

740.00119 CONTROL (JAPAN) / 7-149 --- 9-3049

STANDARD FORM NO. 64

SECRET

PM/R

Office Memorandum • UNITED STATES GOVERNMENT

DATE: July 1, 1949

TO : S - The Secretary
THROUGH: S/S
FROM : FE - Mr. Butterworth

SUBJECT: Discussion with Ambassador Franks on Certain Questions of Japanese Policy.

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With reference to the memorandum of conversation dated June 14, 1949, between Mr. Bevin and you, in which Mr. Bevin indicated that he would ask Ambassador Franks to discuss with you the questions of Japanese reparations, of gold stocks in Japan, and of Japanese trade, I recommend that you leave the initiative in the matter to the Ambassador, and make definitive reply only after there has been opportunity to consider the points which the Ambassador may raise. In that event you need not burden yourself with reading the background memoranda which are attached (TABS A, B, and C.).

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Northeast Asian
Affairs Division

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SECRETTRADE POLICY

It is the objective of the United States to assist Japan to achieve a self-supporting economy at the earliest possible date through the revival of Japanese production and trade. During the fiscal year 1949 the United States expended approximately \$510 million to maintain the Japanese economy, a financial outlay which the American taxpayer cannot continue to meet indefinitely.

Indigenous Japanese food and raw materials resources fall far short of the nation's requirements. As to food, Japan is able to supply only 75 per cent of its needs. The country has no domestic cotton or wool. It is dependent upon imported coking coal for its iron and steel industry, and its petroleum resources are negligible. The exports of Japan's industries must, therefore, be adequate to cover a substantial part of the food requirements of the Japanese people and an even larger part of the raw materials required by the domestic economy and for production for export.

It has been estimated that Japan's exports would have to be 75 per cent larger in 1953 than in 1930-34 to permit the population in 1953 to attain a self-supporting status with the standard of living prevailing in the 1930-34 period. Since Japan's exports during calendar 1948 were only 13 per cent of the 1930-34 levels, this would require a thirteen-fold expansion of Japan's export trade between 1948 and 1953, of which there seems little possibility. With its meager resources and expanding population, Japan faces extremely difficult economic problems whose solution can be hoped for only through the fullest development of the nation's trading potentialities.

Japan's natural trade relationships lie primarily within the Far Eastern area. If provided with an adequate supply of raw materials normally available from other Far Eastern countries, Japan should be able to supply a wide variety of manufactured products in return. Indications are that Japan's Far Eastern exports will to an increasing degree be made up of capital goods and industrial equipment needed by industrializing Far Eastern countries, and that textiles and ceramics will occupy a relatively lesser place than in the past. However, the production of consumer goods will be developed to the extent of available markets.

Although Japan's principal trade relationships must therefore be expected to be within the Far East, it is by no means certain, in view of the basic realignment of political and economic relationships which have taken place in the Far East since the war, whether Japan will be able to revive its trade

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with other Far Eastern areas even on the pre-war scale. Manchuria and North China, formerly tightly linked to Japan's economy, are now behind the iron curtain and it must be expected that their resources will be devoted primarily to the development of Communist China and the Soviet Far East. Korea, too, will be partly or wholly behind the curtain instead of an economic appendage of Japan. Formosa's principal trade ties still cannot be accurately predicted but will be in large part with China and Southeast Asia rather than with Japan. Southeast Asia may continue to provide Japan with substantial quantities of rice and raw materials in return for Japanese capital goods but the demand for consumer's goods must be expected to decline as these countries develop their own industries. Only the Philippine trade may in time regain its former, relatively minor volume.

Political ferment, economic dislocation and disorganization, loss of capital in the form of factories, extractive equipment and transportation facilities, and a growing tendency to economic nationalism and restrictive trade practices, all combine to lower productivity, restrict trade, and lessen the ability of the Far Eastern area in the coming decade to support a great industrial population such as is found in Japan. There is serious question, therefore, whether Japan, in order to meet its minimum trading needs, will not have to expand its trade with Europe and the Western Hemisphere to offset and far surpass pre-war volumes, mainly based on silk. It will be essential also that Japan rebuild its merchant marine to a point where it can again reduce Japan's trading costs and add to its foreign currency receipts.

In order that Japan may be properly tutored in liberal trade principles, it is the policy of this Government to ensure that Japanese foreign trade is conducted in accordance with the principles of the ITO Charter. In keeping with these principles, this Government is desirous that the major trading nations accord most-favored-nation treatment to the merchandise trade of Japan on a reciprocal basis, particularly relating to customs duties and other fees and regulations in relation to importation, quantitative restrictions and control of means of international payment. While the United States has acquiesced in Japanese participation in numerous bilateral trade agreements it has been concerned that they be flexible and non-restrictive and hopes they are only temporary measures to meet the current trading difficulties.

With the establishment of a single rate of exchange for the yen, the United States is hopeful that it will soon be

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feasible to further normalize Japanese foreign trade procedure. With the exception of the intergovernmental contracts referred to above, export trade is already being carried on through private channels, SCAP and the Japanese Government having merely a validating function with respect to export contracts. Import trade is still being continued on a government basis in Japan, but it is hoped that it will soon be possible to transfer it too to private hands.

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SECRETREPARATIONS

1. United States policy on Japanese level of industry as agreed between the Secretaries of State and Army in April of this year was approved by the NSC and by the President on May 6 as paragraph 20 of NSC 13/3, and was announced to the Far Eastern Commission by General McCoy on May 12. The essential portions of General McCoy's statement, which was released to the press on the same day, were as follows:

" . . . The United States is forced to the following conclusions:

(a) The deficit Japanese economy shows little prospect of being balanced in the near future and, to achieve eventual balance, will require all resources at its disposal.

(b) The burden of removing further reparations from Japan could detract seriously from the occupation objective of stabilizing the Japanese economy and permitting it to move towards self-support.

(c) There is little or no prospect of Far Eastern Commission agreement on a reparations shares schedule despite the repeated initiatives by the United States over the past three years to assist the Commission in reaching such an agreement. Without agreement on a shares schedule the existing Far Eastern Commission policy decisions regarding reparations are incapable of implementation.

(d) Japan has already paid substantial reparations through expropriation of its former overseas assets and, in smaller degree, under the Advance Transfer Program.

"In light of these conclusions the United States Government is impelled to rescind its interim directive of April 4, 1947, bringing to an end the Advance Transfer Program called for by that directive. It is impelled also to withdraw its proposal of November 6, 1947, on Japanese reparations shares, and I am so informing the Secretary General. Finally, the U.S. Government takes this occasion to announce that it has no intention of taking further unilateral action under its interim directive powers to make possible additional reparations removals from Japan."

" . . . It is the view of the United States that all facilities, including so-called 'primary war facilities', presently designated as available for reparations which

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can contribute to Japanese recovery should be utilized as necessary in Japan's peaceful economy for recovery purposes."

" . . . I have already emphasized my Government's support of the principle that Japan's capacity to make war should not be permitted to re-emerge. It is the considered view of the United States Government that this objective does not require that Japan's production for peaceful purposes be limited or that limitations be imposed on levels of Japanese productive capacity in industries devoted to peaceful purposes. . . "

"The U.S. Government plans shortly to submit to the FEC for its consideration proposals for the rescission or amendment of existing and pending FEC reparations and level of industry policy papers so as to bring FEC policies on these matters, should the proposals be approved by the Commission, into conformity with the position which I have set forth."

2. The reactions to the U.S. statement have been largely as expected. The Japanese were of course delighted, and the business community appears to have derived the assurance from the statement which we desired. Opposition from the Philippines was initially very strong but feeling has now moderated and the Government apparently does not intend to press the matter further. The Chinese Representative on the FEC read a statement taking issue with our position, but Acting Foreign Minister Yeh subsequently informed our representative at Canton that China had revised its policy toward Japan and would go along with us. The Australian Government asked for clarification of certain aspects of our statement preparatory to formulation of its position. A representative of the Indian Embassy stated that his Government considered our position entirely sound. The Canadian, French, Netherlands, New Zealand, and Soviet Governments have not responded officially to the statement.

3. The British Government requested clarification of certain aspects of the statement in an aide-memoire left at the Department on May 23. The principal questions posed by the British, and our replies, are quoted below:

Question: "Is it intended that there shall be no upper limit on productive capacity in any Japanese industry . . .?"

U.S. reply: "It is the view of the United States that with the lapse on October 1, 1949, of the limits established by FEC decision, there should in general be no upper

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limit on productive capacity in Japanese industry, with the exception of the armament and aircraft manufacturing industries, which should be prohibited."

Question: "In particular, is it intended that Japan shall be permitted to retain all her present shipbuilding capacity and that no restrictions shall be imposed in respect of number, size, speed or other characteristics of vessels to be built?"

U.S. reply: "These questions are now under consideration by this Government. The views of the British Government in the matter would be welcome."

Question: "Is it contended that the manufacture of civil aircraft, which is prohibited in various Far Eastern Commission policy decisions, could contribute to Japan's recovery and is it intended that it shall be permitted?"

U.S. reply: "It is the United States Government's view that the manufacture of civil aircraft in Japan under the occupation would not contribute to Japanese recovery and should be prohibited."

There have been no further communications from the British on the question.

4. The concerned offices of the Department are currently preparing the new policy proposals on Japanese reparations and level of industry for submission to the FEC promised in the last of the above-quoted paragraphs from General McCoy's statement of May 12. It may be some time, however, before these proposals will be ready for submission, in view of the necessity for coordinating this Department's views on the matter with those of the National Military Establishment and, in the case of shipping and shipbuilding, with the Maritime Commission and, possibly, representatives of domestic shipping, shipbuilding and maritime labor interests.

5. It is our impression that the British interest in Japanese reparations, which has always been on behalf of their Far Eastern dependencies and not for the U.K. itself, is much less than their interest in the level of industry question. Their concern over this question professedly derives from security considerations, not now or in the immediate future but, as one British representative put it, ten or twenty years hence. Actually their interests must be assumed to be primarily

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motivated by commercial considerations, particularly a desire to minimize future competition from Japanese shipping and shipbuilding. They are also fearful of Japanese textiles but have never officially proposed that this industry be limited by Allied fiat. Although our position remains to be defined, thinking within the Department, as stated in our above-quoted aide-memoire of June 3, has for a long time been that few if any industries in addition to the strictly armament industries and the aircraft manufacturing industry should be restricted after the existing FEC ceilings lapse on October 1, and that industries like the textile industry should in no event be curtailed.

