

Enclosure No. 1 to Despatch No. 303  
dated March 27, 1948, from the  
Consulate General, Shanghai, China.

SOURCE: TA KUNG PAO, MARCH 25, 1948.

Following George F. Kennan, U.S. Under Secretary of the Army William H. Draper, Jr., has also gone to Japan at the head of an economic mission to that country. There has been a constant stream of U.S. envoys travelling to Japan, whose duty it is to help Japan to recover. They have been visiting, investigating and planning, and we have read a large number of news reports regarding them. At this time when the conflict between the two blocs of nations is being steadily intensified, the United States is positively planning to aid Europe and even more positively planning to assist Japan. Highly elated, Japanese Premier Ashida declared, "So far as Japanese economy is concerned, this is the first hopeful year since the end of the War." He also expressed appreciation of the liberality of the Strike reparations program.

The United States' plan for helping Japan to recover is centered on the Strike program. This program proposes that the amount of Japanese reparations be reduced and that Japan's industrial equipment be preserved so that the recovery work can be started. In order to meet the requirements of Japanese industries, that is, to make Japan "self-sufficient", it proposes a "relief fund" of US\$375 million, a "recovery budget" of US\$180 million, a "cotton loan" of US\$60 million, and a "trade fund" of US\$150 million. The United States is planning to spend a total of US\$765 million for helping Japan during the next fiscal year, and says that this sum "may be increased". The full text of Strike's report has not yet been made public; what has been published is an outline of that report. In this outline we find some serious problems which we deem it necessary to point out.

(1) The adoption of the system of using manufactured goods as reparations. The Pauley reparations program opposed the use of labor, manufactured goods, and goods already available for reparations. It advocated the use of industrial equipment, and not manufactured goods, as reparations. Ignoring this principle, Strike has divided industrial equipment into two types, namely (a) the productive power which should be preserved, and (b) the productive power which is to be used to produce goods to cover reparations. These two types of industrial equipment will both remain in Japan. He opposes the removal from Japan of industrial equipment other than that belonging to the War industries, that is, he opposes the removal of the plants which have already been designated as reparations, and proposes that they be kept in Japan and that what they produce be used as reparations. In this way, the industrial equipment and industrial level which Japan is to keep will be the productive power which she is to keep, plus the productive power for producing the reparations goods. For instance, how large

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a productive power for sulphuric acid is Japan going to have? She will be allowed to "preserve" a productive power for 3.51 million tons of sulphuric acid, plus a productive power for 1.245 million tons sulphuric acid for reparations purposes. This method is the same as that which the Allied Powers employed in demanding reparations from Germany after World War I. It means that the defeated nation's industrial foundation will be left intact. The so-called fixing of an industrial level is no longer designed to limit the defeated nation's industrial production so as to prevent it from embarking upon aggression again, but rather to prevent the victorious nations from demanding too much reparations. Let us repeat that Japan will be able to preserve all of her industrial equipment, and that there will be no need for dismantling any of it for shipment to other countries.

(2) As regards the industrial level which Japan should be allowed to preserve, the Far Eastern Commission in April last decided that it should be the industrial level which prevailed during the period 1930-34, and the Pauley program called for an industrial level based upon the Japanese people's standard of living which prevailed during the period 1926-30. An industrial level is different from a standard of living. The former is fixed and cannot be changed, while the latter must include changes in the size of the population, as well as economic factors other than industry. Now, in order to help Japan recover, Strike has changed the 1930-34 industrial level into the standard of living for the same period, and assumes that this standard of living can be restored by the year 1953. By that time the population figure of Japan for the period 1930-34 will have been increased by 30 percent, and due to the fact that there is too little arable land in that country, the non-agrarian population will have been increased by 60 percent. This 60 percent population increase will naturally have to find an outlet in industry. In this way, the 1930-34 industrial level will be exceeded and Japan's industrial level will be brought back to where it was in 1937. Strike's report uses the 1937, or even the 1939, industrial level as the standard. It can also be said that he has based his proposal on the increase in population, and that he no longer makes mention of the industrial level. In this way, Japanese industries will be subjected to no restrictions at all.

(3) Strike no longer considers the danger of Japan's re-embarking upon aggression from an industrial and economic point of view. The principle set forth in the Potsdam Declaration has now been sentenced to death. Strike knows full well that an industrialized Japan may become a strong militaristic nation. But he pins his hope on "careful control". Then he defines control thus: "We admit, of course, that such control may be only temporary in nature, for only if the philosophy and thinking of the Japanese

people

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people can develop along peaceful lines can lasting peace be assured." In other words, what the United States requires today is to give economic power to a militaristic Japan.

As to whether or not Japan is going to re-embark upon aggression, this is a matter for Japanese philosophy to decide and the United States can have no say in it. Never before have we heard expressed, such an irresponsible view regarding the control of Japan, and never has anyone else been so bold as to say, as Strike has done, "There is no way of fully satisfying those nations who have demanded reparations, nor is there any way of punishing the Japanese to the fullest extent." We really have "no way" of further explaining Strike's position.

(4) Strike says in his report that the industrial plants which should not be removed from Japan are those other than war industries. He further says, "Japan is incapable of manufacturing big guns, tanks, warships, aircraft, and ammunition." What he means by war industries is very limited in scope and is humbug. As far as we know, the Nakashima Aircraft Factory is still preserved. In the outline of Strike's report which has already been made public, war industries are included in the list of industries which are to be preserved. Among the productive power to be preserved is included that for 25,000 tons of aluminum. Aluminum is a raw material for manufacturing aircraft, and both the Pauley program and the reparations program approved by General MacArthur prohibit the manufacture of aluminum. Yet Strike proposes to preserve Japan's productive power for this metal. The refining of 9.8 million barrels of oil as proposed by Strike is also a war industry that has been proposed for the first time. On the list of industries which will be for reparations purposes but which will not be dismantled is industrial equipment for producing 6.8 million tons of magnesium and for building 640,000 tons of shipping. The annual productive power for steel, including that to be preserved and that for reparation purposes, as proposed by Strike is 6.4 million tons. Among the industries to be preserved are a large steel and iron industry, a highly developed machinery industry, and aluminum, magnesium and oil industries. In addition, there is a chemical industry which exceeds the level fixed. With these industries, Japan certainly will be able to manufacture big guns, tanks, aircraft, warships, and ammunition. A unique feature of Strike's report is that it openly advocates the preservation and development of Japan's war industries.

The above four points show clearly that the reparations program as outlined in Strike's report will be a serious threat to China and will cause her great losses. We hereby express our indignation and protest on behalf of the Chinese

people

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people and in compliance with the wishes of the Chinese nation. It may be that this protest will be futile and that the United States will want to help Japan to recover regardless of opposition, but we cannot remain silent. China suffered from Japanese aggression for 50 or 60 years, so not even for a single day can we forget that Japan's recovery will be a threat to China's security.



THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

No. 314

DIVISION OF OCCUPIED AREAS AND ECONOMIC AFFAIRS  
APR 8 - 1948  
AMERICAN CONSULATE GENERAL  
DEPARTMENT OF STATE

Shanghai, China, March 31, 1948.

Subject: Editorial Comment on Strike Program for Japanese Reparations.

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON, D. C.

SIR:

I have the honor to refer to the Department's circular airgram of March 17, 8:35 a.m., and to transmit further editorial comment on the Strike program for Japanese reparations.

The Tung Nan Jih Pao (KMT southeast China organ), in its March 30 issue under the title "Effort to Help Japan to Recover Becomes More Positive", carried a lengthy editorial on United States policy toward Japan, a summary translation of which is enclosed.

After outlining the Draper proposals, the editorial says:

"While Draper has not definitely explained how liberal the reparations program is going to be, yet the reparations program proposed by Strike has answered this question. In a word, the reparations program proposed by the United States will, in effect, be a program of no reparations."

The attitude of the editor is summed up in the paragraph:

"We have said before that because the U.S.-Soviet conflict has been intensified and because the international struggle has reached the stage of white heat, it is inevitable that both Germany and Japan will be helped to recover, and that any opposition on the part of those countries whose interests are adversely affected will be of no avail. However, while in connection with the recovery of Germany there is the plan for the recovery

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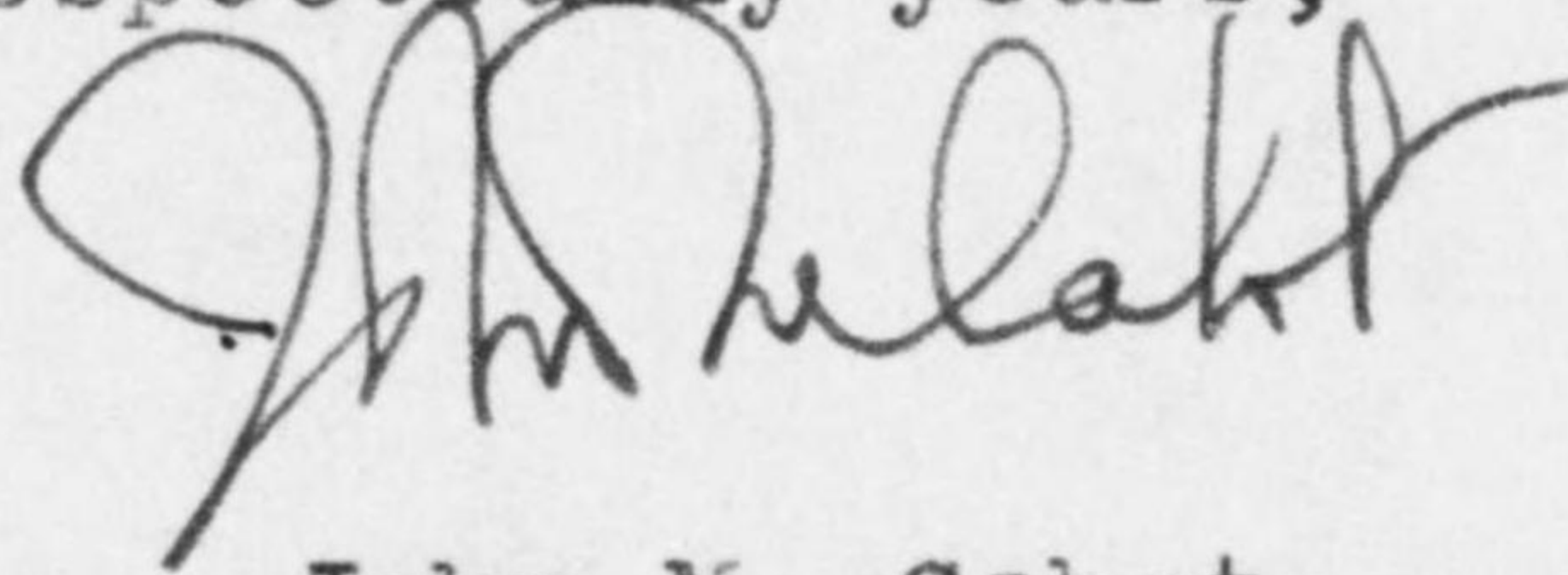
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of Europe as a whole, yet in connection with the recovery of Japan, the only excuse is that it will not endanger the economy of the different countries in the Far East. Those countries in the Far East whose interests are affected certainly should not lightly tolerate this."

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I also enclose the full translated text of an editorial entitled "Our Policy Toward Japan" which was carried by the official KMT organ CHUNG YANG JIH PAO on March 27. This editorial is a further indication of the effort by the National Government to indicate an official support of our policy toward Japan as announced in the Far Eastern Commission. The editorial is characterized by such statements as, "Consequently, we feel that General MacArthur's policy is right" and "So long as Japan's industrial equipment is such that it cannot serve as a basis for the rebuilding of Japan's militarism, China will not become jealous over it." In other words, the official position does not give consideration to the commercial worries which have been stated in so many other publications: that a revival of an economically strong Japan will deprive China of that brilliant economic future that its commercial interests have foreseen, but which they are unable through incompetence to attain.

Respectfully yours,



John M. Cabot  
American Consul General

Enclosures: *NT*

- 1/ Summary translation of editorial, "Effort to Help Japan to Recover Becomes More Positive".
- 2/ Full translation of editorial, "Our Policy Toward Japan".

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Enclosure No. 1 to Despatch No. 314  
dated March 31, 1948, from the  
Consulate General, Shanghai, China.

First Step Toward Democratic Constitutional  
Government

Shun Pao (KMT-supervised, C.C. Organ), Shanghai  
March 29, 1948

Today is the anniversary of the Seventy-two Martyrs and also the fifth Youth Day which has been observed. The first Constitution-enforcing National Assembly opens today at Nanking, a fact which adds to the meaning of observance of the anniversary of the Seventy-two Martyrs and of Youth Day. All of us should look straight at realities and should deeply reflect, so that both the Government and the people will wake up and make plans for reform and regeneration without delay.

First, the most important task of the Government today is that of quelling the rebellion and reconstructing the nation, and the fundamental task of the popularly-elected government will also be to quell the rebellion and to reconstruct the nation.

Secondly, in trying to quell the rebellion, we must first study the cause of the rebellion. While the reason why the Communist bandits are so strong today is that the Government adopted the wrong course of engaging in peace talks with them shortly after V-J Day, yet during the year since the Government issued the general mobilization order for quelling the rebellion, not only has the strength of the Communist bandits not been reduced, but the area of their rebellious activities has been extended. Why is this? As a result of careful reflection, we find that aside from the fact that the government has been corrupt and inefficient, the most important factor contributing to the present grave situation is the fact that while it believes in the late Dr. Sun Yat-sen's Three People's Principles, yet the Kuomintang has only been sitting down and talking without standing up and acting. Especially has it been unable to limit private capital and to redistribute land in an equitable manner, as required by the Principle of the People's Livelihood. None of these economic reforms, which would have been beneficial both to the country and the people, have been seriously carried out by the Government, but, instead, have been stolen by the Communist bandits. Therefore, not only have the ignorant Chinese farmers blindly followed the Communists, but even the foreign press correspondents have wrongly regarded the Communist bandits as a political party which advocates "agrarian reform". The Kuomintang must admit this mistake on its own part and also reflect carefully.

Thirdly, while success in quelling the rebellion and reconstructing the nation depends upon the effort of the Government, yet such success cannot easily be attained without the cooperation of the people. Today, China requires those educated youths who are selfless and unselfish and who can appreciate the suffering of the vast majority of the people and can speak on their behalf--youths who can, on the one hand, make known the wishes of the people and, on the other hand, unite to form a force which will urge the Government to effect reforms and to make progress. On the one hand, we wish the National Assembly every success, and on the other hand, we hope that educated youths throughout the country will stand up and work for the democratization of politics and the socialization of economy, so that the task of quelling the rebellion and reconstructing the nation can be completed at an early date. (Extracts)

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Effort to Help Japan to Recover Becomes More Positive

Tung Nan Jih Pao (KMT Southeast China Organ), Shanghai  
March 30, 1948

Lately, one has heard much about helping Japan to recover. A number of important U.S. Government officials have been dispatched to Japan, and the missions led by Kennan, Advisor to the State Department, and Draper, Under Secretary of the Army, have attracted the most attention. In the plan for

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the recovery of Japan which Draper made public before a press conference in Japan the other day, reference was made to the official plan to be considered by the U.S. Congress. The fact that Draper has revealed the plan before it is passed by the Congress indicates that the plan will undoubtedly be passed by Congress.

In order to achieve the recovery of Japan, Draper has made two proposals: One of these is that although the Potsdam Pact provides that Japan's economy should be based on the 1930-34 level, yet the United States feels that if in the future Japan shows that she can raise this level by her own efforts without endangering peace, then this economic level can be raised. In other words, the principles for limiting Japan's war potential which are contained in the Potsdam Pact should no longer be binding. The second of these proposals is that the reparations program for Japan should be very liberal, so as to enable her to become self-sufficient. While Draper has not definitely explained how liberal the reparations program is going to be, yet the reparations program proposed by Strike has answered this question. In a word, the reparations program proposed by the United States will, in effect, be a program of no reparations.

The reparations program for Japan is now being made more concrete and more positive evidently with General MacArthur as the center. In other words, this is the further unfolding of General MacArthur's consistent policy of building up Japan. This development will be reflected in the change in the United States attitude toward the Japanese peace treaty and in her effort to enable Japan to regain her place in the family of nations.

The Ashida Cabinet and the Japanese both in and outside the Government have not been so elated because of nothing. The political situation in Japan is unstable and the Ashida Cabinet will not last very long, but the old foundation of Japan is intact and strong. When the U.S. plan of helping Japan to recover is carried out, large amounts of U.S. money will flow to Japan, so that General MacArthur's work of converting Japan into the 49th State can be completed. The recovery of Japan is said to be entirely compatible with the interests of the United States. Japan will be allowed to develop politically and economically with complete freedom. In this way, the Ashida Cabinet which otherwise would be shortlived may be able to live long, and the weakness of Japan may become a mere historical term.

We have said before that because the U.S.-Soviet conflict has been intensified and because the international struggle has reached the stage of white heat, it is inevitable that both Germany and Japan will be helped to recover, and that any opposition on the part of those countries whose interests are adversely affected will be of no avail. However, while in connection with the recovery of Germany there is the plan for the recovery of Europe as a whole, yet in connection with the recovery of Japan, the only excuse is that it will not endanger the economy of the different countries in the Far East. Those countries in the Far East whose interests are affected certainly should not lightly tolerate this.

So far as China is concerned, the US\$300-500 million China aid bill has had to be delayed, discussed, and reduced time and again, and in addition, there has been a lot of criticism of China which is without foundation. Yet in connection with the recovery of Japan, for the first year alone US\$580 million will be spent, and the aid will be continued for a period of five or six years on a gradually reduced scale. And yet China finds this way of putting the cart before the horse and of not distinguishing between what is urgent and what is not urgent tolerable, and even supports it. In this way, We are certainly ignoring the security of our nation and the happiness of the Far East too much. (Extracts)

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Enclosure No. 2 to Despatch No. 314  
dated March 31, 1948, from the  
Consulate General, Shanghai, China.

CHINESE PRESS REVIEW

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American Consulate General, Shanghai, China

No. 604

March 27, 1948

EDITORIAL COMMENT

Our Policy Toward Japan

Chung Yang Jih Pao (KMT Organ), Shanghai  
March 27, 1948

The current trip to Japan of the mission led by William H. Draper Jr., U.S. Under Secretary of the Army, is considered quite important by people. We want to avail ourselves of this opportunity of reaffirming China's attitude toward Japan, so as to remove any possible misunderstanding.

As soon as Japan surrendered in the autumn of 1945, President Chiang Kai-shek declared that China would not take any retaliatory measures against the people of Japan. So long as Japanese militarism does not revive to threaten the security of China and the peace of the Far East, China is willing to see Japan, as a democratic nation, live peaceably with the other nations bordering on the Pacific. It is on the basis of this policy that we wish to explain China's attitude as follows:

First, we wish to express admiration to General MacArthur for what he has achieved in controlling Japan. General MacArthur's policy has gradually been made less rigid in proportion to the extent of the democratization of Japan, so as to make the Japanese people uphold their own Constitution, have confidence in their democratic system, cultivate their desire to live peaceably with the other nations bordering on the Pacific, and especially, have confidence in the democratic nations, so that they will not again think of the "Yamato spirit" and "Dai Nipponism" which prevailed when their country was engaged in militaristic aggression against other nations. Consequently, we feel that General MacArthur's policy is right.

Secondly, we certainly have no intention of disrupting or restricting the economic life of the Japanese people. If we want to transform Japan into a peaceful, democratic nation, we must first make Japanese economy self-supporting by enabling Japan to engage in peaceful trade with the other nations bordering on the Pacific. The question of Japan's industrial level should be carefully considered by all the nations which share in the responsibility of controlling Japan. So long as Japan's industrial equipment is such that it cannot serve as a basis for the rebuilding of Japanese militarism, China will not become jealous of it.

Thirdly, while we view with sympathy the organization and growth of democratic, socialist political parties in Japan, yet we oppose the revival of the old political parties and also the activities of the Japanese Communist Party and its front organizations. What we hope for is true democracy, especially the organization and growth of democratic, socialist political parties, for only this kind of political parties will be able to lead Japanese politics to thorough democratization and to prevent the democratization of Japan being utilized by the Communists, so that a coup d'etat like those which have occurred in Rumania and Hungary will not take place in Japan. That is why we approve and support the political parties led by Katayama, Ashida and others, as well as the Cabinets headed by these men.

Finally, we like to see the nations bordering on the Pacific conclude a peace treaty with Japan at an early date. It is our hope that this important pact, which will bring peaceful conditions to the Far East, will materialise at an early date through the sincerity and mutual understanding of the different nations bordering on the Pacific.

The above four points represent the common views of the Chinese Government and of patriotic Chinese in general. We do not deny that many people

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in China have greatly exaggerated the United States' effort to build up Japan, expressing the fear that this would once again convert Japan into an aggressor nation. We feel that this viewpoint is wrong in that the Communist bandits have used it to cover up the actual crisis facing China's territorial integrity and sovereignty in the Northeast. The prevalence of this viewpoint will cause us to ignore the realities of the Northeast problem, and this is what we want solemnly to point out. (Full Translation)

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#### Bidding Farewell to People's Political Council

Ta Kung Pao (Independent, Political Science Group), Shanghai  
March 27, 1948

The National Assembly is scheduled to open on March 29, and naturally, the People's Political Council which has served as a token public opinion organization, is going to be folded up. The PPC members who are at present in Nanking will hold a tea party this afternoon to say goodbye to one another, and this is going to be a historic meeting.

