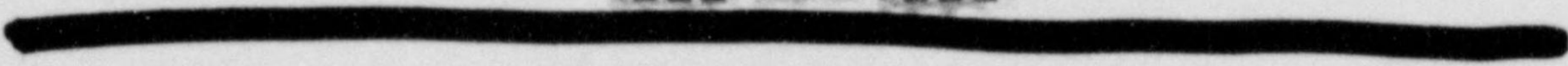


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Box #

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SFE MEMORANDA FOR INFORMATION

TOP SECRETCOPY NO. 13MI 1/47TOP SECRET25 June 1947STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EASTMEMORANDUM FOR INFORMATIONNote by the Secretary

1. In response to SWN-5275, dated 1 April 1947, there is being circulated for consideration by the Subcommittee:

(1) Country Report on the Philippines June 23, 1947

(2) Country Report on Siam June 23, 1947

2. The above documents are working party reports. To conform with other reports being submitted to the SWNC Special Ad Hoc Committee, they will not be identified by an SFE number and will have a special cover page. When received, studies on additional countries in the Far East will be circulated in the same manner.

J. B. CRESAP  
Commander, USN  
Secretary

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UNCLASSIFIEDMI-94 June 1946COPY NO. 13

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

Memorandum for Information No. 9

REMARKS OF CHAIRMAN OF ALLIED COUNCIL FOR JAPAN  
ON PROCEDURAL MATTERS AT COUNCIL MEETING  
29 MAY 1946

Note by the Secretary

1. The enclosure, the substance of the remarks of the Honorable George Atcheson, Jr., Chairman of the Allied Council for Japan, on procedural matters at the meeting of the Council, 29 May 1946, is circulated for the information of the Subcommittee at the request of the Acting War Member for Civil Affairs.

2. It is believed that the items of agenda enumerated in the enclosure will be of substantial aid to the Subcommittee in planning its work in the future.

A. F. Richardson  
Comdr., USN  
Acting Secretary

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From: CINCAFPAC, Tokyo, Japan, from Baker

To: War Department for WDSPR for Parks

Nr: ZX 39700

29 May 1946

Following will be released here at 0100 hrs MT-29 May substance of remarks of the Honorable George Atcheson Jr., Chairman of the Allied Council for Japan, on procedural matters at the meeting of the Council, 29 May 1946. Please pass to State Department.

"I think I may say in general most of the procedural questions pertinent to a workmanlike functioning of the Council have been clarified and that the Council is now, after 4 meetings, in a position to move forward with its work and to make helpful and constructive contribution toward a solution both of our immediate and our long-range problems involved in the achievement of Allied objectives with respect to Japan. I am confident that the members of the Council in the intervening weeks since their arrival have brought themselves abreast of the situation in Japan and, taking advantage of the informational materials which have been furnished them, have been able to acquire a good grasp of the current situation, the progress already made in the occupation and the important problems which are still before us.

"An appreciable amount of work has been successfully accomplished already. At the time of the first meeting of the Council, 5th April 1946, members were provided voluminous reference data. Included were copies of the directives which SCAP had issued to the Imperial Japanese Government since arrival of the occupational forces 30th August 1945. Since the first meeting, current SCAP directives to the Imperial Japanese Government have been provided each member at the time they were issued. These directives alone constitute nearly 1000 documents covering every conceivable phase of governmental activities from agriculture, finance, industry, and natural resources, to education, mine-sweeping, and purge of public officials. A number of directives on matters of substance have been presented to the members with specific requests for comment or concurrence before issuance. In addition to directives, and other

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reference data, monthly summations of non-military activities for Japan and Korea have been issued. The first four meetings of the Council considered among others the following items of agenda: food policy, Japanese officers corps and its demobilization, Zaibatsu, rural land reform in Japan, reform of education system in Japan, removal and exclusion of undesirable personnel from public office.

"In considering these items, members of SCAP's staff sections concerned presented the overall problem involved, gave certain detailed accounts of their development, and answered questions put forth by members of the Council.

"In order to facilitate further the Council's work, I would like to place in the minutes for the information of members of the Council a list of staff studies, or partial staff studies, on subjects under active study or discussion in GHQ.

"1. Reorganization of Japanese Merchant Marine to dissolve government monopoly of shipping.

"2. Dissolution of Japan Lumber Company Limited and local lumber companies to prevent restraint of trade.

"3. Protection of copyrights of books, articles, plays and other materials copyrighted by nationals of countries which do not belong to the copyright union and presently have no legal protection in Japan.

"4. Decentralization of Japanese educational system to eliminate the highly centralized control now exercised by the Ministry of Education.

"5. Expansion of authorized fishing areas.

"6. Reorganization of Japanese Red Cross Society.

"7. Nutrition surveys of civilian population. Now in operation under directive AG 430 SCAP in 422, 11 December 1945, subject: "Nutrition surveys of civilian population".

"8. Formation of a Japanese nutrition Council for review of nutrition problems of Japan.

"9. Promulgation of a Pure Food and Drug Act.

"10. Promulgation of a food handlers law covering summary measures to be followed in preparation and serving of food, as well as physical inspections for personnel.

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"11. Follow up of vital statistics program as directed by SCAP in 811 of 14th March 1946.

"12. Preventive medicine directives covering improvement of sanitation, insect and rodent control, improvement of water supply, immunization programs against typhoid and typhus, and amplification of port quarantine.

"13. Resumption of civil telecommunications service between Japan and other nations.

"14. Prevention of future patent infringements and illegal use of foreign patents by the Japanese.

"15. Ultimate level of Japanese textile industry.

"16. Degree of Japanese participation in post-war trans-oceanic shipping.

"17. Development of Japanese coal industry.

"This list is naturally not all-conclusive and, as I have mentioned before, there are undoubtedly a large number of studies on a wide variety of subjects which are being initiated by individual officers or groups of officers within the general headquarters and which have not as yet progressed to the point where they could properly be called staff studies.

"On today's agenda the Supreme Commander has placed three topics in regard to which he has requested the advice and comment of members of the Council. It may be that it has not been possible within five days for members to give adequate study to these important matters, and if that is the case, the items can of course be held over until the next meeting of the Council, although it is hoped that today the members will feel in position to place before the Council at least their preliminary views. It is to be expected that the Supreme Commander will continue to seek the advice of the Council in regard to important matters by laying such matters before meetings of the Council from time to time and in growing number if that does not too much overburden the Council. Among the long range subjects for study and comment which we may anticipate will be formally placed on the agenda in future, some of which are included in the list of subjects under study or discussion are the following examples:

"1. Rehabilitation of Japan's transportation system.

"2. The future of Japan's coastwise and international Merchant Marine.

"3. The future of Japan's fishing and aquatic industries.

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- "4. Rehabilitation of Japan's foreign trade.
- "5. Plans for exchange of students and question of scope of the program and the time for its initiation.
- "6. Patent and copyright practices (possible exchanges, common practices, or suggestions therefor).
- "7. Revival of international communications including postal communications.
- "8. Solution of international fiscal problems.
- "9. Measures to develop Japan's tourist industry and other items of invisible trade balances.
- "10. Japanese eventual participation in international scientific and technical programs, including scientific and technical exchanges.
- "11. Policies and programs for displaced persons and other aliens in Japan.

"It is the Supreme Commander's earnest hope that the advice and counsel of the members will be of far reaching practical assistance to him in dealing with the problems which still confront the occupation authorities."

End.

ACTION: BPR

INFO : CG AAF, OPD, G-2 (State), CAD

MC IN 63848

(31 May 46)

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Tokyo via War

Dated May 27, 1946

Rec'd 11:30 a.m., 29th

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with  
MI-9*

SECSTATE

235, May 27

In an effort to get the council down to constructive work we are presenting to it on May 29, in addition to the items on the agenda mentioned in Paragraph 1 of our 234 May 27, a list of staff studies on various subjects now in progress in General Headquarters SCAP and also a number of long range subjects for study and formulation of recommendations which subjects are expected to be formally placed on the agenda in future as follows:

- (1) Rehabilitation of Japan's transportation system;
- (2) The future of Japan's coastwise and international merchant marine;
- (3) The future of Japan's fishing and aquatic industries (include whaling);
- (4) Rehabilitation of Japan's foreign trade;
- (5) Plans for exchange of students and question of scope of the program and the time for its initiation;
- (6) Patent and copyright practices (possible exchange, common practices, or suggestions therefore);
- (7) Revival of international communications including postal communications;
- (8) Solution of international fiscal problems;
- (9) measures

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-2- #235, May 27, from Tokyo via War

(9) Measures to develop Japan's tourist industry and other items of invisible trade balances;

(10) Japanese eventual participation in international scientific and technical programs including scientific and technical exchanges;

(11) Policies and program for displaced persons and other aliens in Japan.

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- (4) Rehabilitation of Japan's foreign trade;
- (5) Plans for exchange of students and question of scope of the program and the time for its initiation;
- (6) Patent and copyright practices (possible exchange, common practices, or suggestions therefore);
- (7) Revival of international communications including postal communications;
- (8) Solution of international fiscal problems;
- (9) measures

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-2- #235, May 27, from Tokyo via War

(9) Measures to develop Japan's tourist industry and other items of invisible trade balances;

(10) Japanese eventual participation in international scientific and technical programs including scientific and technical exchanges;

(11) Policies and program for displaced persons and other aliens in Japan.

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MI - 8

15 May 1946

STATE WAR NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

MEMORANDUM FOR INFORMATION NO. 8

Subject: New Quarters for State-War-Navy Coordinating Subcommittee  
For the Far East

1. On 17 May 1946, the State-War-Navy Coordinating Subcommittee For the Far East will move to new quarters in the New War Department Building, 21st Street and Virginia Avenue, N.W. Please address all communications to the Subcommittee to Room 2027, New War Department.

2. Telephone numbers will probably remain unchanged and will be as follows:

State Line - Republic 5600 - Extension 2428

War Line - Republic 6700 - Extension 79707

Navy Line - Republic 7400 - Extension 3157

For the State-War-Navy Coordinating Subcommittee For the Far East

A. F. Richardson  
Commander, USN  
Acting Secretary

*file*MI-7COPY NO. 1318 March 1946*Alert A  
12 Feb 44*STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EASTMEMORANDUM FOR INFORMATION

1. The extract below from the "Daily Report - Foreign Radio Broadcasts" published by the Military Intelligence Division of the War Department is disseminated to the Far Eastern Subcommittee for information.

MI-7

"The Australian Government will not be a party to any hasty arrangements for the reallocation of territories or the disposition of military bases in the Pacific, Dr. Herbert V. Evatt, Australian Minister for Overseas Affairs, told the House of Representatives today, according to a Melbourne broadcast.

"We don't recognize that the acquisition of territory by force of arms confers a right to retention of that territory; Australia's fighting men have contributed to the common cause of victory in Europe and the Middle East and in the Pacific, and Australia is at least as much concerned as any other nation in insuring that provisions be made for the future security of the Pacific," the radio quoted Dr. Evatt as saying.

"After discussing the problem of military bases in the Western Pacific, Dr. Evatt discussed the treatment of Japan, which, he emphasized, must never again be allowed to rise as an aggressor nation. The nations which had substantially contributed to the defeat of the enemy should participate in armistice and peace arrangements, he said. He reaffirmed Australia's opposition to allowing the decisions of the Far Eastern Commission to be subject to the veto of any one of the four Major Powers."

A. F. Richardson  
Commander, USN  
Acting Secretary

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COPY NO. \_\_\_\_\_

MI-615 March 1946STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EASTMemorandum for Information No. 6THE LEGAL ASPECTS OF ENFORCEMENT IN SWITZERLAND  
OF LAW NO. 5

Reference: a. Minutes 63rd SFE Meeting.

MI-6

Note by the Secretary

1. The enclosure, a summary of the legal aspects of the enforcement in Switzerland of the German vesting law as prepared by Dr. Otto Fletcher, Department of State, is circulated for information and guidance.

2. Dr. Fletcher has requested that the distribution of this summary be held to a minimum.

A. F. Richardson  
Comdr., USN  
Acting Secretary

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RESTRICTEDCOPY NO. 25ENCLOSURETHE LEGAL ASPECTS OF ENFORCEMENT IN SWITZERLAND OF LAW NO. 5I  
(Introduction)

In any analysis of the legal basis of our German-external-assets program in Switzerland we are faced with two tremendous difficulties-- firstly, we have to consider an entirely new problem in the field of law, since there is no historical example of or precedent for the present situation of Germany; and, secondly, the legal aspects are in many ways so closely interrelated with political, ethical, and economic considerations that touching upon them is unavoidable.

It may well be that since there is no complete body of rigid and strict rules of international law or private international law (conflict of laws) the solution for this case without precedent may be found not exclusively in legal argumentation, but also in grounds which can be justified by sound political, ethical, and economic considerations. Besides, legal doctrines are not absolutely rigid. Portions of even the civil law have been changed under the influence of changed social conditions and philosophy. International law, never codified as a whole, should be even more fluid and nearly ready right now to be moulded into a code built upon the needs of world security.

Orthodox international law doctrine knows the following types of occupation: (a) belligerent occupation (occupatio bellica) is the temporary actual governing of the whole or a part of a country by the military while hostilities continue; (b) peaceful occupation (occupatio pacifica) is in most cases based upon a contract between two governments; (both (a) and (b) are temporary in character); (c) debellatio is the complete subjugation of one warring country by another whereby hostilities have been ended and the occupied country as a state forever ceases to exist. An essential of debellatio is therefore annexation of the conquered country by the conquering country. The present occupation of Germany by four occupying powers cannot be classified as any one of the above-described orthodox types of occupation. It is, as already stated,



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an "occupatio sui generis"--an unprecedented type of occupation following an unprecedented sort of surrender of the armed forces of a country whose government had completely dissolved itself and stopped functioning.

