. (1) The passage by the Japanese Diet of the Anti-Subversive-Activities Law and the implementing legislation providing for its administrative machinery provides the means for the Japanese Government to tighten control over individuals and organizations, to halt their activities, and to ban their publications if they are adjudged to be subversive under the terms of the new law.

(2) The National Safety Agency Law on October 15, 1952 brought into one organization the National Safety Force, the Japanese coast guard organization and the Maritime Safety Agency with a view to fostering internal order and the security of Japan. This law also provides for increased vigilance against Communist infiltration and espionage in the NSF. In response to approaches by the United States, the Japanese Government has authorized the expansion of the NSF from 75,000 men to 110,000 -- a figure which represents a compromise between the more rapid rate of expansion desired by the United States and the desires of the Japanese Government.

(3) Since 1949 the Japanese trade union movement as a whole has been relatively free from Communist influence or control; the close parallel between the non-Communist left wing of organized labor and the Japan Communist Party in matters of foreign policy, however, magnifies the danger of JCP exploitation and/or penetration, despite repeated expressions by the left adjuring any support for or cooperation with the Communist movement. The recent reaffirmation of left wing leadership strength, particularly in the General Council of Trade Unions (Sohyo), underscores the vulnerability of the trade union movement to Communist exploitations. Although Sohyo in July 1952 rejected a proposal for affiliation with the ICPTU, its member unions are free to affiliate directly with this organization and many have done so. In the recent general elections Sohyo, as well as many of its affiliates, supported Left Wing Socialist


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candidates, a circumstance which in part, may have been responsible for the substantial gains obtained by that party in the Lower House of the Diet. Present indications are that the right wing of Sohyo may split off to form a new, independent federation.

(4) Steps have been taken to strengthen the labor section of the Embassy staff, including that area of USIS dealing with labor groups, and to encourage visits on the part of outstanding American labor leaders such as Willard Townsend, who went to Japan as representative of the ICFTU, John Deverall and A. Philip Randolph.

(5) United States officials in public statements and in informal approaches to the Japanese have consistently called to their attention the danger of the Communist menace, the fallacies of Communist ideology, and the relationship existing between indigenous Communist groups and the USSR.

B. (1) Since the San Francisco Conference the USSR has initiated a series of gestures toward Japan including offers of trade and fishery rights, while continuing its hostile pressures on Japan. Since the coming into effect of the Peace Treaty, the status of official Soviet representation in Japan remains undefined. To date the Japanese Government has taken no step which might lead to a resumption of diplomatic relations, although there is considerable public sentiment favorable to the restoration of normal relations with the USSR. Meanwhile, the Japanese Government has continued to point to outstanding issues such as the unrepatriated prisoners and the Soviet occupation of the southern Kuriles, Habomai and Shikotan as issues which must be settled prior to a resumption of diplomatic relations. On October 17 and December 16 the United States in its notes to the USSR protesting the shooting down of a United States B-29 by Soviet aircraft reiterated its position that the Habomai Islands are Japanese territory under Japanese sovereignty.

(2) In his letter of December 24 to Mr. Dulles, Prime Minister Yoshida stated that his Government had no intention of concluding a bilateral treaty with the Communist regime of China. 

(3) The Japanese Government has consistently denied passports to Japanese desiring to go to Communist-sponsored international conferences or to travel to Communist countries.

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(4) Recently the Chinese Communist Government through its Red Cross offered to make arrangements for the return of Japanese still held in Communist China. They refused to deal with the Japanese Government, but a number of Japanese Red Cross officials and other citizens, under Government auspices, have gone to China to attempt to arrange for the return.

II. Future Courses

A. (1) Observe the operation by the Japanese Government of the Anti-Subversive-Activities Law to assure that it is directed against purely subversive persons and organizations and not toward those in opposition to governmental policies.

[REDACTED]

(4) Encourage an expanded program of bringing representative Japanese labor unionists to the United States.

(5) Encourage further visits to Japan by non-Communist European and American labor leaders who are in a position to demonstrate the manner in which Communist theory and practice is prejudicial to the interests of a free trade union movement. In addition, such representatives should assist Japanese trade unionists in obtaining a better understanding of the theory and practice of a democratic trade union movement and of the ability of such a movement to satisfy the legitimate interests of the Japanese laborer.



[REDACTED]

B. (1) The United States should give Japan such support as is feasible in making a case for the settlement of the prisoner and Kuriles questions before entering into diplomatic relations with the USSR.

(2) The economic, military and informational courses of action in paragraph 7 should be implemented with a view to positive actions which may be taken thereby to assist Japan in reducing its vulnerability to internal and external Communist pressures.

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(3) Through normal Embassy contacts and through special efforts in the USIE program, convince the Japanese of the nature and substance of Communist aims and policies, the fallacies of Communist ideology, the necessity for common action in the face of the Communist threat and the desire of the USSR to control Asia as part of its aggressive, imperialistic strategy. The Japanese should be made aware of the strings attached to the reopening of normal diplomatic and economic relationships between Japan and the USSR and Communist China.

III. Responsibilities

Department of State, Department of Defense,

"(7) Conduct in Japan on information, cultural relations and other psychological programs designed among other things to create and develop in the Japanese Government and people recognition and understanding of the basic mutual interests of the United States and Japan and one which will combat the misconceptions widely circulated by Soviet propaganda agencies."

I. Present Status

Representatives of the Department of State, Defense, and the Psychological Strategy Board have prepared a Psychological Strategy Plan for Japan. This paper was promulgated as an approved document on January 30, 1952, by the Psychological Strategy Board. It is designed to implement the objectives of NSC 125/2 in the psychological, informational, and cultural fields.

(A) A target group of particular importance are those non-Communist leftist elements favoring a policy of neutralism, implicitly embracing at least some accommodation with the Communist bloc. Significant among these elements are students, professors, the intelligentsia, and part of the labor leadership. The traditional propensity of the Japanese mind toward ideologies and the influence of Hegelian and neo-Hegelian philosophical systems have led many Japanese intellectuals into sympathetic contact with Marxism.

II. Future Courses

(A) The action agencies as designated in the Psychological Strategy Plan for Japan should undertake urgently to carry out its recommendations.

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(B) The completed paper should remain under constant review so that development or intensification of Japanese attitudes and aspirations can be taken into full account in implementing United States policies toward Japan.