The first session of the first PPC opened at Hankow on July 6, 1938. At that time Hankow was the main base of the war against Japan. There were altogether more than 200 PPC members, and by and large, these people commanded the respect of the general public. This was especially true of the "D" type PPC members, who were nominated by the Supreme National Defense Council and decided by the Central Executive Committee of the Kuomintang. These people included leaders of various parties and cliques as well as leaders in various walks of life, and were truly symbolic of the unity of the whole nation. People have generally regarded the PPC as a miniature public opinion organization, but as a matter of fact, the PPC was more significant in that it was symbolic of unity in resisting Japanese aggression. Unity gave the nation great strength and made it possible for the nation to carry on until victory was won. When one thinks of this, how can one help being sorry.

Besides being a symbol of unity in resistance, the PPC also did quite a good deal in expressing public opinion and in goading the Government on. In Chungking days, each session of the PPC seemed like an examination for the high Government officials, against whom criticism, interpellation, laughing and scolding was leveled.

Later on, the number of PPC members who were elected was increased, while the number of "D" type members was gradually reduced, and, strangely enough, the PPC also became less vigorous. The PPC has long ago become less strong and less effective than it once was, and during the past year it has existed almost in name only.

PPC, you may go now. You can be said to have done your part. Can your successor be symbolic of the peace, unification, democracy and progress of the nation? This is what we shall seek for night and day! (Extracts)

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#### Change in U.S. Policy Toward Palestine

Cheng Yien Pao (Local KMT Organ, Connected with Wu Shao-shu), Shanghai  
March 27, 1948

Abandonment by the United States of the Palestine partition plan is designed to serve an important purpose. The Arab League is very influential in Southwestern Asia and controls a large number of the oil fields there. If the United States continues to support the implementation of the partition plan, she will lose the sympathy of all Arab nations, and in the event of another world war, not only will the Arab nations not side with Britain and

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First Step Toward Democratic Constitutional  
Government

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First, the most important task of the Government today is that of quelling the rebellion and reconstructing the nation, and the fundamental task of the popularly-elected government will also be to quell the rebellion and to reconstruct the nation.

Secondly, in trying to quell the rebellion, we must first study the cause of the rebellion. While the reason why the Communist bandits are so strong today is that the Government adopted the wrong course of engaging in peace talks with them shortly after V-J Day, yet during the year since the Government issued the general mobilization order for quelling the rebellion, not only has the strength of the Communist bandits not been reduced, but the area of their rebellious activities has been extended. Why is this? As a result of careful reflection, we find that aside from the fact that <sup>the</sup> government has been corrupt and inefficient, the most important factor contributing to the present grave situation is the fact that while it believes in the late Dr. Sun Yat-sen's Three People's Principles, yet the Kuomintang has only been sitting down and talking without standing up and acting. Especially has it been unable to limit private capital and to redistribute land in an equitable manner, as required by the Principle of the People's Livelihood. None of these economic reforms, which would have been beneficial both to the country and the people, have been seriously carried out by the Government, but, instead, have been stolen by the Communist bandits. Therefore, not only have the ignorant Chinese farmers blindly followed the Communists, but even the foreign press correspondents have wrongly regarded the Communist bandits as a political party which advocates "agrarian reform". The Kuomintang must admit this mistake on its own part and also reflect carefully.

Thirdly, while success in quelling the rebellion and reconstructing the nation depends upon the effort of the Government, yet such success cannot easily be attained without the cooperation of the people. Today, China requires those educated youths who are selfless and unselfish and who can appreciate the suffering of the vast majority of the people and can speak on their behalf--youths who can, on the one hand, make known the wishes of the people and, on the other hand, unite to form a force which will urge the Government to effect reforms and to make progress. On the one hand, we wish the National Assembly every success, and on the other hand, we hope that educated youths throughout the country will stand up and work for the democratization of politics and the socialization of economy, so that the task of quelling the rebellion and reconstructing the nation can be completed at an early date. (Extracts)

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The Ashida Cabinet and the Japanese both in and outside the Government have not been so elated because of nothing. The political situation in Japan is unstable and the Ashida Cabinet will not last very long, but the old foundation of Japan is intact and strong. When the U.S. plan of helping Japan to recover is carried out, large amounts of U.S. money will flow to Japan, so that General MacArthur's work of converting Japan into the 49th State can be completed. The recovery of Japan is said to be entirely compatible with the interests of the United States. Japan will be allowed to develop politically and economically with complete freedom. In this way, the Ashida Cabinet which otherwise would be shortlived may be able to live long, and the weakness of Japan may become a mere historical term.

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So far as China is concerned, the US\$300-500 million China aid bill has had to be delayed, discussed, and reduced time and again, and in addition, there has been a lot of criticism of China which is without foundation. Yet in connection with the recovery of Japan, for the first year alone US\$580 million will be spent, and the aid will be continued for a period of five or six years on a gradually reduced scale. And yet China finds this way of putting the cart before the horse and of not distinguishing between what is urgent and what is not urgent tolerable, and even supports it. In this way, We are certainly ignoring the security of our nation and the happiness of the Far East too much. (Extracts)

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The current trip to Japan of the mission led by William H. Draper Jr., U.S. Under Secretary of the Army, is considered quite important by people. We want to avail ourselves of this opportunity of reaffirming China's attitude toward Japan, so as to remove any possible misunderstanding.

As soon as Japan surrendered in the autumn of 1945, President Chiang Kai-shek declared that China would not take any retaliatory measures against the people of Japan. So long as Japanese militarism does not revive to threaten the security of China and the peace of the Far East, China is willing to see Japan, as a democratic nation, live peaceably with the other nations bordering on the Pacific. It is on the basis of this policy that we wish to explain China's attitude as follows:

First, we wish to express admiration to General MacArthur for what he has achieved in controlling Japan. General MacArthur's policy has gradually been made less rigid in proportion to the extent of the democratization of Japan, so as to make the Japanese people uphold their own Constitution, have confidence in their democratic system, cultivate their desire to live peaceably with the other nations bordering on the Pacific, and especially, have confidence in the democratic nations, so that they will not again think of the "Yamato spirit" and "Dai Nipponism" which prevailed when their country was engaged in militaristic aggression against other nations. Consequently, we feel that General MacArthur's policy is right.

Secondly, we certainly have no intention of disrupting or restricting the economic life of the Japanese people. If we want to transform Japan into a peaceful, democratic nation, we must first make Japanese economy self-supporting by enabling Japan to engage in peaceful trade with the other nations bordering on the Pacific. The question of Japan's industrial level should be carefully considered by all the nations which share in the responsibility of controlling Japan. So long as Japan's industrial equipment is such that it cannot serve as a basis for the rebuilding of Japanese militarism, China will not become jealous of it.

Thirdly, while we view with sympathy the organization and growth of democratic, socialist political parties in Japan, yet we oppose the revival of the old political parties and also the activities of the Japanese Communist Party and its front organizations. What we hope for is true democracy, especially the organization and growth of democratic, socialist political parties, for only this kind of political parties will be able to lead Japanese politics to thorough democratization and to prevent the democratization of Japan being utilized by the Communists, so that a coup d'etat like those which have occurred in Rumania and Hungary will not take place in Japan. That is why we approve and support the political parties led by Katayama, Ashida and others, as well as the Cabinets headed by these men.

Finally, we like to see the nations bordering on the Pacific conclude a peace treaty with Japan at an early date. It is our hope that this important pact, which will bring peaceful conditions to the Far East, will materialize at an early date through the sincerity and mutual understanding of the different nations bordering on the Pacific.

The above four points represent the common views of the Chinese Government and of patriotic Chinese in general. We do not deny that many people

- 2 -

in China have greatly exaggerated the United States' effort to build up Japan, expressing the fear that this would once again convert Japan into an aggressor nation. We feel that this viewpoint is wrong in that the Communist bandits have used it to cover up the actual crisis facing China's territorial integrity and sovereignty in the Northeast. The prevalence of this viewpoint will cause us to ignore the realities of the Northeast problem, and this is what we want solemnly to point out. (Full Translation)

\* \* \*

#### Bidding Farewell to People's Political Council

Ta Kung Pao (Independent, Political Science Group), Shanghai  
March 27, 1948

The National Assembly is scheduled to open on March 29, and naturally, the People's Political Council which has served as a token public opinion organization, is going to be folded up. The PPC members who are at present in Nanking will hold a tea party this afternoon to say goodbye to one another, and this is going to be a historic meeting.

The first session of the first PPC opened at Hankow on July 6, 1938. At that time Hankow was the main base of the war against Japan. There were altogether more than 200 PPC members, and by and large, these people commanded the respect of the general public. This was especially true of the "D" type PPC members, who were nominated by the Supreme National Defense Council and decided by the Central Executive Committee of the Kuomintang. These people included leaders of various parties and cliques as well as leaders in various walks of life, and were truly symbolic of the unity of the whole nation. People have generally regarded the PPC as a miniature public opinion organization, but as a matter of fact, the PPC was more significant in that it was symbolic of unity in resisting Japanese aggression. Unity gave the nation great strength and made it possible for the nation to carry on until victory was won. When one thinks of this, how can one help being sorry.

Besides being a symbol of unity in resistance, the PPC also did quite a good deal in expressing public opinion and in goading the Government on. In Chungking days, each session of the PPC seemed like an examination for the high Government officials, against whom criticism, interpellation, laughing and scolding was leveled.

Later on, the number of PPC members who were elected was increased, while the number of "D" type members was gradually reduced, and, strangely enough, the PPC also became less vigorous. The PPC has long ago become less strong and less effective than it once was, and during the past year it has existed almost in name only.

PPC, you may go now. You can be said to have done your part. Can your successor be symbolic of the peace, unification, democracy and progress of the nation? This is what we shall seek for night and day! (Extracts)

\* \* \*

#### Change in U.S. Policy Toward Palestine

Cheng Yien Pao (Local KMT Organ, Connected with Wu Shao-shu), Shanghai  
March 27, 1948

Abandonment by the United States of the Palestine partition plan is designed to serve an important purpose. The Arab League is very influential in Southwestern Asia and controls a large number of the oil fields there. If the United States continues to support the implementation of the partition plan, she will lose the sympathy of all Arab nations, and in the event of another world war, not only will the Arab nations not side with Britain and

STANDARD FORM NO. 64

## Office Memorandum • UNITED STATES GOVERNMENT

TO : SP - Mr. Butler

DATE: April 2, 1948

FROM : FE - Mr. Butterworth *HW*SUBJECT: Consideration of SC 242/25, Level of Economic Life in Japan: Policy Towards Japanese Industry in Steering Committee of Far Eastern Commission on March 30, 1948.

On March 30, 1948 the Steering Committee discussed SC 242/25, Level of Economic Life in Japan: Policy Towards Japanese Industry. The positions of the various delegations are as follows:

Australia : general reservation in absence of instructions

Canada : favorable

China : amendments circulated as SC 242/22, Feb. 26, 1948. Stated eagerness to have paper on subject approved

France : general reservation; unable to vote on paper. Submitted technical views in SC 242/22.

India : generally favors

Netherlands : favorable; minor reservations

Philippines : general reservation

USSR : general reservation; no instructions

UK : generally favor

POLICY PLANNING  
STAFF

APR 9 1948

Department of State

Dr. Blakeslee made the following statement: "We do not have final instructions on paper as a whole, although we do have instructions on some pending amendments."

The Chinese representative formally presented his amendments to the Steering Committee (SC 242/22). [ On March 2, 1948, a technical ad hoc subcommittee of the Steering Committee had been established to consider these amendments. In its report it appeared that France had generally supported the Chinese amendments while the U.S., UK, Netherlands and Canada had almost consistently opposed them.

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The Committee decided to discuss the fifth Chinese amendment which proposed to add the following new paragraph 7 (original paragraph 7 to become paragraph 8):

"The provisions of this policy should not be interpreted as excluding the reparations removals for such categories of industrial facilities other than those specified herein for the purpose of reducing the Japanese industrial war potential."

While certain members of the Committee disputed the wording of this paragraph, it soon became evident that general sentiment in the Committee was divided into two camps: (1) those who wanted to leave the door open so that additional reparations not provided for in this paper could be taken from Japan -- China, France; (2) those who desired to draw a line which would prevent removals beyond those provided for in this paper -- UK, New Zealand. The Chairman of Committee I reported that the majority of the members of that Committee favored the latter view.

The Chinese representative expressed the point of view of the Chinese Delegation towards Japanese industry in an extensive statement (attached) -- the thesis of which was that "in determining a policy towards Japanese industrial levels there should be a fair and equitable balance between the needs of the reparations claimant countries and the peaceful needs of Japan". The Chinese representative did not consider that the paper had been sufficiently studied from the reparations angle. He further stated that although it was important to reach an early decision on the paper, it was "more important to settle the issue in such a manner as would achieve a fair balance between the requirements of the claimant countries and the peaceful needs of Japan."

The British representative stated that he could not agree with this interpretation and registered his opposition to any attempt to link the subject of level of industry to that of reparations. The French representative supported the Chinese thesis. [It should be noted that the Chinese and French representatives gave each other mutual support throughout the discussion on this paper.] The Australian representative stated that while he realized that it was impossible to deny a connection between the two problems, nevertheless, some regard must be given to steps already taken in the Commission. First, a policy on the Peaceful Needs of Japan had been approved by the Commission [January 23, 1947]. Then the policy on the Reduction of Japanese War Potential was approved [August 14, 1947] which provided that certain war supporting

industries



- 3 -

industries should be reduced to the peacetime needs of Japan and that the surplus should be used for reparations. He further stated that the present proposal was an attempt to estimate the peacetime needs of Japan relating to these particular industries and that any attempt at this stage to examine this paper in relation to the needs of the reparations claimants would destroy the whole basis on which this particular paper was based.

The Canadian representative associated himself with the point of view expressed by the Australian representative. The Committee agreed to consider the Chinese amendments at the next meeting by discussing the paper paragraph by paragraph. The UK representative suggested that each delegation request its government to submit all amendments by April 20. In this connection special reference was made to the U.S., Australia and the USSR.

Attached:

Statement by Chinese Member

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STATEMENT BY CHINESE MEMBER ON POLICY  
TOWARDS JAPANESE INDUSTRY, SC 242/19.

"I should like to take this opportunity to make a few remarks on the Policy Towards Japanese Industry, SC 242/19. The Chinese Delegation has a keen interest in this paper and attaches great importance to an early agreement of a policy towards Japanese industry, in the hope that Japan will be able to rehabilitate and reconstruct her peaceful economy. This desire was fully evidenced by the active participation of the Chinese representative, in company with others, in the sub-committee and committee discussions on this question. Following the completion of the preliminary deliberations in the working committee, it was the Chinese Delegation which first took the initiative in this Committee to submit a concrete amendment supported by relevant data. Our proposed amendments however as embodied in SC 242/22, are the result of a careful study and are based on the conviction that reparations removals and the establishment of an industrial level for Japan are closely related. The close connection between these two questions was fully recognized in paragraph 11 of the Potsdam Declarations which I quote: 'Japan shall be permitted to maintain such industries as will sustain her economy and permit the exaction of just reparations in kind'. Consequently, in determining a policy towards Japanese industrial levels there should be a fair and equitable balance between the needs of the reparations claimant countries and the peaceful needs of Japan. It is regrettable to say that the problem of Japanese industrial levels have never been studied sufficiently from this point of view, as a matter of fact, a proposed policy SC 242/19, has never been referred to Committee No. 1 for examination. In the opinion of the Chinese Delegation, the program in SC 242/19 as a whole lacks such balance. It is our earnest hope that Committee No. 1: Reparations, should be directed to undertake, at the earliest practical moment, a comprehensive study of all possible means by which 'just reparations in kind' may be provided for in such a manner and quantities as will contribute to the early reconstruction of the Allied countries so ruthlessly devastated by Japan. I believe that such a study will give for a better perspective of the problems in their entirety.

"As regards the course of deliberation in the technical ad hoc subcommittee of the Steering Committee, I am

informed

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informed that no such interest was shown in the course of the consideration of the Chinese amendments. In view of the fact that there are no convincing technical reasons advanced against such amendments, it may be presumed that they are satisfactory, but by no means prove in all their details, from the technical point of view.

"May I recall the history of FEC discussions on the subject. The Commission at the outset realized the fact that it might take a long time to determine an industrial level for Japan. Therefore, a program of interim removals was first proposed in March 1946, which resulted in a number of policy statements, covering 13 categories of industrial assets. It was its intention that a so-called quoted ceiling should be placed on Japanese industrial levels for the purpose of removing excessive capacity for interim reparations and that a comprehensive level should be decided upon at a later date. Complementary to the interim level was the assured level, which was to give Japan a minimum, or the so-called quoted floor, of certain categories of industrial assets that would not be subject to removal under subsequent disarmament or reparations programs, but after a lapse of almost two years, most, if not all, of the interim levels have, in fact been suggested to be the comprehensive levels. Some levels have been recommended without even thorough discussions as to their technical details, such as the ball and roller bearing and the thermal power industries. Some levels are set even higher than the interim levels, such as that for the aluminum industry.

"In view of the above reasons, I cannot share the opinion that all angles of the problem have been thoroughly explored and that it is time to vote on the paper. It is, of course, important to reach an early decision on the object, but in the view of my delegation it may be even more important to settle the issue in such a manner as would achieve a fair balance between the requirements of the claimant countries and the peaceful needs of Japan."



THE FOREIGN SERVICE  
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No. 331

RESTRICTED

DIVISION OF OCCUPIED AMERICAN CONSULATE GENERAL  
ECONOMIC AFFAIRS  
APR 14 1948 Shanghai, China, April 3, 1948.  
DEPARTMENT OF STATE

SUBJECT: Strike Reparations Program

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON, D. C.

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SIR:

I have the honor to refer to the Department's Airgram of March 17, 8:35 a.m., requesting copies of all local material related to the Strike program of reparations for Japan and to enclose a full translation of an editorial which appeared in the April 2 issue of the SIN WEN PAO (KMT-supervised C.C. Organ) on this subject.

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The editorial has been quick to draw a comparison between our modified policy toward Japan and the Congressional proposal to include Spain under the Marshall Plan. It says: "In our opinion this way of doing things on the part of the United States is unwise, for while it is the duty of the United States to try to stem Soviet aggression, yet the policy of opposing one type of totalitarian force by building up another type of totalitarian force would not produce any good results. This way of doing things would no doubt cause the United States to lose the sympathy of millions upon millions of people in the world so that Soviet Russia would obtain even more effective propaganda material and also an excuse for expanding her armed forces."

Respectfully yours,

John M. Cabot  
American Consul General

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Full Translation of editorial, "A Study of U.S. Policy Toward Japan", published in SIN WEN PAO, April 2, 1948.

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Copy to Embassy, Nanking.

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EDITORIAL COMMENT

## A Study of U.S. Policy Toward Japan

Sin Wen Pao (KMT-supervised, C.C. Organ), Shanghai  
April 2, 1948

Recent events indicate that the United States has now openly taken the course of helping Japan to recover, and that she has been taking very positive steps in this direction. Not long ago we heard that the U.S. Department of the Army had urged that a loan of US\$760 million be extended to Japan to enable her to buy American raw cotton and to give relief to Japanese civilians. During the latter part of last month, U.S. Under Secretary of the Army Draper personally went to Japan to investigate conditions there and had long secret talks with General MacArthur. Draper expressed the hope that Japan would become the "factory of the Far East" and proposed that the reparations program be made as liberal as possible. The crafty Japanese certainly would not let slip the opportunity afforded by this expression of views by Draper, so the Ashida Cabinet immediately converted Katayama's five-year plan into a three-year plan and requested a loan of US\$3 billion. There are people in the U.S. Congress who agree to extend a big loan to Japan and who want the Marshall Plan to be extended to include Japan. All these developments have made us apprehensive.

Some time ago the Strike program would raise the productive power of Japan to a point which was 125 percent of that which obtained during the period 1930-34, but the Japanese were still dissatisfied with it. Recently, they have demanded that Japan's productive power be raised to a point which is 150 percent of that which obtained during that period, on the ground that only when she has attained this industrial level will she become "self-sufficient". The U.S. authorities are now considering this new plan of Japan.

Now that U.S. policy toward Japan has developed to such a stage, we really cannot remain silent any longer. During the past two years we have consistently opposed MacArthur's occupation policy, but U.S. policy toward Japan is getting closer and closer to danger. The problem of Japanese war criminals is no longer mentioned; the reparations program is being made as liberal as possible; the order for the dissolution of the Zaibatsu has virtually been rescinded; the remnants of Japanese Fascists continue to be active, and even part of Japan's war industries will be preserved. It is not only we Chinese who are opposed to this way of doing things, but even far-sighted people in the United States itself are worried about it. We feel that this way of doing things will no doubt encourage the revival of Japanese militarism, and are afraid that the United States may suffer a second "Pearl Harbor". It is to be regretted that U.S. official quarters still do not attach much importance to these views of ours.