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THE SECRETARY OF DEFENSE
WASHINGTON

DIVISION OF
NORTHEAST ASIAN AFFAIRS

JUL - 1949

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Office of
FAR EASTERN AFFAIRS
JUL 5 - 1949
DIRECTOR
Department of State

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DEPARTMENT OF STATE
Dear Mr. Secretary:

Pursuant to the request contained in your letter of 23 May 1949, concerning the Japanese occupation and planning for a peace settlement with Japan, I transmit herewith three copies of a consolidated report by the National Military Establishment of progress in implementation of those policies of NSC 13/3 for which it is responsible. For convenient reference, a separate statement, lettered and numbered to correspond with the paragraphs of NSC 13/3, has been prepared in connection with each policy set forth in that document. No statements have been prepared, however, with respect to paragraphs 1, "Timing and Procedure of the Peace Treaty"; 2, "The Nature of the Treaty"; 9, "Far Eastern Commission"; and 10, "Allied Council", because these paragraphs are a primary responsibility of the Department of State.

I am forwarding this document at the present time because I recognize the need, both in the Department of State and the National Security Council, for timely knowledge of developments in occupied Japan. I recognize, however, that in some cases the statements forwarded herewith are not complete; further reports will be furnished as additional information becomes available. In this connection I refer particularly to the individual statements relating to the implementation of paragraphs 7, 8 and 12 of NSC 13/3.

In preparing this report it has not been possible in some cases to restrict the data to information subsequent to 9 October 1948, when NSC 13 was initially approved by the President. The general policies enunciated in NSC 13 have guided actions of the National Military Establishment since a tentative draft of the NSC paper was prepared in June 1948. Further, certain paragraphs of the NSC policy paper merely constitute an endorsement of policies which have guided the occupation of Japan since its inception.

Sincerely yours,

Paul Johnston

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DEPARTMENT OF STATE
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JUL 11 1949

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Enclosures

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The Honorable

The Secretary of State

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9 June 1949

TAB "A"PROGRESS REPORT BY THE NATIONAL MILITARY ESTABLISHMENT
ON THE IMPLEMENTATION OF NSC 13/3, ENTITLED
"RECOMMENDATIONS WITH RESPECT TO U.S. POLICY TOWARD JAPAN".INDEX AND SUMMARY

(Each Tab contains for convenient reference a summary of the NSC policy on the subject. Sometimes the NSC policy is quoted in whole or in part.)

TAB "B" 3. PRE-TREATY ARRANGEMENTS.

The policies of minimizing the numbers of troops and reducing their psychological impact on the Japanese population are in full force and effect and have guided the occupation since its inception.

TAB "C" 4. POST-TREATY ARRANGEMENTS.

On 11 March 1949 the Secretary of Defense forwarded to the Executive Secretary, NSC, a memorandum by the JCS on "Limited Military Armament for Japan", with a view to preparing possible amendments to NSC 13/3.

TAB "D" 5. RYUKYU, NANPO AND MARCUS ISLANDS.

On 1 April 1949 the U.S. forces and agencies stationed in the Ryukyus commenced paying their way. The JCS are taking cognizance of our intention to retain these islands on a long-term basis, in determining the long-range military deployments and the character of the military installations and facilities in these islands. Permanent construction on Okinawa is being designed on a long-range master plan for base development. Enabling legislation has been forwarded for consideration by Congress to provide \$18 million additional military construction. Department of the Army is preparing both a short-range program for the economic development of the Ryukyus for FY 1950, and also a longer-range program through FY 1953.

TAB "E" 6. NAVAL BASES.

(a) Yokosuka. Items of equipment suitable for commercial shipyard have been retained and repaired; physical layout altered to promote use as commercial shipyard. (b) Okinawa. No construction ashore planned due to unsuitability as year-around naval base; fleet anchorage usable in good weather for self-supporting fleet units.

TAB "F" 7. JAPANESE POLICE ESTABLISHMENT.

The Japanese police force is at full authorized strength of 125,000 men and is under intensive training and organization with progressive improvement noted. Necessary revolvers are being furnished CINCPAC to provide serviceable small arms for the complete force.

TAB "G" 8. SUPREME COMMANDER FOR THE ALLIED POWERS.

and

11. RELATIONS WITH THE JAPANESE GOVERNMENT.

SCAP has reported that with the exception of current occupation controls exercised in respect to economic matters, the degree to which the agencies of the Japanese Government have proceeded in the exercise of independent judgment approximates that of an independent democratic state. In respect to the reduction of personnel, it is estimated that the total number of U.S. personnel engaged in CA/MG activities will be reduced from 6,025 as of 31 December 1948 to an estimated 5,200 as of 30 June 1950.

TAB "A"

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TAB "H" 12. INTERNAL POLITICAL AND ECONOMIC CHANGES.

Although SCAP is endeavoring to carry out the letter and spirit of para 12, nevertheless, he has had to exert strong pressure on the Japanese Government to implement the economic stabilization program. To achieve the stabilization of the Japanese economy, SCAP cannot safely relax pressure on the Japanese Government to enact and enforce austere and unpalatable laws.

TAB "I" 13. THE PURGE.

General MacArthur has indicated belief that any action to change existing directives and ordinances with respect to the purge would require FEC approval, in view of the fact that FEC policies on the purge were developed in broad outline in the light of actions previously consummated in Japan. In order that all U.S. directives with respect to the purge might be brought into consonance with NSC 13/2, the JCS have rescinded those paragraphs of the basic initial post-surrender directive for the occupation and control of Japan which treat of the purge. This rescission has left FEC policy decisions the sole directives to SCAP in force in connection with the purge.

TAB "J" 14. OCCUPATION COSTS.

General MacArthur is making every effort to hold such costs to a minimum. Cost to the United States and to Japan for support of the occupation forces is steadily being reduced. Allied occupation forces fund requirements on the Japanese national budget have been JFY 46 - \$2,640 million; JFY 47 - \$1,282 million; JFY 48 - \$833 million; JFY 49 - \$358 million. However, costs to the United States for support of the indigenous Japanese economy have steadily increased. From VJ Day to 30 June 1946, the U.S. grants for support of the Japanese economy approximated \$107,800,000; for FY 47 \$307,562,830; for FY 48 \$373,554,858; and for FY 49 \$510,899,416. Overall costs to the United States for support of the Occupation, including support of occupying forces and of the indigenous economy, totaled \$1,145,751,327 from VJ Day to 30 June 1946; for FY 47 \$1,012,533,535; for FY 48 \$1,025,120,988; and for FY 49 to 31 December 1948 \$682,982,950.

TAB "K" 15. ECONOMIC RECOVERY.

Specific measures taken to encourage economic recovery in Japan have included the recent institution of a nine-point economic stabilization program, the passage by the Diet of a balanced budget, the elimination of export subsidies and reduction of domestic subsidies, creation of a counterpart fund to assure most effective use of U.S. aid, the tightening of credit policies, re-opening of the stock exchange, improvement of the raw materials allocation system, development of a program for centering production in the most efficient industries, and the creation of a fixed exchange rate. Further measures contemplated or in progress include a request to Congress for an appropriation of \$116 million to stimulate economic recovery, endeavors to obtain MNV treatment for Japan, endeavors to strengthen the Japanese merchant marine, and a plan to terminate indigenous yen funding and logistic support for Allied Missions in Japan.

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There are now under informal consideration by the State and Army Departments proposals which would set up a claims tribunal to adjudicate certain claims against Japan which have not yet been settled between the Japanese Government and U.N. nationals.

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TAB "N" 17b. INFORMATION AND EDUCATION -- RADIO.

In a survey report to the Secretary of State on 7 April 1949, the Secretary of the Army concurred in the findings of CINCPAC regarding the desirability of Saipan as the location of a transmitter station for broadcasts to Japan.

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Between June 1948 and April 1949, 71 Japanese students entered U.S. schools and 50 more are awaiting clearance for entry from the Department of State. For FY 50 Department of the Army is seeking \$450 thousand from Congress to bring between 150 and 300 Japanese students and national leaders to the United States. Since June 1948, 62 Japanese educators, technicians, scientists, missionaries and labor leaders have attended 33 international conferences throughout the world.

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Inventories of raw materials available in Japan have indicated that existing stockpiles are so small as to make unnecessary at the moment any restrictions on stockpiling. The manufacture of weapons of war and civil aircraft has been prohibited since the beginning of the occupation. Except for the potential limitations imposed until 1 October 1949 by JCS Directive No. 87, respecting reduction of the Japanese industrial war potential, there are currently no formal restrictions on industrial production in Japan for purposes of disarmament which limit production for peaceful purposes.

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3. PRE-TREATY ARRANGEMENTS. Every effort consistent with the occupational mission and with military security should be made to reduce to a minimum the psychological impact of the presence of occupational forces on the Japanese population. "The numbers of tactical, and especially non-tactical, forces should be minimized." Full weight should be given to the foregoing in determining the location of occupation forces.

a. General MacArthur advises that these policies are in full force and effect at the present time and have guided the occupation since its inception.

b. In a letter of 24 January 1949 to the Secretary of State, the Secretary of the Army stated that the unfortunate recent reduction of the British Commonwealth Occupation Force to token size makes a substantial reduction in the total number of troops in Japan, and is thus regarded as contributing importantly towards the above policy. However, in reply dated 21 February the Secretary of State stated that to the extent that the BCOF reduction may have minimized the number of housekeeping troops, it is regarded as in line with this NSC policy; but to the extent that this reduction serves to weaken the defense of Japan by removing troops which have been maintained on a combat footing, it is an unfortunate development which the State Department does not regard as consonant with NSC 13/2.

c. In any major relocation of occupation forces not only must consideration be given to the ability of such forces to continue to perform their mission, but new construction of operational and administrative facilities and of troop and family housing would normally be required which would impose additional occupation costs on the Japanese government in conflict with paragraph 14 of NSC 13/3. Further, if the occupation forces were concentrated at various remote locations, they would remain largely "unseen" by the Japanese population and the stabilizing influence of the occupation forces would be vitiated.