(C) In implementation of the Psychological Strategy Plan for Japan, particular emphasis should be laid on these sections relating to the non-Communist leftists, particularly the intellectuals, college students and labor. In this connection, immediate steps should be taken to achieve and maintain close contacts with these groups with a view to demonstrating the inadequacies and fallacies of Marxism. Arrangements should be made to confront Japanese intellectuals and labor leaders with outstanding American and European liberals, intellectuals and labor leaders who are in a position to discuss with Japanese not only the philosophical implications but also the practical aspects of Communism. In addition, such intellectual and labor leaders can assist the Japanese in obtaining a better understanding and appreciation of the positive contributions which Western philosophical and political thought can make to the resolution of contemporary Japanese problems.

III. Responsibilities

State, Defense, PSB

"(8) In order to strengthen friendly relations between the United States Personnel in Japan and the Japanese people, maintain procedures for minimizing friction and settling disputes between instrumentalities of the United States and Japan (particularly in the case of employer-employee relationships) and conduct continuing orientation and information programs among United States personnel stationed in Japan."

1. Present Status

A. The Psychological Operations Committee issued on November 19, 1952, a draft Information Operational Plan Concerning United States Personnel in Japan. On the basis of an interdepartmental discussion it was agreed that the name of the plan be changed so as not to differentiate between armed forces personnel and civilian personnel. The draft plan proposes the establishment in Tokyo of a central committee under the chairmanship of the Embassy's Public Affairs Officer to coordinate actions leading to better acceptance of United States personnel by the Japanese people and government. This

committee should take cognizance of all aspects of the problem of acceptance, including the content of United States military indoctrination courses and of United States information output. It will report its meetings regularly to the Administrator, International Information Administration, and will be responsible for keeping the Commander-in-Chief, Far East Command, and the Ambassador fully informed of all developments. Local committees of appropriate Americans should be established wherever concentrations of United States personnel exist. The Japanese should be encouraged to establish acceptance committees. The Embassy and the Far East Command have indicated their general approval of the draft plan. A final plan is currently in the process of preparation.

B. The Joint Committee composed of one representative of the United States and one of Japan, together with their deputies and staffs, which was established in Tokyo pursuant to Article XXVI of the United States-Japanese Administrative Agreement and its subcommittees have been working steadily and with noteworthy success to produce mutually satisfactory solutions to specific problems arising out of relations between United States forces and the Japanese.

C. Informal arrangements have been made toward coordinating Embassy and Far East Command information services and the activities of certain Japanese officials in communities in which security forces are concentrated.

D. United States security forces in Japan at present employ an estimated 250,000 Japanese workers in United States garrisons. This makes the United States Army the largest single employer of Japanese labor. In the past year, there have been some disturbances in military garrisons. A new contract is expected to be signed shortly between Japanese and United States garrison force authorities clarifying the rights and obligations of both parties and providing machinery for the settlement of disputes.

II. Future Courses

A. Periodic reports should be made on the implementation of the Information Operational Plan Concerning United States Personnel in Japan.

B. Care should be taken at all levels to organize and conduct official activities of the United States Government in Japan in such a manner as to minimize points of friction with Japanese Government operations and civilian activities.

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C. The Mutual Security Act of 1951 (Section 516) states that the Act should be administered in such a way as to "encourage, or effect, the development and strengthening of free labor union movements as the conclusive bargaining agencies of labor" within the countries benefiting from the Act. The same policy should be followed by United States security forces in dealing with Japanese labor. In addition, care should be taken to develop policies governing the employment of Japanese laborers by United States Security Forces which will contribute to the maintenance of constructive relations between the United States and Japan.

III. Responsibilities

State, Defense, Labor, PSB

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NSC 125/2, PARAGRAPH 7, SUBPARAGRAPH b:
MILITARY COURSES OF ACTION

"(1) The long-term military requirements of the United States in and about the Ryukyus, Bonins and other islands covered by Article III of the Peace Treaty with Japan, will be sought in accordance with recommendations to the President by the Departments of State and Defense."

I. Present Status

A State-Defense Working Group has been set up to prepare recommendations for the President in accordance with the terms of NSC 125/2. The discussions have resulted in general agreement as to the strategic interests of the United States in the Ryukyu and Bonin-Volcano Islands.

II. Future Course

It is expected that the recommendations of the State-Defense Working Group will be completed at an early date and a joint State-Defense recommendation will be made to the President to include a statement of U. S. intentions in the Ryukyus and Bonins, to be made by the President or other U. S. officials, and a revised directive on U. S. civil administration of the area.

"(2) Assist Japan to develop military forces which will eventually be capable of assuming responsibility for defense of Japan against external aggression. As a first stage, assist Japan to develop a balanced ten-division ground force and appropriate air and naval arms."

I. Present Status

The development of Japanese defense forces was initiated by the Supreme Commander for the Allied Powers during the Occupation, when he authorized the establishment of a 75,000-man Japanese National Police Reserve in July 1950. The force was equipped with such equipment as pistols, rifles, mortars, personnel carriers, armored cars and trucks. Since

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the effective date of the Japanese Peace Treaty efforts have continued, through cooperation between the Japanese Government and representatives of the Commander-in-Chief, Far East, to develop the JNPR (now named the National Safety Force). The National Safety Force is being organized into 4 divisions and is being trained and equipped with heavy equipment such as the 105mm Howitzers and light tanks. The present strength of the NSF is slightly in excess of 100,000 men. To date no Japanese air force has been developed. The United States Government is presently making available to the Japanese Government on a loan basis 18 patrol frigates and 50 landing craft, in accordance with Public Law 467.

Plans for the development of the National Safety Forces called for 4 divisions by the middle of 1952, 6 divisions by 31 March 1953, and 10 divisions by 31 March 1954. The force basis for the Japanese Air Force includes, in addition to technical and flying training schools, a composite wing composed of 2 fighter squadrons and 1 air depot wing by 30 June 1954, 1 air depot wing by 30 June 1955 and 4 fighter interceptor wings, 2 fighter bomber wings, 1 tactical reconnaissance wing, 2 transport wings and 2 air depot wings by 30 June 1956. The force basis for the Coastal Safety Force includes 18 frigates, 50 landing craft, and 40 minesweepers by 30 April 1954.