Thus the pessimism of many people who have written recently about the poor chances of having Law No. 5 recognized by the neutral countries appears unwarranted. They arrived at their conclusion by applying an enormous number of unfavorable court decisions and utterances of contemporary writers to the case at hand, overlooking the fact that all of the reference cases refer to a situation of belligerent occupation which, as we have shown above, is not here applicable. Still there remain many difficulties in proving our case, as the following analysis will show.

## II

## (Swiss Position)

For these and other reasons it was decided that we will not raise the legal issue in the forthcoming negotiations. However, it is more than probable that the Swiss will bring it up. Hence, it seems appropriate to furnish our chief negotiator in advance with the defense argumentation to everything that the Swiss might possibly point out to explain their reluctance to give effect to Law No. 5 in Switzerland.

It is anticipated that the Swiss position may encompass several or all of the following points:

1. Lack of a present legal government of Germany.

The Swiss will state that they cannot recognize the Control Council as the lawful government of Germany. The Swiss will say that the function of the four powers can be considered to be either

A. that of belligerent occupants---

In this case the occupying powers may make only such changes in the legal system as are necessary for the security of its troops and for restoring public order and safety (Hague Convention of 1907, Section III, Article 43). They will also invoke in this connection Article 46 and Article 53 of the Hague Convention as quoted above, the former Article stating that private property must be respected and cannot be confiscated, the latter stating

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that "an army of occupation can only take possession of cash funds and realizable securities which are strictly the property of the State."

or

B. that of trustees--

(when classifying the occupation as a debellatio without annexation)

In this case, although more far-reaching than in the case of belligerent occupation, authority of the four powers is still limited by (a) the fact that they themselves have envisioned a future "government of Germany adequate for the purpose of accepting a peace settlement" (Potsdam Agreement, II, 3(i).

As a trustee for a future German government they cannot dispose of German assets. (The trustee function was mentioned in a British official announcement.) (b) by the fact that their measures cannot interfere with the Swiss "ordre public" nor with the rules of private international law, i.e., the jurisdiction of Swiss law over Germans domiciled in Switzerland, (c) by the fact that the Allies cannot exercise more rights than a legal German government could have exercised, and (d) by the fact that the Allies are bound to respect the international agreements which Germany made with the neutral countries.

2. Lack of legality of Law No. 5.

Once having refused to recognize the occupying powers as the legal government of Germany, and because of the other reasons given in 1B, it follows that the Swiss cannot acknowledge the legality of Law No. 5.

3. Law No. 5 cannot be given extraterritorial effect in Switzerland.

(it cannot be made the law of the land)

Not recognizing the legality of Law No. 5, it is logical that the Swiss refuse to give effect to such a law in their country. They will point out a number of additional reasons, listed below, why it is against the "ordre public" of Switzerland to give this Law effect in Switzerland:

A. Because Switzerland's political "raison d'etre" for centuries has been based on the principle of strict neutrality : to comply with the request of the occupying powers would be a breach of strict neutrality.

B. The Swiss consider themselves with respect to German assets in

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Switzerland as trustees for a dormant German state which one day will re-establish an independent legal government, or for nationals of such a German state, to which they feel responsible and with which they will have to live and trade as neighbors.

(The Swiss will here again refer to the Potsdam Agreement, II, 3(i) and also to the fourth paragraph of the introduction to III, *ibid*, in which such a revival of Germany is provided for.)

- C. Because Law No. 5 is confiscatory in character. The Swiss are strict believers in the principle of private ownership. They have in the past refused to comply with dispositions over the property of foreign depositors stemming from such confiscatory laws. They feel that any deviation would endanger the maintenance of their own state system (to say nothing of the prosperity of their banking system) as well as create a prejudice which some other country might refer to when Swiss citizens are concerned. The latter consideration will become more important when the assets of German nationals who are domiciled in Switzerland are included into the seizure. These persons are not subject to the jurisdiction of any German government, legal or not legal.
- D. The Swiss will in particular refer to the Swiss principle that treatment equal to that of the native population generally prevailing in Switzerland be given to foreigners with regard to person and property. Agreements embodying that principle were concluded in 1827 with France and in 1876 with Germany. The latter agreement was renewed in 1910 with regard to the settlement of the legal conditions of citizens of the one country in the territory of the other--in other words, that they should enjoy, with regard to their persons and property, the same legal protection as the natives.
- Any deviation from such agreements could also endanger Swiss interests abroad.
- E. Even if the Swiss would overcome their legal objections, it would still be not in the public interest for them to

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recognize the right of the occupying powers to German assets in Switzerland for the simple reason that Swiss claims against Germany by far exceed German assets in Switzerland. Among such claims will have to be included one additional group which is not included in current statistics, namely, the indemnification and costs of resettlement of repatriated Swiss. They will therefore argue that they would have to protect in the first place the interests of their own citizens by partly compensating them with German assets in their hands, particularly as long as the occupying powers have not expressly declared that Swiss assets in Germany, especially Swiss claims against Germany, will be fully protected.

- F. If the Swiss should recognize the four occupying powers as legal successor of the last German government, they would argue that the four occupying powers would have to take full responsibility for German liabilities vis-a-vis foreign countries, that is, for Germany's foreign debts. They will refer, in this case, to "business succession" (geschäftsuebernahme), that is, that someone taking over a business becomes responsible for the liabilities in taking over the assets (as known to most Continental civil law codes).
- G. If the occupying powers consider themselves to be not belligerent occupants but the receiver for a bankrupt Germany--a concept which has been mentioned from time to time by U. S. officials--the Swiss will say that a receiver (just as a trustee) cannot appoint himself. Besides, the duty of a receiver is to satisfy all claimant creditors on a proportional basis, which would include proportionately the Swiss claims. Furthermore, in the opinion of the Swiss, the assets of the "bankrupt estate" of Germany do not include property of private German citizens, particularly not of Germans abroad (that is, Germans domiciled in Switzerland), just as the receiver of a bankrupt stock corporation cannot lay hands on the private assets of the corporation's stockholders.

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## III

## ( Refutation of Swiss Position)

This analysis proceeds now by trying to refute the Swiss position as the foregoing has assumed it may be taken, either in whole or in part.

II,1,A

According to the Berlin Statement of June 5, 1945, by the Governments of the U.S.A., the U.S.S.R., the U.K. and the Provisional Government of the French Republic--those Governments assumed "...supreme authority with respect to Germany, including all powers possessed by the German Government...." This means that Germany was placed under the sovereignty of the four occupying powers.

After the unconditional surrender of the armed forces, signed by the representatives of the last legitimate government of Germany, and the simultaneous self-dissolution of this government, there remained no national government in Germany. Whether a transfer of the governmental power of vanquished Germany to the victorious occupying powers was implied by the act of surrender, or whether the surrender had created a vacuum which had to be filled to avoid chaos, the four occupying powers, in fact, "assumed supreme authority with respect to Germany, including all powers possessed by the German Government." An unprecedented situation was created which was solved by an unprecedented arrangement--the creation of the Control Council as the supreme governing body of Germany, consisting of representatives of the four occupying powers.

Under the terms of surrender, representatives of the last legitimate German government agreed to give effect to any orders or decrees issued by the occupying powers. Moreover, since the dissolution of the German government, the Control Council has functioned actually and effectively as the supreme governmental authority in Germany.

Therefore whether the Control Council received its authority by transfer from the last legitimate German Government, or whether its functions as the "de facto government" in the sense of the definition of the term according to international law, it is to

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be accepted as the present lawful government of Germany.

Any references by the Swiss to provisions of the Hague Convention of 1907, Section III, would not be applicable since the provisions can be applied only with respect to belligerent occupation, whereas we have proved in the foregoing that the present situation in Germany is not identical with belligerent occupation.

Under the terms of surrender Germany agreed to give effect to any orders or decrees issued by the occupying powers. In addition to the theory of transfer of authority by the surrender act itself, the surrender act states expressly that any law of the Control Council, including Law No. 5 "Vesting and Marshalling of German External Assets" is of no less binding force than would be any law enacted by a former German Government.

If we discount the transfer theory, any law of the Control Council would also have binding force on the theory of "de facto government."

All this proves conclusively that the Control Council is the present de facto government of Germany. Switzerland has by decisions of its Supreme Court acknowledged the right of a de facto government to enact such laws.

If the Swiss are willing to recognize the Control Council as the de facto government of Germany but would deny it the power to dispose of Germany's external assets, with reference to the trustee character of the Control Council vis-a-vis a future independent German state, it can be said that any future national government of Germany will have to accept the disposal of German foreign assets for reparation purposes. It will have to do so because of considerations of ethics and justice, not because it is acting under duress.

II,2

As to the contents of the law, there can be no question about the right of a government to marshall and to take over foreign exchange assets. A number of precedents were established during recent years not only by former German governments but also by other governments (including the British). The discussion of the German foreign exchange law will be discussed more elaborately later. Before and during this war, the justification for such laws has been the economic self-defense of the particular country concerned. In the

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case of the law in question, the reason for its promulgation was the self-defense of the United Nations, representing nearly the whole civilized world.

Once the Control Council and its power to make such laws as Law No. 5 are recognized, why should it be against the public order in Switzerland to give this law extraterritorial effect?

With regard to exclusion of Germans domiciled in Switzerland, Article III of the Law applies the Law only to such persons of German nationality outside of Germany as have enjoyed full rights of German citizenship under Reich law at any time since September 1, 1939, and as have at any time since September 1, 1939, been within any territory under German control. The Law therefore already excludes German nationals who have resided in Switzerland since September 1, 1939, if they have not returned since to the Reich.

As to the Swiss argument that the contents of Law No. 5 go beyond what a German legal government would be permitted to order according to established international rules, and is confiscatory in character, it can be said that:

II,2  
and  
II,1,B,  
a,c

It is not true that Law No. 5 has gone beyond anything that a legal government of Germany would be entitled to do. There are two precedents:

The Gesetz ueber die Devisen Bewirtschaftung of December 12, 1938, decrees in part that real property abroad, foreign exchange, foreign claims, gold, foreign securities, and interest in foreign firms can be disposed of only with the approval of the proper German authority. It decrees that the above foreign assets, except real property and interests in foreign firms, be offered to the German Reichsbank and upon its request, sold and the profits of the sales transferred to it; and that violation of this law is to be punished with hard labor up to ten years in a penitentiary. A decree with reference to this law, no. 34, of March, 1939, ordered the delivery of all foreign securities to the German Reichsbank.

Under Section 297 of the Versailles Treaty Germany expropriated the property of its nationals which had been seized by the Allied and Associated Powers and authorized the latter to hold it until Germany paid the claims of those Powers. The Berlin Treaty gave

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the United States the same right.

In both cases, provision for compensation in marks was made. Law No. 5 itself provides in Article V for compensation to be paid to persons whose property has been vested. Therefore the Law is not strictly confiscatory. The reason the provision in Article V is rather vague is that:

- (a) certain groups of persons will have to be excluded from compensation (war criminals, etc.);
- (b) certain groups of property will have to be excluded (loot, etc.);
- (c) property which can be seized without compensation within the interpretation of **Article 46** of the Hague Convention of 1907 will have to be excluded from compensation (although, as we have already stated, the legislative power of the occupants goes beyond the provisions of the Hague Convention). In modern warfare and in the age of total war, the term of assets seizable without compensation because of their military suitability will have to be defined so as to be applicable to a wide variety of assets and may well include the bulk of external assets, since they represent foreign exchange by which strategic materials can be purchased abroad;
- (d) the occupying powers did not want, in this respect, to bind the future German Government, to which probably will be left the payment of compensation.

II,1,B,d  
and  
II,3,A

The Swiss have violated neutrality themselves during the war by delivery of military equipment to the Germans and by purchasing from them looted gold, thus enabling the Germans to buy strategic war materials in other so-called "neutral" countries.

Moreover, the term "neutrality" has changed its meaning, as will be demonstrated in the closing paragraphs of this paper.

II,3,B

Once the legality of Law No. 5 is recognized, the Swiss do not need to fear unfulfillment of any responsibility to a future German Government, particularly since the occupying powers will see



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to it that in the peace treaty the future national government of Germany will have to accept the disposal of German external assets for reparation purposes.

II,3,C           The Swiss themselves deviated from the principle of respecting private property when their banks, including the Swiss National Bank, during the war purchased gold from the Germans which they must have known was looted gold. (See my report on Swiss acquisitions of German-looted gold.)

II,1,B,b           With reference to the assertions made in E and F of Point 3  
and  
II,3,B,E,under II, that Swiss claims have to be included when satisfying  
& F  
claims of creditors of Germany, the following is offered:

Everything else settled, we are prepared to satisfy one group of Swiss pre-war claims--that is, the Swiss quota of the pre-war German international public debt (e.g., Dawes and Young bonds) resulting from arrangements after the first World War. This group of claims can be satisfied either by allotting the Swiss a percentage of German assets transferred to us--using their present market value as a floor or a ceiling (as may be dictated by expediency)--and/or by allowing them priority for future full payment by a recovering Germany (establishing a fund from future export foreign exchange).

So far as other pre-war long-and short-term assets are concerned, it is by no means taken for granted that they will have to be considered losses. So far as war claims are concerned, no moral justification for considering such claims can be found. Switzerland, like the other neutrals, was repeatedly warned not to extend credits to Germany during the war.

Swiss claims cannot be compared with the claims of nations fighting this war with tremendous losses of blood and wealth. Swiss economy, like other neutrals' economy, has profited rather than lost by the war. The economic situation of the neutrals compares all too favorably with the economic situation of the European members of the United Nations. The neutral nations, besides having been spared the horrors of total warfare, have come out as war profiteers in many respects. All of them have improved their international financial position by increasing their gold and

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foreign exchange reserves.

According to the Final Act of the Paris Reparation Conference, the occupying powers were given the assignment of collecting German external assets for reparation purposes only. It is known that the total amount available would be small compared with the sacrifices made by those nations which signed the Reparations Act and the damage suffered by them because of Germany's aggression.