An analysis of the U.S. attitude shows that besides economic reasons, the main reason for the U.S. effort to build up Japan is that the United States wants to get prepared for possible war against Russia. The more intense the U.S.-Soviet "cold war" becomes, the more anxious the United States is to build up Japan. U.S. military officers have openly declared that "when the third World War breaks out, Japanese youths will put on U.S. military uniforms and fight shoulder to shoulder with U.S. troops." This statement explains the whole content of U.S. policy toward Japan. And it is on the basis of this same psychology that it is being planned to include Spain in the Marshall Plan. In our opinion, this way of doing things on the part of the United States is unwise, for while it is the duty of the United States to try to stem Soviet aggression, yet the policy of opposing one type of totalitarian force by building up another type of totalitarian force would not produce any good results. This way of doing things would no doubt cause the United States to lose the sympathy of millions upon millions of people in the world, so

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that Soviet Russia would obtain even more effective propaganda material and also an excuse for expanding her armed forces. In regard to U.S. policy toward Japan, we do not want to hear of the old formula of an "industrialized Japan and an agricultural China". The Chinese people hope that the United States has regard for the traditional friendship between China and herself, and that she will change her policy toward Japan at the earliest possible date.

Finally, we urge that our Government authorities immediately express a firm attitude and clearly make known China's basic stand, so as to prevent U.S. policy toward Japan from heading toward an even more dangerous course.  
(Full Translation)

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EDITORIAL COMMENT

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Sin Wen Pao (KMT-supervised, C.C. Organ), Shanghai  
April 2, 1948

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Now that U.S. policy toward Japan has developed to such a stage, we really cannot remain silent any longer. During the past two years we have consistently opposed MacArthur's occupation policy, but U.S. policy toward Japan is getting closer and closer to danger. The problem of Japanese war criminals is no longer mentioned; the reparations program is being made as liberal as possible; the order for the dissolution of the Zaibatsu has virtually been rescinded; the remnants of Japanese Fascists continue to be active, and even part of Japan's war industries will be preserved. It is not only we Chinese who are opposed to this way of doing things, but even far-sighted people in the United States itself are worried about it. We feel that this way of doing things will no doubt encourage the revival of Japanese militarism, and are afraid that the United States may suffer a second "Pearl Harbor". It is to be regretted that U.S. official quarters still do not attach much importance to these views of ours.

An analysis of the U.S. attitude shows that besides economic reasons, the main reason for the U.S. effort to build up Japan is that the United States wants to get prepared for possible war against Russia. The more intense the U.S.-Soviet "cold war" becomes, the more anxious the United States is to build up Japan. U.S. military officers have openly declared that "when the third World War breaks out, Japanese youths will put on U.S. military uniforms and fight shoulder to shoulder with U.S. troops." This statement explains the whole content of U.S. policy toward Japan. And it is on the basis of this same psychology that it is being planned to include Spain in the Marshall Plan. In our opinion, this way of doing things on the part of the United States is unwise, for while it is the duty of the United States to try to stem Soviet aggression, yet the policy of opposing one type of totalitarian force by building up another type of totalitarian force would not produce any good results. This way of doing things would no doubt cause the United States to lose the sympathy of millions upon millions of people in the world, so

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that Soviet Russia would obtain even more effective propaganda material and also an excuse for expanding her armed forces. In regard to U.S. policy toward Japan, we do not want to hear of the old formula of an "industrialized Japan and an agricultural China". The Chinese people hope that the United States has regard for the traditional friendship between China and herself, and that she will change her policy toward Japan at the earliest possible date.

Finally, we urge that our Government authorities immediately express a firm attitude and clearly make known China's basic stand, so as to prevent U.S. policy toward Japan from heading toward an even more dangerous course. (Full Translation)

\* \* \*

On the Dispute over National Assembly Seats

Lih Pao (General Labor Union Organ), Shanghai  
April 2, 1948

The current dispute over National Assembly seats reflects the poor organization of the different political parties in China and the wrong measures which they have taken. The Kuomintang is the largest party in China which has been leading the revolution and national reconstruction. While during the past fifty years and more the Kuomintang has achieved great things which must not be forgotten, yet it has also displayed inexcusable weaknesses. We should point out that in a number of ways, the selection and election of National Assembly delegates this time have not only disappointed the people, but also proved unsatisfactory to the Kuomintang members themselves. The responsible authorities ought to realize the fact that it is not the Party members, but rather the Party itself, which should be held responsible for the fact that some Party members have shown a centrifugal tendency.

Secondly, it is also an undeniable fact that the organization of the Democratic Socialist and Young China Parties is rather loose and that their constituent elements are rather complicated. During the recent elections the system of one party yielding seats to another was adopted, but among the members of the Democratic Socialist and Young China Parties who accepted the seats yielded by Kuomintang members are many who do not command the respect of the public or who are not people of integrity. This is something unfair. So far as the future of democracy in China is concerned, this is not a blessing to the State or the people.

From the current dispute over National Assembly seats, we can see that our current national crisis lies in the fact that both those in the Government and those outside it are interested only in the form rather than in the substance, of democracy. We should realize that the Communist bandits are utilizing this opportunity to enlarge their rebellion. If all those concerned still do not thoroughly wake up and take fundamental measures to save the situation, then the tragedy where before one nation had concluded the debate among its own Government leaders, the troops of another nation had arrived, as recorded in Chinese history, will actually be reenacted. (Extracts)

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Strictly Prohibit Public Funds from Becoming Idle  
Capital

Chung Yang Jih Pao (KMT Organ), Shanghai





No.104

**RESTRICTED**  
**THE FOREIGN SERVICE**  
**OF THE**  
**UNITED STATES OF AMERICA**

American Legation, Wellington, New Zealand  
April 5, 1948

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Subject: Reaction to "Strike" Report on Japanese Reparations

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DEPARTMENT OF STATE

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The Honorable  
The Secretary of State,  
Washington.

Sir:

I have the honor to refer to the Department's circular airgram of March 17, 1948, 8:35 a.m., and to submit a report of the very slight New Zealand reaction to the report of Overseas Consultants Incorporated.

There is enclosed a news article (from the New Zealand Herald, Auckland, of March 11, 1948) concerning the release of this report. It will be noted that emphasis is given to the unofficial nature of the study.

There have been no public statements by New Zealand Government officials and, despite a careful check of all important newspapers, the Legation has found no editorial comment. Although New Zealand newspapers have shown considerable general interest in the past in the Japanese problem, their neglect of the "Strike" Report may have been due to its being over-shadowed by the suicide of Mr. Jan Masaryk and important local industrial disputes.

The only specific comment on the Overseas Consultants Report was in The Standard's weekly commentary on world affairs by "Criticus". Mention of this has already been made in the Legation's despatch no.90 of March 29. However, as of possible interest, the full text of his remarks is as follows:

**"U.S. POLICY IN JAPAN"**

"The atmosphere of war which is being created at present is built on illusions of a 'fight for democracy' by means of a preventive international war and suppression of 'aggressor nations.' Now, if ever there was an aggressor nation, it is the Japanese nation. Yet, on March 10 we read the following cable:

Washington, March 10.

The scrapping of the present Allied policy on Japanese reparations and the rebuilding of key Japanese industries such as steel to levels higher than their war-time peak is recommended in a report released by the U.S. Secretary of the Army.

"Now, I am the last one to advocate lasting de-industrialisation of any country in the world. But industrialisation must not be carried out by militarists. Are the Japanese militarists out of power?"

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AIR MAIL

Wellington, New Zealand  
Despatch No. 104  
April 5, 1948

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"If we can trust General MacArthur's statement a complete change of heart has come over the Japanese. On September 1, the following cable appeared in the press:

Tokio, September 1.

Right rather than might has been our criterion, General MacArthur said. The fruits of this policy are now self-evident. Japan today stands out as one of the few places in a distraught world where, in spite of an economy of critically short supply there is a minimum of fear, confusion and unrest - where the people are diligently endeavouring to expiate the breach of peace for which their nation stands universally condemned, to overcome the poverty left by war and defeat and to elevate themselves to trusted, useful membership in the family of nations.

This sounds all very good. But can we trust the General's statements? Statements coming out of Japan are severely censored and in a recent news item it was stated that one correspondent who wrote stories considered critical by the authorities was subjected to interrogation and threats and his home was raided by U.S. Army Criminal Investigation Detachment agents.

"On the other hand we have testimonials of qualified New Zealand travellers who are out of the reach of American censorship. Professor Sutherland has this to say:

'Economically the Americans have left the Japanese to their own resources. Black marketing in food is so extensive that the police are quite powerless to check it. Inflation is an enormous danger. Generally there seems to be much outward conformity as a result of the Allied occupation, but little inner change.'

"Mr. R.H. Quilliam, New Zealand representative on the War Crimes Tribunal:

'The Emperor renounced his divinity; it was taken up by General MacArthur. He has surrounded himself with a staff which, I think, are most incompetent for the job they are doing. I did not form a high opinion of the Japanese and the more I saw of them the less I liked them. I hope we'll be very careful before we give them full trust again.'

The Standard is an official organ of the Labor Party. The anonymous articles of "Criticus" may therefore be taken as indicative of the views of at least an important section of the Party, although in this particular case he would certainly not be supported

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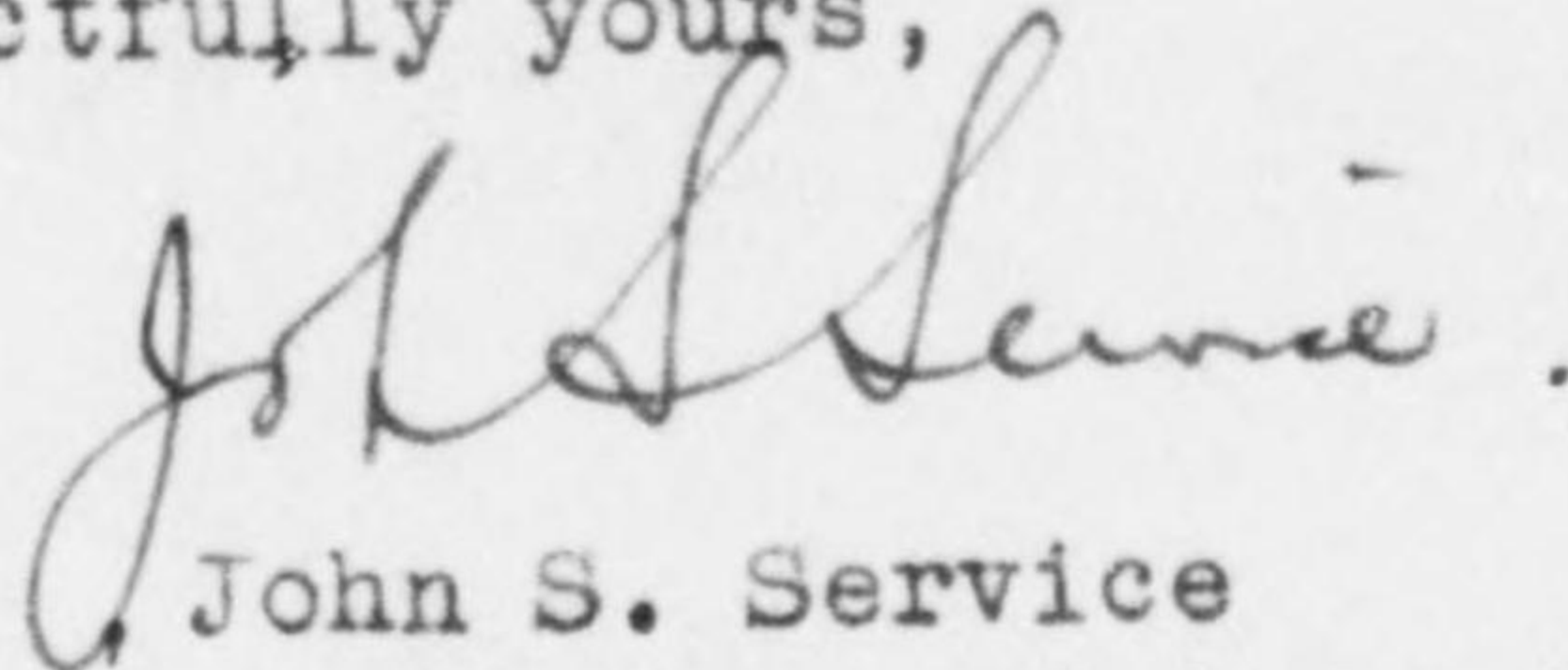
**AIR MAIL**RESTRICTED

Wellington, New Zealand  
Despatch No. 104  
April 5, 1948

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by the Government, and his position often seems more hostile to American policy than the official editorials of The Standard or the Party's daily newspaper, The Southern Cross.

Respectfully yours,



John S. Service  
Charge d'Affaires ad interim

Enclosure: *att att*

Article from The New Zealand Herald dated March 11, 1948

Armistead M. Lee/GH

File No. 711

To Department in original and hectograph ✓

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Enclosure no. 1 to despatch no. 104,  
dated April 5, 1948 from American  
Legation, Wellington, New Zealand  
on the subject REACTION TO "STRIKE"  
REPORT ON JAP REPARATIONS

Source: The New Zealand Herald  
(Auckland)

Date: March 11, 1948

## REBUILD JAPANESE INDUSTRY

## U. S. REPORT OPPOSES PRESENT POLICY

(Recd. 11.30 p.m.) Washington, March 10

The scrapping of the present Allied policy on Japanese reparations and the rebuilding of key Japanese industries, such as steel, to levels higher than their wartime peak are recommended in a report released by the Secretary of the Army, Mr. Kenneth Royall, today.

The report, which is known as the "Strike Report," was prepared by a civilian group operating as Overseas Consultants, Incorporated, under the chairmanship of Mr. Clifford Strike.

The report was prepared under contract to the Army, which is reported to have allowed a maximum of \$650,000 for the work.

The report is in line with the trend in some Government quarters and in business circles for rebuilding Japan into a great industrial country with a "controlled" war potential. This contrasts with the present Allied policy, which aims to eliminate the war potential and rebuild Japan into a nation of consumer industries.

## Drop Present Policy

The basic principle of the report is that the present United States policy on Japanese reparations and the future level of industry - a policy which has been approved by the Far Eastern Commission - should be dropped because it would prevent Japan from reaching a self-sustaining economy within a reasonable period.

The present policy of the United States and the Far Eastern Commission is based on the theory that Japan's industry always was top-heavy in industries valuable only for war. This policy was developed from the report which Mr. Edwin Pauley made when he was President Truman's personal representative on Japanese reparations. Concurrently with the release of the Strike Report, the State Department last night released the text of the Pauley Report.

## Clash Predicted

The United Press correspondent in Washington says a big clash between the Army and the State Department on the reparations issue is in prospect.

There has been an indication that influential members of the armed services agree with the philosophy of the Strike Report to build up Japan into a powerful industrial country. Important members of Congress are expected to approve any policy which would stop the removal of reparations from Japan. Representative spokesmen of the business world also favor a more potent Japan.

The correspondent says, however, that even if the United States reversed its policy there is little possibility that it could get the Far Eastern Commission to change. China, which has a veto in the commission, stands to get the largest share of reparations. The United States favors giving China 30 per cent.

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DEPARTMENT OF THE ARMY  
OFFICE OF THE UNDER SECRETARY  
WASHINGTON, D. C.

8 April 1948

MEMORANDUM FOR GENERAL DRAPER:

Subject: Civil Property Custodian Problems in Japan.

1. You will recall the memorandum (Tab. "A") which I prepared for your information in Tokyo regarding civil property custodian problems. It is my understanding that you discussed this matter with General MacArthur and that general agreement was reached by you with him that no further directives on civil property custodian problems would be required, but that where specific questions arose these would be handled informally by Army messages based on State-Army Coordination.

2. Further in line with this agreement between you and General MacArthur was the position tentatively developed by you and Mr. Kennan that the U.S. would submit no new policy papers to FEC.

3. Some question regarding such a solution has already been raised by certain members of the Department of State who feel that FEC directives are required on these various problems. It would appear, therefore, that Mr. Kennan's views have not yet percolated through all the State Department. I understand from General Schuyler, however, that Mr. Kennan has already written his draft NSC paper, which will probably eventually achieve the desired result.

4. Meanwhile, I recommend that you approve discussions within the Army and with the State Department with a view to obtaining agreement on a message to General MacArthur along the lines of the draft contained in Tab. "B".

*T.N.D.*  
T.N.D.

Attach.  
Tab. "A"  
Tab. "B"

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*WTD*

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April 9, 1948

OE - Mr. Martin

Subject: Civil Property Custodian Problems in Japan.

There are attached a copy of a memorandum from Col. Dupuy to Under Secretary Draper regarding civil property custodian problems in Japan and a copy of a draft message to General MacArthur from Mr. Draper on the same subject. I understand from Col. Dupuy that Mr. Draper discussed this question with General MacArthur and that general agreement was reached by them that no further directives on civil property custodian problems would be required but that where specific questions arose these would be handled informally by Army messages, based on State and Army coordination. There was apparently also a tentative position developed between Mr. Draper and Mr. Kennan that the U. S. would submit no new policy papers to FEC - presumably on this subject.

Mr. Draper has given these papers to the Department on an informal basis with the request that we express our views and if possible concur in the despatch of the cable.

There are two questions presented. The broader one deals with the whole idea of SCAP's authority to take action in areas within the policy jurisdiction of the FEC but on which no policy guidance has been given. The narrower one deals with the particular question of policy of interest to the civil property custodian. The Army Department would like to establish a broad arrangement by which SCAP would understand that he is to act independently on matters within FEC jurisdiction but when no policy direction exists, with the understanding, however, that he would inform Washington what steps he believes he should take, and be given U. S. guidance.

The Army Department would also like to begin such a policy with this cable, using it as an example or precedent. If such a procedure cannot be applied to this individual problem, the Army would like to have the general policy worked out and SCAP informed.

I believe the general policy referred to is very close to the "Snow formula" which was prepared in cable form and submitted to the Army Department several months ago but which became involved in

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a more complex policy statement and was finally abandoned. The idea as expressed in the draft under discussion at that time still seems a useful one and might be re-examined.

Would you please examine the attached material and prepare a letter of reply to Mr. Draper, indicating what action the Department believes should be taken on the property papers themselves and on the more general approach as well. Would you please consult with Mr. Allison and General Snow in the preparation of this reply.

Philander P. Claxton, Jr.

Atts.

Memo to Mr. Draper  
Draft Cable to Gen. MacArthur

cc: NA - Mr. Allison  
L/P- Mr. Snow

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~~CONFIDENTIAL~~C O P YTokyo, Japan  
31 March 1948

MEMORANDUM FOR: Under Secretary Draper

SUBJECT: Civil Property Custodian Problems

1. At a conference this morning, General Tansey, the Civil Property Custodian, and his staff emphasized the urgent need for specific guidance on several problems with which he is now faced. He pointed out that inability to dispose of various types of property is having a definite detrimental effect on the economic recovery of Japan. He understood the difficulties in obtaining policy decisions from the Far Eastern Commission under present circumstances, and the reluctance of the State Department to issue unilateral directives save in urgent emergencies.

2. One way out of this dilemma would be to attempt to fit all of the problems with which General Tansey is faced within the framework of existing policy directives and guidance. Obviously, SCAP would require affirmation that these problems fall within the scope of his existing directives, particularly in those cases which are currently under consideration in Washington, such as the treatment of United Nations property in Japan (SANACC 357), disposition of German assets in Japan (SANACC 255), disposition of foreign assets (SANACC 236), treatment of Japanese patents (SANACC 369), and so forth. It would appear that existing directives could be interpreted to cover these, and probably all of the problems with which the Civil Property Custodian is faced.

3. The mechanics of handling these and future problems where SCAP is doubtful as to the scope of his authority would then appear to be simple. Each such problem should be referred to Washington for guidance with, if possible, a proposed course of action recommended by SCAP. Guidance and comment could then be offered by the State and Army Departments within the framework of existing directives, obviating the necessity for formal unilateral U. S. directives save in unusual cases. This will: (a) retain policy responsibility in Washington, where it belongs, (b) assure that policy decisions will be based on the recommendations of those who will be responsible for implementation, and (c) preclude long delays due to Far Eastern Commission indecision.

4. General MacArthur, of course, is familiar with the urgent need for settlement of the current problems, and is equally cognizant of the difficulties in obtaining satisfactory action by the Far Eastern Commission on any matter of substance. It is recommended, therefore, that you discuss this matter with him with a view to:

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a. Obtaining his views as to the desirability of broad application of existing directives to the specific problems of the Civil Property Custodian,

b. Suggesting that, in order to avoid the necessity for issuing interim directives which would create diplomatic incidents in the Far Eastern Commission, the War and State Departments transmit by message to General MacArthur their affirmation as to the scope of existing directives with respect to current custodian problems specifically authorizing General MacArthur to take the action he feels necessary in each of these problems,

c. Agreeing that in future cases where he may have doubt as to his authority as SCAP, he may refer each such problem to the State and Army Departments for guidance and comment with, if possible, his recommendations on the matter.

T. N. Dupuy  
Lt. Col., GSC

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D R A F T MESSAGE

8 April 1948

TO CINCFE TOKYO JAPAN

Personal to MacArthur from Draper

In light of our discussion of civil property custodian matters during my recent visit to Tokyo, I propose taking the following steps:

a. Withdrawing from SANACC the various papers dealing with such matters, such as SANACC 357 series (Treatment of United Nations property in Japan ) SANACC 378/2 (Disposition of Assets in Japan of certain institutions) SANACC 255/23 (German Assets in Japan) SANACC 236/38 (Japanese external assets) and SANACC 369 (Treatment of Japanese domestic and foreign patents).

b. Forwarding to you State and Army Department views as to the scope of your existing authority to handle these and similar matters. I should appreciate if in your reply to this message you would indicate what you would expect and desire these views to contain.

c. Informing the Joint Chiefs of Staff of the action being taken in regard to matters of this nature.