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TAB "C"

4. POST-TREATY ARRANGEMENTS. Calls for retaining in Japan U.S. tactical forces until the entrance into effect of a peace treaty. "A final U.S. position concerning the post-treaty arrangements for Japanese military security should not be formulated until the peace negotiations are upon us."

a. On 11 March 1949 the Secretary of Defense forwarded to the Executive Secretary, NSC, a memorandum of comment by the Joint Chiefs of Staff on limited military armament for Japan (JCS 1380/55), with the request that the subject be examined by the NSC Staff with a view to preparing possible amendments to NSC 13/3 for NSC consideration. The memorandum by the Secretary of Defense is currently being considered by the NSC as a matter separate from NSC 13/3.

b. In JCS 1380/65, approved as amended on 9 June 1949, a current strategic evaluation of U.S. security needs in Japan prepared at the initial request of the Department of State, the Joint Chiefs of Staff reaffirmed their recommendation contained in JCS 1380/55.

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5. RYUKYU, NANPO AND MARCUS ISLANDS. This paragraph, originally approved 5 November 1948, and later amended 1 February, calls for the retention on a long-term basis of the facilities at Okinawa and such other facilities as are deemed by the JCS to be necessary in the Ryukyu Islands south of 29° N., Marcus Island and Nanpo Shoto (Bonins) south of Sofu Gan. The military bases at or near Okinawa should be developed accordingly. The U.S. agencies responsible for administering these islands should formulate and carry out a program on a long-term basis for the economic and social well-being and, to the extent practicable, for the eventual reduction to a minimum of the deficit in the economy of the natives. The U.S. forces and agencies stationed in the Ryukyus should pay their way to the extent necessary and practical.

a. In JCS 1380/56, the Chief of Staff, U.S. Army, has recommended to the JCS that they take cognizance of this policy in determining the long-range Army, Navy, and Air Force deployments (JCS 521 series) and the character of the military installations and facilities (JCS 1914 series) in these islands. The JCS currently has this matter under consideration.

b. Permanent construction on Okinawa is being designed on a long-range master plan for base development, and all new permanent construction is being built to withstand typhoons and is designed for low-cost maintenance. As construction in the Ryukyus is $2\frac{1}{2}$ to 3 times as expensive as in the United States, every effort is being made to eliminate refinements in order to obtain maximum construction from the funds appropriated. Construction completed or currently under way at Sukiran Regimental Post, Port of Naha, Kadena Air Force Base, and Naha Air Force Base totals 24 troops barracks, 122 family quarters, a refrigerated warehouse, a permanent POL system, and necessary permanent utilities and roads. Enabling legislation has been forwarded for consideration by Congress at its present session to provide for additional construction in the Ryukyus in the amount of approximately \$18.0 million.

c. On 1 April 1949, the U.S. Armed Forces and other Government agencies commenced paying their way in the Ryukyus insofar as it was practicable and feasible. Implementation will be continued on a routine basis in FY 1950. This program requires that indigenous services, supplies and facilities provided to U.S. government agencies be paid for with yen purchased with dollars,

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the latter being used for the benefit of the Ryukyuan economy.

d. The Department of the Army has under preparation a short-range program for the economic development of the Ryukyus for FY 1950, which will be completed in the near future. In addition, a longer-range program for economic development through FY 1953 will be prepared by CINCPAC, and at present a considerable amount of economic data is being compiled and evaluated for this long-range study. Administration of these islands is being programmed to permit a constantly increasing measure of self-government with a view to eventual centralized local government for the Ryukyus.

e. Navy implementation with respect to the Nanpo and Marcus Islands is in consonance with the NSC 13/3 policy. Marcus Island has no native population but the Navy Department accords the 150 natives on Chichi Jima, Nanpo Islands, the same treatment accorded the natives of the Trust Territory of the Pacific Islands, the former Japanese-mandated islands now under U.S. strategic trusteeship.

f. The matter of obtaining international sanction for U.S. long-term strategic control of the Ryukyu, Nanpo and Marcus Islands is a responsibility of the Department of State.

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TAB "E"

6. NAVAL BASES. "The United States Navy should shape its policy in the development of the Yokosuka base in such a way as to favor the retention on a commercial basis in the post-treaty period of as many as possible of the facilities it now enjoys there. Meanwhile, it should proceed to develop the possibilities of Okinawa as a naval base, on the assumption that we will remain in control there on a long-term basis. This policy does not preclude the retention of a naval base as such at Yokosuka if, at the time, of finalizing the U.S. position concerning the post-treaty arrangements for Japanese military security, the prevailing international situation makes such action desirable and if it is consistent with U.S. political objectives."

a. (1) With reference to developing Yokosuka to favor its retention on a commercial basis, the local U.S. naval commander, under the direction of Commander Naval Forces, Far East, has renovated and rehabilitated items of machinery usable in a commercial shipyard; he has sponsored the retention, where practicable, of commercial items earmarked for reparations; and has removed wartime security aspects, such as high walls and fences, impeding full use of the area for commercial uses.

(2) The unsuitability of Okinawa as a naval base, further discussed in subparagraph (b) below, plus recent events in China support strongly the conclusion that the facilities at Yokosuka should continue to be retained as a naval base.

b. In evolving the possibilities of Okinawa as a naval base, it has become evident that the area does not offer a suitable location. While confirming the strategic value of Okinawa as an air operating base, a mounting base, and during the good weather season a base for floating fleet support facilities, the Navy Department must point out that, because of the unfavorable meteorological and hydrographic features of Okinawa, it does not offer suitable possibilities as an all-weather, year-around naval operating base to meet the needs of the United States Fleet in the Japanese area, and consequently a program to install extensive permanent fleet supporting facilities on shore there could not be justified. The establishment known as the Naval Operating Base, Okinawa, has been inactivated, the only activity at present being the occasional use of the fleet anchorage by self-supporting fleet units.

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7. THE JAPANESE POLICE ESTABLISHMENT. "The Japanese Police Establishment, including the coastal patrol, should be strengthened by the re-enforcing and re-equipping of the present forces, and by expanding the present centrally directed police organization."

a. General MacArthur reported, in October 1948, that the Japanese police were armed with approximately 26,000 side arms only, of which not more than 12,000 were considered serviceable. He recommended that 125,000 revolvers, with ammunition, holsters, spare parts and accessories be provided as a reserve for the Far East Command to be available for issue on a loan basis to the Japanese police forces as the situation should demand. Twenty-thousand caliber .38 revolvers were shipped in January 1949, with suitable quantities of ammunition. In addition, 14,790 revolvers, calibers .38 and .45 have recently been shipped from ZI depots to the San Francisco Port of Embarkation (6,000 of these have been on-shipped). 43,410 revolvers will be shipped (upon necessary rehabilitation) to the port during the period May - August, 1949 and 29,310, under repair by commercial facilities, will be shipped at the rate of approximately 5,000 monthly during the last six months of 1949.

b. The above shipments will total slightly in excess of 107,000 revolvers. General MacArthur has been queried as to the progress of rehabilitation of indigenous weapons, and requested for his recommendation as to the minimum number of new revolvers which must be procured in the ZI to complete his requirement for 125,000 revolvers.

c. On 22 November, a message setting forth certain broad principles considered basic to Japanese internal security was dispatched to General MacArthur. These principles were:

- (1) Creation of an adequate mobile national police reserve;
- (2) Establishment of a separate national agency for internal security similar to the FBI; and
- (3) Provision for standardizing police enforcement of National laws.

d. General MacArthur recently informed the Department of the Army that the Japanese police force is at full authorized strength of 125,000 men and that such force is under intensive training; and organization with consequent progressive improvement noted.

e. This police force should be able to maintain domestic law and order, except it would be unable successfully to resist large-scale foreign inspired disorder.

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TAB "G"

8. SUPREME COMMANDER FOR THE ALLIED POWERS
and
11. RELATIONS WITH THE JAPANESE GOVERNMENT. Provide that the U. S. Government should not at this time propose or consent to any major change in the regime of control, but that responsibility should be placed to a steadily increasing degree in the hands of the Japanese Government. Toward this end, it is indicated that the scope of SCAP's operations should be reduced as rapidly as possible with a corresponding reduction in personnel.

a. As of 4 December 1948, SCAP reported that the degree to which the agencies of the Japanese Government had proceeded in the exercise of independent judgment approximated that of an independent democratic state.

b. On 10 December 1948, however, the NSC concurred in a directive to General MacArthur which required him to direct the Japanese Government immediately "to carry out a program of economic stabilization by adopting whatever measures may be required rapidly to achieve fiscal, monetary price and wage stability in Japan and to maximize production for export." In order that no inconsistency might appear to exist between paragraph 8 of NSC 13 and the above stabilization directive, which was issued in consonance with paragraph 15 of NSC 13, SCAP was advised on 10 December 1948 that the issuance of the stabilization directive disposed "of any possible inconsistency between paragraph 8 and paragraph 15 of NSC 13 and determines that national policy requires that the Japanese Government be directed to adopt and carry out an economic stabilization program" and furthermore that "implementation of the stabilization program will require the issuance of specific directives to the Japanese Government and continuing close surveillance to assure prompt and vigorous implementation."

c. As soon as it is possible to estimate the revised personnel requirements engendered by SCAP's new responsibilities with respect to economic recovery, further studies will be initiated into the reduction of SCAP personnel. During FY 50, it is estimated that the total number of U.S. personnel engaged in CA/MG activities in Japan will be reduced from 6025 as of 31 December 1948 to an estimated 5200 as of 30 June 1950, and the number of civilian personnel engaged in such activities from approximately 3600 in the fall of 1948 to 3300 on 31 December 49, and 3200 on 30 June 1950.

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12. INTERNAL POLITICAL AND ECONOMIC CHANGES. "Henceforth emphasis should be given to Japanese assimilation of the reform programs. To this end, while SCAP should not stand in the way of reform measures initiated by the Japanese if he finds them consistent with the over-all objectives of the occupation, he should be advised not to press upon the Japanese Government any further reform legislation. As for reform measures already taken or in process of preparation by the Japanese authorities, SCAP should be advised to relax pressure steadily but unobtrusively on the Japanese Government in connection with these reforms and should intervene only if the Japanese authorities revoke or compromise the fundamentals of the reforms as they proceed in their own way with the process of implementation and adjustment. If exigencies of the situation permit, SCAP should consult with the U.S. Government before intervention in the event the Japanese should resort to action of such serious import. Definite background guidance embodying the above principles and indicating the United States Government's view as to the nature and extent of the adjustment to be permitted should be provided SCAP in the case of certain reforms."

a. Paragraph 12, of NSC 13/3 must be considered in the light of Paragraph 15 which states "Second only to U.S. security interests, economic recovery should be made the primary objective of United States policy in Japan for the coming period...." It is clear from the wording of these two paragraphs that in the event of a conflict of policies that those policies designed to effect economic recovery will prevail over all others which do not involve U.S. security interests.

b. Accordingly, although SCAP is endeavoring to carry out the letter and spirit of the policy guidance contained in Paragraph 12, nevertheless he has had to exert strong pressure on the Japanese government to implement the Economic Stabilization Directive of 10 December 1948. Possibly the most notable of these requirements were in connection with taxation and budgetary reform. To achieve the stabilization of the Japanese economy SCAP cannot safely relax pressure on the Japanese government to enact and enforce austere and unpalatable laws. So far the Japanese government appears to be cooperating in a satisfactory manner.