At the present rate of development the Japanese defense forces will not reach the 10 division force goal as planned. The principal difficulty is a reluctance of the Japanese Government, for political and economic reasons, to press for development of Japanese defense forces beyond a 110,000 ceiling. Rearmament is a major political issue in Japan and the present Liberal Government has such an insecure position in the Diet that it is difficult for it to take the measures which would be necessary to press the development of defense forces more rapidly. On the economic side, there is strong feeling that the standards of living should be raised at least to pre-war levels before larger defense expenditures are incurred. On the political side, there is a constitutional problem created by Article 9 of the Japanese Constitution which prohibits the development of armed forces. To date, the Japanese Government has rationalized the development of the National Security Force by emphasizing internal security aspects. However, the provision of additional heavy equipment and the development of an air force will make it increasingly difficult to proceed without constitutional revision.

Assistance to the Japanese defense forces to date has been carried out by the Department of the Army on a loan basis by transfer on memorandum receipt from FECOM reserves. Authorization was granted for loan of such equipment totaling 528

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million dollars through FY 53. The Department of Defense plans to introduce legislation to transfer title of this equipment to the Japanese Government. For FY 54 a military assistance program has been proposed under the Mutual Security Program. The JCS recommended a program for FY 54 totaling 521 million dollars to assist in the development of a balanced air, ground and sea force. The program proposed by the JCS was reduced from 521 million dollars to 150 million dollars by the Bureau of the Budget. After the President had approved a one-line estimate of \$7.6 billion for the FY 54 Mutual Security Program, DMS made a tentative allocation of "up to \$300 million of military assistance for Japan, based on the most realistic possible estimate, developed jointly by the Departments of Defense and State, as to the size, composition and rate of build-up of the Japanese forces which are likely to be attained in the foreseeable future."

In order to encourage the Japanese Government to accelerate the development of defense forces, the U. S. Ambassador to Japan and the Commander-in-Chief, Far East, have discussed the question of rearmament on a number of occasions with the Prime Minister and the Foreign Minister of Japan.

II. Future Course

If the Japanese are to reach a total of 6 divisions by the end of FY 54 it is believed that additional efforts, through military and diplomatic channels, will be required by the United States. To meet this problem consideration is being given to additional discussions with the Japanese Government on total defense forces, including air, sea and ground, and the possibility of a high-level U. S. mission to Japan to discuss the question of defense forces with Japanese Government officials. Unless U. S. efforts are successful it is believed that Japanese defense forces will continue to lag and will not develop beyond 110,000 by the end of FY 54. The U. S. should continue to assist in the development of Japanese defense forces through provision of military assistance.

"(3) Assist Japan, upon completion of the foregoing and in the light of circumstances then prevailing, to develop military capabilities for participating in the defense of the free nations of the Pacific area, keeping under constant review the nature and timing of assistance which will best serve the security interests of the United States."

The development of the Japanese security forces is being directed solely toward the defense of Japan. As the effectiveness of the Japanese defense forces is developed, and should security conditions in the Far East make it necessary in the future, consideration should be given to Japanese participation in the defense of the free nations of the Pacific area.

"(4) Until Japanese forces are adequate for the defense of Japan, maintain in and around Japan United States forces in sufficient strength so that, in collaboration with Japanese forces, they can secure Japan against external aggression, and enter into agreement with Japan as soon as possible to establish working arrangements which will permit, in event of hostilities or the imminent threat thereof, the creation of effective combined forces."

I. Present Status

The United States is currently maintaining two divisions in Japan together with sea and air forces to meet the threat of external aggression. These forces are considered adequate to meet an initial attack. However, it is questionable whether the forces presently available to the Commander-in-Chief, Far East could hold Japan in the event of an all-out Communist attack.

Recently the United States air defenses were strengthened in Hokkaido to meet the problem of Russian overflights in the area. Present U. S. policy calls for the interception of any Russian aircraft violating the territory of Japan.

The status of Japanese defense forces is such that at present they would be of comparatively little assistance in the defense of Japan.

A joint organization has been established, consisting of representatives of the Commander-in-Chief, Far East, and the Japanese Safety Agency, to handle defense matters of interest to Japan and the United States. To date, the organization has been concerned principally with training and equipping the NSF. An informal inter-governmental agreement has been reached between the United States and the Japanese Government as to the necessity of joint United States-Japanese

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defense measures and of a combined command in the event of hostilities or imminent threat thereof. This agreement was the product of discussions between Ambassador Murphy, the Commander in Chief United Nations Command and Prime Minister Yoshida. Present staff discussions between CINCFE-Embassy representatives and officials of the Japanese Government, however, have not produced tangible results. The Command envisages the integration of the NSF from present regional disposition to a command structure which would permit joint tactical use with United States Security Forces in case of emergency and planning for the expansion of the NSF with time and strength schedules to enable advanced programming of United States strength and defense responsibilities in Japan.

"(5) Continue to maintain forces in Japan for the support of United Nations operations in Korea, so long as they are required."

The United States is presently maintaining facilities and areas in Japan in support of the Korean operation. Under the terms of the Administrative Agreement between the United States and Japan the Japanese Government has agreed to assist the United States in the maintenance of facilities and areas in Japan in support of the Korean operation.

"(6) Encourage development of industrial capacity to produce such military equipment and supplies as are determined to be in U. S. interest for Japan to produce."

I. Present Status

In March of 1951, the Secretary of Defense directed the three services to initiate a program of industrial mobilization planning for Japan. The SCAP was instructed to undertake such a program in Japan, and after a comprehensive survey a series of reports was compiled on the Japanese industrial potential, which is being used in connection with current planning. Since the outbreak of the Korean conflict, a substantial amount of procurement of military goods and services has taken place. The largest portion of this is in support of the Korean operation and the maintenance of United States forces in Japan (about \$400 million annually); and in addition,

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procurement in Japan for Defense, Mutual Security, and other programs has expanded, totalling an estimated \$125 million for the present year. A large part of these expenditures has resulted in the utilization of existing Japanese industrial capacity including capacity for the production of military items.