Your early comments are requested.

## Distribution:

P&O  
CAD (State)  
C/S  
JCS  
AF  
Navy  
Adm. Leahy  
ID

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THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

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*[Handwritten signature]*

No. 357

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AMERICAN CONSULATE GENERAL

Shanghai, China, April 9, 1948.

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DEPARTMENT OF STATE  
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1948 APR 16 PM 2 12

SUBJECT: Local Reaction to the Strike Report

DC/L  
JANSON

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RECEIVED  
DEPARTMENT OF STATE

THE HONORABLE  
THE SECRETARY OF STATE,  
WASHINGTON, D. C.

1948 APR 15 AM 10 24

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In continued compliance with the Department's circular airgram of March 17, 8:35 a.m., that it be kept informed of all public reaction to the Strike Report, I have the honor to enclose two editorials which appeared in the Shanghai Chinese-language press of April 8, 1948, one in the SIN WEN PAO (KMT-supervised C. C. Organ) and the other in the YI SHIH PAO (Chinese Catholic Organ).

ACTION

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Army-enc

Navy

CA-enc

The SIN WEN PAO pegs its editorial on a recent despatch from Tokyo to the effect that the Japanese have decided to organize a "Marine Security Bureau" which, it says, is but a disguise for a new Ministry of the Navy. After summarizing the several recent American recommendations for Japanese regeneration, the editorial says, "With such encouragement Japan naturally forgets her status as a defeated nation and is resolutely heading toward rearmament". After recalling the Anglo-Japanese Alliance of 1902 and the Japanese attack on Britain in the last war, it prophesies that the United States with its present program will reap the same reward as Britain did.

As defense against American efforts, the editorial proposes that (1) China must demand that Japan remain disarmed; (2) China should solemnly notify the United Nations that any unilateral action taken by any nation regarding Japan which has not been agreed upon by China, Britain, the United States and the U.S.S.R. or which is not provided for in the Japanese peace treaty should be considered null and void; (3) China should propose a Southeast Asia Joint Defense Conference so that all nations in Southeast Asia may unite in taking military precautions.

The YI SHIH PAO

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*[Handwritten initials]*

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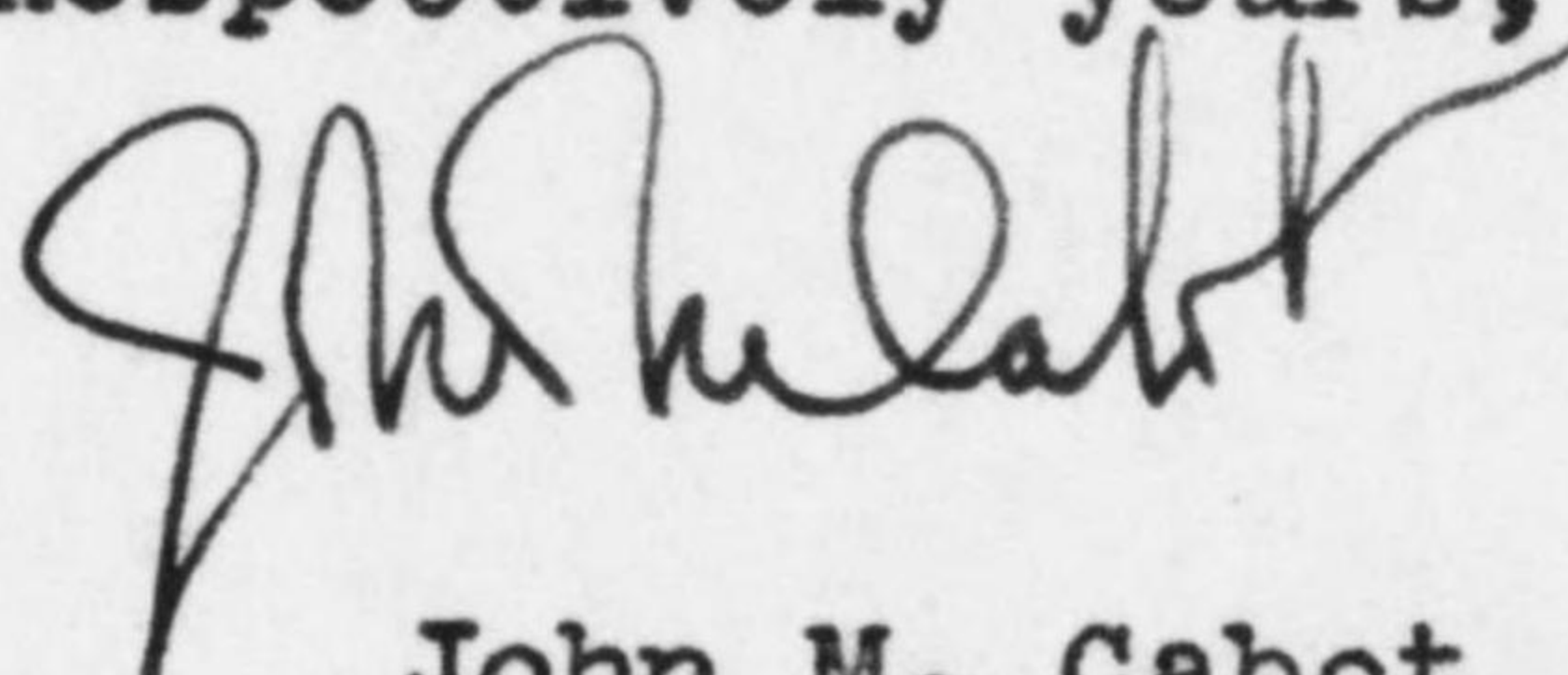
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The YI SHIH PAO which, as a Catholic organ, regularly follows an extremely anti-Communist path and which as a result has more frequently been sympathetic with American policies and objectives than have most other vernacular papers, apologetically opens its editorial with the statement, "This journal has not in the past commented much on the various problems connected with Japan", but goes on to say:

"However, what is very surprising is that today the United States is so liberal in her control of Japan and so positive in her effort to build up Japan that she has extended the limits of liberality and forgotten the prerequisites. The Americans are too naive and too headstrong."

As pointed out in my telegram No. 807 (repeated to Nanking as 574) of April 9, 1948, both these editorials also give indication of some concern over the selection of Mr. Paul G. Hoffman as administrator of the aid program because of his identification with the Draper Mission, his statements in favor of a revived Japan, and his concurrence in the general conclusions of the Strike Report.

Respectively yours,



John M. Cabot  
American Consul General

Enclosures: *Att* ✓  
*K*

- 1/ Copy of Translation of Editorial in SIN WEN PAO, April 8, 1948, entitled, "Prevent Japan from Re-arming."
- 2/ Copy of Translation of Editorial in YI SHIH PAO, April 8, 1948, entitled, "Japan is Rising".

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Original and Hectograph to Department.  
Copy to Embassy, Nanking.

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## CHINESE PRESS REVIEW

\* \* \*

American Consulate General, Shanghai, China

No. 613

April 8, 1948

EDITORIAL COMMENT

## Prevent Japan from Rearming

Sin Wen Pao (KMT-supervised, C.C. Organ), Shanghai  
April 8, 1948

An East Asia News Agency dispatch from Tokyo on April 5 stated that Japan has decided to begin organizing on May 1 a "Marine Security Bureau" which will be something like a Ministry of the Navy, and that in order to avoid attacks by public opinion in other countries, the Bureau will temporarily be put under the Ministry of Transportation and will be expanded later on. It is reported that this security force will consist of 125 special service warships and other craft. This news has come to us as a great shock.

Japan claimed to be the naval Power of the Far East, and her imperialistic expansion during the past sixty years depended largely upon her sea power. She ultimately failed militarily because her Navy had been destroyed. Now, the Japanese Government wants to rebuild the Japanese Navy, and what their purpose is in doing this is too plain to need any explanation.

Needless to say, it is through encouragement given her by the United States that Japan now dares to attempt to rebuild her Navy. The Strike report issued this year recommends that the various kinds of heavy industries in Japan be preserved, and regarding shipbuilding, it recommends that by 1953 Japan be enabled to build 648,000 tons of merchant shipping per year, not to mention Army equipment. The Japanese having seen this report, how can their militaristic dreams not revive? Upon his return to the United States from a survey of conditions in the Far East recently, Chairman Kennan of the State Department's Planning Committee recommended to Marshall that he concur with General MacArthur's policy that the United States should consider the importance of Japan militarily and that she be made the anti-Communist bastion in Asia. On the other hand, the Draper Mission has proposed that the United States do all she can to help Japan become the factory of the Far East. Moreover, SCAP intends to abolish the system of controlling Japan by issuing directives, so as to enable her to restore her administrative freedom and to become a completely sovereign state. With such encouragement Japan naturally forgets her status as a defeated nation, so she is resolutely heading toward rearmament.

The reason why General MacArthur has been treating Japan so well is doubtless because he wants to use Japan to resist Soviet Russia, but we are of the opinion that in doing this, he is certainly rearing a tiger which will bring disaster in the future. The Japanese are an ungrateful people. By concluding the Anglo-Japanese Alliance in 1902, Britain also wanted to use Japan's power to maintain the balance of power in the Far East, but Japan used various kinds of assistance from Britain to defeat Czarist Russia. When the second World War came, Japan forgot entirely the assistance which she had received from Britain in the past. At present the United States is doing her best to build up Japan, and there can be no doubt that she will reap the same results as Britain did!

Under existing conditions, America's desire to build up Japan as a bulwark against Soviet Russia has almost become an immutable policy, and that Japan, under the protection of the United States and taking advantage of the U.S.-Soviet conflict, will seek to rebuild her armament, will also become a fact. Under these tendencies, naturally it is China which will be the first to be threatened, so we must make plans for coping with the situation well in advance. Consequently, we would like to make these three proposals: (1) The Government must demand again that Japan remain disarmed. (2) The Government should solemnly notify the United Nations that any unilateral action taken by any nation regarding Japan, which has not been agreed upon by China, Britain,

the United States and Soviet Russia or which is not provided for in the Japanese peace treaty to be concluded, should be considered null and void. (3) We should propose the holding of a Southeastern Asia Joint Defense Conference, so that all the nations in Southeastern Asia may unite in taking military precautions. (Full Translation)

\* \* \*

A Re-study of China's Policy toward Japan

-- China must first be regenerated before peace can be established --

Ho Ping Jih Pao (KMT Army Organ), Shanghai  
April 8, 1948

Recent reports from various quarters indicated that U.S. policy toward Japan has changed somewhat, that is, the United States has clearly indicated her desire to take positive steps to "rebuild Japan", with special emphasis on raising Japan's industrial level and increasing the tonnage of her merchant marine. What is most noteworthy is the fact that Paul G. Hoffman, who has just been appointed as Foreign Aid Administrator, has openly advocated that the United States strive with determination to rebuild the economy of Japan so that the latter will attain the highest possible industrial level. We wish now to express some views regarding this problem for consideration by those interested:

The first thing we wish to call the attention of the friendly foreign nation to is that she should consider adopting the right policy. Here we wish to ask everybody to seriously consider the real reasons why Japan embarked upon aggression, thereby causing the second World War. The main reason for this is that the productive power of the Far East was concentrated mainly in Japan. Since the Meiji Reform, the productive power of Japan developed very rapidly. This gave rise to Japan's militarism and aggression. On the other hand, China's effort to reform was unable to overcome the hindrances of the various Powers due to the existence of the unequal treaties. For this reason, China became poorer and weaker and more stupid everyday and became the object of Japan's militarism and aggression. This caused a great change in the world situation. Therefore, if any one wants to rebuild Japan's productive power, he must at the same time pay attention to the rebuilding of China's productive power, for only in this way will Japan not re-embark upon aggression.

Secondly, we wish to point out that to develop China's productive power is to rebuild Chinese economy, and one certainly should not become pessimistic simply because of the existing difficulties. The present economic difficulties of China have been caused by two serious factors: (1) The Communist rebellion, and (2) deterioration of the economic situation. These two serious factors, while different in nature, are interrelated. If we could obtain as large an amount of aid proportionately as that which is being given to Japan, and if our Government can go on the road to "regeneration by our own efforts", we shall doubtless be able to lay a foundation for recovery. Only then shall we be able to lay the foundation for the peace of the Far East and of the world.

Therefore, we do not oppose the United States' helping Japan to recover, though we do feel that under no circumstances should the U.S. follow the same old wrong course by helping Japan to dominate the Far East. That is why to help China recover is far more important than to help Japan recover. (Extracts)

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Japan Is Rising

Yi Shih Pao (Chinese Catholic Organ), Shanghai  
April 8, 1948

This journal has not in the past commented much on the various problems

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connected with Japan. However, regarding the Allied control of Japan, we have expressed the view that while such control should be liberal to a certain extent, yet if it is too liberal, so that Japan will be able to preserve a certain amount of her war potential which will encourage her to rebuild her militarism, then the whole control policy must be considered as a failure. Therefore, at this time when the United States has adopted a policy of helping Japan to recover, we feel there are certain prerequisites to such a policy, namely, that Japan's militarism must be uprooted and that China must be made strong enough to resist successfully any aggression by making it possible for her to enjoy forever an advantage over Japan in productive power and in strategic geography.

However, what is very surprising is that today, the United States is so liberal in her control of Japan and so positive in her effort to build up Japan that she has exceeded the limits of liberality and forgotten the prerequisites mentioned above. The Americans are too naive and too headstrong. They feel that there is no danger that militarism in Japan will revive, and that even if Japan is enabled to enjoy an advantage over China in productive power and in strategic geography, there will still be no danger. It is reported that the Japanese Government may soon regain its administrative freedom, that the system whereby SCAP controls Japan by issuing directives to the Japanese Government may gradually be abolished, that the SCAP Department of Government has already instructed the Japanese Central Purge Committee to make preparations for winding up its work, and that the censorship of Japanese newspapers will be discontinued at the end of this month. This means that even before the conclusion of a peace treaty, Japan will be able to regain gradually her status as a completely sovereign state. This is really such good treatment as defeated Japan has never dreamt of; it is also a great threat to victorious China.

We are grateful to the United States for having at long last passed the US\$463 million China aid bill at this time when our country is experiencing extremely great difficulties. President Truman has now officially appointed Paul G. Hoffman, President of the Studebaker Automobile Company, as administrator of the ERP and concurrently as administrator of the economic part of the China aid program. However, it is this same Hoffman who, having completed a survey of Japan in cooperation with U.S. Under Secretary of the Army Draper, has expressed the view that it will not be dangerous for the United States to rebuild Japan's industry and that Japan should be permitted to organize a 4 million-ton merchant marine, thus concurring with the general conclusions contained in the Strike Report.

It is also reported that when the next fiscal year begins, the United States will extend to Japan a loan of as much as US\$765 million, which will be far larger than the amount of aid which she has decided to give to China, a nation which has resisted Red aggression for a long period of time and which continues to resist it under most difficult conditions. Thus, China's productive power will never be able to increase to a point equalling Japan's. This readiness of the United States to build up Japan is undoubtedly an unfortunate contradiction in international relations today.

Of course, we need to examine ourselves in a number of respects. Defeated Japan is now rising again. Isn't this insufficient to awaken us? The delegates and Government officials now attending the National Assembly at Nanking should make practical and effective proposals for the reform of our internal politics and our foreign affairs, so that we may not lag behind a defeated nation. (Extracts)

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tally, we must simultaneously try our best to improve our political and economic conditions, so that the foreign aid will prove as effective as it should be. Furthermore, the amount of U.S. aid this time is not very big, and this aid program is not very positive in character. This makes our self-effort all the more important.

It can be said that in the past we have not really made any effort at self-help. Our past efforts have certainly been too inadequate. We have had the so-called Emergency Measures, Reform Measures, and various other kinds of control measures. These were all quite high-sounding, but where are the results they have achieved?

The U.S. aid has come late, and our self-help is still being delayed. Aren't we thus doing too great a harm to ourselves? If a program of self-help is worked out and if it is not actually carried out, so that the present U.S. aid will be wasted and so that future foreign aid will be blocked, then everything will be finished. (Extracts)

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#### The Presidential Election and Modesty

Shun Pao (KMT-supervised, C.C. Organ), Shanghai  
April 8, 1948

We want to point out that President Chiang's unwillingness to become the KMT candidate for the Presidency does not mean that he is reluctant to become candidate for the Presidency. According to the regulation governing the election of the President, the Presidential candidate, besides being nominated by a political party, can also be nominated jointly by a fixed number of NPA delegates. When news of President Chiang's refusal to become KMT candidate for the Presidency was made known, people of all walks of life throughout the country were startled. Even the NPA delegates representing the Young China and Democratic Socialist Parties and the non-partisans were also of the opinion that President Chiang should be made the first President of the Chinese Republic. Meanwhile, the NPA delegates' nominate-Chiang-for-President movement sponsored by Dr. Hu Shih, is also underway, and it is absolutely beyond question that the required number of delegates to endorse the nomination will be met.

We admire President Chiang's spirit of modesty and we favor the resolution passed by the Kuomintang special plenary session. However, it is our opinion that President Chiang may refrain from running for the Presidential election, but he should not be so modest. He should accept the unanimous opinion of the NPA delegates as well as the wishes of the people throughout the country. (Extracts)

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#### Again on the Mission of the Current National Assembly

Chung Yang Jih Pao (KMT Organ), Shanghai  
April 8, 1948

This National Assembly is the first Constitution-enforcing N.A., and its main mission is that of completing the organization of a popularly-elected government. At the same time, this N.A. will perform its functions in accordance with the provisions of the Constitution, being different from the Constitution-enacting N.A. Even if the Constitution must be revised, only one or two articles of it should be revised as slightly as possible to



## CHINESE PRESS REVIEW

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American Consulate General, Shanghai, China

No. 613

April 8, 1948

EDITORIAL COMMENT

Prevent Japan from Rearming #1

Sin Wen Pao (KMT-supervised, C.C. Organ), Shanghai  
April 8, 1948

An East Asia News Agency dispatch from Tokyo on April 5 stated that Japan has decided to begin organizing on May 1 a "Marine Security Bureau" which will be something like a Ministry of the Navy, and that in order to avoid attacks by public opinion in other countries, the Bureau will temporarily be put under the Ministry of Transportation and will be expanded later on. It is reported that this security force will consist of 125 special service warships and other craft. This news has come to us as a great shock.

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The reason why General MacArthur has been treating Japan so well is doubtless because he wants to use Japan to resist Soviet Russia, but we are of the opinion that in doing this, he is certainly rearing a tiger which will bring disaster in the future. The Japanese are an ungrateful people. By concluding the Anglo-Japanese Alliance in 1902, Britain also wanted to use Japan's power to maintain the balance of power in the Far East, but Japan used various kinds of assistance from Britain to defeat Czarist Russia. When the second World War came, Japan forgot entirely the assistance which she had received from Britain in the past. At present the United States is doing her best to build up Japan, and there can be no doubt that she will reap the same results as Britain did!

Under existing conditions, America's desire to build up Japan as a bulwark against Soviet Russia has almost become an immutable policy, and that Japan, under the protection of the United States and taking advantage of the U.S.-Soviet conflict, will seek to rebuild her armament, will also become a fact. Under these tendencies, naturally it is China which will be the first to be threatened, so we must make plans for coping with the situation well in advance. Consequently, we would like to make these three proposals: (1) The Government must demand again that Japan remain disarmed. (2) The Government should solemnly notify the United Nations that any unilateral action taken by any nation regarding Japan, which has not been agreed upon by China, Britain,

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the United States and Soviet Russia or which is not provided for in the Japanese peace treaty to be concluded, should be considered null and void. (3) We should propose the holding of a Southeastern Asia Joint Defense Conference, so that all the nations in Southeastern Asia may unite in taking military precautions. (Full Translation)

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A Re-study of China's Policy toward Japan

-- China must first be regenerated before peace can be established --

Ho Ping Jih Pao (KMT Army Organ), Shanghai  
April 8, 1948

Recent reports from various quarters indicated that U.S. policy toward Japan has changed somewhat, that is, the United States has clearly indicated her desire to take positive steps to "rebuild Japan", with special emphasis on raising Japan's industrial level and increasing the tonnage of her merchant marine. What is most noteworthy is the fact that Paul G. Hoffman, who has just been appointed as Foreign Aid Administrator, has openly advocated that the United States strive with determination to rebuild the economy of Japan so that the latter will attain the highest possible industrial level. We wish now to express some views regarding this problem for consideration by those interested:

The first thing we wish to call the attention of the friendly foreign nation to is that she should consider adopting the right policy. Here we wish to ask everybody to seriously consider the real reasons why Japan embarked upon aggression, thereby causing the second World War. The main reason for this is that the productive power of the Far East was concentrated mainly in Japan. Since the Meiji Reform, the productive power of Japan developed very rapidly. This gave rise to Japan's militarism and aggression. On the other hand, China's effort to reform was unable to overcome the hindrances of the various Powers due to the existence of the unequal treaties. For this reason, China became poorer and weaker and more stupid everyday and became the object of Japan's militarism and aggression. This caused a great change in the world situation. Therefore, if any one wants to rebuild Japan's productive power, he must at the same time pay attention to the rebuilding of China's productive power, for only in this way will Japan not re-embark upon aggression.