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c. In relaxation of restrictions, SCAP estimates that the Deconcentration Review Board will conclude considerations of and decisions on all remaining cases of excessive concentrations of economic power by mid-June. Submission of the final report and formal termination of the Board is planned as of 30 June. It is planned to retain two members of the Board for 90 days after formal termination for the purpose of advising SCAP on matters pertinent to the deconcentration program which may arise, and to close out administrative details.

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13. THE PURGE. Requires the U.S. Government to "advise SCAP to inform the Japanese Government informally that no further extension of the purge is contemplated and that the purge should be modified" along certain lines.

a. General MacArthur has indicated his belief that it would not be possible to obtain such modification by "informal" action, since the Japanese Government, having acted pursuant to SCAP directives, could not assume the responsibility for reversing such an action without further SCAP directive.

b. General MacArthur has further indicated belief that any "formal" action to change existing directives and ordinances with respect to the purge would require FEC approval, in view of the fact that FEC policies on the purge were developed in broad outline in the light of actions previously consummated in Japan. He points out, for example, that the 1948 FEC policy decision on "principles for Japanese farmer's organizations" expressly confirms the provisions of the SCAP purge directive of 4 January 1946 as criteria for the screening of farmer's cooperatives in Japan, and concludes that under such circumstances he "would not feel empowered to alter the provision of my directive of January 4, 1946 unless expressly authorized by the Far Eastern Commission to do so."

c. In order that all U.S. directives with respect to the purge might be brought into consonance with NSC 13/2, the Joint Chiefs of Staff have rescinded those paragraphs of the Basic Initial Post-Surrender Directive for the occupation and control of Japan which treat of the purge. This rescission provides:

d. "Paragraphs 5 B, 23 and 40 of the United States Basic Initial Post-Surrender Directive, Serial Number 18, of November 8, 1945, having to do with a purge program for Japan, are rescinded. The parts of the Far Eastern Commission basic post-surrender policy for Japan (Directive Serial Number 82) which have to do with a purge program, and other pertinent Far Eastern Commission policy decisions, remain the sole directive to SCAP in force in connection with the purge.

e. "The intent of the above action with respect to the purge includes

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provision of latitude and permits action in the area not covered by Far Eastern Commission directives for reviewing the cases of certain individuals purged by category in addition to those already reviewed. Appropriate cases can now be reviewed on the basis of their having held relatively harmless positions, on the basis of their personal actions or of the youth of the individuals concerned."

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14. OCCUPATION COSTS. "The occupational costs borne by the Japanese Government should continue to be reduced to the maximum extent consonant with the policy objectives of the pre-treaty period as envisaged in this paper."

a. General MacArthur is making every effort to hold such costs to a minimum. He has pointed out that capital assets (such as family housing) which have been created for Japan by the occupation (as an initial expense) will eventually accrue to the Japanese economy. Exports to Korea and the Ryukyus, at one time a non-reimbursed drain on the Japanese economy, have been placed on a reimbursable basis.

b. In June 1948, General MacArthur was directed to insure that personal servants of, and indigenous persons providing services to U.S. quasi-official activities and U.S. "authorized" personnel in Japan, be paid for by the U.S. activity or individual utilizing same. The SCAP detailed directive on this subject became effective 1 August 1948. The Commanding General, British Commonwealth Occupation Forces (BCOF), stated that he would not accept this directive and that it would be necessary for the matter to be referred to the Australian Government. The situation presented by the BCOF position has been reflected by a feeling among U.S. personnel of unfair discrimination, and further, the situation became aggravated through heads of Allied Missions in Japan taking action to avoid payments owing principally to the fact that the British were not required to pay. Based upon an informal request of 21 September 1948, and an initial letter from the Secretary of the Army of 28 January 1949, the State Department is continuing attempts to resolve with the Australian Government the question of payment by the BCOF for services provided by Japanese personnel. In addition, General MacArthur has recommended that all Allied Missions be placed on a completely self-supporting basis, and this matter is currently under consideration by State and Army Departments.

c. Attached as Inclosure No. 1 is data on occupation fund requirements on Japan, made available by the Chief, Financial Policy Unit, Finance Division, Economic and Scientific Section of the Far East Command, recently on temporary duty in Washington. It will be noted that the figures in this schedule are stated in Yen, and cover costs of supporting the occupation forces of all Allied Governments.

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d. Similar costs borne by the U.S. Government should also be considered, and a compilation of these costs as of 1 June 1949, in accordance with Special Regulation SR-890-1, "Occupation Costs Accounting Procedure for Occupied Areas", dated 4 January 1947, is attached herewith as Inclosure No. 2. The cost to the United States and to Japan for support of occupation forces is steadily being reduced, while the costs to the United States for the support of the indigenous economy (GARLOA and EROA) have steadily increased. From VJ Day to 30 June 1946, U. S. grants for support of the Japanese economy approximated \$107,800,000; for FY 47 \$307,562,830; for FY 48 \$373,554,858; and for FY 49 \$510,899,416. Overall costs to the United States for support of the Occupation, including support of occupying forces and of the indigenous economy totaled \$1,145,751,327 from VJ Day to 30 June 1946; for FY 47 \$1,012,533,535; for FY 48 \$1,025,120,988; and for FY 49 to 31 December 1948 \$682,982,950.

2 Incls

1. Occupation Fund Requirements on Japan
2. U.S. Occupation Costs in Japan

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ALLIED OCCUPATION FORCES FUND REQUIREMENTS ON JAPANESE NATIONAL BUDGET FOR
JAPANESE FISCAL YEARS 1946, 47, 48, 49

| | <u>JFY 1946</u> | <u>JFY 1947</u> | <u>JFY 1948</u> | <u>JFY 1949*</u> |
|---|-----------------|-----------------|-----------------|------------------|
| Allied Forces Fund Rqmts (in thousands of yen) | ¥39,600,000 | ¥64,121,000 | ¥107,062,395 | ¥125,230,000 |
| Dollar Value (in thousands of dollars) | \$2,640,000 | \$1,282,000 | \$832,708 | \$357,524 |

COMMENT:

1. The above figures include amounts covering obligations which cannot be technically considered occupation costs. The size of these amounts are unknown in Washington but it is understood from a SCAP representative they are not so significant compared to the total figure as to seriously distort the overall picture.

2. While the figures for the Occupation Force fund requirements have been increased each fiscal year, this increase is not the result of increase in occupation force demands upon the Japanese economy. In a large part they represent the inflation in wages and prices occurring in the Japanese economy. Insofar as the fiscal year 1949 is concerned, this factor of inflation serves to make the total figure greater than the total figure for the fiscal year 1948 even though actual requirements of the occupation for the former fiscal year have been reduced over the latter. For example, the original 1948 fiscal year appropriation was based on an official price level of approximately 65 times the base period 1934-1936 and the wage level averaged approximately 2920 yen per month. Later in the fiscal year the official price level rose to approximately 120 times the base period and the wage level rose to 3791 yen. Even later in the fiscal year, the government wage level went to 6300 yen. As a result it was necessary to introduce supplemental appropriations to cover the increased costs of the same requirements for the support of the occupation. In preparing the budget for the 1949 fiscal year, the price level of 120 times the base period and the wage level of 6300 yen was used for the entire fiscal year. The same requirements as were placed upon the Japanese economy during the 1948 fiscal year would therefore have cost some 30% to 40% more during the 1949 fiscal year. The appropriation for 1949 therefore reflects an actual reduction in the occupation costs requirements over the previous year.

3. Dollar figures reflected under the respective fiscal years are based upon military rates of exchange in effect during the various periods. However, this should not be considered in any way indicative of the real dollar value of the goods since actually there was no official international rate of exchange between the yen and the dollar.

*Note - Japanese Fiscal Year 1949 runs from 1 April 1949 through 31 March 1950.

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15. ECONOMIC RECOVERY. Provides that second only to U.S. security interests economic recovery shall be made the primary objective of U.S. policy in Japan for the coming period. Specific recommendations looking forward to this included: the combatting of inflationary trends in Japan, including the achievement of a balanced Japanese budget; the institution of internal austerity measures; continuance, on a declining scale, of a U.S. aid program; efforts by U.S. agencies to cut away existing obstacles to Japanese foreign trade, with provision for Japanese merchant shipping; and the encouragement of private enterprise.

a. As a principal step toward encouraging economic recovery in Japan, the National Security Council, on 10 December 1948, concurred in an interim directive to General MacArthur, requiring him "to direct the Japanese Government immediately to carry out a program of economic stabilization by adopting whatever measures may be required rapidly to achieve fiscal, monetary, price and wage stabilization in Japan and to maximize production for export." Nine specific measures were recommended for the achievement of these goals; plans were to be developed to meet a target date for the establishment of a single general exchange rate not later than three months after the initiation of the stabilization program by the Japanese Government. To assist General MacArthur in the implementation of the above program, Mr. Joseph M. Dodge was asked by the President to accept appointment as Financial Adviser to the Supreme Commander for the Allied Powers. Mr. Dodge accepted and served in Japan from February 1 until May 2. Mr. Dodge was assisted by a staff of five, including representatives of the State, Treasury and Army Departments.

b. Steps taken recently to combat inflationary trends in Japan and institute internal austerity include:

- (1) Passage by the Japanese Diet of a balanced, consolidated budget for FY 1950;
- (2) Elimination of export subsidies and reduction of domestic subsidies;
- (3) Creation of a counterpart fund to assure most effective use of U.S. aid;
- (4) Tightening of credit policies, including drastic reduction of the activities of the Reconstruction Finance Bank;

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- (5) Reopening of the stock exchange;
- (6) Tightening of the raw materials allocation system and development of a program for centering production in the most efficient industries;
- (7) Creation of a fixed exchange rate.