II. Future Course

U. S. agencies will continue to give close attention to this important phase of United States policy in Japan. Efforts to date of the services to undertake mobilization planning and expand procurement in Japan will be studied in the light of NSC 125/2, with a view to enlarging and making more effective those activities in process or planned. Military force goals of the United States, Japan and other friendly Far Eastern countries will be reviewed as to equipment requirements; determination will be made as to what portion of such material it is to the United States interest to have produced in Japan; and this in turn will be measured against existing and potential capacity for production in Japan. The effort to encourage the development of military production capacity in Japan will be tied closely to activities of United States procurement agencies to expand offshore purchasing in Japan for United States forces and military aid programs in the Far East. A long-range military production program will be formulated in cooperation with the Japanese in line with military force goals for the area; and annual production of military equipment and supplies will be programmed. United States agencies will coordinate in the determination of the means and extent to which the United States should and can assist in the provision of materials, production equipment, technical assistance, loans, etc., in furtherance of this program. Finally, further study will be given to the continuing requirement for an effective and coordinated operating unit in Japan to plan and implement all phases of United States activity in this program.

III. Responsibilities

United States agencies and offices, such as DOD, ODM, DMS, and State -- having responsibility for mobilization planning for other countries, and the integration of such planning with United States mobilization programs, will act to initiate and expedite the implementation of a sound plan encouraging indigenous production of military equipment and supplies in Japan, to the extent consistent with United States interest. The activities of these agencies will be coordinated through the Department of State and the Embassy in Tokyo, to insure effective coordination of political, military and economic considerations in the program.

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NSC 125/2, PARAGRAPH 7, SUBPARAGRAPH c:
ECONOMIC COURSES OF ACTION

"(1) Facilitate the achievement by Japan of an economy which is self-supporting, expanding and capable of maintaining adequate living standards, supporting the defense of Japan, and contributing to the defense of the Pacific area."

Because of the general nature of this subparagraph, much detailed material pertinent to it is covered under following subparagraphs.

During the postwar occupation of Japan, United States departments and agencies provided such services as were necessary to assist the Supreme Commander for the Allied Powers in the reconstruction of the Japanese economy. Although the basic responsibility for the Japanese economy returned to the Japanese when the Treaty of Peace entered into effect, Japan's importance in the whole Pacific area is such that the United States in its own interest has found it necessary to make active efforts to foster the continued development of a viable Japanese economy.

Upon the termination of GHQ, SCAP, general coordinating responsibility for these efforts was assumed by the Department of State, and understanding was reached that all departments and agencies of the United States Government would carry out their contributory activities within this framework. In Tokyo a Procurement and Development Staff has been established within the Economic Section of the Embassy.

In the Department of State the Bureau of Far Eastern Affairs has primary responsibility, and Mr. Joseph M. Dodge was appointed Consultant to the Secretary of State for Economic and Financial Matters affecting Japan in order particularly to promote projects increasing Japan's capacity to support itself and to contribute to the defense of the free world. Mr. Dodge resigned this position on January 17, 1953 to become Director of the Bureau of the Budget. No decision has been made with respect to a successor. The Office of the Director for Mutual Security allocated funds to the Department of State for the current fiscal year to bolster its staff both in Tokyo and in Washington.

To guide the preparation of this program of implementation, a quantitative study of the future prospects of the

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Japanese economy was initiated by the Office of Intelligence Research of the Department of State. A preliminary draft was completed January 19, 1953 and is now under study by the interested offices and agencies with a view to refinement and to conclusions on its policy implications. Officers who participated in the study are going to Tokyo in February 1953 to discuss it with the Embassy, and, to the extent that security considerations permit, with the Japanese Government. It indicates that unless ways can be found greatly to accelerate solutions of the economic problems of the free world generally, no significant improvement in Japan's international economic position can be expected over the next three years.

A supplementary paper on a program to implement the courses of action of NSC 125/2 will be submitted on or before April 1, 1953, when analysis of the January 19, 1953 report is completed. Certain general conclusions can now be drawn, however, from that report and other recent studies (e.g., the papers of the State Department Working Group on Economic Foreign Policy). Japan's economic problems cannot be solved by Japan alone or by courses of action focused upon Japan alone. They are a part of the general problem of the inadequate production of the inadequate production and productivity (outside the United States and Canada) and obstacles to trade of the free world as a whole. In the main, therefore, solution to the problem of Japan must be approached in consideration of the general foreign economic policy of the United States, and in particular of policies and programs designed to permit other countries to sell to the United States in increasing volume, to increase production outside the United States of food and basic materials, to increase industrial productivity, to increase foreign investment, and to restore convertibility of currencies.

"(2) Keep Japan's internal and external financial position under constant review in connection with United States security objectives, including in the review the possibility of rendering appropriate economic assistance if necessary."

I. Present Status

Japan's internal and external financial position has been under constant review in connection with the analysis of Japan's capacity to make security expenditures (support of National Safety Force, contribution to United States forces

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stationed in Japan), the preparation of the Mutual Security Program for fiscal year 1954, the study of Japan's capacity to pay foreign obligations (reparations, GARIOA, prewar debts) and the formulation of policy on loans to Japan.

The Director for Mutual Security has proposed use of up to \$300 million of funds under Title III of the Mutual Security Act for fiscal year 1954 for military assistance to Japan. Such assistance is justified by the long-run adverse prospects for Japan's dollar earnings, but it is not yet clear whether the Japanese will be prepared to take those measures on their part which such an amount of assistance would call for. The Japanese budget approved by the Cabinet in January 1953 but not yet considered by the Diet sets aside only 145 billion yen for defense as compared with 182 billion yen in the current Japanese fiscal year. The Japanese say that by reason of carry-overs there will in fact be more funds available for defense in the next fiscal year than in the current year. The Far East Command does not, however, consider that the funds budgeted for the National Safety Force can equip it properly at the level of 110,000. The Japanese budget is disturbing also in its departures from the non-inflationary policies recommended by Mr. Dodge. Although the balanced budget principle was adhered to in the compilation of the new budget, there are certain elements of the budget such as the proposed issuance of savings bonds, increased veterans' pensions, elimination of the appropriation to the foreign exchange account, and tax reductions (authorized in the recent supplementary budget) which, taken together, have serious inflationary implications.

The short-run balance of payments prospects are favorable. Special earnings from United States expenditures during the current United States fiscal year are expected to total about \$750 million composed as follows: special procurement for Korea, \$175 million; maintenance of United States forces in Japan, \$225 million; present expenditures of United States troops in Japan, \$225 million; others, \$125 million. Even if a truce is reached in Korea, special earnings may be expected to close the deficit in Japan's commercial account, of the order of \$600 million, for the next two or three years. A crisis would be precipitated, however, by withdrawing of United States forces from the area in substantial numbers, unless at the same time some other major sources of dollar earnings or assistance were available.