Secondly, we wish to point out that to develop China's productive power is to rebuild Chinese economy, and one certainly should not become pessimistic simply because of the existing difficulties. The present economic difficulties of China have been caused by two serious factors: (1) The Communist rebellion, and (2) deterioration of the economic situation. These two serious factors, while different in nature, are interrelated. If we could obtain as large an amount of aid proportionately as that which is being given to Japan, and if our Government can go on the road to "regeneration by our own efforts", we shall doubtless be able to lay a foundation for recovery. Only then shall we be able to lay the foundation for the peace of the Far East and of the world.

Therefore, we do not oppose the United States' helping Japan to recover, though we do feel that under no circumstances should the U.S. follow the same old wrong course by helping Japan to dominate the Far East. That is why to help China recover is far more important than to help Japan recover. (Extracts)

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Japan Is Rising

Yi Shih Pao (Chinese Catholic Organ), Shanghai  
April 8, 1948

This journal has not in the past commented much on the various problems

- 3 -

connected with Japan. However, regarding the Allied control of Japan, we have expressed the view that while such control should be liberal to a certain extent, yet if it is too liberal, so that Japan will be able to preserve a certain amount of her war potential which will encourage her to rebuild her militarism, then the whole control policy must be considered as a failure. Therefore, at this time when the United States has adopted a policy of helping Japan to recover, we feel there are certain prerequisites to such a policy, namely, that Japan's militarism must be uprooted and that China must be made strong enough to resist successfully any aggression by making it possible for her to enjoy forever an advantage over Japan in productive power and in strategic geography.

However, what is very surprising is that today, the United States is so liberal in her control of Japan and so positive in her effort to build up Japan that she has exceeded the limits of liberality and forgotten the prerequisites mentioned above. The Americans are too naive and too headstrong. They feel that there is no danger that militarism in Japan will revive, and that even if Japan is enabled to enjoy an advantage over China in productive power and in strategic geography, there will still be no danger. It is reported that the Japanese Government may soon regain its administrative freedom, that the system whereby SCAP controls Japan by issuing directives to the Japanese Government may gradually be abolished, that the SCAP Department of Government has already instructed the Japanese Central Purge Committee to make preparations for winding up its work, and that the censorship of Japanese newspapers will be discontinued at the end of this month. This means that even before the conclusion of a peace treaty, Japan will be able to regain gradually her status as a completely sovereign state. This is really such good treatment as defeated Japan has never dreamt of; it is also a great threat to victorious China.

We are grateful to the United States for having at long last passed the US\$463 million China aid bill at this time when our country is experiencing extremely great difficulties. President Truman has now officially appointed Paul G. Hoffman, President of the Studebaker Automobile Company, as administrator of the ERP and concurrently as administrator of the economic part of the China aid program. However, it is this same Hoffman who, having completed a survey of Japan in cooperation with U.S. Under Secretary of the Army Draper, has expressed the view that it will not be dangerous for the United States to rebuild Japan's industry and that Japan should be permitted to organize a 4 million-ton merchant marine, thus concurring with the general conclusions contained in the Strike Report.

It is also reported that when the next fiscal year begins, the United States will extend to Japan a loan of as much as US\$765 million, which will be far larger than the amount of aid which she has decided to give to China, a nation which has resisted Red aggression for a long period of time and which continues to resist it under most difficult conditions. Thus, China's productive power will never be able to increase to a point equalling Japan's. This readiness of the United States to build up Japan is undoubtedly an unfortunate contradiction in international relations today.

Of course, we need to examine ourselves in a number of respects. Defeated Japan is now rising again. Isn't this insufficient to awaken us? The delegates and Government officials now attending the National Assembly at Nanking should make practical and effective proposals for the reform of our internal politics and our foreign affairs, so that we may not lag behind a defeated nation. (Extracts)

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#### U.S. Aid and Self-help

Lung Nan Jih Pao (KMT Southeast China Organ), Shanghai  
April 8, 1948

The U.S. aid which the Government and the people of China have long hoped

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for is now coming, and the United States has thus once again demonstrated her friendship for us and fulfilled her obligations toward us. However, under the serious conditions in China today, no foreign aid whatsoever can be considered as a panacea. Foreign aid alone cannot work miracles, and fundamentally, we must simultaneously try our best to improve our political and economic conditions, so that the foreign aid will prove as effective as it should be. Furthermore, the amount of U.S. aid this time is not very big, and this aid program is not very positive in character. This makes our self-effort all the more important.

It can be said that in the past we have not really made any effort at self-help. Our past efforts have certainly been too inadequate. We have had the so-called Emergency Measures, Reform Measures, and various other kinds of control measures. These were all quite high-sounding, but where are the results they have achieved?

The U.S. aid has come late, and our self-help is still being delayed. Aren't we thus doing too great a harm to ourselves? If a program of self-help is worked out and if it is not actually carried out, so that the present U.S. aid will be wasted and so that future foreign aid will be blocked, then everything will be finished. (Extracts)

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#### The Presidential Election and Modesty

Shun Pao (KMT-supervised, C.C. Organ), Shanghai  
April 8, 1948

We want to point out that President Chiang's unwillingness to become the KMT candidate for the Presidency does not mean that he is reluctant to become candidate for the Presidency. According to the regulation governing the election of the President, the Presidential candidate, besides being nominated by a political party, can also be nominated jointly by a fixed number of NPA delegates. When news of President Chiang's refusal to become KMT candidate for the Presidency was made known, people of all walks of life throughout the country were startled. Even the NPA delegates representing the Young China and Democratic Socialist Parties and the non-partisans were also of the opinion that President Chiang should be made the first President of the Chinese Republic. Meanwhile, the NPA delegates' nominate-Chiang-for-President movement sponsored by Dr. Hu Shih, is also underway, and it is absolutely beyond question that the required number of delegates to endorse the nomination will be met.

We admire President Chiang's spirit of modesty and we favor the resolution passed by the Kuomintang special plenary session. However, it is our opinion that President Chiang may refrain from running for the Presidential election, but he should not be so modest. He should accept the unanimous opinion of the NPA delegates as well as the wishes of the people throughout the country! (Extracts)

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#### Again on the Mission of the Current National Assembly

Chung Yang Jih Pao (KMT Organ), Shanghai  
April 8, 1948

This National Assembly is the first Constitution-enforcing N.A., and its main mission is that of completing the organization of a popularly-elected government. At the same time, this N.A. will perform its functions in accordance with the provisions of the Constitution, being different from the Constitution-enacting N.A. Even if the Constitution must be revised, only one or two articles of it should be revised as slightly as possible to

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CHINESE PRESS REVIEW

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American Consulate General, Shanghai, China

No. 613

April 8, 1948

EDITORIAL COMMENT

Prevent Japan from Rearming #1

Sin Wen Pao (KMT-supervised, C.C. Organ), Shanghai  
April 8, 1948

An East Asia News Agency dispatch from Tokyo on April 5 stated that Japan has decided to begin organizing on May 1 a "Marine Security Bureau" which will be something like a Ministry of the Navy, and that in order to avoid attacks by public opinion in other countries, the Bureau will temporarily be put under the Ministry of Transportation and will be expanded later on. It is reported that this security force will consist of 125 special service warships and other craft. This news has come to us as a great shock.

Japan claimed to be the naval Power of the Far East, and her imperialistic expansion during the past sixty years depended largely upon her sea power. She ultimately failed militarily because her Navy had been destroyed. Now, the Japanese Government wants to rebuild the Japanese Navy, and what their purpose is in doing this is too plain to need any explanation.

Needless to say, it is through encouragement given her by the United States that Japan now dares to attempt to rebuild her Navy. The Strike report issued this year recommends that the various kinds of heavy industries in Japan be preserved, and regarding shipbuilding, it recommends that by 1953 Japan be enabled to build 648,000 tons of merchant shipping per year, not to mention Army equipment. The Japanese having seen this report, how can their militaristic dreams not revive? Upon his return to the United States from a survey of conditions in the Far East recently, Chairman Kennan of the State Department's Planning Committee recommended to Marshall that he concur with General MacArthur's policy that the United States should consider the importance of Japan militarily and that she be made the anti-Communist bastion in Asia. On the other hand, the Draper Mission has proposed that the United States do all she can to help Japan become the factory of the Far East. Moreover, SCAP intends to abolish the system of controlling Japan by issuing directives, so as to enable her to restore her administrative freedom and to become a completely sovereign state. With such encouragement Japan naturally forgets her status as a defeated nation, so she is resolutely heading toward rearmament.

The reason why General MacArthur has been treating Japan so well is doubtless because he wants to use Japan to resist Soviet Russia, but we are of the opinion that in doing this, he is certainly rearing a tiger which will bring disaster in the future. The Japanese are an ungrateful people. By concluding the Anglo-Japanese Alliance in 1902, Britain also wanted to use Japan's power to maintain the balance of power in the Far East, but Japan used various kinds of assistance from Britain to defeat Czarist Russia. When the second World War came, Japan forgot entirely the assistance which she had received from Britain in the past. At present the United States is doing her best to build up Japan, and there can be no doubt that she will reap the same results as Britain did!

Under existing conditions, America's desire to build up Japan as a bulwark against Soviet Russia has almost become an immutable policy, and that Japan, under the protection of the United States and taking advantage of the U.S.-Soviet conflict, will seek to rebuild her armament, will also become a fact. Under these tendencies, naturally it is China which will be the first to be threatened, so we must make plans for coping with the situation well in advance. Consequently, we would like to make these three proposals: (1) The Government must demand again that Japan remain disarmed. (2) The Government should solemnly notify the United Nations that any unilateral action taken by any nation regarding Japan, which has not been agreed upon by China, Britain,

- 2 -

the United States and Soviet Russia or which is not provided for in the Japanese peace treaty to be concluded, should be considered null and void. (3) We should propose the holding of a Southeastern Asia Joint Defense Conference, so that all the nations in Southeastern Asia may unite in taking military precautions. (Full Translation)

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#### A Re-study of China's Policy toward Japan

-- China must first be regenerated before peace can be established --

Ho Ping Jih Pao (KMT Army Organ), Shanghai  
April 8, 1948

Recent reports from various quarters indicated that U.S. policy toward Japan has changed somewhat, that is, the United States has clearly indicated her desire to take positive steps to "rebuild Japan", with special emphasis on raising Japan's industrial level and increasing the tonnage of her merchant marine. What is most noteworthy is the fact that Paul G. Hoffman, who has just been appointed as Foreign Aid Administrator, has openly advocated that the United States strive with determination to rebuild the economy of Japan so that the latter will attain the highest possible industrial level. We wish now to express some views regarding this problem for consideration by those interested:

The first thing we wish to call the attention of the friendly foreign nation to is that she should consider adopting the right policy. Here we wish to ask everybody to seriously consider the real reasons why Japan embarked upon aggression, thereby causing the second World War. The main reason for this is that the productive power of the Far East was concentrated mainly in Japan. Since the Meiji Reform, the productive power of Japan developed very rapidly. This gave rise to Japan's militarism and aggression. On the other hand, China's effort to reform was unable to overcome the hindrances of the various Powers due to the existence of the unequal treaties. For this reason, China became poorer and weaker and more stupid everyday and became the object of Japan's militarism and aggression. This caused a great change in the world situation. Therefore, if any one wants to rebuild Japan's productive power, he must at the same time pay attention to the rebuilding of China's productive power, for only in this way will Japan not re-embark upon aggression.

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Therefore, we do not oppose the United States' helping Japan to recover, though we do feel that under no circumstances should the U.S. follow the same old wrong course by helping Japan to dominate the Far East. That is why to help China recover is far more important than to help Japan recover. (Extracts)

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April 8, 1948

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Jung Nan Jih Pao (KMT Southeast China Organ), Shanghai  
April 8, 1948

The U.S. aid which the Government and the people of China have long hoped

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#### The Presidential Election and Modesty

Shun Pao (KMT-supervised, C.C. Organ), Shanghai  
April 8, 1948

We want to point out that President Chiang's unwillingness to become the KMT candidate for the Presidency does not mean that he is reluctant to become candidate for the Presidency. According to the regulation governing the election of the President, the Presidential candidate, besides being nominated by a political party, can also be nominated jointly by a fixed number of NPA delegates. When news of President Chiang's refusal to become KMT candidate for the Presidency was made known, people of all walks of life throughout the country were startled. Even the NPA delegates representing the Young China and Democratic Socialist Parties and the non-partisans were also of the opinion that President Chiang should be made the first President of the Chinese Republic. Meanwhile, the NPA delegates' nominate-Chiang-for-President movement sponsored by Dr. Hu Shih, is also underway, and it is absolutely beyond question that the required number of delegates to endorse the nomination will be met.

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Chung Yang Jih Pao (KMT Organ), Shanghai  
April 8, 1948

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THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

No. 368

UNCLASSIFIED

AMERICAN CONSULATE GENERAL

Shanghai, China, April 13, 1948.

DIVISION OF OCCUPIED AREAS

ECONOMIC AFFAIRS

APR 26 1948

DEPARTMENT OF STATE

Subject: Local Reaction to Strike

RECEIVED DEPARTMENT OF STATE

APR 20 11 29 AM '48

THE HONORABLE

THE SECRETARY OF STATE, WASHINGTON, D. C.

SIR:

In further compliance with the Department's circular airgram instruction of March 17, 8:35 a.m., which requested all information referring to the Strike Report, I have the honor to enclose a summary translation of an editorial which appeared in the CHUNG YANG JIH PAO (KMT-organ) on April 11, 1948, under the heading, "We Insist Upon Receiving the Amount of Japanese Reparations to Which We Are Entitled".

The editorial points out that over two years have elapsed since Japan surrendered and yet no decision even in principle has been made on "the most pressing problem of reparations". The editorial then blames this procrastination on the U.S. policy of being lenient towards Japan. It disagrees with the statement issued by Under Secretary Draper wherein he indicated his agreement with Strike's recommendations. It says, "To assert, as Draper has done, that it is unwise to ask Japan for a reasonable amount of reparations in accordance with this (Potsdam) declaration would not only be a violation of the sacred declaration, but also tantamount to destroying the charter for controlling Japan which one has drawn up oneself."

Although it does not specifically refer to the Strike Report, an editorial of April 11 in the TUNG NAN JIH PAO (KMT-Southeast China organ) of April 11 is also enclosed inasmuch as it also condemns our policy towards Japan. This criticism is also aimed at Chinese Foreign Minister Wang Shih-chieh for his statement at the time of his return from the autumn United Nations General Assembly. The

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Routing slip with handwritten initials and dates.

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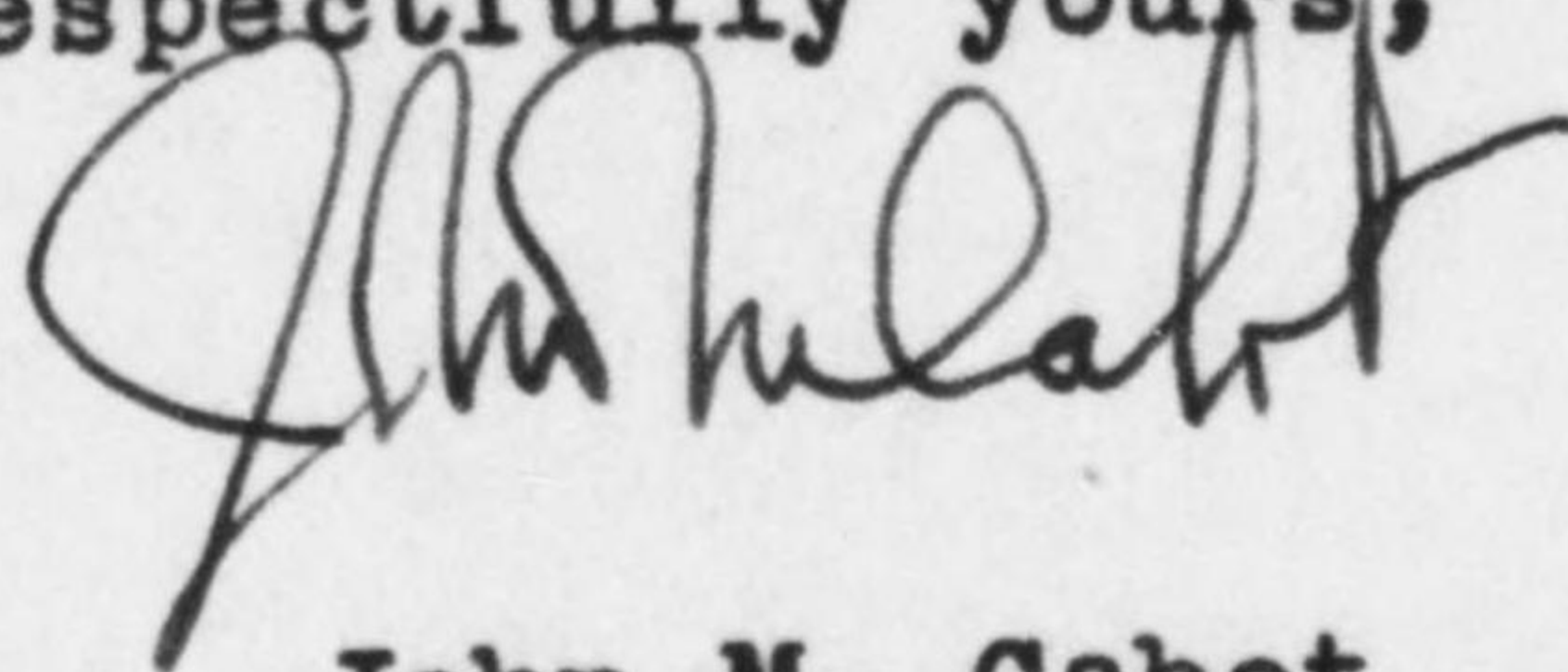
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conditions in Japan as he saw them were quite different from those described by the Chinese press. The editorial urges the Chinese diplomatic authorities to "wake up and demonstrate their diplomatic technique so as to remove the danger which is already present in Sino-Japanese relations".

It closes with the statement that "our diplomatic authorities need to express solemnly their views on the various unilateral and dangerous measures which the United States has recently taken in regard to control of Japan".

Respectfully yours,



John M. Cabot  
American Consul General

Enclosures: *2*

- 1/ Summary Translation of Editorial, "We Insist Upon Receiving the Amount of Japanese Reparations to Which We are Entitled", which appeared in CHUNG YANG JIH PAO, April 11, 1948.
- 2/ Summary Translation of Editorial, "U.S. Policy Toward Japan Undergoes Abrupt Change", which appeared in TUNG NAN JIH PAO, April 11, 1948.

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Original and Hectograph to Department.  
Copy to Embassy, Nanking.

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- 3 - Enclosure No. 1 to Despatch No. 368,  
dated April 13, 1948, from the  
Consulate General, Shanghai, China.

We Insist Upon Receiving the Amount of Japanese  
Reparations to Which We Are Entitled

Chung Yang Jih Pao (KMT Organ), Shanghai  
April 11, 1948

Two years and eight months have elapsed now since Japan surrendered, but no date has yet been set for the convocation of the Japanese peace conference, and even on the most pressing problem of reparations, no decision in principle has yet been made. In the eyes of the Far Eastern nations which suffered much from Japanese aggression, especially China which made the greatest sacrifices and suffered the heaviest losses, this is something most regrettable and most unjust.

It is obvious that the reason for the procrastination in connection with the reparation issue is the U.S. policy of being lenient toward Japan.

The task of the recent mission to Japan led by U.S. Army Under Secretary William H. Draper was to confer with General MacArthur on the question of Japan's recovery, and one of the main topics for discussion was the reparation issue. Upon his return to the United States, Draper issued a statement indicating his agreement with Strike's recommendations and voicing opposition to the removal from Japan of any more industrial equipment which is obviously not equipment for war industries. This is because he firmly believes that Japan is now really inclined toward democracy and that she will never have the ambition to wage another war. That is why he feels that it will not be risky for the United States to help Japan to rebuild her industries, hence his statement, "It would be very unwise to ask Japan for more reparations."

However, in our opinion, to ask Japan for reparation materials which will contribute to Japan's war potential is not only not "unwise", but a course which should be taken in accordance with the Potsdam Declaration on Japan. Since the United States, as well as China and Britain, was one of the mainstays of the Potsdam Declaration, it is all the more necessary for it to abide by this declaration. To assert, as Draper has done, that it is "unwise" to ask Japan for a reasonable amount of reparations in accordance with this declaration would not only be a violation of this sacred declaration, but also tantamount to destroying the charter for controlling Japan which one has drawn up oneself. (Summary)

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Disturbances in Bogota

Sin Wen Pao (KMT-supervised, C.C. Organ), Shanghai  
April 12, 1948

While ostensibly this revolution in Bogota has been started by the Liberal Party, yet, in reality, it is led by the Communists. From this we can see how widely international Communism has spread, for even the rich and peaceful Continent of South America cannot escape its clutches. If the democratic forces cannot unite in time in trying to stem the tide of international Communism, then no part of the world will be able to enjoy stability, so that all the law-abiding people in the world will suffer from another war. (Summary)

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Now Is the Time to Safeguard Human Rights

Cheng Yien Pao (Local KMT Organ, Connected with Wu Shao-shu), Shanghai  
April 10, 1948

A few days ago, the local authorities arrested a large number of "Labor Movement Communists" who remained secretly in factories, thus arousing uneasiness among the local populace.

- 2 - Enclosure No. 2 to Despatch No. 368,  
dated April 13, 1948, from the  
Consulate General, Shanghai, China.

Ministries and Commissions concerned. It is possible that these supplies will be sold, that the proceeds will be kept, and that any use of these proceeds will be subject to agreement between China and the United States. However, part of the aid will be used for rural reconstruction, which will be handled by a five-member committee to be organized jointly by China and the United States.