II,3,G

Considering the fact that the overwhelming majority of the German people subscribed to the program of Hitler's DNSAP in the full knowledge of its aim of aggression, it is much more appropriate to compare Germany to a partnership. In the case of the bankruptcy of a partnership, each partner is liable to the full extent of all his belongings for the debts of the partnership. Responsibility of the German people for Germany's misdeeds has become one of the basic principles of Allied and United Nations policies.

If the occupying powers are conceived in the role of receiver, such a notion can stem only from the idea that the occupying powers act as receivers for the United Nations. The occupying powers certainly do not consider themselves to be receivers for creditors other than the signatories to the Final Act of the Paris Reparations Conference, or trustees for a future reconstituted national German Government, notwithstanding the phrasing of the fourth paragraph of Section III of the Potsdam Agreement of August 1, 1945, discussed in the argument against 1,B of II (Swiss Position).

IV

(Court Decisions)

It has already been stated above that the bulk of related court decisions quoted by contemporary writers, and particularly in an FEA report of May, 1945, entitled "Extraterritorial Effect of Economic Measures Taken by the Occupying Powers in Germany", are concerned with cases where belligerent occupation is the given situation. Since we have tried to demonstrate that the present situation in Germany is not of the character of a belligerent occupation, we can omit all these decisions. The present analysis limits itself to mentioning a small number of Swiss, English, and even German court decisions

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which show that in at least these few cases European courts have decided that in giving extraterritorial effect to a law of a newly-created government or state, the decisive point was whether the newly-created government actually and effectively had exercised supreme power over the territory involved. Of particular importance in this respect is the decision of the Swiss Supreme Court in the case "Banque International de Commerce de Petrograd S.A. v. Hausner"\*, where the Swiss Supreme Court decision follows the above lines. The decision is even more important since in this particular case the Swiss Court has, by implication, not only given extraterritorial effect to a law promulgated by a government which was not recognized at that time in Switzerland, but also respected a law which was confiscatory in character. The law referred to is the Revolutionary Russian law of December 27, 1917 which, in its preamble, decrees the establishment of a single Russian national bank, the liquidation of all Russian banks, and the taking over of their assets and liabilities by the single peoples' bank.

There follow the cases referred to above, including the relevant statements of the court decisions:

• Decision of the German Reichsgericht Strs. of June 29, 1920 states that:

"The question of recognition [ of Czechoslovakia as an independent state ] is irrelevant. The decisive factor was merely whether or not the new state which emerged from the downfall of the former Austro-Hungarian monarchy was able to maintain itself at the time under reference."

Decision of the German Reichsgericht, October 16, 1925; III 559/24 --Berlin (see 1926 Juristische Wochenschrift, page 1986) states that:

"An independent Polish state had come into existence"-- before it was recognized by Germany through the Treaty of Versailles--

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\* Journal du Droit International 1925, Tribunal federal, 10 decembre, 1924, p. 488.

RESTRICTED

"by the fact that in the formerly Russian territories having Polish population, Polish authorities had established themselves after the cessation of the occupation by the central powers and had taken into their own hands the exercise of governmental authority."

In the above two decisions, the German Supreme Court explicitly rejecting "recognition" as the vital test, held that the decisive point was whether the newly-created states actually had exercised supreme power over the territories involved.

Switzerland follows the German line in this question. In Banque International de Commerce de Petrograd S.A. v. Hausner<sup>1</sup>, the Swiss Supreme Court had to decide in 1924 whether the dissolution of a Russian Bank by the Soviet government affected the status of a Swiss branch of that Bank. The Soviet government has never been recognized by Switzerland. Nevertheless the Swiss court decided the question in the affirmative and pointed out that

"the non-recognition of the Soviet government has the effect only that in the field of international relations, whether in the nature of private or public law, that government has no authority to represent Russia in Switzerland. This does not mean, however, that Russian law is considered to be non-existent or without certain effects in this country. Hence, if the parent corporation, La Banque de Petrograde, ceased to exist in Russia, it cannot be assumed that its subsidiary is capable of a legal existence in Switzerland."

The Swiss Supreme Court applied the same principles to the case Epoux Spatz.<sup>2</sup> This was a divorce case in which the jurisdiction of the Swiss court depended on the question whether the court was prepared to recognize as binding a Soviet statute which provided for the jurisdiction of the court involved. The Swiss Supreme Court reversed the decision of the trial court, which had refused to apply a statute of a non-recognized government to a case pending in a Swiss court, and pointed out that

"the Supreme Court has recognized in the Hausner case, on

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1. Journal du Droit International, 1925, p. 488.

2. Revue du Droit International Prive, 1928, p. 690.

RESTRICTED

December 10, 1924, that the non-recognition of the Soviet by Switzerland has its effects in quite a different field; Russian law exists for the Swiss judge, provided that it does not violate his ordre public."

A case of outstanding importance is Bank of Ethiopia v. National Bank of Egypt and Ligouri<sup>1</sup>, decided in 1937 by the High Court of Justice, Chancery Division. Shortly after the capture of the capital of Ethiopia, at the time when that country was almost completely under Italian control, the Italian authorities liquidated the only bank which existed at that time in Ethiopia. The legal representatives of that bank brought a suit in the British court on behalf of the Bank of Ethiopia against the Bank of Egypt for payment of money due to the plaintiff. The defendant pleaded that the plaintiff was no longer legally in existence. The court recognized this defense as sound and dismissed the suit. Since the British Government had, at the time at which the decision was rendered, recognized Italy as the de facto government of Ethiopia, the court did not question the legality of acts of that government.

The court examined at first the question whether the general rules of the sacrosanctity of acts of a foreign sovereign were applicable to measures taken by Italy as the de facto government of Ethiopia. The court answered this question in the affirmative.

"It was suggested that in these circumstances, it was open to this court to depart from the duty, carefully laid down by Bankes, L. J., in Luther v. Sagor, namely the duty of treating the acts of the de facto government with all the respect due to the acts of a duly recognized foreign sovereignstate, and that it was open to this court, and indeed, that it was its duty, to test the validity of such acts by some special test, the first suggested being whether

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1. 157 Law Times Reports 428, [ 1937\_ / 1 Ch. 513. The case is reviewed in A. D. McNair, Municipal Effects of Belligerent Occupation, 56 Law Quarterly Review 33, especially 52 and 67 (1941); British Year Book of International Law 1938, p. 236, p. 239; Quincy Wright, The British Courts and Ethiopian Recognition, 31 American Journal of International Law 683, 686 (1937).

the acts in question were necessary to secure the safety of the occupying army, the presence of which secured the government in its position of the de facto control. It may be thought that though it is not necessary to form an opinion on the topic-- such a test may be applicable to measures adopted by the authorities of an army occupying part of the territory of an organized state. But the test seems to me to have no relevance in principle to the case of a de facto government set up in an area from which the former government has departed and in which there is no governmental authority except that of the de facto government. Thus the de facto government must necessarily make such provisions as may be proper for regulating the concerns of the inhabitants and it cannot confine itself to the protection of its military forces. It must necessarily, in such circumstance, assume the full responsibility of government and its acts, I should have thought, must necessarily have the status of a fully recognized government.

By way of obiter dictum, Clausen J. examined the question whether a British court was obliged to recognize the validity of the measures of the Italian authorities by virtue of which the Ethiopian Bank had been liquidated. He answered the question in the affirmative.

"If I were free to test the acts of the de facto government by the test such acts being necessary for preserving peace, order and good government, the test could hardly fail to lead to my accepting as valid the acts questioned in the present case. It is difficult to see how confusion could fail to ensue if the only bank of issue in the country were allowed to continue its business under the control of persons who, until the last moment, seem to have been engaged in strenuous attempts to assist the displaced government to resist the attacks of those who have become the de facto government."

V  
(Conclusion)

We have tried ( in a painstaking way) in the foregoing to

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establish the legality of the unprecedented procedure followed in Germany by the Allied Powers which was necessary in the face of an unprecedented situation, by arguments taken from law codes, court decisions, and international agreements built upon the political philosophy of a past age.

We shall win our case more easily if the Swiss are willing to subscribe to the new concepts of international law as it is shaping up presently from international meetings, declarations, and agreements, from the Atlantic Charter to the Charter of the United Nations. The overwhelming majority of civilized nations of the world have united for the purpose (as stated in the opening words of Chapter I of the Charter of the United Nations), "to maintain international peace and security, and...to take effective collective measures for the prevention and removal of threats to the peace, and for the suppression of acts of aggression..."

Thus the term "aggressor nation" has been defined in such a way as to outlaw aggressive warfare. Germany does not only fall under this new definition of "aggressor nation" by having started this war, but she also before the outbreak of the war and during the war committed various acts by which she violated the then valid rules of international law. By so doing she certainly has made herself an outlaw and has forfeited the benefits of certain provisions of international law which are supposed to protect only the law-obedient member of the community of nations.

Since one of the purposes of the United Nations is, as listed in Article I of the Charter of the United Nations, to take effective collective measures for the removal of threats to the peace and, since Germany has been branded an aggressor nation, the seizure of German external assets is justified. External assets of an aggressor nation partly represent in themselves components of the war potential of a possible aggressor nation (for example, strategic materials, war plants, scientific research establishments, and the like), or are of such nature as to be easily convertible into foreign exchange with which to buy goods and services to build up or feed the war potential of the aggressor nation. Their seizure appears fully justified under the new law of nations.

SECRETMI-5/528 February 1946Pages 1 to 6**SECRET**COPY NO. 21*CFN*

MI-5

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE F.R. EASTMEMORANDUM FOR INFORMATION  
No. 6 Working Groups for SFE PapersNote by the Secretary

1. The enclosure, a listing of Working Groups responsible for the preparation of SFE papers shown on Status of Papers dated 28 February 1946, is circulated for the information of the Subcommittee.

*For MI-5 series  
see special folders*

A. F. Richardson  
Commander, USN  
Acting Secretary

**SECRET**



SECRET

SWNCC 52/8/D  
52/9  
52/10  
SFE 112/2  
112/3

BASIC DIRECTIVE FOR POST-SURRENDER  
MILITARY GOVERNMENT IN JAPAN PROTER

Working Group:

State - Dr. Hugh Borton, Chairman, S-2636  
OPD - Lt. Col. T. N. Dupuy, W-2971  
C.I.D. - Lt. Col. G. W. Lewis, W-71259  
Navy - Lt. Col. A. F. Metzger, N-63068

SWNCC 58/10  
58/11  
SFE 152/3  
152/4

SPECIAL DIRECTIONS FOR DISPOSITION OF  
CAPTURED JAPANESE EQUIPMENT

Working Group:

State - Mr. W. W. Lockwood, Chairman, S-2992  
OPD - Lt. Col. A. G. Pixton, W-2283  
C.I.D. - Maj. J. T. Kramers, W-72252  
Navy - Lt. Comdr. F. F. Claxton, N-61723

SWNCC 91  
SFE 118

THE POST-SURRENDER MILITARY GOVERNMENT OF  
JAPAN PROTER: CONTROL OF MEDIA OF PUBLIC  
INFORMATION AND EXPRESSION IN JAPAN

See SWNCC 162/D

SWNCC 93  
SFE 138

CONTROL OF ARMS AND AMMUNITION INDUSTRY IN JAPAN

Working Group:

State - Mr. E. Martin, Chairman, S-3019  
Dr. G. H. Blakeslee, S-2326  
Dr. H. Borton, S-2636  
Mr. J. K. Penfield, S-535  
OPD - Lt. Col. T. N. Dupuy, W-2971  
C.I.D. - Lt. Col. E. A. Gross, W-71721  
Navy - Capt. R. L. Dennison, N-3917  
Lt. Comdr. F. F. Claxton, N-61723

SWNCC 97 Series  
SFE 134/3

INITIAL CONTROL OF FOREIGN COMMERCE IN  
JAPAN

Working Group:

State - Mr. R. W. Barnett, Chairman, S-3020  
Mr. Paul McGuire, S-2137  
OPD - Lt. Col. T. N. Dupuy, W-2971  
C.I.D. - Maj. J. T. Kramers, W-72252  
Navy - Lt. Comdr. F. F. Claxton, N-61723

SWNCC 108  
SFE 135

THE EDUCATIONAL SYSTEM IN JAPAN

See SWNCC 162/D.