A mission from the International Bank for Reconstruction and Development headed by Vice President Garner went to Japan in the fall of 1952. Mr. Garner's observations before leaving

Japan were discouraging, and emphasized to the Japanese the necessity for sterner measures to accumulate capital, to direct it to the most necessary objectives, to avoid excessive foreign borrowing, and to improve financial management. Mr. Garner has indicated to the Department of State that in fact the Bank's decision on whether to make major loans, i.e., \$200-300 million, to Japan will depend in considerable part on the strategic interest of the United States in assisting Japan to remain stable and the desirability from the standpoint of United States policy of using loans as a means of influencing Japanese internal financial policies.

II. Future Course

Japan does not presently or so far as can now be determined for the next few years require any direct assistance in addition to the special earnings from United States sources. Decisions will have to be made, however, on four related matters in the near future: the amount of military assistance to Japan as part of the Mutual Security Program; the contribution to be made by Japan to the maintenance of United States forces in Japan under the Security Treaty and the Administrative Agreement; United States policy on major loans to Japan, and settlement of United States claims for postwar economic assistance. With respect to the first, the United States interest in expediting the creation of adequate Japanese defense forces must be balanced against the desirability and political feasibility of a maximum contribution by the Japanese themselves. With respect to the second, it would probably be politically impossible to obtain an increased Japanese contribution by the present Japanese Government, and there is no ground to accept less. Accordingly, the contribution is likely to remain at the present level of the yen equivalent of \$155 million per annum plus real estate. A policy on loans by the IBRD will be prepared shortly and discussed among the member agencies of the National Advisory Council. Decision will take into account Japan's need for investment to expand and modernize her production base, particularly in the field of power; the availability in Japan of yen funds for investment and of foreign exchange; the usefulness of such loans as a tool to limit inflationary policies; and the respective roles to be played by the International Bank and the Eximbank. A settlement of the United States claims for postwar economic assistance (GARIOA) will be sought as soon as the matter can be submitted to the NAC and Congressional consultations completed.

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III. Responsibilities

The Department of State will be the focal point for analyses of the Japanese financial and economic position. The Department of State will consult as the occasion arises with the Departments of Defense and Treasury, the Export-Import Bank and with other United States Government agencies. With respect to consultations with the International Bank for Reconstruction and Development, the Department will normally deal through the United States Director of that institution. Questions of financial policy and of aid will be raised in the National Advisory Council and the Mutual Assistance Advisory Committee as may be appropriate.

"(3) Encourage the expansion of international trade on a non-discriminatory, multilateral basis between Japan and other free nations, through the general lowering of tariffs and other governmentally imposed trade restrictions in accordance with the principles of GATT. In particular, the entry of Japanese goods into the United States market should be facilitated."

I. Present Status

Japan has a sizeable over-all foreign trade deficit on commercial account. The accumulation of large inconvertible sterling balances has ceased, principally because of controls exercised by the sterling area, but the volume of trade has suffered. Preliminary reports indicate that Japanese exports in calendar 1952 were approximately 10 percent smaller than in 1951 while imports remained at the same level as in 1951. It is important to the national interest of the United States that Japan maximize its dollar earnings and minimize its dollar expenditures to the extent necessary to attain balance in its dollar payments. The problem of Japan has been brought strongly to the attention of the Public Advisory Board for Mutual Security and other groups examining United States foreign trade policies.

In July 1952 the Government of Japan notified the Contracting Parties to the GATT of its desire to negotiate for accession to the General Agreement. At the Seventh Session in October the Contracting Parties approved a resolution recognizing that Japan should take its rightful place in the community of trading nations and to that end should be admit-

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ted to appropriate international arrangements. An intersessional Committee was directed to make a detailed examination of matters involved, discussing this with Japanese officials. It is expected that the Intersessional Committee will report on the timing and conditions surrounding an invitation to Japan, possibly suggesting certain multilateral undertakings with respect to fair labor standards. Two meetings with Japanese officials were held during the Seventh Session, and the Intersessional Committee meeting on Japan began on February 2, 1953. In view of the intention of the United States Government to undertake negotiations with Japan only after the passage of new trade agreement legislation, the practical effect of the above procedure is to permit negotiations with Japan at approximately the same time as originally envisaged and to improve the possibilities of obtaining the concurrence of the British and other major trading nations to the accession of Japan without special restrictive conditions.

A number of applications under the "escape clause" and under Section 336 of the Tariff Act now before the Tariff Commission could result in recommendations to the President by the Commission to increase United States tariffs on goods of which Japan is an important supplier. A measure which would have imposed a temporary tariff of 3 cents per pound on fresh and frozen tuna, a major Japanese export, was passed by the House in October 1951, but failed of passage in the Senate in June by a vote of 43 to 32. Legislation calling for a tariff of 5 cents a pound on fresh and frozen tuna has been introduced into the 83rd Congress.

II. Future Course

The United States Government will continue through all appropriate means to assist Japan in finding markets for its exports and stress the importance of expanding Japan's international trade with free nations on a non-discriminatory multilateral basis. In particular, this Government will continue to give vigorous support to the Japanese application to participate in GATT. The United States should continue to consult with the United Kingdom and endeavor to find grounds upon which United Kingdom and Commonwealth objections to Japanese participation in GATT and extension of most favored nation treatment to Japan can be eliminated.

The United States representatives will press for early action in the Intersessional Committee, and at such time as may be determined by the status of United States trade agreement legislation and other relevant factors, the United States

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will undertake to negotiate with Japan. In the event that there are not reasonable prospects of proceeding with negotiations within the framework of GATT, then the United States should consider the possibility of negotiating a bilateral trade agreement with Japan outside the framework of the General Agreement. In such event it may become desirable that other governments should also be encouraged to carry on similar negotiations with Japan and to reduce their barriers to trade with Japan, preferably on a multilateral basis with the United States participating.

The Executive Branch of this Government should oppose, within the limitations of statutory obligations and of any overriding considerations of national interest in particular cases, any increases in the United States tariffs or imposition of quotas on goods important in Japan's trade with the United States. The importance to United States national interest of assisting Japan to maximize its dollar earnings should be prominently presented in connection with multilateral measures and programs designed to liberalize United States trade policies and practices. The United States Government should take appropriate steps to discourage the establishment of export quotas by the Japanese Government or by private Japanese interests in response to protectionist pressures within the United States. Their establishment would encourage other American producers to apply such pressure, with the possible result of reviving undesirable cartel practices in Japan.