c. In order to assist in the strengthening of the tax system in Japan, a mission, headed by Dr. Carl Shoup of Columbia University, has recently arrived in Tokyo and will spend approximately three months in Japan. It is anticipated that the recommendations of this mission will assist materially in revision of the Japanese tax legislation.

d. Two principal U.S. aid programs are presently in effect in Japan:

- (1) Under Public Law 820, an aggregate not to exceed \$150,000,000 will be used as a revolving fund by Japan for the purchase of U.S.-produced natural fibers. A procurement program involving the purchase of 165,000 bales of cotton and an expenditure of \$30,000,000 has been approved. As of 31 May 1949 cotton purchases under this program have obligated \$22,240,876.
- (2) Under Public Law 793, the 80th Congress appropriated funds for the procurement of "such minimum supplies for the civilian populations of such (occupied) areas as may be essential to prevent starvation, disease, or unrest, prejudicial to the objectives sought to be accomplished" and for "expenditures for the purposes of economic rehabilitation in Japan." Under the latter specification, \$107,000,000 from the 1949 fiscal year appropriation is being used to finance the procurement and transportation of items for importation into Japan. Emphasis in this procurement has been given to raw and semi-finished materials usable in enlarging Japan's production for export, e.g. textile fibers, metals and metallic ores, coal, industrial fats, oils and waxes. As a consequence of the increased availability of imported materials for manufacture, Japan's exports in recent months have been reaching new post-war high levels in a number of fields. (Japanese exports for FY 1949 are estimated to

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reach a value of \$400,000,000 compared to \$166,000,000 for FY 1948.) For FY 50 Congress has been requested to appropriate \$116,000,000 for EROA funds to stimulate Japanese economic recovery.

e. In connection with the encouragement of Japan's external trade, State Department is endeavoring to secure "most-favored-nation treatment" for Japan on the part of the respective nations with whom Japan might trade, particularly the United Kingdom and other British Commonwealth countries. Developments so far during the current General Agreement on Tariffs and Trade (GATT) meeting at Annecy, France, have been very disappointing in this connection.

f. Removal of existing obstacles to increased utilization of Japanese merchant shipping remains a serious problem.

- (1) SCAP has returned practically all of the existing Japanese merchant marine to operation by private enterprisers. In some foreign ports, e.g. Ras Tanura on the Persian Gulf, Philippine ports, and Hong Kong, Japanese merchant ships may now call without being accompanied by any occupation force personnel.
- (2) With respect to establishing precedents which would encourage other nations with whom the Japanese may trade to open their ports to Japanese merchant ships for the purpose of discharging and taking on passengers and cargoes, the U.S. Government has not yet advised SCAP to authorize the Japanese to make a precedent-setting run to a U.S. port. Should the precedent be established with respect to U.S. ports, SCAP and the U.S. Government then would probably be in a better position to argue for comparable treatment to be extended by other nations to the Japanese merchant marine.
- (3) Ship construction activity in Japan has been increasing during the past year for both non-Japanese and Japanese account. However, no construction for Japanese account of merchant ships exceeding 6,000 gross tons has yet been authorized. The U.S. Government has indicated its belief that limitations on Japan's production for peaceful purposes are unnecessary. However, as yet no action has been taken in the Far Eastern Commission to withdraw previous

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proposals of the United States Government which reflect outdated policies and which infer limitations on the size of ships which the Japanese may own and operate for their own account.

- (4) Economies during the fiscal year 1950 and following years could be realized with respect to the cost of transporting goods into Japan if arrangements immediately could be made whereby shipping under the control of the United States Government and now idle could be made available by lease or comparable arrangement for operation by the Japanese for Japanese account until such time as Japan has reconstructed her own merchant fleet. Such an arrangement apparently is currently contrary to outstanding U.S. legislation. Efforts are required looking forward to legislation which would nullify the outstanding restrictive stipulations and which would permit this unused United States-owned shipping to be made available to the Japanese.

The Department of the Army has proposed to the Department of State that the above matters be explored and policy decisions reached thereon without further delay.

g. In Japan, under the guidance of SCAP, a concerted and continuing effort has been made with a considerable degree of success to break up government dominated control associations and other excessive concentrations of economic power which have been government dominated or by their nature have been of a character susceptible of being dominated by the government.

h. Efforts also have been made and are continuing to permit fuller commercial intercourse between Japan's private enterprises and those of other countries. In this connection, a continued effort is being made to

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simplify procedures and regulations pertinent to Japanese external trade, including trading by private parties.

i. Two additional proposals for strengthening Japan's financial position have also been under consideration during the past few months.

(1) A plan to transfer the so-called Japanese "Gold Pot" to the United States, in order to increase Japanese borrowing capacity, and

(2) A plan to terminate indigenous yen funding and logistic support for Allied Missions in Japan.

j. The Department of State has indicated that the matter of political expediency should be given careful consideration if it appears otherwise desirable to transfer the "Gold Pot". Proposal i(2) above is presently under discussion by the State and Army Departments.

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16. PROPERTY MATTERS. Provides that SCAP should be advised to expedite the restoration or final disposal of property of United Nations members and their nationals in such a way that the process will be substantially completed by 1 July 1949, and that the objectives of United States policy shall be to have all property matters settled as soon as possible and certainly well in advance of a treaty of peace.

a. SCAP-IN 1880, dated 22 April 48, authorized the Japanese government to return tangible property in an "as is" condition to the previous United Nations owners of such property or their agents. However, relatively few United Nations nationals have taken advantage of the offer, for much of the property is in poor condition and currently there are no provisions for compensation by Japan in lieu of return of property.

b. There are now under informal consideration between the State and Army Departments proposals which would set up a claims tribunal to adjudicate those claims which have not yet been settled between the Japanese Government and U.N. nationals. The proposals provide in cases where compensation is to be made that such compensation be deferred until Japan's economy is self-supporting or a peace treaty has been concluded with Japan. Exceptions would be made in cases in which, in the judgment of SCAP, it would be advantageous to the economy of Japan to pay immediate compensation to enterprisers who would use the funds effectively toward developing Japan's ability to be self-supporting.

c. SCAP is continuing the liquidation of unidentified looted property found in Japan and it is believed that most of this property will be liquidated by 1 October 1949. In this connection, it should be noted that the time limit set by the Far Eastern Commission for the submission of claims for the restitution of looted property expired on 4 April 1949.

d. In respect to the liquidation of German property in Japan, SCAP has recently concurred in a proposed State-Army paper regarding such liquidation. It is planned, upon concurrence of the U.K. and French Governments, to issue SCAP a directive which will enable him to liquidate the remainder of this property. (SCAP has already liquidated certain items that were deteriorating from storage, etc.)

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TAB "M"

17a. INFORMATION AND EDUCATION - CENSORSHIP. "Censorship of literary materials entering Japan should be conducted with the minimum of delay and pre-censorship of the Japanese press should cease. This should not operate, however, to prevent SCAP from exercising a broad post-censorship supervision and from engaging in counter-intelligence spot-checking of the mails."

a. On 15 July 1948, the Civil Censorship Division, GHQ, SCAP, advised the Japanese press that, since the requirements of censorship were fully understood, pre-censorship would be discontinued and the burden of complying with the press code of 1945 would be placed on the press. Publishers were at that time and still are held accountable for the contents of all publications.

b. Civil censorship of the mail is limited to spot-checking of international mail.

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17b. INFORMATION AND EDUCATION - RADIO. "The United States Government should immediately undertake a regular program of medium- and long-wave broadcasts to Japan from a suitably located transmitter station possibly on Okinawa."

a. Although VOA broadcasts are a State Department responsibility, a survey of sites has been accomplished by the Commander-in-Chief, Far East Command. An interim report, covering Okinawa only, was forwarded to the Department of State on 18 February 1949. The information obtained from the survey of other sites, together with certain recommendations, was forwarded on 7 April 1949. The Secretary of the Army concurred in the findings of the Commander-in-Chief, Far East Command, regarding the desirability of Saipan as the location for the subject station.

b. In the 7 April report to the Secretary of State, the Secretary of the Army indicated particular concern at the possibility of interference with communications and monitoring reception which would result from location of such a broadcast station at Okinawa. This, and the problems of logistic support and security, will involve the military to an extent at any location selected. Consequently, the Secretary of the Army requested that the final determination of site and frequency for this station be coordinated with the Department of the Army.

c. It is noted that the survey reports referred to have also considered the possibility of radio interference with the Central Intelligence Agency Monitoring Station to be located on Okinawa. The Central Intelligence Agency (CIBIS) has been kept informed, informally, of the actions taken by the Department of the Army.

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TAB "O"

17c. INFORMATION AND EDUCATION - INTERCHANGE OF PERSONS. "The interchange between Japan and the United States of scholars, teachers, lecturers, scientists and technicians should be strongly encouraged. SCAP should continue the policy of permitting approved Japanese to go abroad for cultural as well as economic purposes."

a. Between June 1948 and April 1949, 71 Japanese students sponsored by private individuals or organizations in America entered U.S. schools, and 50 more were awaiting clearance from the Department of State for entry to the United States. Temporary visitors attending conferences on religious, educational, or cultural subjects in the United States totaled 21 during that time. For the Fiscal Year 1950, Department of the Army is seeking \$450,000 from the Congress to implement a government sponsored and financed program to bring to the United States between 150 and 300 Japanese students and national leaders. The total number of Japanese who will come depends largely upon the generosity of American schools and private sponsors in offering full or partial scholarships for Japanese students transported at government expense.

b. Since June 1948, 62 Japanese educators, technicians, scientists, missionaries and labor leaders have attended 33 international conferences in Ceylon, England, France, India, Italy, Mexico, The Netherlands, Siam, Sweden and Switzerland. These conferences included those of the United Nations Food and Agricultural Association, The World Health Organization, International Labor Organization, International Red Cross, Salvation Army, Moral Rearmament Association, World Council of Churches, YWCA, YMCA, and denominational missionary assemblies.

c. Fourteen Japanese have gone to Switzerland, Italy, Canada, France and Spain to pursue liberal arts or theological studies.

d. Twenty-one Japanese technicians and trade experts have accompanied SCAP delegations to Central and South America, Egypt, India, Pakistan, and Siam to arrange trade agreements.

e. With respect to the admission of non-Occupation Allied personnel into Japan, SCAP has been requested by cable to complete arrangements for entry of scholars into Japan. As of 31 March approximately 1,800 foreign missionaries were in Japan. This compares with 754 in December 1941. The number of foreign tourists who visited during the first four months of 1949 was 1,183.