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SWNCC 162/D                    POSITIVE POLICY FOR THE REORIENTATION OF  
           162/1                    THE JAPANESE  
           162/2  
           162/3  
           162/4  
 SFE 116  
       116/1  
       116/2  
       116/3  
       116/4  
       116/5  
       116/6

## Ad Hoc Reorientation Committee:

State - Dr. Hugh Borton, Chairman, S-2636  
           Mr. Gordon Bowles, S-2805  
 OPD - Lt. Col. Bruce Buttles, W-73022  
           Major Paul Linebarger, W-5504  
 C.D. - Lt. Col. E. W. Hendrick, W-74081  
 Navy - Lt. Comdr. P. P. Claxton, N-61723  
 State - Mr. Frank Schuler, NWL-75303

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SWNCC 176 Series            KOREA - FOREIGN COMMERCE IN THE INITIAL  
 SFE 114 Series            PERIOD

## Working Group:

State - Mr. E. Martin, Chairman, S-3019  
           Mr. J. E. McDonald, S-2979  
 OPD - No member designated  
 C.D. - Lt. Col. E. A. Gross, W-71721  
 Navy - Lt. Col. A. F. Metze, N-63068

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SWNCC 181/5/D                REIMBURSEMENT OF SWEDISH AND SWISS  
           181/6                GOVERNMENTS FOR PROTECTION OF JAPANESE  
 SFE 117/3                    NATIONALS ABROAD  
           117/4

## Working Group:

State - Mr. J. E. McDonald, Chairman, S-2979  
 OPD - Lt. Col. W. B. Kunzig, W-2124  
 C.D. - Major L. M. Pumphrey, W-74608  
 Navy - Lt. Comdr. P. P. Claxton, N-61723

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SWNCC 186/11/D              TRANSFER TO SOVIET UNION OF J.L.D DESTROYERS  
 SFE 123 Series              AND SURFACT COMBATANT VESSELS OF LESSER  
                                   TONNAGE

## Working Group:

State - Dr. E. Reischauer, Chairman, S-2586  
 OPD - Col. H. A. Twitchel, W-71932  
 C.D. - Lt. Col. Gerald Johnson, W-73738  
 Navy - Lt. Col. A. F. Metze, N-63068

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SWNCC 209/D                 TREATMENT OF THE INSTITUTION OF THE  
 SFE 141                     EMPEROR OF JAPAN

## Working Group:

State - Dr. E. Reischauer, Chairman, S-2586  
 Navy - Lt. Comdr. P. P. Claxton, N-61723  
 OPD - Col. James McCormack, W-74974  
 C.D. - Lt. Col. E. W. Hendrick, W-74081

SECRET

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SWNCC 216/D  
216/1  
SFE 147  
147/1  
147/2  
147/3

PROVISIONS FOR THE COORDINATED EXPLOITATION  
OF JAPANESE INTELLIGENCE TARGETS OF INTER-  
NATIONAL CONCERN

## Original Working Group:

State - Mr. C. B. Fahs, Chairman, OSS-783  
OFD - Lt. Col. H. H. Towler, W-6034  
Col. R. F. Klocko, W-6034  
C.I.D. - Lt. Col. M. Proudfoot, W-73250  
Navy - Col. W. L. Bales, USMC, N-5236

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SWNCC 221/5  
221/6/D  
SFE 156 Series

REDETRITION OF JAPANESE AND OTHER PERSONS  
FROM THE JAPANESE MANDATED ISLANDS

## Working Group:

State - Mr. Rupert Emerson, Chairman, S-2586  
OFD - Col. W. B. Kunzig, W-2124  
C.I.D. - Capt. H. A. Fierst, W-71259  
Navy - Lt. Col. A. F. Metze, N-63068

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SWNCC 225/D  
SFE 155

CLARIFICATION OF WORKING RELATIONSHIP  
BETWEEN AFAC AND INTERIM INFORMATION  
SERVICE, STATE DEPARTMENT

## Working Group:

State - Dr. Hugh Borton, Chairman, S-2636  
Mr. Gordon Bowles, S-2805  
OFD - Lt. Col. Bruce Buttles, W-73022  
Major Paul Linebarger, W-5504  
C.I.D. - Lt. Col. E. W. Hendrick, W-74081  
Navy - Lt. Comdr. P. F. Claxton, N-61723  
State - Mr. Frank Schuler, NWL-75303

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SWNCC 228 Series  
SFE 142/3

CONSTITUTIONAL REFORM OF THE JAPANESE  
GOVERNMENT

## Working Group:

State - Dr. Hugh Borton, Chairman, S-2636  
OFD - Lt. Col. T. N. Dupuy, W-2971  
C.I.D. - Col. W. H. Peters, W-2907  
Navy - Comdr. S. Jurika, N-63068

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SWNCC 226  
226/1/D  
226/2/D  
SFE 160

ESTABLISHMENT OR RE-ESTABLISHMENT IN JAPAN  
OF BRANCHES OF AMERICAN BANKS

## Working Group:

State - Mr. E. M. Martin, Chairman, S-3019  
Lt. George Shaskin, S-2979  
OFD - No member designated  
C.I.D. - Major E. R. Shaw, W-73766  
Navy - Comdr. E. J. Gluckstadt, N-73474

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SECRET

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SWNCC 227/D                    REQUEST FROM CHINESE FOR RETURN OF DREDGER  
           227/1/D                "CHIEN SHO" AND LIGHT CRUISER "Y.T SEN"  
           227/3  
           227/6  
 SFE        153  
           153/1

## Working Group:

State - Mr. R. W. Barnett, Chairman, S-3020  
 OPD    - Col. H. A. Twitchel, W-71932  
 C.D    - Major J. T. Kramers, W-72252  
 Navy   - Lt. Comdr. P. P. Claxton, N-61723

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SWNCC 227/2/D                RETURN TO BRITISH OF FIRE ENGINES CAPTURED  
           227/7                BY JAPANESE AT HONGKONG  
 SFE        153/5  
           153/7

## Working Group:

State - Mr. W. W. Lockwood, Chairman, S-2992  
           Lt. George Shaskin, S-2979  
 OPD    - Col. H. A. Twitchel, W-71932  
 C.D    - Lt. Col. J. A. Frank, W-5013  
 Navy   - Lt. Comdr. P. P. Claxton, N-61723

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SWNCC 227/4/D                NETHERLANDS INDIES GOVERNMENT'S REQUEST  
 SFE        153 Series               FOR RETURN OF STEELSHIP "REBEL"

## Working Group:

State - Lt. George Shaskin, Chairman, S-2979  
 OPD    - Col. H. A. Twitchel, W-71932  
 CAD    - Lt. Col. J. A. Frank, W-5013  
 Navy   - Lt. Col. A. F. Metze, N-63068

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SWNCC 227/5/D                ARRANGEMENTS FOR RELEASE TO CLAIMANT  
 SFE        153/6                    NATIONS OF FORMER ALLIED VESSELS CAPTURED  
                                   BY JAPAN

## Working Group:

State - Mr. Henry Diemel, Chairman, S-2153  
           Lt. George Shaskin, S-2979  
 OPD    - Col. H. A. Twitchel, S-71932  
 CAD    - Lt. Col. Gerald Johnson, W-73738  
 Navy   - Lt. Col. A. F. Metze, N-63068

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SWNCC 232/2/D                POLICE FORCE AND NATIONAL DEFENSE FORCES  
 SFE        159 Series               FOR KOREA

## Working Group:

State - Mr. John Williams, S-2996  
 OPD    - Lt. Col. T. N. Dupuy, W-2971  
 C.D    - Lt. Col. E. W. Hendrick, W-74081  
 Navy   - Lt. Comdr. P. P. Claxton, N-61723

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SECRET

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SWNCC 236/D                    DECREE VESTING JAPANESE EXTERNAL ASSETS  
           236/1/D  
 SFE 162 Series

## Working Group:

State - Mr. E. Martin, Chairman, S-3019  
           Mr. W. W. Lockwood, S-2992  
           Mr. J. E. McDonald, S-2979  
 OPD - Lt. Col. A. G. Pixton, W-2283  
 C.A.D - Mr. W. A. Rudlin, W-6432  
 Navy - Lt. Comdr. P. P. Claxton, N-61723

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SWNCC 236/6                    ESTABLISHMENT OF AN INTER-ALLIED REPRESENTATIONS  
 SFE 162/2                    COMMISSION FOR JAPAN  
           162/3

See SWNCC 236/D.

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SWNCC 255/D                    GERMAN PROPERTY IN JAPAN  
 SFE 165

## Working Group:

State - Mr. J. E. McDonald, Chairman, S-2979  
           Mr. Warren Silver, S-2632  
 OPD - No member designated  
 C.A.D - Mr. W. A. Rudlin, W-6432  
 Navy - Lt. Comdr. P. P. Claxton, N-61723

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SWNCC 258                    REPATRIATION OF CIVILIAN JAPANESE FROM CHINA  
 SFE 128/9  
           128/13  
           128/15

## Working Group:

State - Dr. Hugh Borton, Chairman, S-2636  
           Lt. George Shaskin, S-2979  
 OPD - Lt. Col. W. B. Kunzig, W-2124  
 C.A.D - Lt. Col. G. W. Lewis, W-71259  
 Navy - Lt. Col. A. F. Metze, N-63068

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SWNCC 258/1/D                REPATRIATION OF JAPANESE CIVILIANS  
 SFE 128 Series

## Working Group:

State - Dr. Hugh Borton, Chairman, S-2636  
           Mr. Fulton Freeman, S-2666  
 OPD - Lt. Col. W. B. Kunzig, W-2124  
 C.A.D - Capt. H. A. Fierst, W-71259  
 Navy - Lt. Col. A. F. Metze, N-63068

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SWNCC                    REPATRIATION OF CIVILIAN JAPANESE FROM  
 SFE 128/11                SOUTHEAST ASIA

## Working Group:

See SWNCC 258

SECRET

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SWNCC 259                    INTERIM PROCEDURES FOR SUPPLYING YEN TO  
SFE 164                    OFFICIAL REPRESENTATIVES OF ALLIED NATIONS  
164/1                    IN TOKYO

## Working Group:

State - Lt. George Shaskin, Chairman, S-2979  
OPD - Will not supply member.  
CAD - Maj. E. R. Shaw, W-73766  
Navy - Comdr. E. J. Gluckstadt, N-61478

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SWNCC 265                    DISPOSAL OF JAPANESE PROPERTY IN KOREA  
SFE 153/2  
153/3  
153/4

## Working Group:

State - Mr. E. Martin, Chairman, S-3019  
OPD - Col. H. A. Twitchel, W-71932  
Lt. Col. T. N. Dupuy, W-2971  
CAD - Lt. Col. J. A. Frank, W-5013  
Navy - Lt. Comdr. P. F. Claxton, N-61723

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SWNCC                    INDUSTRIAL DISARMAMENT OF JAPAN  
SFE 166

## Working Group:

State - Mr. E. Martin, Chariman, S-3019  
Mr. W. W. Lockwood, S-2992  
Dr. Hugh Borton, S-2636  
OPD - Col. James McCormack, W-74974  
CAD - Col. E. A. Gross, W-71721  
Navy - Lt. Comdr. P. F. Claxton, N-61723

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SWNCC                    PROHIBITION OF USE OF BLOCKED YEN ACCOUNTS  
SFE 167

## Working Group:

State - Lt. George Shaskin, Chairman, S-2979  
OPD - No member designated.  
CAD - Major E. R. Shaw, W-73766  
Navy - Comdr. E. H. Gluckstadt, N-61478

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Unclassified

MI-4/1

Pages 1 to 3

23 October 1945

STATE-AR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE F.R. EAST

Memorandum for Information

No. 4/1. China Among the Powers, by D. N. Rowe

Note by the Secretary

1. The enclosure, an analysis of China Among the Powers, by David Nelson Rowe, published by Harcourt, Brace and Company, New York, 1945, as one of the Yale Institute of International Studies series, is the second of a projected series of book analyses and is circulated herewith for the information of the Subcommittee.

Hugh D. Farley  
Lieut., USNR  
Secretary

ENCLOSUREChina Among the Powers

By

D. N. Rowe

(168 pp. plus notes plus index)

1. The book is factual and unimaginative, a useful handbook for students of Far Eastern Affairs. For the Subcommittee it is recommended that the book be scanned by judicious use of the "Index" and "Contents".

2. It assumes, with respect to its title, that the position of any "great power" is dependent upon military power (p. 64) and concludes (p. 168) that the classification of China as one of the powers is still wishful thinking, not an international fact. The importance of understanding China's potentiality is stressed because of its relation to U.S. Far Eastern policy.

3. The descriptions of China's manpower (p. 23 ff.), of her agricultural potential, (p. 34 ff.) of her raw materials (p. 54 ff.) are worth the attention of those interested in these phases. The same is true for the succeeding three chapters on industrial development, on transport, and on government. (p. 75 ff.)

4. The excellent integration of statistics in the book is somewhat vitiated by the author's tendency to preach--a habit that it is difficult for those familiar with China to avoid. For example, the author concludes that China's soybean production should be increased. (p. 41) He proposes an extensive program for the mass training of youth in mechanical technologies (pp. 79-80), and he likewise offers an extensive program for rail development (p. 114). The composition and operation of a Japanese commission are proposed on pages 163-4. The partisan flavor of such proposals, which permeate the book, does not encourage the objective evaluation of possibilities or alternatives. International Relations needs more scientific "If-then" thinking.

5. The book also reflects too great a concern over China as a separate, self-contained unit in the world. For instance, the author concludes that there is little possibility that China may emerge as a military power in the next generation. Some reference to the Soviet accomplishments in such an interval and from a similar unpromising position might, however, suggest the possibility, still not a probability, that with appropriate inspiration, China also might achieve an unexpected integration and industrialization. Similarly, nationalist pressures and independence movements in S. E. Asia, in the N.E.I., in India and in Korea may influence the course of China's development to a significant degree, but are not treated in the book.



6. The prime contribution of the book is the conclusion that unless there is a settlement for Asia and the Pacific which will provide for the security of all peaceful states including China, the Chinese will "feel it necessary to build their military power as rapidly as possible to its potential maximum, giving only incidental attention to the inevitably evil results of this policy on their internal politics and social problems." (p. 51) This decision facing China today, whether to become a military power or to concentrate on the welfare of her people, is the most important issue for U.S. policy to consider. The various peace issues are reviewed (p. 152 ff.) and the necessity for a Sino-Soviet Agreement (now accomplished) is emphasized because of the long border between China and Russia. The possibility of China contributing to the control of Japan is discounted. A warning is given against deception by the Japanese by reason of their mastery of "indirect political control" (p. 165) which may be expected to continue underneath superficial governmental reforms.