"(4) Encourage the reestablishment of mutually beneficial business relationships between United States and Japanese nationals through the development of trade and investment opportunities."

I. Present Status

Negotiation of a treaty of friendship, commerce and navigation is presently being conducted in Tokyo. While there are a few difficult questions still to be resolved, it is probable that agreement on a treaty will be reached in time for submission to the first session of the 83rd Congress. Since the entry into force of the Treaty of Peace, the Japanese have greatly increased the number of trade representatives and diplomatic establishments throughout the world. The Japanese

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have recently enacted a new law on foreign investment which liberalizes the provisions with respect to remittance of principal and earnings. Negotiations with respect to a treaty for the avoidance of double taxation are also in progress and should be concluded soon. The Japanese Government is pursuing a policy of liberal allocations of foreign exchange for the acquisition of technology, and there have been a large number of arrangements with American companies in which United States patents and know-how are furnished as a United States investment. The flow of any large amount of private capital to Japan is limited by the uncertainty with respect to the security of the whole Far East, the high rate of earnings in the United States, lack of confidence in Japan's economic future and lack of confidence in the management and financial practices of particular concerns. The Japanese Government is eager to receive foreign investment but dubious about foreign control of major companies in basic industries. A satisfactory settlement of the prewar bonded debt, which was recently concluded with representatives of the United States and British bondholders, tends to restore confidence in Japan as a debtor.

II. Future Course

The treaty of FCN and the treaties for the avoidance of double taxation should be concluded. Emphasis will be given to investment in Japan in the consideration of policies designed to increase United States foreign investment generally, for instance, by enlarging the scope of the guarantees under the Mutual Security Program. In connection with any program of productivity assistance to Japan, stress will be laid upon the importance of improving the financial practices of Japanese businesses. Private United States financial and business interests will be encouraged to give assistance to Japan in these respects and to point out the steps which are necessary if private investment is to be stimulated. Measures will be taken to publicize the opportunities for investment in Japan.

III. Responsibilities

The Department of State is responsible for the FCN treaty negotiations, in consultation with the Department of Commerce and other interested Departments. The Treasury Department, in consultation with the State Department is responsible for the negotiation of the treaties for the avoidance of double taxation. The promotion of import and export trade with Japan and the development of trade and investment opportunities are responsibilities of the Department of Commerce and will be continued by it under normal procedures.

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The Department of State and each of the United States agencies concerned with investment policies will be attentive to the problem of Japan. The steps to be taken depend largely, however, on forthcoming decisions of general foreign economic policy.

"(5) Utilize Japan to the extent practicable in the interests of the United States as a source of supply on a commercial basis for equipment and supplies procured for United States armed forces or under United States aid programs for other countries."

I. Present Status

In March of 1951, the Secretary of Defense instructed the three services to initiate with respect to Japan a survey of industrial capabilities, and a program of industrial mobilization planning and additional United States procurement. A substantial increase in the procurement of goods and services for United States forces in the Far East was undertaken by the Far East Command as a result of the Korean operation. Such procurement is running at the annual rate of about \$400 million. Included in this total is an estimated \$75 million which is being expended for military construction programs in Japan and the Ryukyu Islands. In addition, procurement in Japan resulting directly or indirectly from United States military aid programs for Japan and other countries in the Far East is expected to total about \$75 million in the present fiscal year.


Although TCA and MSA are mindful of Japan as a source of supply in connection with their Far Eastern program, higher Japanese prices have in many cases prevented such procurement. These agencies purchase through GSA, which maintains an office in Japan, or through agents of participating governments. It is anticipated that MSA expenditures in Japan during the current fiscal year will total approximately \$40 million. TCA expenditures are estimated at \$10 million, bringing estimated United States expenditures for procurement in Japan in this fiscal year to a total of approximately \$525 million. (In addition, United States personnel in Japan are spending at the rate of about \$225 million per annum.)

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The Berry amendment to the Defense Appropriation Act of 1953, which has temporarily enlarged the scope of "Buy American" legislation, has, as interpreted by the Department of Defense, stopped procurement of wool and cotton textiles in Japan by the Department of Defense. In the fiscal year 1952 such procurement amounted to \$35 million. The Department of Defense is presently considering the possibility of regulations consistent with the legislation which would permit some procurement to take place. The repeal of general "Buy American" legislation, which must be considered in connection with a review of foreign economic policy, would solve this problem with respect to Japan.

II. Future Course

United States agencies will take continuing action to comply with United States policy calling for procurement of equipment and supplies in Japan for United States forces and United States economic, technical and military assistance programs. Procurement agencies in the United States and Japan will make periodic reviews of military and other requirements to assure such procurement to the fullest extent practicable. There will be close coordination between these procurement Agencies, in order to (1) eliminate competition between United States agencies bidding for limited resources; (2) insure that purchase orders which would compete for the same productive capacity, scarce materials and transportation facilities are programmed according to their relative priority; and (3) schedule United States procurement in such manner as to strengthen the Japanese economy. United States agencies will work as closely as possible with representatives of the Japanese Government and Japanese industry, in order to facilitate the exchange of information and advice on all matters relating to United States procurement in Japan. Procurement in Japan for United States forces and programs on a direct commercial basis between Japanese and United States industry will be encouraged.



Discussions with the Japanese concerning the size and character of Japanese forces and military assistance to be rendered by the United States, will include reference to the relationship between build-up of Japanese defense forces and United States procurement in Japan. The effort to advance a United States procurement program in Japan will be closely coordinated with the related effort to encourage the development of industrial capacity in Japan for the production of such military equipment and supplies as are determined to be in the United States interest for Japan to produce.

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III. Responsibilities

United States agencies (i.e., Department of Defense, GSA, MSA, and TCA) having responsibility for procurement of equipment and supplies for United States armed forces or under United States aid programs for other countries will act to maximize procurement in Japan to the extent consistent with United States interests.

Procurement policies will be coordinated through the Embassy in Japan to assure consonance with overall United States political, military, and economic objectives. United States procurement agencies in Japan will work closely with the Embassy, and when appropriate, with Japanese governmental and private organizations. The Embassy will speak for MSA and TCA in discussions of such matters with the Far East Command and General Services Administration.