We feel that the above-mentioned information is of great importance, so we would like to make a brief study of it.

First, it has been decided not to set up a separate agency for handling the U.S. aid but to have it administered by the Executive Yuan President and the different Ministries and Commissions under him, thus saving personnel and labor. This is something we should support.

Secondly, it is being planned to sell the U.S. aid supplies, which means that the supplies will be used to absorb idle capital and to reduce the amount of banknotes in circulation. This can be said to be a efficacious remedy for the present economic cancer of China. However, past experience shows that in selling the supplies, attention must be given to certain requirements, such as that the sale of these supplies must not aim at making profits, and that the distribution must be equitable.

Thirdly, it has already been decided to use part of the proceeds of the sale of the supplies for rural reconstruction purposes. However, industrial reconstruction is no less important than rural reconstruction, so we hope that greater importance will be attached to industrial reconstruction.  
(Summary)

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#### U.S. Policy Toward Japan Undergoes Abrupt Change

Tung Nan Jih Pao (KMT Southeast China Organ), Shanghai  
April 11, 1948

Soon after the Japanese surrender, the Chinese press pointed out the danger of U.S. policy toward Japan, and during the past two years, almost 100 percent of the news reports and editorial comments of the Chinese newspapers concerning Japan have indicated the anxiety and worry of the Chinese press. However, what is regrettable is that our diplomatic authorities have consistently regarded such reports as incorrect. For instance, upon his return to China from attendance on the UN General Assembly last autumn, Foreign Minister Wang Shih-chieh openly declared in a press conference that conditions in Japan as he saw them were quite different from those described by the Chinese press. This statement aroused the indignation of the press throughout the country. The tendency of the general situation being as it is, it seems to us that our diplomatic authorities ought to wake up and demonstrate their diplomatic technique at this time when U.S. policy toward Japan has undergone an abrupt change, so as to remove the danger which is already present in Sino-Japanese relations.

We have never advocated that Japan's desire for recovery be curbed too much, but that the only principle governing such desire for recovery be that the reactionary, feudalistic, conservative and backward political forces in Japan be thoroughly removed, so that Japan may head toward a normal cultural and economic course in a democratic, free and peaceful atmosphere.

From the way in which conditions in Japan have developed during the more than two years since V-J Day, we can see clearly that Japan's recovery has always been founded on the feudalistic and reactionary forces in that country. It is for this reason that we must oppose America's policy of building up Japan. In order to uphold justice among the Allied nations, our diplomatic authorities need to solemnly express their views on the various unilateral and dangerous measures which the United States has recently taken in regard to control of Japan. (Summary)

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dated April 13, 1948, from the  
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However, in our opinion, to ask Japan for reparation materials which will contribute to Japan's war potential is not only not "unwise", but a course which should be taken in accordance with the Potsdam Declaration on Japan. Since the United States, as well as China and Britain, was one of the mainstays of the Potsdam Declaration, it is all the more necessary for it to abide by this declaration. To assert, as Draper has done, that it is "unwise" to ask Japan for a reasonable amount of reparations in accordance with this declaration would not only be a violation of this sacred declaration, but also tantamount to destroying the charter for controlling Japan which one has drawn up oneself. (Summary)

\* \* \*

Disturbances in Bogota

Sin Wen Pao (KMT-supervised, C.C. Organ), Shanghai  
April 12, 1948

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\* \* \*

Now Is the Time to Safeguard Human Rights

Cheng Yien Pao (Local KMT Organ, Connected with Wu Shao-shu), Shanghai  
April 10, 1948

A few days ago, the local authorities arrested a large number of "Labor Movement Communists" who remained secretly in factories, thus arousing uneasiness among the local populace.

- 2 -

Enclosure No. 2 to Despatch No. 368,  
dated April 13, 1948, from the  
Consulate General, Shanghai, China.

Ministries and Commissions concerned. It is possible that these supplies will be sold, that the proceeds will be kept, and that any use of these proceeds will be subject to agreement between China and the United States. However, part of the aid will be used for rural reconstruction, which will be handled by a five-member committee to be organized jointly by China and the United States.

We feel that the above-mentioned information is of great importance, so we would like to make a brief study of it.

First, it has been decided not to set up a separate agency for handling the U.S. aid but to have it administered by the Executive Yuan President and the different Ministries and Commissions under him, thus saving personnel and labor. This is something we should support.

Secondly, it is being planned to sell the U.S. aid supplies, which means that the supplies will be used to absorb idle capital and to reduce the amount of banknotes in circulation. This can be said to be a efficacious remedy for the present economic cancer of China. However, past experience shows that in selling the supplies, attention must be given to certain requirements, such as that the sale of these supplies must not aim at making profits, and that the distribution must be equitable.

Thirdly, it has already been decided to use part of the proceeds of the sale of the supplies for rural reconstruction purposes. However, industrial reconstruction is no less important than rural reconstruction, so we hope that greater importance will be attached to industrial reconstruction.  
(Summary)

\* \* \*

#### U.S. Policy Toward Japan Undergoes Abrupt Change

Tung Nan Jih Pao (KMT Southeast China Organ), Shanghai  
April 11, 1948

Soon after the Japanese surrender, the Chinese press pointed out the danger of U.S. policy toward Japan, and during the past two years, almost 100 percent of the news reports and editorial comments of the Chinese newspapers concerning Japan have indicated the anxiety and worry of the Chinese press. However, what is regrettable is that our diplomatic authorities have consistently regarded such reports as incorrect. For instance, upon his return to China from attendance on the UN General Assembly last autumn, Foreign Minister Wang Shih-chieh openly declared in a press conference that conditions in Japan as he saw them were quite different from those described by the Chinese press. This statement aroused the indignation of the press throughout the country. The tendency of the general situation being as it is, it seems to us that our diplomatic authorities ought to wake up and demonstrate their diplomatic technique at this time when U.S. policy toward Japan has undergone an abrupt change, so as to remove the danger which is already present in Sino-Japanese relations.

We have never advocated that Japan's desire for recovery be curbed too much, but that the only principle governing such desire for recovery be that the reactionary, feudalistic, conservative and backward political forces in Japan be thoroughly removed, so that Japan may head toward a normal cultural and economic course in a democratic, free and peaceful atmosphere.

From the way in which conditions in Japan have developed during the more than two years since V-J Day, we can see clearly that Japan's recovery has always been founded on the feudalistic and reactionary forces in that country. It is for this reason that we must oppose America's policy of building up Japan. In order to uphold justice among the Allied nations, our diplomatic authorities need to solemnly express their views on the various unilateral and dangerous measures which the United States has recently taken in regard to control of Japan. (Summary)

\* \* \*

- 3 -

Enclosure No. 1 to Despatch No. 368,  
dated April 13, 1948, from the  
Consulate General, Shanghai, China.

We Insist Upon Receiving the Amount of Japanese  
Reparations to Which We Are Entitled

Chung Yang Jih Pao (KMT Organ), Shanghai  
April 11, 1948

Two years and eight months have elapsed now since Japan surrendered, but no date has yet been set for the convocation of the Japanese peace conference, and even on the most pressing problem of reparations, no decision in principle has yet been made. In the eyes of the Far Eastern nations which suffered much from Japanese aggression, especially China which made the greatest sacrifices and suffered the heaviest losses, this is something most regrettable and most unjust.

It is obvious that the reason for the procrastination in connection with the reparation issue is the U.S. policy of being lenient toward Japan.

The task of the recent mission to Japan led by U.S. Army Under Secretary William H. Draper was to confer with General MacArthur on the question of Japan's recovery, and one of the main topics for discussion was the reparation issue. Upon his return to the United States, Draper issued a statement indicating his agreement with Strike's recommendations and voicing opposition to the removal from Japan of any more industrial equipment which is obviously not equipment for war industries. This is because he firmly believes that Japan is now really inclined toward democracy and that she will never have the ambition to wage another war. That is why he feels that it will not be risky for the United States to help Japan to rebuild her industries, hence his statement, "It would be very unwise to ask Japan for more reparations."

However, in our opinion, to ask Japan for reparation materials which will contribute to Japan's war potential is not only not "unwise", but a course which should be taken in accordance with the Potsdam Declaration on Japan. Since the United States, as well as China and Britain, was one of the mainstays of the Potsdam Declaration, it is all the more necessary for it to abide by this declaration. To assert, as Draper has done, that it is "unwise" to ask Japan for a reasonable amount of reparations in accordance with this declaration would not only be a violation of this sacred declaration, but also tantamount to destroying the charter for controlling Japan which one has drawn up oneself. (Summary)

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- 2 -

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dated April 13, 1948, from the  
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\* \* \*

1997.

COSMOS CLUB  
WASHINGTON 5, D. C.

April 17, 1948

*W. Smith*

894.60/4-1748

Division of Japanese Economic Affairs  
State Department  
Washington 25, D.C.

Gentlemen:

I understand that the report on Japan prepared by the Overseas Consultants Corporation is available for distribution, and would appreciate if you would kindly have a copy send to me, as I am studying industrial changes resulting from the last war.

Sincerely yours,

*W. G. Friedrich*

Prof. W. G. Friedrich  
601 19th Street, N.W.  
Washington 6, D.C.

MAY 21 1948

FILED

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DIVISION OF OCCUPIED AREAS  
ECONOMIC AFFAIRS  
APR 19 1948  
DEPARTMENT OF STATE

CSAV

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APR 22 1948

My dear Professor Friedrich:

Your letter of April 17th requesting a copy of the Report prepared by Overseas Consultant's Incorporated has been received.

In view of the fact that the report on "Industrial Reparations Survey of Japan to the United States" was made to the Department of the Army, your request should be made directly to that Department.

Sincerely yours,

*RHW*

Roswell H. Whitman  
Acting Associate Chief  
Division of Occupied Areas Economic Affairs

Professor W. G. Friedrich  
601 19th Street, N.W.  
Washington 6, D.C.

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DEPARTMENT OF THE ARMY  
WASHINGTON, D. C.

*Whitman*  
*Wright*  
*FE*  
*OR*

File 7-1  
DEPARTMENT OF STATE  
1948

28 APR 1948

DIVISION OF  
NORTHEAST ASIAN AFFAIRS

MAY 5 1948

DEPARTMENT OF STATE

L  
LEGAL ADVISER  
JUN 23 1948  
File  
DEPARTMENT OF STATE

The Honorable

The Secretary of State

My dear Mr. Secretary:

You will recall that, following expressions of concern  
lest the Deconcentration Law recently passed by the Japanese  
Diet seriously interfere with Japanese economic recovery,  
General MacArthur proposed the establishment of a Deconcentra-  
tion Review Board. During his recent visit to Japan Under  
Secretary Draper discussed this matter with General MacArthur  
with a view to obtaining assurance that the Board would have  
the broadest possible authority in reviewing the procedures  
and standards whereby the law is to be administered, as well  
as in making final recommendations direct to General MacArthur  
on the specific application of the Law to individual concerns.

The Board has now been appointed, and attached is a  
message from General MacArthur containing his public statement  
regarding the Board and its powers. I am highly gratified by  
the tone and content of the announcement. I believe that this  
statement is exactly what we have been hoping for, not only in  
the scope of authority which it gives to the Board, but as a  
public indication of General MacArthur's personal intention  
not to allow the Deconcentration Law to interfere with the  
economic recovery of Japan.

Sincerely,

*Kenneth C. Royall*  
Kenneth C. Royall  
Secretary of the Army

INTERNATIONAL RESOURCES DIVISION  
File R  
MAY 12 1948

DEPARTMENT OF STATE

Encl. *Att-cal*  
CM-IN-6187 cpy #36  
27 Apr 48

*to file*  
DIVISION OF OCCUPIED AREAS  
ECONOMIC AFFAIRS  
MAY 3 1948  
DEPARTMENT OF STATE

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By *CD/mt* NARS, Date *SEP 8* 1975

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DEPARTMENT OF THE ARMY  
STAFF MESSAGE CENTER  
INCOMING CLASSIFIED MESSAGE

~~SECRET TOP~~

PRIORITY

PARAPHRASE NOT REQUIRED. HANDLE AS SECRET CORRESPONDENCE  
PER PARAS 511 and 60a (4) AR 380-5.

From: SCAP Tokyo Japan

To: Dept of the Army for Secretary of the Army Royall  
Wash DC

Nr: C 60254

27 April 1948

This is in reply to your W 80378.

Public announcement of the composition of the  
Deconcentration Review Board is being made locally for release  
27 April, 14001 time. Text of release follows:

"General MacArthur today announced the composition  
of the Deconcentration Review Board due to arrive in Tokyo  
about May 3rd to assist him in connection with the  
implementation of Japanese Public Law number 207 under  
title, 'Law for Elimination of Concentrations of Excessive  
Economic Power' passed by the Japanese Diet on 9 December  
1947. The Board was selected by the Department of the Army  
in Washington in response to a request by the Supreme  
Commander.

"The Board is composed of 5 members. Chairman of the  
Board is Mr. Roy S. Campbell of Camden, New Jersey, currently  
the President and General Manager of the New York Shipbuilding  
Corporation. Mr. Campbell is a graduate in Marine and Naval  
Architecture, University of Michigan and is nationally known  
as a shipbuilding executive. He was recently in Tokyo as a  
member of the Overseas Consultants, Inc.

"The industrial engineering member is Mr. Joseph V.  
Robinson, currently owner of the Robinson Connector Company,  
CM IN 6187 (28 Apr 48)

~~SECRET~~

DIVISION OF OCCUPIED AREAS  
ECONOMIC AFFAIRS  
MAY 8 1948  
DEPARTMENT OF STATE

36

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DEPARTMENT OF THE ARMY  
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PRIORITY

Page 2

From: SCAP Tokyo Japan

Nr: C 60254

27 April 1948

Joseph Robinson, Incorporated, New York City. Mr. Robinson, has extensive experience in engineering, production and management and is the inventor of the Robinson automatic coupling device. He has served with the War Production Board as head engineer, Industrial Processes and Products; and is a member of the Advanced Committee on Precision Castings, War Metallic Committee of National Research Council.

"The corporate management member is Mr. Edward J Burger who has wide experience as manager of Public Service Companies dealing with industrial plants. He is presently Vice President of the Public Service Company of Cleveland, Ohio, and Vice President and Director of the Central Banking Company of Lorain, Ohio. He was in Japan from February to June 1947 as a member of an expert group made available to SCAP for a survey of the Japanese electrical power industry.

"The anti-trust member is Mr. Walter R Hutchinson, graduate LLB of the University of Iowa. Mr. Hutchinson, in addition to his own private law practice, served as Assistant United States District Attorney for Northern District of Iowa and as a special assistant to the Attorney General of the United States, assigned to the anti-Trust Division with Headquarters in Washington. During his services with the Office of the Attorney General, Mr. Hutchinson was in charge of Building Trades Investigation and Prosecution of anti-Trust violations.

"The Securities Exchange Commission member is Mr. Byron D Woodside presently Assistant Director of Corporate Finance of the Corporate Finance Division of the organization. He has a BS Degree in Economics from the University of

CM IN 6187 (28 Apr 48)

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~~SECRET TOP~~

PRIORITY

Page 3

From: SCAP Tokyo Japan

Nr: C 60254

27 April 1948

Pennsylvania, AM Degree from George Washington University and LLB from Temple University. He was examining accountant with the Federal Trade Commission from 1929 to 1934 and from 1934 to date has held responsible positions dealing with accounting, examination of work-registration statements with SEC. He has had a wide range of experience in accounting, examining work-registration statements and matters dealing with compliance within the United States of Securities Acts 33 and 34.

"To date the Holding Company Liquidation Commission of the Japanese Government has issued standards on the basis of which 325 companies have been designated for further examination as excessive concentrations of economic power. An initial list of removals from designations of those firms found not to be excessive concentrations is nearing completion and will be announced in the near future. Delay in making such announcement has been occasioned in part by the incompleteness of the basic data submitted for examination by many of the companies.

"Following this announcement data of the companies remaining on the list will be subjected to detailed analysis under provisions of the standards as a result of which further eliminations will be made either because the standards do not in fact apply, because reorganizations of corporate or physical operating structures would have a debilitating effect on industrial levels in Japan, or because technological factors cause reorganization to be impractical.

"The instructions to the Board will accord broad responsibility to make recommendations to the Supreme Commander

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~~SECRET TOP~~

PRIORITY

Page 4

From: SCAP Tokyo Japan

Nr: C 60254

27 April 1948

at any time and on any phase of the deconcentration program. The first action of the Board will be to review the basic standards after which it will be chiefly concerned with the evaluation of plans of those companies scheduled for reorganization.

"General MacArthur's previously announced policy on deconcentration requires rapid action to divest actual excessive concentrations of their ability to prevent the development of free competitive enterprise in Japan. It provides for a minimum of reorganization consistent with attainment of occupation objectives and in cases where there will be adverse effects upon production or upon the occupation economic recovery program, companies concerned will be permitted to operate under surveillance of the Fair Trade Commission of the Japanese Government."

For your confidential information review action to date has produced a list of 157 companies in the industrial classification alone for removal from the original list of designated institutions. This is being built up continuously as the limited staffs available are able to examine the facts. To this will be added exemptions of distributive companies as soon as the records can be given a preliminary examination. Because of the possible devastating effect upon the morale of companies not being included as initial removals and the consequent assumption that reorganization of such unmentioned companies definitely must follow, it has been considered advisable to make the initial list as complete as possible.

CM IN 6187 (28 Apr 48)

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PRIORITY

Page 5

From: SCAP Tokyo Japan

Nr: C 60254

27 April 1948

The standards are being reexamined but it would be inexpedient to make public announcement of any contemplated modifications at this time when the Deconcentration Review Board may suggest further changes that would constitute an immediate second revision.

As indicated to Mr. Draper during his visit here and repeated in formal communication, it has always been my firm intention to implement the deconcentration program in such manner as will preclude any disruption of Japan's going economy and will insure rigorous limitation of the number of companies required to be subject to reorganization.

End

ACTION: OUS

INFORMATION: CAD, PO, OSA

CM IN 6187 (28 Apr 48)

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COPY No. 36

DC/R

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: 30 Apr 1948

SUBJECT: Japanese Reparations and Level of Industry

PARTICIPANTS: Mr. J. F. Ford, U.K. Member of the FEC Economics Committee  
R. W. Barnett, OE

17758

COPIES TO: C.T.Wood - A-T  
W.W.Butterworth - FE  
C.E.Saltzman - A-S  
J.Allison - NA  
R.H.Whitman - OE  
M.Hamilton - FE

E.M.Martin - OE  
R.Fearey - NA  
R.B.Smith - OE

E- Mr. Thorp  
Assistant Secretary  
for Economic Affairs  
MAY 13 1948  
Department of State

894.60/4-3048

1-1498

Mr. Ford called by my office at the Far Eastern Commission on Friday, April 30, to discuss various economic matters of interest to the British Delegation to the FEC. He stated that he was particularly concerned over the prospect which seemed to be foreshadowed in various newspaper stories appearing in the American press as well as in Japanese and Chinese newspapers, of a drastic change in United States policies towards Japan.

Mr. Ford stated that he was "mortally afraid" that the United States Government would put before the Far Eastern Commission countries entirely new proposals on Japan's level of industry which would prove to be entirely unacceptable to all of the FEC countries. He feared that the United States Government might have decided that it would move unilaterally on this matter whether or not it had substantial support for its proposals. Such a development might, Mr. Ford believed, align many of the FEC countries including the U.K. with the USSR.

He felt that the U.S. Government tended to overlook opportunities to mobilize support for new proposals it desired to offer by not making diplomatic approaches to the various foreign offices of the FEC countries for the purpose of explaining its views. As an example, Mr. Ford referred to the vote taken in the Far Eastern Commission on April 29 where the U.S. had been forced to veto a New Zealand proposal dealing with a Japanese coastal patrol. The U.K. delegation on the FEC had been disposed, in early stages of the negotiation, to sympathize with the stand taken by the U.S. delegation on this matter. However, on explicit instructions from London, the U.K. delegation voted with the majority. The Foreign Office detected and resented in U.S. handling of

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matters in the FEC an indifference and disregard of views of other countries.

Mr. Ford believed that the present level of industry proposals being discussed in the Far Eastern Commission, SC-242/19, represented to a very substantial degree an agreed international position. If it could be sent as a directive to SCAP, the FEC countries would feel that adequate account had been taken of their views. Within the authority granted to SCAP in paragraph 10 of FEC 084/22, that policy could be interpreted as broadly as the U.S. desired.

Any new and strictly American level of industry proposal revising upward these levels would, Mr. Ford believed, demolish the progress already made in attaining international agreement on this important issue.

Further, he felt that such American proposals, were they to be made and acted on, would let loose within the United Kingdom a torrent of public criticism of the British Government for not having taken a firm line on the security purposes of a Japanese level of industry decision. These pressures have been successfully resisted by the Foreign Office for 2½ years. Mr. Ford was particularly concerned over the recent discussions between British and American textile interests where it was proposed that Japan's textile capacity be limited to no more than 3.5 million spindles. The narrow, self-interested views of this pressure group, he believed, presaged like pressures from many other quarters, including shipbuilding interests in particular, were announced level of industry to be unreasonably high.

Mr. Ford said that he felt the United States Government would be showing dangerous indifference to political pressures around the world were it to insist at this time upon abandonment of reparations removals or such drastic curtailment of removals as to imply high levels of retained industrial capacity.