7. Part I states that, except for the current year, China has lost all her wars within the last hundred years with consequent losses of territory to Britain, France, Russia and Japan. (p. 8) Japan's initial mistake was to persist in labeling the war with China an "incident" and consequently to employ only the old techniques of colonial warfare rather than full-scale invasion as was mounted against the Philippines and South-East Asia. (p.11)

8. Part II, on resources, states that the increasing population surplus in China is a distinct disadvantage to the development of China's military power. China's agricultural resources are described as much smaller than commonly realized. Rice, sugar, wheat, wool and cotton all have to be imported in order to maintain the domestic economy. Her coal reserves, though only 3% of those of the United States, are considered adequate for minimum industrial expansion. (p. 57) Her petroleum reserves are less than one per cent of those of the United States, and her waterpower production is insignificant when it is realized that the whole of Asia produces less than 10 per cent of world waterpower. (pp. 60-64). Because of the small and scattered nature of iron ore deposits, Mr. Rowe concludes that the development of a steel industry in China is not possible. Consequently, the rise of China as a military power could not take place "without some revolution in metallurgy which would eliminate the present dependence of military power on the technology of steel." (p. 68) Lumber supplies are equally inadequate. (p. 71)

9. After discussing the integration of Chinese industrial and population problems and the expansion of capital in China, the author foresees the course of China's development as a "picture of state-controlled or state-dominated transportation and industry, behind a protective system of tariffs and other controls over foreign trade and international payments." (p. 92) He suggests that foreign capital may be directed primarily to the building-up

of military power rather than to the general welfare of the people. (p. 95).

10. The total inadequacy of transport and communications is carefully documented as well as the inadequacy of the present form of Chinese Government. With respect to the latter, however, the author points out that "the precise form of the Chinese government during the next generation is less important than either its political acceptability or its functional scope." (p.141)

UNCLASSIFIEDCOPY NO. 13MI - 4/930 January 1947STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EASTMemorandum for InformationTHE SITUATION IN CHINASTATEMENT BY GENERAL GEORGE C. MARSHALL  
(Released to the Press 7 January 1947)Note by the Secretary

1. The enclosure, "The Situation in China", a statement by General George C. Marshall released to the press on 7 January 1947, is circulated for the information of the Subcommittee.

2. Holders of the Policy Notebook are requested to insert the enclosure in the Notebook as Item 24 and add the following on the 2nd page of the Index:

24. The Situation in China, A Statement by  
General George C. Marshall, 7 January 1947.

J. B. CRESAP  
Commander, USN  
Secretary

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THE SITUATION IN CHINA

STATEMENT BY GENERAL GEORGE C. MARSHALL

The President has recently given a summary of the developments in China during the past year and the position of the American Government toward China. Circumstances now dictate that I should supplement this with impressions gained at first hand.

In this intricate and confused situation, I shall merely endeavor here to touch on some of the more important considerations--as they appeared to me--during my connection with the negotiations to bring about peace in China and a stable democratic form of government.

In the first place, the greatest obstacle to peace has been the complete, almost overwhelming suspicion with which the Chinese Communist Party and the Kuomintang regard each other.

On the one hand, the leaders of the Government are strongly opposed to a communistic form of government. On the other, the Communists frankly state that they are Marxists and intend to work toward establishing a communistic form of government in China, though first advancing through the medium of a democratic form of government of the American or British type.

The leaders of the Government are convinced in their minds that the Communist-expressed desire to participate in a government of the type endorsed by the Political Consultative Conference last January had for its purpose only a destructive intention. The Communists felt, I believe, that the Government was insincere in its apparent acceptance of the PCC resolutions for the formation of the new government and intended by coercion of military force and the action of secret police to obliterate the Communist Party. Combined with this mutual deep distrust was the conspicuous error by both parties of ignoring the effect of fears and suspicions of the other party in estimating the reason for proposals or opposition regarding the settlement of various matters under negotiation. They each sought only to take counsel of their own fears. They both, therefore, to that extent took a rather lopsided view of each situation and were susceptible to every evil suggestion or possibility. This complication was exaggerated to an explosive degree by the confused reports of fighting on the distant and tremendous fronts of hostile military contact. Patrol clashes were deliberately magnified into large offensive actions. The distortion of the facts was utilized by both sides to heap condemnation on the other. It was only through the reports of American officers in the field teams from Executive Headquarters that I could get

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even a partial idea of what was actually happening, and the incidents were too numerous and the distances too great for the American personnel to cover all of the ground. I must comment here on the superb courage of our Army and Marines in struggling against almost insurmountable and maddening obstacles to bring some measure of peace to China.

I think the most important factors involved in the recent breakdown of negotiations are these: On the side of the National Government, which is in effect the Kuomintang, there is a dominant group of reactionaries who have been opposed, in my opinion, to almost every effort I have made to influence the formation of a genuine coalition government. This has usually been under the cover of political or party action, but since the Party was the Government, this action, though subtle or indirect, has been devastating in its effect. They were quite frank in publicly stating their belief that cooperation by the Chinese Communist Party in the government was inconceivable and that only a policy of force could definitely settle the issue. This group includes military as well as political leaders.

On the side of the Chinese Communist Party there are, I believe, liberals as well as radicals, though this view is vigorously opposed by many who believe that the Chinese Communist Party discipline is too rigidly enforced to admit of such differences of viewpoint. Nevertheless, it has appeared to me that there is a definite liberal group among the Communists, especially of young men who have turned to the Communists in disgust at the corruption evident in the local governments--men who would put the interest of the Chinese people above ruthless measures to establish a Communist ideology in the immediate future. The dyed-in-the-wool Communists do not hesitate at the most drastic measures to gain their end as, for instance, the destruction of communications in order to wreck the economy of China and produce a situation that would facilitate the overthrow or collapse of the Government, without any regard to the immediate suffering of the people involved. They completely distrust the leaders of the Kuomintang and appear convinced that every Government proposal is designed to crush the Chinese Communist Party. I must say that the quite evidently inspired mob actions of last February and March, some within a few blocks of where I was then engaged in completing negotiations, gave the Communists good excuse for such suspicions.

However, a very harmful and immensely provocative phase of the Chinese Communist Party procedure has been in the character of its propaganda. I wish to state to the American people that in the deliberate misrepresentation and abuse of the action, policies, and purposes of our Government this propaganda has been without regard for the truth, and has given plain evidence of a determined purpose to mislead the Chinese people and the world and to arouse a bitter hatred of Americans. It has been difficult to remain silent in the midst of such public abuse and wholesale disregard of facts, but a denial would merely lead to the necessity of daily denials; an intolerable course of action for an American official. In the interest of fairness, I must state that the Nationalist

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Government publicity agency has made numerous misrepresentations, though not of the vicious nature of the Communist propaganda. Incidentally, the Communist statements regarding the Anping incident which resulted in the death of three Marines and the wounding of twelve others were almost pure fabrication, deliberately representing a carefully arranged ambushade of a Marine convoy with supplies for the maintenance of Executive Headquarters and some UNRRA supplies as a defense against a Marine assault. The investigation of this incident was a tortuous procedure of delays and maneuvers to disguise the true and privately admitted facts of the case.

Sincere efforts to achieve settlement have been frustrated time and again by extremist elements of both sides. The agreements reached by the Political Consultative Conference a year ago were a liberal and forward-looking charter which then offered China a basis for peace and reconstruction. However, irreconcilable groups within the Kuomintang, interested in the preservation of their own feudal control of China, evidently had no real intention of implementing them. Though I speak as a soldier, I must here also deplore the dominating influence of the military. Their dominance accentuates the weakness of civil government in China. At the same time, in pondering the situation in China, one must have clearly in mind not the workings of small Communist groups or committees to which we are accustomed in America, but rather of millions of people and an army of more than a million men.

I have never been in a position to be certain of the development of attitudes in the innermost Chinese Communist circles. Most certainly, the course which the Chinese Communist Party has pursued in recent months indicated an unwillingness to make a fair compromise. It has been impossible even to get them to sit down at a conference table with Government representatives to discuss given issues. Now the Communists have broken off negotiations by their last offer which demanded the dissolution of the National Assembly and a return to the military positions of January 13 which the Government could not be expected to accept.

Between this dominant reactionary group in the Government and the irreconcilable Communists who, I must state, did not so appear last February, lies the problem of how peace and well-being are to be brought to the long-suffering and presently inarticulate mass of the people of China. The reactionaries in the Government have evidently counted on substantial American support regardless of their actions. The Communists by their unwillingness to compromise in the national interest are evidently counting on an economic collapse to bring about the fall of the Government, accelerated by extensive guerrilla action against the long lines of rail communications--regardless of the cost in suffering to the Chinese people.

The salvation of the situation, as I see it, would be the assumption of leadership by the liberals in the Government and in the minority parties, a splendid group of men, but who as yet lack the political power to exercise

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a controlling influence. Successful action on their part under the leadership of Generalissimo Chiang Kai-shek would, I believe, lead to unity through good government.

In fact, the National Assembly has adopted a democratic constitution which in all major respects is in accordance with the principles laid down by the all-party Political Consultative Conference of last January. It is unfortunate that the Communists did not see fit to participate in the Assembly since the constitution that has been adopted seems to include every major point that they wanted.

Soon the Government in China will undergo major reorganization pending the coming into force of the constitution following elections to be completed before Christmas Day 1947. Now that the form for a democratic China has been laid down by the newly adopted constitution, practical measures will be the test. It remains to be seen to what extent the Government will give substance to the form by a genuine welcome of all groups actively to share in the responsibility of government.

The first step will be the reorganization of the State Council and the executive branch of Government to carry on administration pending the enforcement of the constitution. The manner in which this is done and the amount of representation accorded to liberals and to non-Kuomintang members will be significant. It is also to be hoped that during this interim period the door will remain open for Communists or other groups to participate if they see fit to assume their share of responsibility for the future of China.

It has been stated officially and categorically that the period of political tutelage under the Kuomintang is at an end. If the termination of one-party rule is to be a reality, the Kuomintang should cease to receive financial support from the Government.

I have spoken very frankly because in no other way can I hope to bring the people of the United States to even a partial understanding of this complex problem. I have expressed all these views privately in the course of negotiations; they are well known, I think, to most of the individuals concerned. I express them now publicly, as it is my duty, to present my estimate of the situation and its possibilities to the American people who have a deep interest in the development of conditions in the Far East promising an enduring peace in the Pacific.

Unclassified

MI-4

8 October 1945

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

Memorandum for Information

No. 4. The Super-Powers, by W. T. R. Fox

Note by the Secretary

1. There is a number of books in the Subcommittee library in Room 4304, Munitions Building, some purchased for the Subcommittee and others loaned temporarily from libraries in the three departments, all available on loans to the Subcommittee. The Secretary proposes to circulate brief analyses of selected books from time to time for the information of the Subcommittee.

2. The enclosure, an analysis of The Super-Powers, by W. T. R. Fox, published by Harcourt, Brace & Co., N. Y., 1945, as one of the Yale Institute of International Studies Series, is the first of such analyses and is circulated herewith.

HUGH D. FARLEY  
Lieut., USNR  
Secretary

MI-4



ENCLOSURE

The Super-Powers  
(The U.S., Britain and the Soviet Union-  
Their Responsibility for Peace)

By  
W.T.R. Fox  
(162 pp. plus notes plus index)

1. The book is brief, readable and illuminating as an objective analysis of the potentialities for conflict and collaboration among the Big Three without the usual moral imperatives of writers on international relations. Its primary focus is on Europe with a weak parallel drawn for the Far East, but its logic is sound in any evaluation of Big Three relations. The book as a whole is committed to the Subcommittee, reading time about two hours.

2. Part I sets the context for a book on power politics:

"Even after you give the squirrel a certificate which says he is quite as big as any elephant, he is still going to be smaller, and all the squirrels will know it and all the elephants will know it." (p.3)

Power is defined as including estimates of the military strength of potential opponents, the objectives for which power is to be used, the capacity to attract allies, the period during which maximum power can be maintained, the interval before maximum strength is reached, and its effectiveness in one's own territory, in that of the enemy, or in other areas. (p. 102)

Concluding that power in post-war world will rest in the hands of the Big Three, not in any supra-national body, Mr. Fox sees his job as the discovery of conditions under which it will pay the Big Three to use their power in a moderate and responsible fashion. (p.10)

Then follows a historical tracing of the evolution of the center of world power from central Europe to various areas outside Europe, the Soviet Union, the U.S. and the U.K. Europe, however, still remains the greatest potentiality for a third world war. (pp. 12-21)

3. Part II describes mutual Anglo-U.S. interdependence. Sources of possible conflict are given as: (1) postwar U.S. dependence on the tin and rubber of Southeast Asia, (2) British investments in Latin America, (3) surplus shipping, (4) conflicting trade policies, (5) commercial aviation, (6) markets in semicolonial areas, (7) surplus grain production and (8) Palestine and the Arab world. (pp. 33-36)

The strategic interdependence of Britain and the U.S. is analyzed as resting on their common quest for security, the position of Britain as an "island-base" for the channeling of U.S. power to Europe, and the transmission of U.S. power to various world areas via the British Empire, as demonstrated during the war.

"In summary, both Britain and Britain's Empire are essential to American security because they provide the indispensable bases from which threats to the U.S. from Old World aggressors can be stopped within the Old World. American war potential plus British "locational" assets make a formidable combination throughout the seven seas and about the fringes of the Eurasian land mass." (pp. 58-59)

Their first line of joint defense is "the maintenance of the territorial integrity of Germany's immediate neighbors...." (p. 62)

The author analyzes objections to a U.S.-U.K. bilateral defense pact (p. 66), and recommends a formal statement of U.S. interest in a friendly and independent Britain at an appropriate time.

4. Part III, on the Soviet Union, states that diplomats must act, "as if" the Soviet Union will either be expansionist or not, or only moderately so.