"(6) Seek to prevent Japan from becoming dependent on China and other Communist-dominated areas for essential food and raw material supplies through stimulation of Japan's trade with other free nations and through implementation of programs designed to develop sources of supply for Japan among the free nations."

I. Present Status

Since a solution of the problem of adequate supplies of food and raw materials for Japan involves the development of new non-dollar resources in the free world, major short-term results cannot be expected. The development programs for South and Southeast Asia in which the United States has participated through ODMS, MSA, TCA, Export-Import Bank, the International Bank, the United Nations Technical Assistance Administration and United Nations Specialized Agencies have indirectly assisted in the development of resources important to Japan. Since the end of the occupation, the Japanese have themselves supported -- or offered to support -- a variety of projects for increasing the supply of basic commodities through trade, technical assistance, and investment. The recent expansion of the lending authority of the Japanese Export-Import Bank should facilitate the financing of capital equipment sales to South and Southeast Asia. The interdepartmental Decreasing Reliance Working Group in the EDAC structure has included Japan in the Group's program for developing alternative sources of supply and alternative markets to decrease reliance by countries of the free world on Soviet bloc supplies and markets.

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The Office of the Director for Mutual Security, the State Department, MSA, and TCA have been alert to the Japanese interest in particular projects tending to expand availabilities of raw materials and foodstuffs. Among other things, these agencies have been working, to the extent that United States participation is feasible, on the expansion of Australian coal production for Japan, Malayan iron ore, Indian and Goan iron ore, Turkish grain and other commodities, Egyptian cotton, and Japanese investment in a steel plant to be erected in India with International Bank support.

The success of these efforts cannot yet be determined, and in any event Japan will continue to have to import many of its raw materials from dollar sources and over longer supply routes than before World War II. In particular Japan must rely on the United States as its major source of coking coal, wheat, cotton, phosphate rock, and industrial products. Although Japan's adjustments to the high landed costs of these materials have been made somewhat easier by inflated world markets in which her exports have been sold, the abnormal cost of raw materials to Japan nevertheless adversely affects Japan's ability to compete.

II. Future Course

The United States will continue, through a variety of organizations and channels, to support the economic development of the countries of South and Southeast Asia. Japanese participation will be encouraged through bilateral arrangements, both governmental and private, with the countries in question and through international organizations such as the IBRD, ECAFE, UN Specialized Agencies, and Colombo plan. Japan has already become a member of the IBRD and is an associate member of ECAFE. Its membership in the United Nations agencies should be facilitated insofar as practicable. Arrangements between Japan and other countries of the area, to be successful, must be mutually desired. This Government should be prepared to lend its good offices but not to exert pressure on Japan's behalf. In order to facilitate economic and commercial amity between the countries of Southeast Asia and Japan and in order to facilitate the economic development of Southeast Asian countries, the United States Government will continue to encourage the Japanese Government to reach equitable reparations settlements with the eligible countries of Southeast Asia. Economic relationships between Japan and the Pacific Trust Territories will be given every consideration by the interested agencies of the United States Government consistent with the security interests of the United States in the area and with the obligations to the inhabitants of the islands and to the United

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Nations Trusteeship Council undertaken by the United States in the Trusteeship Charter.

Japan's requirements for basic commodities which may come under United States or international allocation will be carefully considered in the light of NSC policy toward Japan, and, of course, the needs of other friendly countries.

III. Responsibilities

Each agency, i.e., State, DMS, MSA, TCA, Agriculture, Interior, Commerce, Defense, and DMPA, having an interest in the development of resources will give attention to the United States interest in maximizing the availabilities for Japan from non-Communist sources in the exercise of its functions in this field. The Department of State will maintain close contact with them and with the Japanese Embassy and will establish, if it appears necessary, an interdepartmental committee on Far Eastern resources. The Embassy in Tokyo will represent all United States governmental interests in this field, and will consult when appropriate with the Japanese Government with respect to projects in which the United States can assist or in which it has an interest.

"(7) Encourage Japanese contribution to the economic development of countries of South and Southeast Asia through participation in arrangements, including especially those dealing with trade and investment, formed for the purpose of increasing the economic strength and political stability of the Far East."

The discussion under paragraph (6) fully covers this paragraph as well.

"(8) Encourage the expansion, rehabilitation and modernization of Japan's industries on a sound economic basis so as to increase Japan's export potential and to improve its competitive position in world markets."

I. Present Status

The expansion, rehabilitation, and modernization of Japan's industries is presently receiving high priority in the policies of the Japanese Government and Japanese private

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industry. Approximately 200 post-war private technical arrangements, most of them involving investment by United States companies in the form of patents and technical assistance, have been made. The Japanese Government allocates foreign exchange liberally for the purchase of foreign equipment and technology in areas which will assist Japan's international competitive position. The fields in which investment is particularly welcome have been published by the Japanese Government. Private companies and the Japanese Government itself have explored with the International Bank and the Export-Import Bank the availability of loans to finance the modernization and expansion of industry where the amounts are higher than can readily be financed otherwise. The Export-Import Bank has a number of industrial projects notably for thermal power plants, under active consideration. At present Japan is able to finance the direct dollar costs of industrial modernization and expansion through other loans or with foreign exchange holdings. The United States aid counterpart fund was used during the occupation and continues to be used as a source of credit for major industries such as shipbuilding and electric power. The Japanese have created a Development Bank and have transferred counterpart funds to that institution to continue to make credit available for these purposes. Requests for priority assistance in obtaining capital equipment in the United States have been favorably considered by the NPA.

The successful execution of a long-range program of expansion and modernization of Japanese industry depends largely, however, on the willingness and ability of the Japanese to take the necessary measures. The capital must come mainly from Japan itself. It is not yet clear that the Government is prepared to institute controls to direct yen investment to the most essential needs or able to limit inflationary pressures.

II. Future Course

The United States, through the normal activities of the Department of Commerce and the Embassy in Tokyo, and through the Export-Import Bank, the NPA and its representation in the International Bank, should encourage the development of soundly-conceived projects designed to expand, improve, and modernize Japan's industries. In addition, the United States military and other Government agencies will where feasible give favorable consideration to programmed procurement of appropriate items to promote the attainment of these objectives. The desirability of industrial productivity assistance to Japan through governmental channels, comparable with the programs conducted by the MSA in Europe, will be fully examined.