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TAB "O"

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TAB "F"

18. WAR CRIME TRIALS. "The trial of Class "A" suspects is completed and decision of the court is awaited. We should continue and push to an early conclusion the screening of all "B" and "C" suspects with a view to releasing those whose cases we do not intend to prosecute. Trials of the others should be instituted and concluded at the earliest possible date."

a. On 24 February 1949, the FEC approved a policy to the effect that no further trials of Class "A" suspects should be initiated.

b. On 31 March 1949, the FEC formally recommended to its member governments that if possible all trials of Class "B" and "C" suspects be completed by 30 September 1949.

c. All Class "A" suspect cases have now been completed and the International Prosecution Section was officially disbanded 11 February 1949.

d. With respect to Class "B" and "C" suspects, SCAP stated that there would be no further trials in Japan after 31 October 1948 without first advising the Department of the Army and securing concurrence. As of 1 April 1949, two such cases were on trial and one was pending. It is unlikely that there will be additional trials.

e. No sentence has been adjudged which ordered confiscation and sale of any property of a convicted war criminal. Over 1,000 properties of war criminals and suspects have been returned subsequent to judgment of the tribunals or release of suspects from custody. Several hundred properties are still held by SCAP; for the most part these belong to suspects who had been turned over to Allied nations for trial.

TAB "F"

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TAB "Q"

19. CONTROL OF JAPANESE ECONOMIC WAR POTENTIAL. This policy directs that: (a) Japanese economic war potential should be controlled by restrictions on allowable stockpiling of designated strategic raw materials; and (b) Japanese industrial disarmament should be limited to the prohibition of the manufacture of weapons of war and civil aircraft, and to the minimum of temporary restrictions on industrial production which can be advocated in the light of commitments previously made by the United States.

a. No directives have been issued by SCAP which specifically place restrictions on allowable stockpiling of designated strategic raw materials in Japan.

b. The early directives issued by SCAP required inventories of raw materials, including precious metals. From time to time directives have been issued permitting the use of certain stocks for industrial purposes. Other materials which are considered excess to the needs of Japanese industry have been offered for sale with the approval of the Department of the Army. Strategic materials, viz, ferrous tungsten, copper cathodes, beryl ore, military stocks of tetra ethyl lead fluid for aviation-type gasoline have been first offered to the Munitions Board, Atomic Energy Commission, and the Bureau of Federal Supply before these items have been made available for open market transactions.

c. With the emphasis which has been placed upon Japan's industrial disarmament, there has been little necessity for implementing paragraph 19a by specific directive. Funds derived from exports are insufficient to procure all the raw materials needed for peacetime needs. The opportunity to stockpile strategic raw materials does not exist.

d. The manufacture of weapons of war and civil aircraft has been prohibited in Japan since the beginning of the occupation. Except for the potential limitations imposed until 1 October 1949 by JCS Directive No. 87 respecting reduction of the Japanese industrial war potential, currently there are no formal restrictions on industrial production in Japan for purposes of disarmament which limit production for peaceful purposes.

e. On 12 May 1949, it was announced publicly and in the Far Eastern Commission to be the view of the United States Government that, with respect to preventing the re-emergence of Japan's capacity to make war, it is unnecessary

TAB "Q"

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to require "that Japan's production for peaceful purposes be limited or that limitations be imposed on levels of Japanese productive capacity in industries devoted to peaceful purposes."

f. There are restrictions on industrial production in Japan because of deficiencies in materials and supplies obtainable for processing and utilization. Specific formal restrictions are in effect in connection with allocating and rationing scarce materials and supplies, including selectivity in approvals of proposed manufacturing projects, e.g., the construction of merchant vessels. SCAP has felt it unwise to approve construction of merchant vessels for Japanese account larger than 6,000 gross tons because of certain U.S. proposals made in the Far Eastern Commission in 1947 that vessels exceeding that size be made available for reparations removals. This U.S. proposal was based on then current opinion respecting limiting the war potential of the Japanese merchant marine. As yet this proposal and other U.S. reparations proposals made some time ago have not been specifically withdrawn by the U.S. Government. As a part of the 12 May 1949 statement on reparations quoted above, the U. S. Government, through its FEC representative, announced that "it plans shortly to submit to the FEC for its consideration proposals for the rescission or amendment of existing and pending FEC reparations and level of industry policy papers so as to bring FEC policies on these matters . . . into conformity with the position which I have set forth." Specific actions by the Department of State in connection with previous proposals made to the Far Eastern Commission are needed to facilitate SCAP's removal of existing restrictions on Japanese production for peaceful purposes which have been imposed as a means of limiting Japan's economic war potential.

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TAB "R"

20. JAPANESE REPARATIONS. Provides that it should be the policy of the U.S. Government that current transfers of reparations under unilateral U.S. directive should be terminated and every effort should be made to secure acceptance by other reparations claimant countries of the principle that the reparations question as a whole should be reduced to the status of a dead letter.

a. On 12 May 1949, the U.S. announced in the FEC its intention:

(a) Of rescinding its interim reparations transfer directive; and

(b) Of taking no further unilateral action to make possible additional reparations removals from Japan.

b. In conformity with the above announcement, the U.S. rescinded the above "transfer directive" and withdrew from the FEC a proposal of 6 November 47 on reparations shares. As of 30 April 1949, in accordance with the "transfer directive", Japan had delivered to claimant countries reparations valued at approximately \$23,875,000. Of this amount China received \$13,526,000; the Netherlands received \$3,014,000; the Philippines received \$4,855,000; and the United Kingdom received \$2,480,000.

c. On 25 May 49, SCAP reported that in compliance with the above decision, he had terminated the existing advance transfer program with the exception of certain items already processed to a degree where revocation would be uneconomical. SCAP added, however, that, in view of the deteriorating military situation in China, he was suspending all shipment of reparations to China pending recommendations from Washington. SCAP was notified on 31 May 1949 that the Departments of State and Army agreed that no further shipment should be made to the mainland of China but recommended that inquiries be made of the Chinese Mission in Japan as to whether the facilities are desired in Formosa. General MacArthur has now reported that the Chinese Government has requested shipment of the items to Formosa.

d. The United States also announced to the FEC on 12 May 1949 that it planned to submit to the FEC proposals for the rescission and amendment of existing and pending FEC reparations and "levels-of-industry" policy papers to conform with U.S. policy that there should be no further industrial reparations removals from Japan and no limitation on levels of Japanese peaceful productive capacity.

TAB "R"

TOP SECRET

Enclosure to Despatch No. 476 dated July 22, 1949, from USPOIAD, Tokyo, subject:
"Use of Occupation Troops in Civil Disorders".

Restricted

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
AND
FAR EAST COMMAND

AG 370.2 (15 Jun 49)GC-0

APO 500
16 July 1949

STAFF MEMORANDUM)

NO.....29)

(SCAP & FEC)

USE OF TROOPS IN CIVIL DISORDERS

1. Reference. Paragraphs 2a, 3a(6), 3x(7), 3x(9), Occupation Instructions 5, GHQ, SCAP, 1 January 1948, as amended by changes 6, 10 June 1949 and paragraph 3x(1) as amended by changes 7, 11 July 1949.

2. Purpose. This staff memorandum sets forth, for the information and guidance of all concerned, policies pertaining to the use of troops in connection with civil disorders.

3. Civil disorders and disturbances are of two general types:

a. Disturbances, riots, or other disorders directed at the occupation forces or at occupation installations.

b. Disturbances, riots, or other disorders between elements of the civil population, or disturbances, riots, or other disorders directed at the Japanese government.

4. Troops will intervene in civil disorders only:

a. If the disorder is directed at the occupation forces or occupation installation, or,

b. If the Supreme Commander directs intervention.

5. a. The occupation forces, when confronted or threatened by violence against themselves, or occupation personnel, act promptly on the initiative of any element so menaced. This action may be to prevent the violence or quell it, but only the minimum force will be used.

b. In incidents characterized by violence between elements of the civil population or against the Japanese government, the civil police is the responsible law-enforcement agency. The occupation force commanders maintain surveillance over such disturbances, and report the facts in the case to the Supreme Commander for the Allied Powers without delay.

6. The Assistant Chief of Staff, G-3, has primary staff interest and is responsible for appropriate staff action in matters pertaining to the use of troops in civil disorders.

Restricted

(SM 29)

Restricted

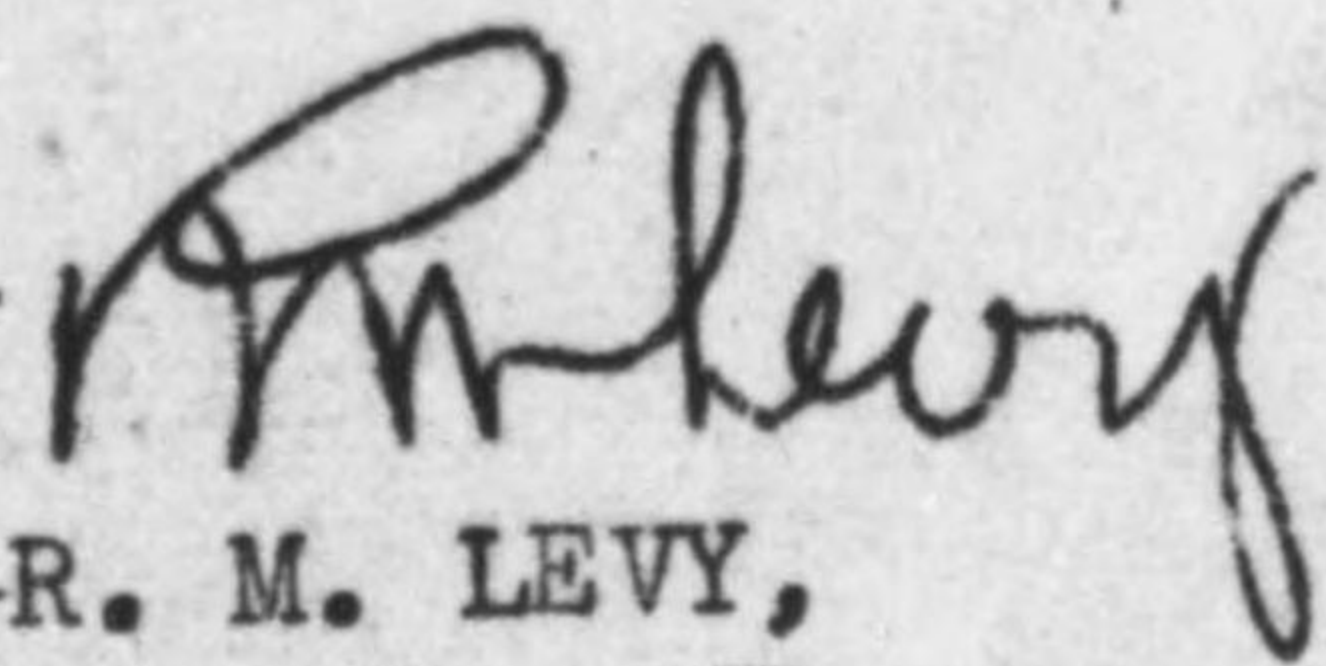
7. Except as provided in paragraph 5a, troops will not be ordered to intervene in civil disorders without approval of the Chief of Staff.