At the same time Mr. Ford believed that if the reparations program were based either upon the existing interim removals decisions or upon SC-242, actual removals would probably not exceed 1/3 of the facilities technically available for removal under those policies.

He believed that after claimant countries had looked over available facilities and taken what they desired, they would have little or no interest in the ultimate disposition of residual capacity. It was unthinkable to him that unremoved industrial plants should be destroyed.

Mr. Ford stated several times that the U.K. delegation had regretted having to force the U.S., yesterday, into the employment of the veto. However, unless the U.S. showed some consideration towards the Far Eastern Commission and its members and took into due account its labors, he felt certain that the U.S. would, with the passage of time, be compelled to use its veto with increasing frequency and to make crude use of the interim directive without the substantial international support which might be forthcoming if the United States would take some account of the views and interests of its FEC colleagues.

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Mr. Ford stated that the United Kingdom was disturbed by the assumption put forward by the United States delegation that SCAP could implement the desires of the U.S. Government without policy direction in the form of any directive, either FEC or U.S. interim directive. This procedure, Mr. Ford felt, rendered it impossible for either Japan or the Far Eastern Commission countries to place responsibility for SCAP's actions where that responsibility properly should lie -- with the United States Government itself.

Mr. Ford indicated that he himself was not so much concerned over the progress of SCAP's reform programs in Japan as he was in the collective efforts which should be made to place Japan on a self-supporting basis. Japan's self-support, he thought, was a vital prerequisite for keeping Japan within the non-Communist world. He hoped that the steps projected by the United States Government would not jeopardize the attainment of that objective in Japan by unnecessarily provoking the antagonism of Japan's neighbors and exciting them to throw up obstacles to a healthy expansion of Japanese commercial activity.

*Whitman*  
*no action*  
*Pravell*  
*Kallis*

AIRGRAM 1853

FROM: Shanghai, China

DATE: May 5, 1948.

NO: A-380

MAIL-OUT: May 7, 1948

May 11, 1948 11:02 am

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SECSTATE  
WASHINGTON

A-380, May 5, 1948.

OFFICE OF FINANCIAL AND  
DEVELOPMENT POLICY  
MAY 12 1948  
DEPARTMENT OF STATE

The following further local public comment has been made regarding the Strike report and is submitted in compliance with the Department's Circular Airgram Instruction of March 17, 8:35 a.m.

In an editorial of May 2, 1948, the CHEN YONG JIH PAO (connected with S.Y. Liu and the Political Science Group) expresses the conviction that the United States has now fully developed a new plan for the economic recovery of Japan. The editorial cites further three bases which should guide the United States:

- (1) The Pauley reparation program should be implemented.
- (2) The Strike report should be returned to the Far Eastern Commission for consideration, and the proposal that Japan be allowed to maintain the living standard which obtained during the period 1930-34 should still hold good. No economic development of Japan should be allowed before Japanese politics has been thoroughly democratized and the Japanese economic monopoly has been destroyed.
- (3) Precautions should be taken against permitting the dumping of Japanese goods in the Chinese and other Far East markets.

DIVISION OF OCCUPIED AREAS  
EAST ASIAN AFFAIRS  
MAY 11 1948  
DEPARTMENT OF STATE

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A-380, May 5, 1948, from Shanghai.

The editorial expresses the belief that if the United States aid to Japan is based on these three principles, there is no cause for worry, but if they are not followed, the Far East nations will be directly threatened by a resurgent Japan.

CADOT

File No. 300

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Hectograph to the Department.  
Copy to Embassy, Nanking.

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*Whitman*  
*no action required*

OFFICE OF AIRGRAM  
FINANCIAL & DEVELOPMENT POLICY  
10 MAY 12 1948  
DEPARTMENT OF STATE

1854  
FROM: Shanghai, China.  
DATE: May 5, 1948.  
NO. : A-381

UNCLASSIFIED

MAILED: May 7, 1948

May 11, 1948 11:03 am.

SECSTATE,  
WASHINGTON.

A-381, May 5, 1948.

The following further local public comment has been made regarding the Strike report and is submitted in compliance with the Department's Circular Airgram Instruction of March 17, 8:35 a.m.

The SHIN WEN PAO (KMT Supervised CC Organ) carried an editorial in its May 2, 1948, edition entitled, "Watch the Japanese Industrial-Commercial Mission Closely". Reference is made to recent press despatches from Tokyo concerning the creation of a special mission including former directors and employees of the Mitsui and the Mitsubishi enterprises to tour the world purportedly in the interests of Japanese commerce and industries.

The editorial cites the Strike recommendation on Japanese industry, the Kennan statement of support of the MacArthur policy, and the Draper Mission proposal for Japan's future, and says: "This series of proposals has certainly caused the ambitions of the Japanese to revive." It goes on to say: "While ostensibly, the task of the mission organized by the Japanese Board of Trade is closely related to the development of Japan's trade, yet actually, the mission is designed to enable Japan to make her appearance again among the nations." The MacArthur statement, "Japan's diplomatic rights should be restored", is an indication that the proposed Japanese industrial-commercial mission also aims at engaging in diplomatic activities. Such action before the conclusion of a peace treaty is described as a dangerous course which will encourage

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A-381, May 5, 1948, from Shanghai.

Japanese to revive. The inclusion of Mitsui and Mitsubishi personnel "indicates even more clearly the future direction of Japan".

The editorial closes with the statement, "We especially feel that the Japanese peace treaty should be concluded as soon as possible, otherwise the United States will all the more build up Japan unilaterally under the pretext that the problem of the Japanese peace treaty had already become a deadlock, thus increasing the menace to the Far East."

CABOT

File No. 800  
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Hectograph to the Department.  
Copy to Embassy, Nanking.

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BRITISH EMBASSY,  
WASHINGTON 8, D. C.

C. 78

8th May, 1948

see Dispatch  
894.60/3-1247

①

Dear Mr. Smith,

Since our talk at the beginning of April about the problems of J. & P. Coats in connexion with resuming operations in their factory in Japan, I notice that you have still not submitted the promised paper on restitution claims to the Far Eastern Commission. In any case, however, I have been thinking over what you said and it occurs to me that it would be desirable to encourage, and even to stimulate, the Japanese authorities to discuss future arrangements with J. & P. Coats "without prejudice" and on the broad basis that the question of guaranteeing supplies of cotton yarn and of providing working capital would have to be reconsidered in the light of whatever policy decisions are eventually reached.

Yours sincerely,

*A. E. Percival*

A. E. Percival

Mr. Rufus B. Smith,  
Department of State,  
Room 88, Old State Department Building,  
Washington.

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No. 138

THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

*Barnett*  
*Sumner*

American Legation  
Wellington, New Zealand, May 11, 1948

*BR*

Subject: Transmitting Press Articles on  
Revival of Japanese Industry

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The Minister has the honor to refer to the Department's airgram of March 17, 1948, 8:35 a.m. and to the Legation's Despatch no. 104, April 5, 1948 regarding New Zealand reactions to the proposed policy of reviving Japanese industry.

There is enclosed a copy of the two leading articles appearing in New Zealand Truth (Auckland) of May 5, 1948, with regard to this subject, although no specific mention is made of the "Strike" report. These articles were given front page treatment by the paper. New Zealand Truth is a tabloid which enjoys a wide circulation throughout the Dominion and which features sensational stories, principally on crime and marital scandals. The style of the enclosed article is typical of its manner of treatment of the occasional articles which it carries on international affairs.

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Enclosure: *att. Hubs*

✓ Copy of two leading articles in New Zealand Truth (Auckland), May 5, 1948

To Department in Original and hectograph

File no. 711  
Armistead M. Lee:ajr

*OUR OIE TO BY EVR ETROE Army Capt. 3 18*

DIVISION OF OCCUPIED AREAS  
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Enclosure to despatch no. 138  
dated May 11, 1948 from American  
Legation, Wellington, New Zealand  
on the subject TRANSMITTING PRESS  
ARTICLES ON REVIVAL OF JAPANESE  
INDUSTRY

Source: New Zealand Truth (Auckland)  
Date: May 5, 1948

[ COPY ]

## DEEPENING DRAMA OF JAPAN

## BRITAIN LACKS INTEREST

LONDON (By Cable from F. E. Baume): In London, the salons of Allied generals glisten as official talks on Western Europe's defence strategy begin, but what of the Pacific? What of New Zealand's defence? As Sir Stafford Cripps visits Brussels again to discuss Western Union trade, Mr. Anthony Eden in a carefully-prepared speech attempts to justify Britain's increasing mixing and meddling in parts outside the British Commonwealth.

What of Japan? What of the problems of trade and defence which so far go almost unnoticed in this Europe-obsessed England, in which even Conservatives have as much interest in the British Dominions today as they had 10 years ago, which, diplomatically at least, is not very much.

This hectic week, Palestine and Yugoslavia have held the headlines. Yet, barely a word has been printed in the British newspapers of the vast deepening drama which is Japan.

"Truth" in Australia, as well as Sydney "Daily Mirror", embarrassed the British Government recently by telling from London of the newer American plans for "developing" the fast rebuilding Japanese empire. Britain's neglect and Europe's heedlessness of what is going on in the Far East is difficult of understanding unless Britain's future economy as planned by the Right Hon. C. R. Attlee will move farther and farther away from the patient, loyal and very long-suffering Dominions and colonies.

In other words, the Australian trade treaty with Japan could have the farthest-reaching consequences. Paradoxically, the European scene is brightening so quickly that England deliberately is retaining spectacles of frosted glass, through which the public is asked to view economically the Western Powers.

I have a profound respect for the "Christian Science Monitor", not because of its religious import, but because it is a newspaper, fearless in an almost quixotic sense.

While British Cabinet Ministers were still feeling sorry for themselves, the "Monitor" exposed figures, indicating that trade progress in Britain was approaching a record, that there has been a worldly record in Europe's factories, and, to put it bluntly, that more goods were manufactured last year in Great Britain, Norway, Belgium, Denmark and Sweden than in the year before the war.

To put it more bluntly still, in France, where in 1944 the output of war-devastated factories was 41 per cent. of prewar production, today they are producing 95 per cent., Italy 70 per cent., and Holland 105 per cent.

For these

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Enclosure to despatch  
138, May 11, 1948, from  
American Legation, Wellington, N.Z.

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For these reasons alone, and for the added reason of Britain's Marshall aid dollars so far deprived to us in the Dominions, the Old Country's persistent neglect of Japanese problems becomes politically unbearable.

The latest private information from Japan indicates that Britain is leaving all the arguments with America to Australia.

Dodged Issue

It may be a clever piece of "passing the buck." But it is not a reasonable return to put it on the lowest level to either Australia or New Zealand whose war assistance was unflagging. Symbolic, but also one of the economic reasons why Britain can still exist today.

The British Government has dodged the Japanese issue with such effrontery that one might be pardoned for thinking that she wanted the Marshall dollars in the "kick" before talking about anything but the little European countries hanging on to her at this moment like limpets on a crustacean, and although no one objects to justified controversy with Russia, Britain while ready to beard the Kremlin on minor German matters, turns a blind eye to America's absolute provocation to the Soviet in her Japanese intentions.

So while Benelux appears to be so much more important than Behring Straits, Britain is watching silently the change of America's policy in Japan from one of industrial and economic sequestration, to one of almost uncontrolled economic rehabilitation, as my Whitehall friend said, "on a scale comparing favorably with that which Japan enjoyed up to the time she entered the last war."

America is ceasing to exact tribute from the Japanese. America's policy naturally enough would bypass that of New Zealand and Australia, unless Britain with the Dominions made complaint. Britain makes no complaint - this at a time when General MacArthur's instructions have been that Japan is to be the workshop of the Far East.

Perhaps people in New Zealand still have memories of Japanese goods which undercut all Europe. They may remember two months ago that I cabled that a prospectus from a Japanese engineering firm undercut similar British Empire machine products by 50 per cent.

The American State Department tells isolated British inquirers that the revival of Japanese trade means a bulwark against Russia. What it really means is an over-riding interest by America in Japanese mass production and an open and legitimate bid, if unchecked, for American control of all the trade in all the eastern countries.

Already, the Paul Hoffman group has proposed an annual production of 8,000,000 tons of steel from Japan. Does it occur to readers that 1200 miles from Wellington, in Australia, a great steel industry, paying white men's wages, might be threatened by coolie labor?

But, beyond the economic framework, the first rising girders of the new Japanese structure, is already to be seen the outline of a blatant towering edifice. It is the recrudescence beyond the superficial humility of the defeated yellow man of a new Japanese Empire.

Japan, if

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Enclosure to despatch  
138, May 11, 1948, from  
American Legation, Wellington, N.Z.

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Japan, if allowed to become technically strong will not only desire, but will demand the return of her colonial possessions, including Korea.

America has shown great wisdom actually in assessing Japan's future needs vis-a-vis Russia's possible plan in the event of the complete economic and political collapse of China. It is because of this reasonable attitude that Britain's dumbness is so incomprehensible. One does not wish to misquote President Truman, but one remembers only too well that 18 months ago, his own report spoke for itself.

He said then that Japanese economy could only be made to work if the country was either getting ready for war, or actually fighting one.

The inference is drawn, both in London silently, and in Canberra vocally, that America may even give positive assistance to Japan without reference to British and Dominion interest granting her colonial territories as part of an idea to make her a fit custodian of Asiatic peace.

Do not mistrust Canberra in this regard. The Australian Government has shown, and is showing, resentment against this turn of events. Australia regards the present United States course as a renewed threat to the security of the British Commonwealth, as well as to America itself.

How much longer will there be this silence from Downing Street? Or will New Zealand with Australia force at least a frank statement from some statesman here, to whom Europe appears to be the be-all and end-all of United Kingdom interest?

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CONCERN OVER U.S. PLANS)

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Enclosure to despatch 138,  
May 11, 1948, from American  
Legation, Wellington, N.Z.

## CONCERN OVER U. S. PLANS

LONDON, Special "Truth" Dispatch.- The British Cabinet is facing strong Australian pressure to oppose American plans to make Japan the "workshop of the Far East." The American industrial plan for Japan is shaping up rapidly, following the visit to Tokio of the Under-Secretary of the U.S. Army (Major-General William Draper).

An authoritative Foreign Office source, which first revealed American intentions, declared that the United States was anxious to nullify the Far Eastern Commission's decisions concerning the level of Japanese industry, and desired to start implementing its production scheme immediately.

A Cabinet spokesman admitted that the body of Cabinet opinion led by the Minister for Economic Affairs (Sir Stafford Cripps) and the Minister for Health (Mr. Aneurin Bevan) favors the plan provided Japanese industry is nationalised, but the Prime Minister (Mr. Attlee) and the Foreign Minister (Mr. Ernest Bevin) have pointed out that Washington has no intention of introducing Socialism.

Although General MacArthur has subdivided huge Japanese industrial combines devoted to military manufacture, Whitehall believes that wealthy Tokio interests still control the resources, and are adroitly playing on the American fear of Communism in order to strengthen their own positions.

Foreign Office experts privately believe that renewed Australian pressure on London is the direct result of plain talking at Canberra by Mr. Macmahon Ball, former British Commonwealth member of the Allied Control Council for Japan.

Britain has been particularly impressed by Australian arguments, supposedly inspired by Mr. Macmahon Ball, that the United States wants a strong and prosperous Japan as a bastion against Russian influence in the Far East.

Canberra reportedly takes the view that these fears of Communist expansion are exaggerated and unwarranted, and in any case Fascist Japan represents a greater menace to security in the Pacific.

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**DO NOT DETACH THIS FORM**

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DESP. 138 FROM WELLINGTON

**FILE NO.**

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THIS COPY MUST BE RETURNED TO DC/R FOR FILING.

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No. 138

MAY 20 1948

American Legation  
Wellington, New Zealand, May 11, 1948

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To Department in Original and hectograph

File no. 711  
Armistead H. Lee:ajr

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Enclosure to despatch no. 138  
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LONDON, Special "Truth" Dispatch.- The British Cabinet is facing strong Australian pressure to oppose American plans to make Japan the "workshop of the Far East." The American industrial plan for Japan is shaping up rapidly, following the visit to Tokio of the Under-Secretary of the U.S. Army (Major-General William Draper).

An authoritative Foreign Office source, which first revealed American intentions, declared that the United States was anxious to nullify the Far Eastern Commission's decisions concerning the level of Japanese industry, and desired to start implementing its production scheme immediately.

A Cabinet spokesman admitted that the body of Cabinet opinion led by the Minister for Economic Affairs (Sir Stafford Cripps) and the Minister for Health (Mr. Ansarin Bevan) favors the plan provided Japanese industry is nationalised, but the Prime Minister (Mr. Attlee) and the Foreign Minister (Mr. Ernest Bevin) have pointed out that Washington has no intention of introducing Socialism.

Although General MacArthur has subdivided huge Japanese industrial combines devoted to military manufacture, Whitehall believes that wealthy Tokio interests still control the resources, and are adroitly playing on the American fear of Communism in order to strengthen their own positions.

Foreign Office experts privately believe that renewed Australian pressure on London is the direct result of plain talking at Canberra by Mr. Macmahon Ball, former British Commonwealth member of the Allied Control Council for Japan.

Britain has been particularly impressed by Australian arguments, supposedly inspired by Mr. Macmahon Ball, that the United States wants a strong and prosperous Japan as a bastion against Russian influence in the Far East.

Canberra reportedly takes the view that these fears of Communist expansion are exaggerated and unwarranted, and in any case Fascist Japan represents a greater menace to security in the Pacific.

\*\*\*\*\*

RESTRICTED



No. 91

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THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

ACTION  
is assigned to



Yokohama Branch,  
Office of the U. S. Political Adviser,  
Yokohama, Japan, May 20, 1948.

*Voted  
to return  
required file*

Subject: Memoranda by President of Mitsubishi Heavy  
Industries Ltd. on Financial, Labor, and  
Industrial Problems.

DIVISION OF  
NORTHEAST ASIAN AFFAIRS

DCIR

JUN 2 1948

DEPARTMENT OF STATE

THE HONORABLE

THE SECRETARY OF STATE,  
WASHINGTON.

SIR:

I have the honor to enclose for the information of the Department only, a series of brief memoranda prepared by Mr. Yasujiro OKANO, President of the Mitsubishi Heavy Industries Ltd., setting forth his personal views on various problems confronting that company and Japanese industry in general. As president of one of the largest and most important industries in this area, engaged in miscellaneous manufacturing and the operation of shipyards engaged in the repair and maintenance of Japanese and Allied shipping, as well as some ship construction, it is thought that Mr. Okano's views are probably representative of those of many other Japanese businessmen in Yokohama.

The first memorandum concerns the difficulties of management with the labor movement; the second, financial difficulties of industrial companies; the third, the purge of industrial management personnel; the fourth, an outline of the labor-management dispute at the Tokyo Engineering Works of the company in the latter part of 1947; and the fifth, Mr. Okano's views on recent labor legislation and the labor movement in Japan.

*YU  
894.504*

894.60/5-2048

A/EJH

Respectfully yours,

*U. A. Alexis Johnson*

U. A. Alexis Johnson  
American Consul General

JUL 1 1948  
FILED

Enclosures: *att*  
Five memoranda.

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U. A. Johnson:sf  
Original and hectograph to the Department  
Copy to Tokyo

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Enclosure No. 1 to Despatch No. 91, May 20, 1948, from  
Yokohama.

Difficulties of the Management  
(Chiefly from the point of view of labor).

1. The capriciousness of the labor movement.
2. Decline of the will to work on the part of the workers.
3. Lack of culture on the part of the workers.
4. Shortage of expert staff on the Management side to deal with labor problems.
5. Insufficient connection among organized federations of management.
6. Inconsistency in Government labor policy.
7. Lack of authority of the labor committee.
8. Inappropriateness, in part, of the Labor Union Law.

1. The capriciousness of the labor movement.

In spite of the fact that the Union Law, by the security of the rights to union and the protection of the right of collective bargaining, was established for the advancement of the workers' status and for the advance of economy, the capriciousness of the labor movement seems to have rendered justified bargaining on the part of the management practically impossible, as the following circumstances will illustrate.

- a) Despotism on the part of a minority of the Labor Union officers. Although the Union is outwardly run on democratic principles, it is not a rare case that it is clearly governed by despotism on the part of its officers. The methods applied resemble Fascism.
- b) Violence by younger members of the Labor Union. The despotism is further accentuated in conjunction with the violence of the younger men. Especially is this true when younger men compose the greater part of the Union. In such cases, violence sometimes runs to extremes.
- c) Diffusion of "fraction" Communism. The existence of this movement very often entirely bases the character of the group.
- d) Unjustified mistrust by the Union members of the employers. Mistrust of the management's policy is specially strong in the Unions which are run on the above-mentioned three principles. In such cases, the men refuse to listen to any clear explanations of the management. Sometimes they intentionally pretend not to understand, and cause trouble.

e) The

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Enclosure No. 1,  
Despatch No. 91,  
Yokohama, May 20, 1948.

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-2-

- e) The retrogressive tendencies of the moderate members of the Union.  
The moderate members which compose the greater part of the Union are retrogressive in their principles, and are greatly lacking in spirit to uphold their own rights and those of the Union.

2. Decline of the workers' will to work.

- a) Unsuitable system of payment.  
The present system of payment includes factors, such as family allowances, etc. but is lacking in such important factors as payment for ability, skill and output. Consequently, the workers' will to work is extremely low.
- b) Pressure of high taxation on labor.  
The rate of workers' tax above certain incomes is very high. As a result, workers do not want to work because their reward in cash is not so much even if they exert themselves.
- c) Dissatisfaction of skilled workers.  
The Union is led by extremists, and the experience of skilled workers is treated very lightly. Moreover, suitable wages are not paid on the basis of, or befitting, the skill and efficiency of the workers. In such cases, the workers' will to work is very low.