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III. Responsibilities

The United States agencies having responsibilities in this field are referred to above. The Department of State will maintain close contact with them. United States Governmental interests in Japan will be coordinated by the Embassy.

"(9) Encourage Japan to maintain a free, competitive economy and to carry on its foreign trade and commerce in conformity with internationally accepted fair trade practices."

I. Present Status

The occupation reforms established the institutional framework for a reasonably competitive economy in Japan. Since the end of the occupation, there has been a strong tendency to revert to forms of business organization, involving the exercise of economic power by associations, which prevailed before the occupation. These methods are in the main intended to strengthen the trading position of Japanese industries and they are deeply rooted in traditional Japanese social and business organization. They pose serious questions, however, with respect to both the maintenance of high production costs and use of trading methods which other countries would regard as unfair. Diplomatic representatives in Japan have been instructed to point out where opportunity arises the advantages of a competitive system and the dangers of cartel-like practices to Japan's domestic economy and world trading position.

Before the war, Japan had a reputation for unfair trade practices, and there is a widespread realization in Japanese Government and business circles that it would be most unfortunate for such practices to be revived. Cases of misleading marks and patent or trademark infringement which have arisen since the war have in general been properly dealt with and in many cases have been the fault of the foreign importer rather than of the Japanese.

II. Future Course

When Japan is brought into the Mutual Security Program, section 516 of the Mutual Security Act, concerning the elimination of restrictive practices and the encouragement of competition and productivity, will be applicable to Japan.

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Effort should be made in the intervening period to encourage steps toward the objectives stated in the Benton Amendment and to discourage the present trend toward the redevelopment of monopoly and cartel practices. This should be done mainly by persuasion, indicating where appropriate the importance the United States attaches to the development of a dynamic competitive economy in Japan and the avoidance of cartel restraints in her foreign trade.

III. Responsibilities

The Department of State and the Department of Commerce will exercise their normal responsibilities in this field.

"(10) Seek adequate financial and material contribution by Japan to mutual security objectives, having due regard for the political sensitivities of the Japanese Government and people and for the essential requirements of the civilian sector of the Japanese economy."

I. Present Status

Discussed above under (2) (a).

II. Future Course

Discussed above under (2) (b).

III. Responsibilities

Intergovernmental negotiations with the Japanese will be conducted by the Embassy and the Far East Command under instructions from the DMS, Department of State, and the Department of Defense. The amount and terms of military assistance to be given to Japan will be considered in the Mutual Assistance Advisory Committee under the Chairmanship of the Director for Mutual Security. The Department of Defense will be responsible, through the Far East Command in Japan, for the execution of a military assistance program.

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"(11) Continue the understanding with the Japanese Government that:

"(a) it will retain under export control substantially the same list of commodities which it now subjects to such controls;

"(b) it will maintain its embargo on all items on the U. S. Security Lists (including the Battle Act Lists) as well as those items which after careful review are judged to be of security significance to Communist China and North Korea at least so long as there is communist aggression in the Far East*; and

"(c) the residual commodities now controlled by Japan will be restricted in such manner as the U. S. and Japanese Governments may agree represent a proper safeguard to their mutual security."

I. Present Status

In an "Understanding" and "Interpretive Notes" initialed on September 5, 1952, by Japan and the United States, Japan agreed to embargo to Communist China at least so long as there is Communist aggression in the Far East the commodities enumerated in any International Control List and any additional commodities included in the United States Security Lists (including the Battle Act Lists). Paragraph 3(a) of the Understanding further provides that, until a more definite determination is made with respect to internationally agreed controls, Japan will embargo a list of items which Japan and the United States agree to be readily determinable as of strategic significance to Communist China. In agreement with the United States, items on this list can be shipped to Communist China only in exchange for items of such importance to the basic economy of Japan or the defense production programs of the free world as clearly to represent a highly favorable exchange. Japan has also undertaken to maintain strict quantitative controls on residual items believed to be of some strategic importance to Communist China.

*Note: It is understood that the statement in subparagraph (b) above constitutes the U. S. objective and the successful accomplishment of that objective will require that the U. S. and Japanese Governments agree bilaterally on the security significance of the items."

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II. Future Course

Negotiations with Japan to determine the composition of the 3(a) List of items are under way in Tokyo. An effort will be made in the China Committee (CHINCOM) to have certain of these items which Japan agrees to continue to embargo added to the original Coordinating Committee (COCOM) list of items to be embargoed by all members to Communist China. In doing so, it will be desirable, in view of the history of the negotiations in COCOM on the United Kingdom's "China Embargo List", to try to induce the Japanese to take the initiative. The Embassy at Tokyo and the interested agencies of the United States Government will maintain a constant surveillance to ensure that Japan fulfills the obligations assumed in the "Understanding".

III. Responsibilities

The administration of the agreement will be carried out in accordance with policies determined through consultation in the Economic Defense Advisory Committee. Primary responsibility for action matters will be determined in accordance with normal economic defense procedures.

"(12) Export controls to be maintained in the post-aggression period should be determined through agreement reached by negotiation among the free nations principally interested in trade with the Far East areas of the Soviet bloc."

I. Present Status

With the exception of Japan, negotiations among the free countries principally interested in trade with the Far Eastern areas of the Soviet bloc have been conducted through the Consultative Group (CG) and the Coordinating Committee (COCOM), meeting in Paris. A China Committee (CHINCOM) has now been established on instructions by the Consultative Group to be responsible for the development of the detailed aspects of security export policy relating to the Far East. Japan has become a member of CG, COCOM and CHINCOM. Multilateral negotiations on security trade controls are being conducted in the CG-COCOM-CHINCOM structure, and these will be supplemented by bilateral United States-Japanese negotiations where appropriate.

II. Future Course

Although it is impossible at this time to state precisely what course will be taken after hostilities cease in

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Korea, it is important that controls be maintained until after a final political settlement and assurances of no further outbreak of Communist aggression in the Far East. However, the organizational arrangements described in I above should be used for negotiations regarding trade with the Far East areas of the Soviet bloc. In the meantime, that organizational structure, and the will of the other countries, including Japan, to use it effectively, should be strengthened in every appropriate way.

III. Responsibilities

Policies will be determined through consultations in the Economic Defense Advisory Committee. Primary responsibility for action matters will be determined in accordance with normal economic defense procedures.