8. All section chiefs will take necessary action to insure that the contents of this memorandum are thoroughly understood by personnel assigned to their respective sections.

BY COMMAND OF GENERAL MacARTHUR:

EDWARD M. ALMOND,
Major General, General Staff Corps,
Chief of Staff.

OFFICIAL:



R. M. LEVY,
Colonel, AGD,
Adjutant General.

Restricted

STANDARD FORM NO. 64

TOP SECRET*Office Memorandum* • UNITED STATES GOVERNMENT

TO : FE - Mr. Butterworth

FROM : NA - Mr. Bishop *MB*

SUBJECT: Reply from Secretary Johnson on Implementation of NSC 13/3



DATE: July 6, 1949

In reply to our letter of May 23, Secretary Johnson has forwarded the accompanying consolidated report prepared in the NME on the implementation of those paragraphs (all except "the Timing and Procedure of the Treaty", "the Nature of the Treaty", "the FEC" and "the ACJ") for which the NME considers itself responsible.

A preliminary review of the report discloses little information which we have not previously received from SCAP and the Department of the Army. In fact, it appears to consist largely of an assembly of the inadequate information contained in SCAP's few, brief telegrams received several months ago on the implementation of NSC 13/3. The report therefore serves only to confirm that the NSC policies are not being carried out in several important respects. According to the observations of State Department representatives in Japan, little or nothing is being done to reduce the psychological impact of the occupation forces on the Japanese people. Headquarters has not reduced its personnel complement by any appreciable amount. The NSC recommendations on the purge have not been carried out. Evidently no progress has been made towards strengthening the police either from the point of view of giving it centrally directed organization or of providing it with independent communications and transportation and other essential equipment. In the light of these facts, one is impelled to question Secretary Johnson's conclusion that "the general policies enunciated in NSC 13/3 have guided actions of the NME since last June", unless he excludes SCAP.

NA is now preparing a detailed study of the report to determine to what extent NSC 13/3 is, in fact, being implemented. For this purpose, I have detached the other two copies of the report forwarded under cover of Secretary Johnson's letter.

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5 July 1949

MEMORANDUM FOR MR MAX BISHOP, CHIEF, DIVISION NORTHEAST ASIAN AFFAIRS:
Room 3257, New State Building.

1. In connection with the State Department policy statement on Japan, dated 1 May 1949, the following suggestions are offered for your information and consideration at the time of next publication.

a. With respect to the last sentence in the third full paragraph on page 2, the reference to "occupation personnel" should be restricted to "occupation personnel engaged on civil affairs and military government activities." In a letter of 21 February 1949, to the Secretary of the Army, the Secretary of State advised that a reduction in troops maintained on a combat footing is not regarded as consonant with NSC 13/2.

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b. In the last sentence of the first full paragraph of page 4, it is suggested that the word "interference" be replaced by the word "participation." In view of the interim directive issued to General MacArthur on 10 December 1948, concerning a detailed program of economic stabilization and requiring strong pressure by SCAP on the Japanese Government, the word "participation" has a better connotation.

c. In the paragraph at the bottom of page 5, it is suggested that the words "and naval bases" be deleted. NSC 13/3 does not direct the development in a material sense of naval bases on Okinawa, and, in examination of such possibilities, the Navy Department has determined that Okinawa is unsuitable as a year-around naval base owing to lack of a natural harbor and to typhoon conditions. (See paragraph 6a of NSC 49).

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DIVISION OF
NORTHEAST ASIAN AFFAIRS

JUL 5 - 1949

Wrom
Walker W. Milner
Lt Colonel, GSC

DEPARTMENT OF STATE

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Authority NND 760035
By CD/SR NARS, Date 22 AUG 1975

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INCOMING AIRGRAM

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Action Taken no action *NA*

Office of 2333
FAR EASTERN AFFAIRS
JUL 18 1949
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Department of State
Canton, China

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Name of Officer M. Green

Direction to DC/R file

DIVISION OF
NORTHEAST ASIAN AFFAIRS-28

JUL 21 1949

Date of mailing: July 7, 1949

DEPARTMENT OF STATE July 18, 1949 10:23 a.m.

DIVISION OF CHINESE AFFAIRS
JUL 18 1949
DEPARTMENT OF STATE

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Secretary of State

Washington, D.C.

A-28, July 7, 1949

2

Following is the complete text of an editorial in the Hongkong "Standard" of July 7, 1949 attacking Dr. Poling's characterization of General MacArthur as "Saviour of the Year".

The Standard is one of Hongkong's four English language newspapers. It began publication in March of this year as another of famous "Tiger Balm King" Aw Boon Haw's newspaper enterprises and is credited with a daily circulation of something over 7,000. The Standard's editorial policy has been consistently opposed to American policy in Japan; the editorial quoted below is the most violent to date. In other areas, particularly China, the paper has been strongly anti-Communist and has recently emphasized its belief that Communism can be defeated ultimately only by removing the root causes of Communism, not by suppression or military force.

NEW-STYLE MESSIAH

"Dr. Daniel A. Poling, said to be one of the United States leading Protestants, has written an article in Look magazine wherein he pictures General Douglas MacArthur as the good Messiah sent to earth to deliver the good people from the evils of Communism. Dr. Poling's suggestion is that all that is needed to rid the Far East--and, presumably, the rest of the

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JUL 28 1949

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world--of the threat of Communism is to give General MacArthur a free rein in this corner of the world.

But Dr. Poling's reasons for his selection of General MacArthur as "Saviour of the Year" seem hardly as firm as his own convictions. "All that stands between us and major despair in Asia today is Douglas MacArthur." Dr. Poling says, apparently blinded, as so many before him have been, by the light of the general's military successes and confusing them with his achievements in the completely different field of politics and diplomacy.

Dr. Poling is more than naive when he proposes that "General MacArthur, with support, must be given complete command to reorganize and direct our war ally China." For he offers no suggestion as to just how this could be done in view of the fact that General Stilwell failed in his attempt to achieve this same overall control, and was blocked completely by the Nationalist government which felt, not at all surprisingly, that it should have the final say as to affairs in its own country.

We shudder when, continuing, Dr. Poling proposes that General MacArthur "Should have the same overall responsibility in China and the Far East that he has exercised with the occupation government in Japan." For, as far from keeping Communism under his thumb, we would say that General MacArthur after more than four years as occupation commander, has contributed instead to weakening any basis in Japan for democratic government and, consequently, has increased the ultimate strength of Japanese Communism.

By setting himself up as a new-style Japanese god, at times even in direct defiance of the U.S. State Department, General MacArthur has deprived the Japanese of at least one governmental essential--initiative. He has made of the Diet a pure rubber stamp to his own policies. As a result, as pointed out in his recent book on Japan, the Japanese people have drifted into a phlegmatic do-nothing policy wherein they say to themselves: "Why should we worry about the country? The Americans will take care of us."

Dr. Poling's plan to give General MacArthur a "free hand" in Asia might indeed be workable if the general's record in Japan had been anything other than what it is. Communism has indeed been suppressed in Japan. But it has been a suppression by force and not by any firm anti-Communist convictions on the part of the Japanese people. And there is much reason to believe that as soon as U.S. control (as represented by General MacArthur) is lifted from the country, Japan's rubber-stamp

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Canton/A-28

government will collapse under the attack from radical and Communist elements.

CLARK

File No.
Gstryker/



EMBASSY OF THE UNITED STATES OF AMERICA

ACTION is assigned to

[Signature]

Action Assigned to *CA*

Action Taken *none*

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No. *21* Date of Action *CA* American Embassy, Canton, China, July 7, 1949.

Action Office Symbol *PSW*

Name of Officer *file*

Direction to *DC/R* Subject: *MEI Ju-ngao*-on American Policy in Japan

DIVISION OF CHINESE AFFAIRS
JUL 20 1949
DEPARTMENT OF STATE

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when ACTION is completed.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to enclose a translation of an article which appeared in the Hongkong Ta Kung Pao of June 25, 1949 reporting an interview with MEI Ju-ngao, Chinese judge on the Far Eastern International War Crimes Tribunal. The accuracy of the reporter of the Ta Kung Pao, a leftist if not outright pro-Communist publication, cannot be vouched for.

In brief, Mr. Mei is reported as having said that American policy is designed to make Japan "an American military beachhead, a market for American capital investments, and an economic colony of the U.S." Far from democratizing Japan, American policy has resulted in the revival of Japanese militarism and the continuance of "The Big Japanese Combines", according to Mr. Mei. American imperialist ambitions are becoming clear to the Japanese people, Mr. Mei is quoted as having said, the clarification taking place "under the leadership of the Japanese Communists and progressives". Opposition to American imperialism on the part of China, the Soviet Union, the Philippines, and Great Britain is bound to become stronger. Finally Mr. Mei is quoted as having told several disillusioned Japanese that the Japanese and Chinese peoples "should cooperate to free ourselves from the yoke of American imperialism."

Respectfully yours,

[Signature]

Lewis Clark
Minister-Counselor of Embassy

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Enclosure: *att*

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Mei Ju-ngao on Post-war Japan
By Our Own Reporter

In an interview with our reporter yesterday, Mr. Mei Ju-ngao (梅汝璈), who had been in Japan for more than three years as a judge of the Far Eastern International War Crimes Tribunal, gave his impressions of Japan. He said that the Japanese had been at first fooled by the American "coddling" attitude into thinking that the Americans were really chivalrous, but that they very soon discovered the real intention of the Americans, which was to turn Japan into an economic colony of the U.S. and to prepare the Japanese people for cannon fodder in case of an American-Soviet war. He said that the Japanese were excited and inspired by the successful liberation of China, and, under the leadership of the Japanese Communist Party and other progressive leaders, wanted to follow China's example.