"The problem of American foreign policy is not to create a situation in which the U.S. could successfully commit an act of aggression against the Soviet Union but rather to minimize the possible disregard of its own national interest." (p. 77)

"Instead of being cynical about Soviet intentions, thoughtful and informed Americans will try first to understand Soviet objectives and to discover the extent to which these objectives can be reconciled with American objectives." (p. 84)

It is concluded that the Soviet Union will prefer greater security to additional territory because of (1) the devastation of the Ukraine, (2) the desire for peace production after war sacrifices, (3) the eastward movement into Asia of Soviet economic centers, (4) Soviet "defense in depth" strategy could not be supported unless the peoples in areas of possible expansion genuinely demanded to be sovietized, (5) violent annexations would split Communist ideology, (6) a Red Germany would become a competing center of Communist policy, and (7) the expansion of Soviet population. (pp. 85-90)

The price of collaboration is for the Western powers to recognize the pre-1941 additions to Soviet territory and recognition of the Soviet right to friendly regimes in countries

adjacent to it. (pp. 93-94)

There is not much likelihood of direct conflict between the Soviet and the Eastern Powers because (1) they are geographically separated, (2) each can generate maximum power only after attack, and (3) a war between them would be long, inconclusive, and terrifically destructive. (p. 98) The dangerpoint in world politics is still Germany. (p. 105)

5. Part IV outlines the agenda for collaboration on the bases of (1) no hegemony in Europe by Germany or other powers, (2) recognition of the special security interests of the Big Three, and (3) agreement on the minima for democracy in Germany and in Europe.

Mr. Fox justifies this agenda on the grounds of efficiency. The collective approach to the attainment of national interests should appeal more than the "lone-hand" approach on the principle of the economy of joint action. He warns that U.S. membership in a United Nations organization is not all-important, especially in the light of the basic vein of American foreign policy, "no prior commitments." In view of the fact that the U.S. has entered two world wars, it is concluded that potential aggressors may expect intervention a third time.

With respect to the relations between the super-powers and other countries, Mr. Fox reverts to the theme of the squirrels versus the elephants. The Sovereignty of states is a poor parallel to the sovereignty of individuals.

"The poor are potentially rich. Siam is not even potentially a Soviet Union, nor is Honduras potentially a Britain." (p. 144)

"In this world a self-constituted coalition of first-rank powers must be the nucleus of a general security program." (p. 155)

He concluded with the following program: (1) a unilateral declaration by the U.S. of its interests in a strong and independent Britain and a reciprocal declaration by Britain in support of American position in the Pacific, (2) a multilateral agreement and a general security organization [already accomplished], (3) an exchange of identical notes for the continuance of joint planning under the CCS, (4) the Anglo-Soviet treaty of defensive alliance, (5) a three-power declaration on Europe and Germany, (6) defensive alliances between Germany's neighbors and the adjacent super-powers, (7) a three-power declaration on the integrity of China, and (8) a three-power agreement for mutual consultation.

*File*UNCLASSIFIEDCOPY NO. 13MI - 3/9Pages 1 to 723 January 1947STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EASTMEMORANDUM FOR INFORMATIONUNITED STATES POLICY WITH RESPECT TO THE FAR EASTNote by the Secretary

1. The enclosure, "United States Policy Toward China", a statement by the President released on 18 December 1946, is circulated for the information of the Subcommittee.

2. Holders of the Policy Notebook are requested to insert the enclosure in the Notebook as Item 23 and add the following on the 2nd page of the Index:

23. United States Policy Toward China, A Statement by the President, 18 December 1946.

J. F. CRESAP  
Commander, USN  
Secretary

UNITED STATES POLICY TOWARD CHINASTATEMENT BY THE PRESIDENT

[Released to the press by the White House December 18]

Last December I made a statement of this Government's views regarding China. 1/ We believed then, and do now, that a united and democratic China is of the utmost importance to world peace, that a broadening of the base of the National Government to make it representative of the Chinese people will further China's progress toward this goal, and that China has a clear responsibility to the other United Nations to eliminate armed conflict within its territory as constituting a threat to world stability and peace. It was made clear at Moscow last year that these views are shared by our Allies, Great Britain and the Soviet Union. On December 27, Mr. Byrnes, Mr. Molotov, and Mr. Bevin issued a statement which said in part:

"The three Foreign Secretaries exchanged views with regard to the situation in China. They were in agreement as to the need for a unified and democratic China under the National Government, for broad participation by democratic elements in all branches of the National Government, and for a cessation of civil strife. They affirmed their adherence to the policy of non-interference in the internal affairs of China." 2/

The policies of this Government were also made clear in my statement of last December. We recognized the National Government of the Republic of China as the legal government. We undertook to assist the Chinese Government in reoccupation of liberated areas and in disarming and repatriating the Japanese invaders. And finally, as China moved toward peace and unity along the lines mentioned, we were prepared to assist the Chinese economically and in other ways.

I asked General Marshall to go to China as my representative. We had agreed upon my statement of the United States Government's views and policies regarding China as his directive. He knew full well in undertaking the mission that halting civil strife, broadening the base of the Chinese Government, and bringing about a united, democratic China were tasks for the Chinese themselves. He went as a great American to make his outstanding abilities available to the Chinese.

During the war the United States entered into an agreement with the Chinese Government regarding the training and equipment of a special force

\* 1/ BULLETIN of Dec. 16, 1945, p. 945.  
2/ BULLETIN of Dec. 30, 1945, p. 1030.

\* References are to The Department of State Bulletins.

of 39 divisions. That training ended V-J Day and the transfer of the equipment had been largely completed when General Marshall arrived.

The United States, the United Kingdom, and the Union of Soviet Socialist Republics all committed themselves to the liberation of China, including the return of Manchuria to Chinese control. Our Government had agreed to assist the Chinese Government in the reoccupation of areas liberated from the Japanese, including Manchuria, because of China's lack of shipping and transport planes. Three armies were moved by air and eleven by sea to central China, Formosa, north China, and Manchuria. Most of these moves had been made or started when General Marshall arrived.

The disarming and evacuation of Japanese progressed slowly--too slowly. We regarded our commitment to assist the Chinese in this program as of overwhelming importance to the future peace of China and the whole Far East. Surrendered but undefeated Japanese armies and hordes of administrators, technicians, and Japanese merchants, totalling about 3,000,000 persons, had to be removed under the most difficult conditions. At the request of the Chinese Government we had retained a considerable number of American troops in China, and immediately after V-J Day we landed a corps of Marines in north China. The principal task of these forces was to assist in the evacuation of Japanese. Only some 200,000 had been returned to Japan by the time General Marshall arrived.

General Marshall also faced a most unpropitious internal situation on his arrival in China. Communications throughout the country were badly disrupted due to destruction during the war and the civil conflicts which had broken out since. This disruption was preventing the restoration of Chinese economy, the distribution of relief supplies, and was rendering the evacuation of Japanese a slow and difficult process. The wartime destruction of factories and plants, the war-induced inflation in China, the Japanese action in shutting down the economy of occupied China immediately after V-J Day, and finally the destruction of communications combined to paralyze the economic life of the country, spreading untold hardship to millions, robbing the victory over the Japanese of significance to most Chinese, and seriously aggravating all the tensions and discontents that existed in China.

Progress toward solution of China's internal difficulties by the Chinese themselves was essential to the rapid and effective completion of most of the programs in which we had already pledged our assistance to the Chinese Government. General Marshall's experience and wisdom were available to the Chinese in their efforts to reach such solutions.

Events moved rapidly upon General Marshall's arrival. With all parties availing themselves of his impartial advice, agreement for a country-wide truce was reached and announced on January 10th. A feature of this agreement was the establishment of a unique organization--the Executive Headquarters in Peiping. It was realized that due to poor communications and the bitter feelings on local fronts, generalized orders to cease fire and withdraw might have little chance of being carried out unless some authoritative executive agency, trusted by both sides, could function in any local situation.

The headquarters operated under the leaders of three commissioners-- one American who served as chairman, one Chinese Government representative, and one representative of the Chinese Communist Party. Walter S. Robertson, Chargé d'Affaires of the American Embassy in China, served as chairman until his return to this country in the fall. In order to carry out its function in the field, Executive Headquarters formed a large number of truce teams, each headed by one American officer, one Chinese Government officer, and one Chinese Communist officer. 1/ They proceeded to all danger spots where fighting was going on or seemed impending and saw to the implementation of the truce terms, often under conditions imposing exceptional hardships and requiring courageous action. The degree of cooperation attained between Government and Communist officers in the headquarters and on the truce teams was a welcome proof that, despite two decades of fighting, these two Chinese groups could work together.

Events moved forward with equal promise on the political front. On January 10, the Political Consultative Conference began its sessions with representatives of the Kuomintang or Government Party, the Communist Party and several minor political parties participating. Withing three weeks of direct discussion these groups had come to a series of statesmanlike agreements on outstanding political and military problems. The agreements provided for an interim government of a coalition type with representation of all parties, for revision of the draft constitution along democratic lines prior to its discussion and adoption by a national assembly, and for reduction of the Government and Communist armies and their eventual amalgamation into a small, modernized, truly national army, responsible to a civilian government.

In March General Marshall returned to this country. He reported on the important step the Chinese had made toward peace and unity in arriving at these agreements. 2/ He also pointed out that these agreements could not be satisfactorily implemented and given substance unless China's economic disintegration were checked and particularly unless the transportation system could be put in working order. Political unity could not be built on economic chaos. This Government had already authorized certain minor credits to the Chinese Government in an effort to meet emergency rehabilitation needs as it was doing for other war devastated countries throughout the world. A total of approximately \$66,000,000 was involved in six specific projects, chiefly for the purchase of raw cotton, and for ships and railroad repair material. But these emergency measures were inadequate. Following the important forward step made by the Chinese in the agreements as reported by General Marshall, the Export-Import Bank earmarked a total of \$500,000,000 for possible additional credits on a project by project basis to Chinese Government agencies and private enterprises. Agreement to extend actual credits for such projects would obviously have to be based upon this Government's policy as announced December 15, 1945. So far, this \$500,000,000 remains earmarked, but unexpended.

While comprehensive large-scale aid has been delayed, this Government has completed its wartime lend-lease commitments to China. Lend-lease

1/ BULLETIN of Mar. 24, 1946, p. 484.

2/ BULLETIN of Mar. 24, 1946, p. 484.

assistance was extended to China to assist her in fighting the Japanese, and later to fulfil our promise to assist in reoccupying the country from the Japanese. Assistance took the form of goods and equipment and of services. Almost half the total made available to China consisted of services, such as those involved in air- and water-transportation of troops. According to the latest figures reported, lend-lease assistance to China up to V-J Day totaled approximately \$870,000,000. From V-J Day to the end of February, shortly after General Marshall's arrival, the total was approximately \$600,000,000--mostly in transportation costs. Thereafter, the program was reduced to the fulfilment of outstanding commitments, much of which was later suspended.

A considerable quantity of civilian goods has also been made available by our agreement with China for the disposal of surplus property which enabled us to liquidate a sizable indebtedness and to dispose of large quantities of surplus material. During the war the Chinese Government furnished Chinese currency to the United States Army for use in building its installations, feeding the troops, and other expenses. By the end of the war this indebtedness amounted to something like 150,000,000,000 Chinese dollars. Progressive currency inflation in China rendered it impossible to determine the exact value of the sum in United States currency.

China agreed to buy all surplus property owned by the United States in China and on seventeen Pacific Islands and bases with certain exceptions. Six months of negotiations preceded the agreement finally signed in August. <sup>1</sup> It was imperative that this matter be concluded in the Pacific as had already been done in Europe, especially in view of the rapid deterioration of the material in open storage under tropical conditions, and the urgent need for the partial alleviation of the acute economic distress of the Chinese people, which it was hoped this transaction would permit. Aircraft, all non-demilitarized combat material, and fixed installations outside of China were excluded. Thus, no weapons which could be used in fighting a civil war were made available through this agreement.

The Chinese Government canceled all but 30,000,000 United States dollars of our indebtedness for the Chinese currency, and promised to make available the equivalent of 35,000,000 United States dollars for use in paying United States governmental expenses in China and acquiring and improving buildings and properties for our diplomatic and consular establishments. An additional sum of 20,000,000 United States dollars is also designated for the fulfilment of a cultural and educational program.

Before General Marshall arrived in China for the second time, in April, there was evidence that the truce agreement was being disregarded. The sincere and unflagging efforts of Executive Headquarters and its truce teams have succeeded in many instances in preventing or ending local engagements, and thus saved thousands of lives. But fresh outbreaks of civil strife continued to occur, reaching a crisis of violence in Manchuria, with the capture of Changchun by the Communists, and where the presence of truce teams had not been fully agreed to by the National Government.

<sup>1</sup>/ BULLETIN of Sept. 22, 1946, p. 548.



A change in the course of events in the political field was equally disappointing. Negotiations between the Government and the Communists have been resumed again and again, but they have as often broken down. Although hope for final success has never disappeared completely, the agreements made in January and February have not been implemented, and the various Chinese groups have not since that time been able to achieve the degree of agreement reached at the Political Consultative Conference.

There has been encouraging progress in other fields, particularly the elimination of Japanese from China. The Chinese Government was responsible under an Allied agreement for the disarmament of all Japanese military personnel and for the repatriation of all Japanese civilians and military personnel from China, Formosa, and French Indo-China north of the sixteenth degree of latitude. Our Government agreed to assist the Chinese in this task. The scope of the job was tremendous. There were about 3,000,000 Japanese, nearly one half of them Army or Navy personnel, to be evacuated. Water and rail transportation had been destroyed or was immobilized. Port facilities were badly damaged and over-crowded with relief and other supplies. The Japanese had to be disarmed, concentrated, and then transported to the nearest available port. In some instances this involved long distances. At the ports they had to be individually searched and put through a health inspection. All had to be inoculated. Segregation camps had to be established at the ports to cope with the incidence of epidemic diseases such as Asiatic cholera. Finally, 3,000,000 persons had to be moved by ship to Japan.

American forces helped in the disarmament of Japanese units. Executive Headquarters and its truce teams were able to make the complicated arrangements necessary to transfer Japanese across lines and through areas involved in civil conflict on their way to ports of embarkation. American units also participated in the inspections at the port, while American medical units supervised all inoculation and other medical work. Finally, American and Japanese ships under the control of General MacArthur in Japan, and a number of United States Navy ships under the Seventh Fleet transported this enormous number of persons to reception ports in Japan.