3. Lack of culture of the workers.

Generally speaking Japanese workers lack culture, consequently they do not fully comprehend the necessity of rationalization of productive technique and the reason for the establishment of various testing and inspection systems in operation in industries. Furthermore, they do not grasp the essence of the system of encouragement allowances, or "incentive" rewards. These circumstances seriously hinder the rationalization of industry.

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Enclosure No. 2,  
Despatch No. 91,  
Yokohama, May 20, 1948.

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Financial Difficulties Facing  
Industrial Companies

LACK OF CAPITAL

Reasons:

1. Financial difficulties arising from the tightening of financial restrictions.
2. Fluctuations in official prices of manufactures from the time of making contract to actual delivery, especially in shipbuilding industry. Problems of meeting such increased costs.
3. Advance in wages due to inflation.
4. Rise of black-market prices of raw materials due to advance of official prices.

Owing to the lack of raw materials, it is very difficult to obtain these at official prices, and it is only by buying them on the black market that production can be continued. As official prices advance, black-market prices also advance, thus although the official price of the contracted products is increased, due to the fact that we have to pay enormous prices for materials there is no corresponding increase in profit; rather on the contrary there is a decrease.

Conclusions: The loss to industry due to the advance in the cost of materials and wages, more than offsets the profit which might accrue due to the rise in official prices. Again, the inconsistency between financial restrictions and increase of demand for capital is more than ever bringing about financial difficulties. Moreover, industrial facilities are being rapidly worn out, the level of labor efficiency is markedly lowered, being less than 50 percent of the wartime level, and many companies have a surplus of workers. Here, in conjunction with the Government's Administrative adjustments, a rationalization of management is absolutely necessary.

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Enclosure No. 3 to Despatch No. 91, May 20, 1948, from Yokohama.

On the Purge of the Industrial World of Japan

We cannot but think that the purge in the industrial world of Japan has gone too far. For example, the greater part of the men of responsibility in companies which were making munitions during the war have already been purged, or are about to be purged. There are among those some who were strong supporters of the old Japan, and consequently the purge is warranted. But the greater part of the purgees are those who were forced to follow the mistaken policies during the war. To purge them in one lot from industry after the termination of hostilities seems to be an extreme measure, for the reason that the greater part of them are so necessary from knowledge and experience for the rehabilitation of Japanese industries.

Moreover, the larger part of them are men who had very little responsibility for the war effort, and for them to remain in industrial circles is essential for a revival of economy and industries of Japan. Especially recently there are a great number of young men whose names are not known, but merely for the fact that they were directors of munition companies, have been purged, and it is not just imagination to say that such circumstance is distinctly harmful for the revival of Japanese industries.

A point to be specially mentioned is that most of them were and are pro-American, but once they have been subject to the purge, it may turn them into being even more to the contrary. Such a situation will not benefit the future relations between the United States and Japan, upon which so very much depends, but rather is a danger of bringing harm to such relations. It is for this reason that we would respectfully ask the United States Government to kindly reconsider the matter.

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Enclosure No. 4, to Despatch No. 91, May 20, 1948, from Yokohama.

The Labor Troubles at the Tokyo Engineering Works  
of Mitsubishi Heavy Industries

An example of prevalent labor strife in Japan.

1. A brief outline of production since the end of the war.

Having obtained permission to reconversion on October 8th 1945, the Works has since been engaged on the manufacture of bulldozers, tractors, charcoal gas producers, agricultural implements, cooking utensils, and other commodities essential for civilian welfare. The amount of monthly production, financial status, and the increase and decrease in the number of workmen are as given in a separate sheet. When the Works was designated for the custody and control of its property for Reparation in August 1946, it was noted as being one of the best equipped plants for the purpose in the Kanto district.

2. Labor conditions.

The white collared employees, composed of clerks and engineers, are organized in a Union of their own, which is run on sound and moderate principles, hereafter this Union will be named the Employee's Union. The workmen which numbered over twenty-odd hundreds (at present the number is just about two thousand) formed a Labor Union. At first this Labor Union was attached to the Japanese Federation of Labor and were moderate in their activities. However about the time the Employee's Union was organized the two Unions differed in their ideologies and the Labor Union withdrew from the Japanese Federation of Labor in August 1946 and joined the Japanese Congress of Industrial Organization hereafter abbreviated to J.C.I.O. of which it has since become the most leftist member.

The difference in the ideologies of the two Unions came to a clash and in May 1946, the Labor Union refused to let the members of the Employee's Union into the plant and themselves went into a state of sabotage. This was finally settled by the change of officers of the Labor Union at the arbitration of the Tokyo-to Labor Committee.

In August 1946 the Labor Union demanded the conclusion of a collective contract according to the instruction from the J.C.I.O. On the Company's refusal to conclude the contract the Union went into strike. Notwithstanding the fact that the violence on the part of the younger men led to an incident in which the Chief of the Personnel Section was injured, the strike was settled in October at the concession of the Company. Nevertheless many troubles were agitated by the extreme leftist members of the Union, working under instructions from the headquarters of the J.C.I.O. the conditions are such that at present one month of good production is followed by two in which the production is very low.

In July

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Enclosure No. 4,  
Despatch No. 91,  
Yokohama, May 20, 1948.

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In July of this year the average pay of the workmen was raised from 1,800 yen to 2,500 yen per month. The Union's demand for 2,700 was turned down on the grounds that it was impossible for the Company to bear any further burden at the present rate of production. Again in the middle of August an interim allowance of 800 yen on the average (tax excluded) was demanded to overcome the present stringent conditions. However as the payment of such an allowance is altogether impossible at the present state of the Company's finance this was also turned down and the Company advised the workmen to raise the production which is directly linked with the income. This advice was neglected and rather on the contrary a demand for an increase of pay to double the present amount, viz- an average salary of 6,300 yen per month, together with other demands, was put forward. At the Company's refusal to this impossible demand the workmen went into a state of sabotage without warning on about 20th Sept. and in the middle of October they went into strike.

3. Counter measures against the strike:

The Company has tried its utmost to bring about a peaceful settlement by collective bargaining but the Labor Union, persisting in their demands, refuse to make any concessions. Nevertheless, bound by the present Collective Agreement, the Company is unable to take any decisive steps, while the prolongation of the present state of affairs is bound to bring about bankruptcy. Besides, so long as the J.C.I.O. persists in their present policy for their guiding principle, there is altogether no prospect for a rehabilitation of Japanese industry. In this sense it is believed that the only measure left is for the Union to reflect on itself and take this opportunity to reorganize itself.

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Enclosure No. 5 to Despatch No. 91, May 20, 1948, from Yokohama.

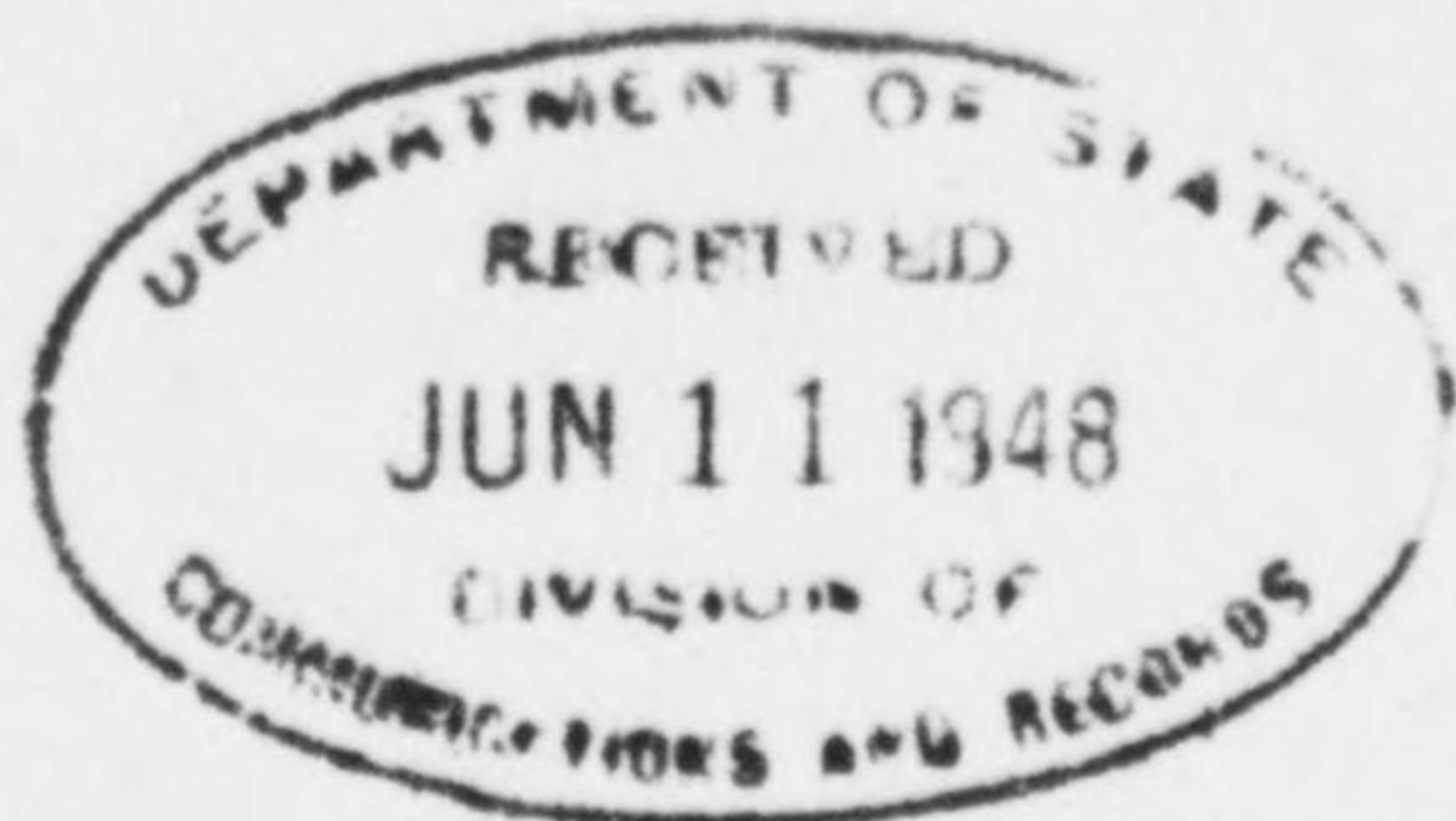
My Private Opinion on Laws Relating to Labor  
and the Actual Labor Movement in Present-Day Japan

1. According to the present Labor Union Laws, the qualifications for becoming a member of a union lack clarity, consequently we believe that there is an urgent necessity to establish proper limits if Japanese labor movement is not to go off the track. This is the point which forms the basis of unnecessary trouble in labor problems, and moreover gives undue opportunity to convert the labor movement into a political movement.
2. The present laws are too stringent on the illegal actions of the management and too lenient to control unfair labor practices of the union or their members. For example, the definition of a labor strike in the laws can be too widely interpreted, and almost any action or labor movement can be acknowledged as a strike action. It is a well-known fact during a strike in the above sense any action, right or wrong, becomes warranted, and for that reason cannot be punished. Again, at ordinary times, for example, the officers of a union although not doing their allotted work, are fully paid by the Company to specialize in work for the Union. Thus they are living at the Company's expense.
3. It is believed that the present labor movement in Japan is in the dawn of being already controlled by the minority of the leaders with Communistic principles. Unless this is controlled by law in some way, a quick revival of Japanese industries is not to be expected, or at least will be very much retarded. As is well known, these Communists consider industrial operators as their enemies, and do not consider in the least a revival of industry, consequently they have no idea to co-operate with the operators and avoid wrecking industry. If, therefore, the labor movement in Japanese industry is left in their hands to do as they like, there is no hope whatsoever of industrial revival but only chaos. In other words, it will never pass the stage of being a burden to the United States. Although no immediate application of the Taft-Hartley law of the United States is contemplated, some such restrictions are considered necessary in Japan.

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DEPARTMENT OF THE ARMY  
WASHINGTON, D. C.



26 May 1948

*Reply after by Saltzman for file*  
MAY 26 PM 12 34  
ASSISTANT SECRETARY FOR OCCUPIED AREAS

JUN 10 1948

DEPARTMENT OF STATE

Honorable Charles E. Saltzman  
Assistant Secretary of State  
Department of State

Dear Mr. Saltzman:

Inclosed are 23 reports submitted by the various sections of Overseas Consultants, Inc. These reports are being made available for use in the Department of State at the request of representatives from your EP and DRF Divisions who have reviewed in the Department of the Army the basic data developed and collected in Japan by Overseas Consultants, Inc. in connection with their "Report on Industrial Reparations Survey of Japan."

Your attention is invited to the fact that these section reports are classified "Secret." It is considered desirable to maintain that classification inasmuch as the reports are not official Government documents and do not represent the coordinated view of SCAP headquarters. The section reports do not necessarily express the views of the Overseas Consultants, Inc. since the material contained therein was developed for consideration by the drafting committee and the Board of Directors of the corporation in the preparation of the final report.

Sincerely yours,

R. M. CHESELDINE  
Colonel, GSC  
Representative of Secretary  
of Army on OCI Contract

23 Incls -  
(List attached)

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JUL 20 1948

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NND 760044  
CD/M NARS, Date SEP 8 1975

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LIST  
OF  
OVERSEAS CONSULTANTS, INC.  
SECTION REPORTS

DEPARTMENT OF STATE  
"0"

1948 MAY 26 PM 12 34

ASSISTANT SECRETARY  
FOR OCCUPIED AREAS

- 1 - Report on Group A Projects
- 2 - Report on Group B Projects
- 3 - Economic Report
- 4 - Japanese Iron and Steel Industry (Project A)
- 5 - Japanese Iron and Steel Industry (Project B)
- 6 - Japanese Nitric Acid Industry
- 7 - Japanese Sulphuric Acid Industry
- 8 - Japanese Soda Ash and Electrolytic Caustic Soda  
Manufacturing Facilities
- 9 - Japanese Synthetic Rubber Manufacturing Facilities
- 10 - Japanese Cement Productive Capacity
- 11 - Japanese Ammonia Production Capacity
- 12 - Japanese Synthetic Oil Facilities
- 13 - Machine Tools Report
- 14 - Ball and Roller Bearing Report
- 15 - Shipbuilding Report
- 16 - Petroleum Section Interim Report
- 17 - Petroleum Section
- 18 - Japanese Aluminum Fabricating Facilities
- 19 - Japanese Alumina Manufacturing Facilities
- 20 - Japanese Aluminum Reduction Facilities
- 21 - Japanese Magnesium Reduction Industry
- 22 - Electric Generating Facilities in Japan  
(Report Under Group "B" Projects)
- 23 - Electric Generating Facilities in Japan  
(Report Under Group "A" Projects)

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MAY 29 1948

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My dear Mr. Secretary:

I am replying to your letter of May 26, 1948, to the Secretary, in which you describe the divergent viewpoints of the two Departments on the subject of Japanese reparations and in which you propose that the subject be discussed personally between you and the Secretary to see if an agreement can be reached before the matter is referred to the National Security Council.

Unfortunately it will not be possible to arrange a meeting with the Secretary before the middle of next week when he will return from a speaking engagement in the West. Immediately upon his return, I shall take up the matter with him and try to arrange an early meeting.

Meanwhile, in accordance with your suggestion, we have removed the recommendation on reparations from the Department of State's "Recommendations with Respect to U.S. Policy Toward Japan" which is now going forward to the National Security Council.

Sincerely yours,

*Walter D. Dorn*  
Acting Secretary

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The Honorable  
Kenneth C. Royall,  
Secretary of the Army.

A true copy of the signed original  
*MBO*

copy letter  
May 26 attached  
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NND 760044  
By *CD/MT* NARS, Date *SEP 8* 1975

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26 May 1948

Honorable George C. Marshall  
Secretary of State  
Washington 25, D. C.

Dear General Marshall:

The Department of the Army has made a careful review and analysis of the draft paper entitled "Recommendations With Respect to U. S. Policy Toward Japan" which I understand you propose to submit to the National Security Council. Several conferences at working levels have been held between representatives of this Department and the Department of State and most of the initial differences have been resolved.

There are a few points still at issue which are being discussed by Under Secretary Draper and Assistant Secretary of State Saltzman, and I hope they will be able to arrive at satisfactory adjustments.

There remains, however, one major issue which has not been resolved by your representatives and mine, namely the troublesome problem of reparations. You are undoubtedly familiar with the paragraph on reparations in the Department of State draft paper. There appear to be major and at present irreconcilable differences between the two departments regarding this paragraph as now written with respect to the assets available for reparations and also important differences in the procedure for making the reparations program effective.

As you know, the Department of the Army with concurrence of the Department of State (Tab A), caused a thorough survey of industries considered available for reparations in Japan to be made last year by the Overseas Consultants, Inc. (OCI). Following receipt of their report and pursuant to conferences between the Department of State and Army, Mr. Draper went to Japan with the so-called Johnston Committee which studied the problem of the economic rehabilitation of Japan. This study obviously had to consider the relation of the reparations problem to the revival of Japanese industry and the Committee also discussed the whole reparations question and the OCI report with General MacArthur.

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The result was a recommendation by the Johnston Committee, concurred in by General MacArthur, for a higher level of industry for Japan than had been recommended by the OCI. However, when the Johnston recommendation was studied by OCI, the latter generally accepted the Johnston figures (Tab B) because the Johnston Committee specifically recommended the provision for importation of raw materials to permit the stimulation of greater industrial activity in the industries to be permitted to remain in Japan.

Thus, OCI, the Johnston Committee and General MacArthur (Tab C) are in general agreement on the industrial capacities required for Japan. The Department of the Army proposes that the U. S. Government should approve this position respecting the Japanese required level of industry and the corresponding available reparations, and after bringing it to the attention of other interested governments, publicly announce it as the U. S. position and submit it to the Far Eastern Commission. This proposal is contained in the Army draft of the Reparations paragraph for the proposed policy paper. (Tab D)

The differences between the two departments are so fundamental that I do not believe any benefit can be obtained by further discussion by our representatives. Accordingly, I suggest that you and I personally discuss this question to see if we can arrive at an agreement. I hope we can find some acceptable solution but at least believe that we should personally discuss the subject before it is referred to the National Security Council.

I shall endeavor to make myself available for such a conference at your convenience.

Sincerely yours,

(Signed) KENNETH C. ROYALL

Kenneth C. Royall  
Secretary of the Army

4 Incls.

Tab A - ltr frm Gen.  
Hilldring to Mr.  
Peterson.

ltr frm Mr.  
Peterson to Gen.

Hilldring dtd 24 July 47.

Tab B - ltr frm OCI to S/A  
endorsing Johnston figures  
dtd 30 Apr 48.

Tab C - SCAP comments on Johnston  
report. (C-60510, 8 May, CM-IN 2023)

Tab D - Army draft paragraph.

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DEPARTMENT OF THE ARMY  
WASHINGTON, D. C.

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26 May 1948

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*6/18 - Joint Army -  
State draft Cable to  
MacArthur submitted  
to NSC for dispatch  
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DCK*

Honorable George C. Marshall  
Secretary of State  
Washington 25, D. C.

*894.60/10-2947  
11-2047  
3-1745  
4-545*

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DEPARTMENT OF STATE

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*740.00119 PW*

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*NND 760044*

By *CD/MT* NARS, Date *SEP 8* 1975

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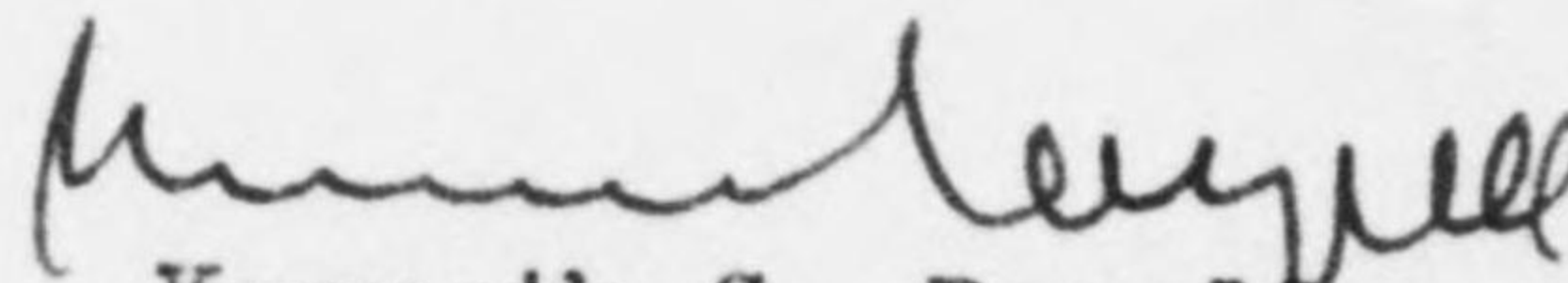
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Sincerely yours,

  
Kenneth C. Royall  
Secretary of the Army

- 4 Incls. *attached JPR*  
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Peterson.  
ltr frm Mr.  
Peterson to Gen.  
Hilldring dtd 24 July 47.  
Tab B - ltr frm OCI to S/A  
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