At the end of last year, approximately 200,000 Japanese had been repatriated. They were leaving Chinese ports at a rate of about 2,500 a day. By March of this year, rapidly increased efforts on the part of the American forces and the Chinese authorities involved had increased this rate to more than 20,000 a day. By November, 2,986,438 Japanese had been evacuated and the program was considered completed. Except for indeterminate numbers in certain parts of Manchuria, only war criminals and technicians retained on an emergency basis by the Chinese Government remain. That this tremendous undertaking has been accomplished despite conflict, disrupted communications, and other difficulties will remain an outstanding example of successful American-Chinese cooperation toward a common goal.

Much has been said of the presence of United States armed forces in China during the past year. Last fall these forces were relatively large. They had to be. No one could prophesy in advance how well the Japanese

forces in China would observe the surrender terms. We had to provide forces adequate to assist the Chinese in the event of trouble. When it became obvious that the armed Japanese would not be a problem beyond the capabilities of the Chinese Armies to handle, redeployment was begun at once.

The chief responsibility of our forces was that of assisting in evacuation of Japanese. This task was prolonged by local circumstances. Provision of American personnel for the Executive Headquarters and its truce teams has required a fairly large number of men, particularly since the all important network of radio and other communications was provided entirely by the United States. The Executive Headquarters is located at Peiping, a hundred miles from the sea, and in an area where there was the possibility of local fighting. Hence, another responsibility was to protect the line of supply to and from headquarters. Another duty our forces undertook immediately upon the Japanese surrender was to provide the necessary protection so that coal from the great mines northeast of Tientsin could reach the sea for shipment to supply the cities and railroads of central China. This coal ~~was~~ essential to prevent the collapse of this industrial area. Our Marines were withdrawn from this duty last September. Other units of our forces were engaged in searching for the bodies or graves of American soldiers who had died fighting the Japanese in China. Still others were required to guard United States installations and stores of equipment, and to process these for return to this country or sale as surplus property.

At peak strength a year ago we had some 113,000 soldiers, sailors, and marines in China. Today this number is being reduced to less than 12,000, including some 2,000 directly concerned with the operations of Executive Headquarters, and will be further reduced to the number required to supply and secure the American personnel of Executive Headquarters and the air field and stores at Tsingtao.

Thus during the past year we have successfully assisted in the repatriation of the Japanese and have subsequently been able to bring most of our own troops home. We have afforded appropriate assistance in the reoccupation of the country from the Japanese. We have undertaken some emergency measures of economic assistance to prevent the collapse of China's economy and have liquidated our own wartime financial account with China.

It is a matter of deep regret that China has not yet been able to achieve unity by peaceful methods. Because he knows how serious the problem is, and how important it is to reach a solution, General Marshall has remained at his post even though active negotiations have been broken off by the Communist Party. We are ready to help China as she moves toward peace and genuine democratic government.

The views expressed a year ago by this Government are valid today. The plan for political unification agreed to last February is sound. The plan for military unification of last February has been made difficult of implementation by the progress of the fighting since last April, but the general principles involved are fundamentally sound.

China is a sovereign nation. We recognize that fact and we recognize the National Government of China. We continue to hope that the Government will find a peaceful solution. We are pledged not to interfere in the internal affairs of China. Our position is clear. While avoiding involvement in their civil strife, we will persevere with our policy of helping the Chinese people to bring about peace and economic recovery in their country.

As ways and means are presented for constructive aid to China, we will give them careful and sympathetic consideration. An example of such aid is the recent agricultural mission to China under Dean Hutchison of the University of California, sent at the request of the Chinese Government. A joint Chinese-American agricultural collaboration commission was formed which included the Hutchison mission. <sup>1/</sup> It spent over four months studying rural problems. Its recommendations are now available to the Chinese Government, and so also is any feasible aid we can give in implementing those recommendations. When conditions in China improve, we are prepared to consider aid in carrying out other projects, unrelated to civil strife, which would encourage economic reconstruction and reform in China and which, in so doing, would promote a general revival of commercial relations between American and Chinese businessmen.

We believe that our hopes for China are identical with what the Chinese people themselves most earnestly desire. We shall therefore continue our positive and realistic policy toward China, which is based on full respect for her national sovereignty and on our traditional friendship for the Chinese people, and is designed to promote international peace.

<sup>1/</sup> BULLETIN of June 16, 1946, p. 1054.

*8 file*MI - 3/8COPY NO. 1327 March 1946*Rest as of  
4 Oct 45  
change*STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EASTMEMORANDUM FOR INFORMATION NO. 3UNITED STATES POLICY WITH RESPECT TO THE FAR EASTReference: a. MI-3Note by the Secretary

1. The enclosure, "The Japanese Constitution - Present and Proposed", together with separation sheet and tab, is circulated for insertion in the "Policy Notebook", MI-3, distributed on 4 October 1945.

2. It is suggested that the enclosure be added at the end of the notebook and that the following entry be typed in on the "Index" page of the notebook after Item No. 21:

"22. The Japanese Constitution - Present and Proposed".

A. F. Richardson  
Commander, USN  
Acting Secretary

MI-3/7COPY NO. 1326 February 1946STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EASTMEMORANDUM FOR INFORMATIONNo. 3 United States Policy with Respect to the Far East  
Reference: a. MI-3Note by the Secretary

1. The enclosure, "Yalta Agreement", (including the statement of Secretary of State James F. Byrnes upon the release of the text of the secret agreement), together with separation sheet and tab, is circulated for insertion in the "Policy Handbook", MI-3, distributed on 4 October 1945.

2. It is suggested that the enclosure be added at the end of the notebook and that the following entry be typed in on the "Index" page of the notebook after Item No. 20:

"21. Yalta Agreement"

A. F. Richardson  
Commander, USN  
Acting Secretary

*Same distribution  
as 3 Jan 46*

*list "A"*  
*30 Jan 46*  
*By Lurson.*

MI-3/6

7 February 1946

Pages 1 to 6

*File*

COPY NO. 13

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

MEMORANDUM FOR INFORMATION

No. 3 United States Policy With Respect to the Far East

Note by the Secretary

1. The enclosure, "The Program for Peaceful National Reconstruction in China", a broadcast from Chungking monitored by the FBIS, is forwarded for the information of the Subcommittee.

A. F. Richardson  
Commander, USN  
Acting Secretary

## CHINA'S NATIONAL RECONSTRUCTION

## INTERIM DEMOCRATIC REFORMS OUTLINED

Chungking broadcasts in English a commentary entitled "The Program for Peaceful National Reconstruction" as follows:

"Now that the war of resistance against Japan has ended and peaceful reconstruction should begin, the National Government has invited representatives of the different political parties and prominent social leaders to the Political Consultative Conference to discuss national problems, with the double objective of putting an end to the period of political tutelage and inaugurating constitutionalism at an early date.

"The present program was drawn up to serve as a guide for the Government, pending the actual inauguration of constitutionalism. Representatives of the different political parties and prominent social leaders will be invited to take part in the Government. It is to be hoped that one and all will take prompt consideration to the need of the Nation and the demand of the people, and that they will cooperate wholeheartedly and work for the realization of the program, whose main features are as follows:

## General Principles

"Part One, general principles: 1. The principle of San Min Chu I will be recognized as the highest guiding principle for national reconstruction.

"2. All forces of the Nation will unite under the leadership of President Chiang Kai-shek in order to construct the new China, unified, free, and democratic.

"3. It is recognized that the democratization of politics, the nationalization of troops, and the equality and legality of all political parties, as advocated by President Chiang, are necessary paths leading to peaceful national construction.

"4. Political disputes must be settled by political means in order to maintain peaceful national development.

## Popular Rights

"Part two, the rights of the people: 1. The freedom of persons, thought, religion, belief, speech, the press, assembly, association, residence, removal, and correspondence should be guaranteed to the people. Any existing laws which contravene with these freedoms should be either revised or repealed.

"2. Any organization or individual, other than judicial organs and the police, should be strictly forbidden to arrest, try, and punish the people. Anyone who violates this rule shall be punished. The habeas corpus law, which has already been promulgated by the Government, should be put into practical operation by Government decree at an early date.

"3. The political, social, educational, and economic equality of women should be guaranteed.

## Political Problems

"Part three, political problems. 1. All national measures of the moment should take into consideration the proper interest of the people of all localities, classes, and profession, and allow for their equitable development.

"2. In order to increase administrative efficiency, the people's knowledge of administrative machinery should be revamped, their rights and duties should be unified and clearly

(defined), all unnecessary governmental agencies should be abolished, administrative procedure should be simplified, and the principle of individual responsibility of each for his own section of the work should be introduced.

"3. A sound system of civil service should be established. Competent individuals should be protected. Government employees should be appointed not on the basis of personal or party allegiance but in view of his ability and past experience. No one should be allowed to hold concurrent jobs or get into Government service through the (assistance) of purely personal influence.

"4. The unity and independence of judicial power should be guaranteed, excluding it from political interference. The personnel in the courts of law should be increased, their salaries and (words missing) should be raised, the judicial procedure should be simplified, and (words missing) should be reformed.

"5. The supervision assistance should be strictly enforced, corruption severely punished, and facilities should be given to the people to accuse corrupt officials.

"6. Local self-government should actively be pushed forward, and popular elections from the lower administration and gradually ascending to the highest unit should be carried out. Provincial, district, and municipal councils should be established throughout the country at an early date, and the district legislatures elected by the people. In such localities and districts where minority people live, the number of provincial or district councilors to be elected by these minority people should be fixed according to the proportion they occupy in their respective provinces or districts.

"7. All national administrative matters which have been carried out in the territory of a district which has attained complete self-government must be carried out under the supervision and control of the National Government.

"8. The power of the central and the local governments should be graduated on the basis of the principle of 'a fair distribution of power'. The local governments may take such measures as are adapted to the special circumstances of the localities concerned, but the regulations issued by the provincial and district governments must not contravene the laws or the decrees of the Central Government.

#### Military Affairs

"Part Four, military affairs: 1. The Army belongs to the State. It is the duty of the soldier to protect the country and love the people and to insure unity of the military organization and of military command.

"2. All military establishments should be adapted to the need of national defense. The military system should be reformed in accordance with democratic institutions and the circumstances of the Nation. The Army and political parties should be separated from each other, military and civil authorities should be vested in different hands, military education should be improved, equipment should be adequate, and a sound personnel and finance system should be introduced. All these should be done in order to create a modernized national army.

"3. The system of conscription should be improved and made to apply fairly throughout the whole country. Some form of volunteer system should be maintained and improved upon in order to meet the need of a fully equipped army.

"4. All troops of the country should be reorganized, (words



missing) number of units in accordance with the provisions of the 'military reorganization plan'.

"5. Preparations for the rehabilitation and employment of disbanded and retired officers and men should be made. The livelihood of disabled officers and men should be guaranteed. The families of fallen officers and men should be provided for.

"6. A time limit should be set for the repatriation of the Japanese troops who have surrendered. Adequate measures should be taken to operate at an early date for the disbandment of puppet troops and the liquidation of roving armed bands.

#### Foreign Affairs

"Part Five, foreign relations: 1. The Atlantic Charter, the Cairo Declaration, the Moscow Four-Power Declaration, and the United Nations Organization Charter should be observed. China will take an active part in the UNO in order to preserve world peace.

"2. All remnants of Japanese influence in China should be expurgated according to the provisions of the Potsdam Declaration. The problem of Japan should be solved in cooperation with the other Allied nations to prevent the resurgence of Japanese puppet-militarist force and to guarantee the security of the Far East.

"3. Friendly relations with the United States, the Soviet Union, the United Kingdom, France, and other democratic countries should be promoted, future obligations should be observed, and economic and cultural cooperation should be undertaken in order to work for the prosperity and progress of the world in conjunction with other countries.

"4. Commercial treaties, based on the principles of equality and reciprocity, should be concluded at an early date with other nations when necessary, and the provision of Chinese residents overseas should be ameliorated.

#### Economics and Finance

"Part Six, economics and finance: 1. The plan of economic reconstruction should be formulated in accordance with the teaching of Dr. Sun Yat-sen, 'industrial planning', and the cooperation of foreign capital and technique should be welcomed.

"2. Any enterprise which partakes of the nature of a monopoly or which cannot be undertaken by private initiative should be classified as state enterprise; people should be encouraged to undertake all other enterprises. Such should be the principle for the first stage of economic reconstruction, which must be effectively carried out. All existing measures should be examined and improved upon in the light of this principle.

"3. In order to hasten the profit of China's industrialization, the Government should convene a National Economic Conference, to which will be invited social leaders, interested in the economic reconstruction. In this way, the Government will be able to sound out popular opinion and to decide upon the measures to be taken.

"4. The development of (words missing) should be forestalled. The Government officers should be strictly forbidden to take advantage of their official position to indulge in speculation and (words missing) evade taxes, smuggle, embezzle public funds, and illegally make use of the means of transportation.

"5. Active preparations must be made for the completion of additional railways and highways, harbors and bays, irrigation, and other projects. Subsidies should be granted to those who construct houses, schools, hospitals, and other public buildings.

"6. Farm rents and interest rates must be effectively reduced. The rights of the lessee must be protected, and the payment of farm rent must be guaranteed. More and larger loans to farmers must be made available, and usury should be strictly prohibited. All of these must be done in order to better the peasants' lot. The land law must be put into operation so as to obtain the objective of 'he who tills the soil also owns it'.

"7. Active measures should be taken to help the people increase their productive power by reforestation and the growth of grass, the conservation of water and soil, the development of animal husbandry, the reorganization and further development of agricultural cooperation, the expansion of agriculture experimentation and research, and the utilization of modern equipment and methods to kill locusts and other insects.

"8. Labor laws must be put into operation. The condition of labor must be improved, the labor system should be put on trial, unemployment and disablement insurance should be started, and female labor should receive adequate protection, and more workers' schools should be established in order to raise the cultural level of the working population.

"9. Laws governing industrial association should be made at an early date, so that those engaged in industrial undertakings may form their own associations. Laws concerning factory management should be examined and revised on the assumption that there prevails a spirit of conciliation between capital and labor.

"10. Financial accounts should be made public. The budget system and annual accounts systems should be strictly adopted. Public expenditure should be curtailed, and revenues and expenditures should be balanced. Government finance and local finance should be sharply differentiated. The currency should be deflated, and the monetary system should be stabilized. The raising of both domestic and foreign loans and the use to which they will be put should be made public and subject to popular supervision.

"11. The system of taxation should be reformed. All illegal taxing and extortion should be completely abolished. The various offices for the collection of taxes should be amalgamated, and the procedure of collection should be simplified. Progressive taxes should be imposed on effects and incomes. National banks should be entrusted with the special economic task in order to help develop industry and agriculture. Assets which have escaped to foreign countries or have been frozen should be commandeered to be used for the balancing of the budget.

#### Educational Reform

"Part Seven, education and culture: 1. The freedom of learning should be guaranteed. Religion beliefs and political ideologies should not be allowed to interfere with school and college administrations.

"2. Scientific research and artistic creation should be encouraged in order to raise the national cultural level.

"3. Compulsory education and social education should be made nation-wide. Illiteracy should be actively wiped out. Professional education should be expanded in order to increase the professional ability of the people. Longer education should be further developed in order to educate more qualified teachers or compulsory education. The contents of the teaching material in the various grades in schools should be revised in the light of the democratic and scientific schools.

"4. The proportion of the national budget to be devoted to education and cultural enterprises should be increased. The salary and retirement annuities of teachers in the lower grades

of schools should be reasonably increased. Correspondents should be subsidized so that they can go to school and continue their studies. Endowments should be made for scientific and creative, literary, and artistic work.

"5. Privately endowed schools and cultural works among the people should be encouraged and subsidized.

"6. In order to promote national health encouragement and assistance should be given to all forms of welfare, public health installations should be made nation-wide, and physical exercise should be actively encouraged.

"7. The wartime censorship of the press, motion pictures, drama, letters and telephone should be abolished. Assistance should be given to the development of business in connection with publications, news agencies, the drama, and motion pictures. All news agencies and cultural enterprises operated by the Government should serve the interests of the entire Nation.

#### Relief and Rehabilitation

"Part Eight, rehabilitation and relief: 1. Social order in the liberated areas should be restored at an early date. The people must be relieved of all oppressions and suffering which were heaped on them in the period of enemy occupation. The tendency for (pride to rise) in the Liberated Areas must be curbed. All corrupt practices of officials who were sent to the occupied territories to take over from the enemy should be severely punished.

"2. Railways and highways should be quickly repaired. Inland and coastal shipping should be quickly restored. Those people who have migrated to the interior in war time must be helped by the Government to return to their native districts. Houses and jobs should be found for them, if necessary.

"3. Good use must be made of the UNRR's supplies in order to relieve the war refugees; medical supplies must be distributed to them in order to cure and prevent disease; feeds and fertilizers must be given them in order to restore farming. The authorities in charge of this work will be assisted by popular agencies in the discharge of their duties.

"4. Factories and mines in the liberated areas must be quickly made operative. The property rights of the original owners must be protected. Work must be resumed at an early date, so that employment may be found for those without useful occupation. Enemy and puppet property should be properly disposed of in order to enable those factories and individuals who made significant contributions to the war of resistance in the interior to take part in its exploitation.

"5. The Yellow River must be quickly put under control. Other irrigation projects which have been damaged or allowed to lapse in the course of the war must be made good at an early date.

"6. The Government decree to stop conscription and exempt the people from the payment of agriculture taxes for one year must be carried out to the letter by the different grades of government. No conscription or agriculture tax under a different guise should be allowed.

#### Overseas Chinese

"Part Nine, Chinese residents overseas: 1. Chinese residents overseas who have become destitute as a result of enemy oppression will be helped by the Government to reestablish their former business. Those members of their families who may be living in China will receive proper relief.

"2. Assistance will be given to Chinese residents overseas who have returned to China in the last few years in the course of the war so that they may go back to their former places of residence. Facilities will be provided for recovery of their property and for the reestablishment of their business.

"3. All educational and cultural enterprises of Chinese residents overseas will be observed and active assistance will be given them by the Government. Encouragement and assistance will be given to the children of Chinese residents overseas to come back to China for education.

#### Addenda

"Annex: 1. In those recovered areas where the local government is under (words missing) status quo shall be maintained under a settlement according to Articles 6, 7, and 8 of Chapter 3, and political problems in this program by the National Government after its reorganization.

"2. The committee for the protection of the people's liberty will be formed, and composed of representatives of the local council, the lawyers' association, and the popular organizations. Financial assistance will be given to it by the Government.

"3. Revisions will be made in the light of the usual practices in democratic countries, in the systems of oath-taking and the examination of candidates for public office.

"4. Membership of the Supreme Economic Council of the Executive Yuan should be increased by the addition of economic experts, representing the people abroad, and of experienced industrialists.

"5. It is recommended that the Government put an end to the policy of control over nitrate and sulfur.

"6. A. Those workers originally employed in factories which have been moved to the interior during the course of the war, who now find themselves unemployed due to the closing up of the factories as a result of the war should be granted a certain amount of financial assistance by the Government.

B. Those factories which have made significant contributions to the manufacturing of materials in the course of the war should continue to receive Government patronage by the latter's purchase of their ready-made articles and as much of their material as possible.

"7. The press law should be revised. The regulations governing the legislation and control of newspapers, magazines, and news services in times of emergency; Provisional regulations governing newspapers, news agencies, magazines, motion pictures, and broadcasts in liberated areas; regulations governing control of the drama and motion pictures; regulations governing the censorship of letters and telegrams, and other regulations of a similar nature should be repealed. Amusement taxes and stamp taxes on motion pictures, drama, and concert tickets should be lightened." (Chungking, in English to North America, Feb. 2, 1946, 8:30 a.m. EST) P

MI-3/5

5 January 1946

16

Copy No. \_\_\_\_\_

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

Memorandum for Information

United States Policy with Respect to the Far East

Reference: a. MI-3

Note by the Secretary

1. The enclosures, "White House Statement on China Policy" and a report of "Second Moscow Conference, December 16 - December 26, 1945" together with separation sheets and tabs, are circulated for insertion in the "Policy Notebook", MI-3 distributed on 4 October, 1945.

2. It is suggested that the enclosures listed above be added at the end of the notebook, and the present index be replaced with the revised index, also enclosed.

A.F. Richardson  
Commander USN  
Acting Secretary

MI-3/4

00  
Copy No. \_\_\_\_\_

13 November 1945

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

Memorandum for Information

No. 3 United States Policy with Respect to the Far East  
Reference: a. MI-3

Note by the Secretary

1. The enclosure, "Definition of the Port Arthur Naval Base in the Soviet-Chinese Agreement of 1945", is circulated for insertion into the "Policy Notebook", MI-3, distributed on 4 October 1945.

2. It is suggested that the enclosure be inserted in the notebook immediately following 8c, "Agreement on Port Arthur".

Hugh D. Farley,  
Lieut., USNR,  
Secretary

Copy No. \_\_\_\_\_

MI-3/3

31 October 1945

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

Memorandum for Information

No. 3 United States Policy with Respect to the Far East  
Reference: a. MI-3

Note by the Secretary

1. The enclosures, "President's Navy Day Speech" and "German Directive", together with separation sheets and tabs, are circulated for insertion into the "Policy Notebook", MI-3, distributed on 4 October 1945.

2. It is suggested that the enclosures be added at the end of the notebook, and that the following entries be typed in on the "Index" page of the notebook after item No. 15:

"16. German Directive".

"17. President's Navy-Day Speech".

Hugh D. Farley,  
Lieut., USNR,  
Secretary

Unclassified

Copy No. 14

MI-3/2

9 October 1945

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

Memorandum for Information  
No. 3 United States Policy with Respect to the Far East  
Reference: a. MI-3

Note by the Secretary

1. The enclosures, "Authority of the Supreme Commander;" Surrender Notes: "Initial Japanese Note;" First Allied Reply;" together with separation sheets and tabs, are circulated for insertion into the "Policy Notebook," MI-3, distributed on 4 October 1945.

2. It is suggested that the enclosures be added at the end of the notebook, and that the following entries be typed in on the "Index" page of the notebook after Item No. 11:

"14. "Authority of the Supreme Commander."  
"15. Surrender Notes.

- a. "Initial Japanese Note."
- b. "First Allied Reply."
- c. "Second Japanese Note."
- d. "Second Allied Reply."

HUGH D. FARLEY  
Lieut., USNR  
Secretary



MI-5/1

Copy No. 13

8 October 1945

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

Memorandum for Information  
No. 3. United States Policy with Respect to the Far East  
Reference: a. MI-3

Note by the Secretary

1. The enclosures, "Text of White House Statement on Policy in Japan", and "Text of the Anglo-U.S. Petroleum Agreement", together with separation sheets and tabs, are circulated for insertion into the "Policy Notebook", MI-3, distributed on 4 October 1945.

2. It is suggested that the enclosures be added at the end of the notebook, and that the following entries be typed in on the "Index" page of the notebook after item No. 11:

"12. Text of White House Statement on Policy  
in Japan".

"13. Text of the Anglo-U.S. Petroleum Agree-  
ment".

HUGH D. FARLEY,  
LIEUT., USNR,  
SECRETARY

MI-3

25 September 1945

STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EAST

Memorandum for Information

UNITED STATES POLICY WITH RESPECT TO THE FAR EAST

Note by the Secretary

1. The enclosure, loose-leaf notebook with appropriate separation sheets and tabs, comprises a series of statements of United States policy with respect to the Far East.
2. It is proposed to circulate additional statements of policy as they are made for inclusion in the notebook.
3. This book will contain only unclassified material.
4. Suggestions from members of the Subcommittee as to additions or changes hereto will be appreciated.

HUGH D. FARLEY,  
Lieut., USNR  
Secretary

Hugh:

How about the exchange of notes following Potsdam Dec.

How about 150/4/A?

MS.



See S.

UNCLASSIFIED

14

MI - I15 August 1945STATE-WAR-NAVY COORDINATING SUBCOMMITTEE  
FOR THE FAR EASTMemorandum for InformationNo. I. The Potsdam DeclarationNote by the Secretary

1. The enclosure, a copy of the Potsdam Declaration, is circulated herewith for the information of the Subcommittee.

HUGH D. FARLEY  
Lieut., USNR  
Secretary

MI - I

UNCLASSIFIED

E N C L O S U R E

THE POTSDAM DECLARATION

(1) We--the President of the United States, the President of the National Government of the Republic of China, and the Prime Minister of Great Britain, representing the hundreds of millions of our countrymen--have conferred and agreed that Japan shall be given an opportunity to end this war.

(2) The prodigious land, sea and air forces of the United States, the British Empire and of China, many times reinforced by their armies and air fleets from the west, are poised to strike the final blows upon Japan. This military power is sustained and inspired by the determination of all the Allied nations to prosecute the war against Japan until she ceases to resist.

(3) The result of the futile and senseless resistance to the might of the aroused free peoples of the world stands forth in awful clarity as an example to the people of Japan. The might that now converges upon Japan is immeasurably greater than that which, when applied to the resisting Nazis, necessarily laid waste to the lands, the industry and the method of life of the whole German people. The full application of our military power, backed by our resolve, will mean the inevitable and complete destruction of the Japanese armed forces and just as inevitably the utter devastation of the Japanese homeland.

(4) The time has come for Japan to **decide** whether she will continue to be controlled by those self-willed militaristic advisers whose unintelligent calculations have brought the empire of Japan to the threshold of annihilation, or whether she will follow the path of reason.

(5) Following are our terms. We will not deviate from them. There are no alternatives. We shall brook no delay.

UNCLASSIFIED

(6) There must be eliminated for all time the authority and influence of those who have deceived and misled the people of Japan into embarking on a world conquest. We insist that a new order of peace, security and justice will be impossible until irresponsible militarism is driven from the world.

(7) Until such a new order is established and until there is convincing proof that Japan's war-making power is destroyed, points in Japanese territory to be designated by the Allies shall be occupied to secure the achievement of the basic objectives we are here setting forth.

(8) The terms of the Cairo-declaration shall be carried out and Japanese sovereignty shall be limited to the islands of Honshu, Hokkaido, Kyushu, Shikoku and such minor islands as we determine.

(9) The Japanese military forces, after being completely disarmed, shall be permitted to return to their homes with the opportunity to lead peaceful and productive lives.

(10) We do not intend that the Japanese shall be enslaved as a race or destroyed as a nation, but stern justice shall be meted out to all war criminals, including those who have visited cruelties upon our prisoners. The Japanese Government shall remove all obstacles to the revival and strengthening of democratic tendencies among the Japanese people. Freedom of speech, of religion and of thought, as well as respect for the fundamental human rights, shall be established.

(11) Japan shall be permitted to maintain such industries as will sustain her economy and permit the exaction of just reparations in kind, but not those which would enable her to rearm for war. To this end, access to, as distinguished from control of, raw materials shall be permitted. Eventual Japanese participation in world trade relations shall be permitted.

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(12) The occupying forces of the Allies shall be withdrawn from Japan as soon as these objectives have been accomplished and there has been established, in accordance with the freely expressed will of the Japanese people, a peacefully inclined and responsible Government.

(13) We call upon the Government of Japan to proclaim now the unconditional surrender of all Japanese armed forces, and to provide proper and adequate assurances of their good faith in such action. The alternative for Japan is prompt and utter destruction.