Japanese Industrial Production a Menace
To Other Far Eastern Countries

Japanese industrial production, according to Mr. Mei, has been restored to the pre-9.18 (1931) level. Textile production is far above this level, seriously menacing Britain's textile trade in the Far East. Japan has recovered so much from the shock of the war that today she is richer by far than any other country in the Far East. It is not true to say that Japan is poor. Americans have suspended Japanese reparations and lifted all restrictions on Japanese industrial rehabilitation and foreign trade, so that Japan may be made into an American military beachhead, a market for American capital investments, and an economic colony of the U.S.

Revival of Militarism Under American Encouragement

No attempt to re-educate the Japanese along democratic principles has been made, said Mr. Mei, and Japanese militarism and ultra-nationalism has not been eradicated, as required by the Potsdam agreement. "I have not yet discovered," declared Mr. Mei, "a single Japanese literary work showing Japanese repentance of their war crimes. On the contrary, they are singing about the past." Mr. Mei said that MacArthur's "democratization" of Japan was a "fool's dream".

Hirohito and Industrialists Coddled,
But Allied Interests Ignored

Hirohito, symbol of aggression, despotism, and militarism, has been permitted to continue to rule Japan. Mr. Mei has written an article in which he argued that Hirohito was a war criminal and that he should be tried as such. However, most Japanese, with the exception of Japanese Communists and progressives, favor the retention of Hirohito as Emperor.

The Big Japanese Combines have not been dissolved, but are operating under disguise. There is an underground organization of Japanese militarists who give active help to Japan's reactionary capitalists, most of whom must be regarded by the Chinese as economic war criminals.

Thus MacArthur's "democratization" of Japan is only a false facade. All of MacArthur's measures in Japan have been anti-democratic. He has repeatedly violated the Potsdam agreement and ignored the interests of other Allied Powers.

American/

- 2 -

American Ambitions in Japan Revealed

Can American imperialists do what they like to Japan? Mr. Mei said they could not, because they would be opposed by China, the Soviet Union, and the Philippines. Even Britain, said Mr. Mei, would not forever tolerate American methods in Japan, and then there will be a world-wide boycott against Japanese goods. Moreover, the general awakening of the Japanese people is the greatest enemy of American imperialist ambitions in Japan. "During the first three years of American occupation," said Mr. Mei, "the Japanese people were completely taken in by American hypocrisy. However, under the leadership of the Japanese Communists and progressives, the Japanese people are beginning to see the real intentions of the Americans in Japan. Popular movements in Japan are gathering strength. The people want to follow the example of China, but Japanese reactionaries are hostile to the Chinese liberation movement."

When Mr. Mei left Japan, several Japanese said to him: "Most of us thought that we might rise again into power by following the U.S., but now we know we shall become either colonial subjects or cannon-fodder." To which Mr. Mei replied: "A little while ago you wanted to ride on the backs of the Chinese, now you find the Americans riding on your backs. I believe you do not want to ride on other people's backs now. We must not want to do that, but should cooperate to free ourselves from the yoke of American imperialism."

Mr. Mei is studying the question of the extradition and trial of Chinese war criminals, a question in which every Chinese is interested. (End)

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Allison

DATE: July 8, 1949

FROM : NA - Mr. Bishop

SUBJECT: Department's Reply to French Position on Japanese Participation in International Relations

JUL 19 1949
DIRECTOR
Department of State

In accordance with recommendations approved by you, contained in a memorandum of June 13, 1949 on the above subject, there is attached a note to the French Ambassador in Washington containing the substance of the U.S. position which was transmitted to the U.S. Ambassador in Paris in the Department's Airgram A-737 of July 1, 1949 to be issued as a basis for a reply to the French Foreign Minister.

If you have no objection it may be desirable to have WE sign the attached note.

As soon as the attached note is transmitted to the French Ambassador NA will prepare notes for the heads of other missions of FEC member governments in Washington enclosing the note to the French Ambassador.

OK - send to WE for initialing + delivery

746-00119 Central (Japan) 17-849

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Northeast Asian Affairs Division

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Action Taken *no action*

United States Political Adviser
for Japan

[Handwritten signature]

Tokyo, July 9, 1949.

DIVISION OF
NORTHEAST ASIAN AFFAIRS

JUL 26 1949

DEPARTMENT OF STATE

No. 447 of Action

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Name of Officer *M. Green*

Direction to DC/R *file*

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Subject: Ninetieth Meeting of the Allied Council for Japan,
July 6, 1949.

The Charge d'Affaires ad interim has the honor to refer to this Mission's despatch no. 409 of June 23, 1949, and to previous correspondence in regard to meetings of the Allied Council for Japan, and to forward as enclosures five copies each of the Agenda and Corrected Verbatim Minutes of the ninetieth meeting of the Council held on July 6, 1949.

As there were neither procedural nor official matters on the Agenda, there was no discussion and the meeting adjourned after approval of the minutes of the eighty-ninth meeting.

Enclosures: *att*

1. Five copies of Agenda, Ninetieth Meeting of the Allied Council for Japan, July 6, 1949.
2. Five copies of Corrected Verbatim Minutes, Ninetieth Meeting of the Allied Council for Japan, July 6, 1949.

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- cc: American Embassy, London.
American Embassy, Nanking.
American Embassy, Moscow.
American Embassy, Canberra.
American Embassy, New Delhi.
American Embassy, Wellington.

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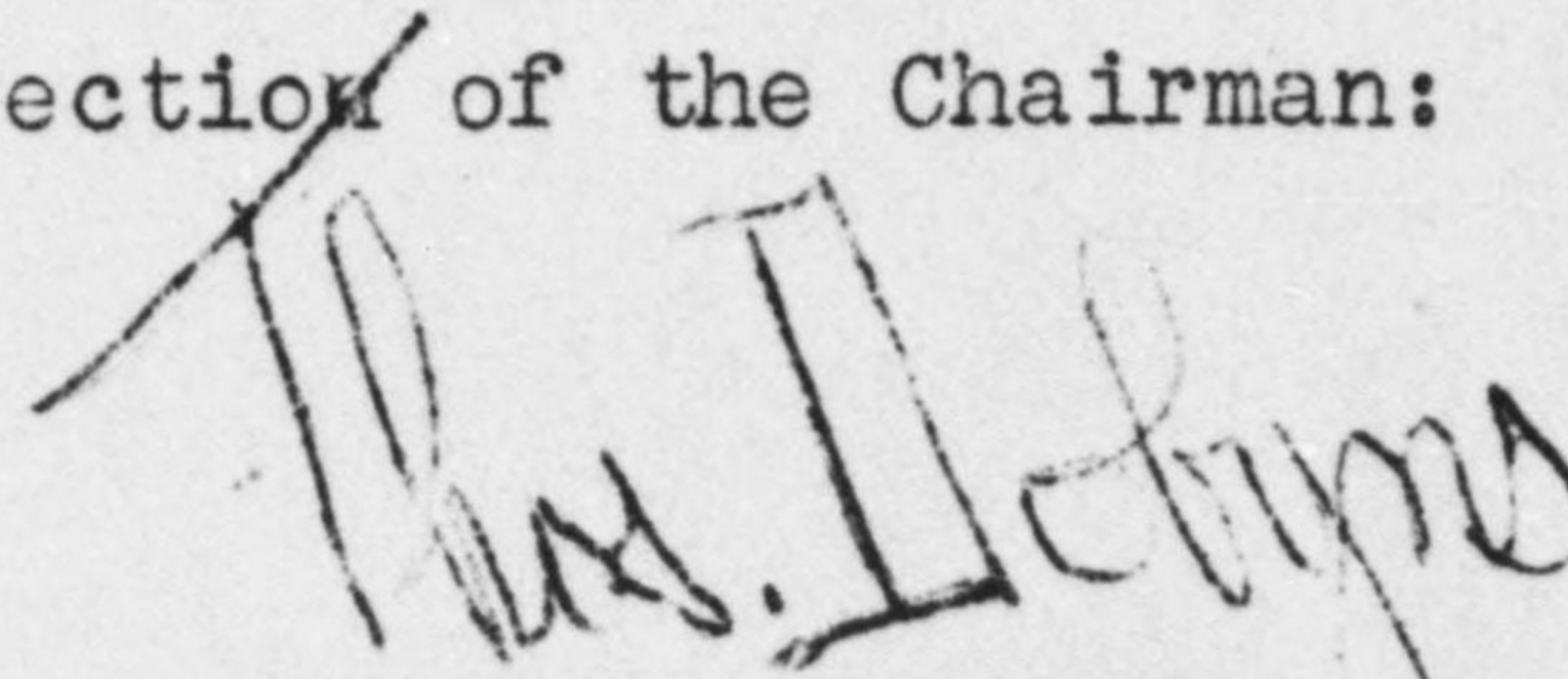
90-706

AGENDA
for the
NINETIETH MEETING
ALLIED COUNCIL FOR JAPAN

To be held in the Meiji Building, Tokyo
Wednesday, 6 July 1949, at 1000 Hours

- I APPROVAL OF THE CORRECTED VERBATIM MINUTES OF THE
EIGHTY-NINTH MEETING (1 Session, numbered 89-622).
- II PROCEDURAL MATTERS
None held over or submitted as subjects for this Agenda.
- III OFFICIAL MATTERS
None held over or submitted as subjects for this Agenda.

By Direction of the Chairman:



THOS. G. DOBYNS
Colonel, U. S. A.
Secretary-General

1 July 1949

90-706

CORRECTED
VERBATIM MINUTES
of the
NINETIETH MEETING
ALLIED COUNCIL FOR JAPAN

Meiji Building, Tokyo, Wednesday, 6 July 1949, at 1000 Hours

MEMBERS PRESENT

Mr. Cloyce K. Huston, Chairman pro tempore and representative
of the Member for the United States

Lieutenant General Chu Shih-ming, Member for China

Mr. Thomas W. Eckersley, representing the Member for the
United Kingdom, Australia, New Zealand and India

Lieutenant General Kuzma N. Derevyanko, Member for the Union
of Soviet Socialist Republics

SECRETARY-GENERAL

Colonel Thos. G. Dobyns

Office of the Secretariat
Allied Council for Japan
6 July 1949

THE CHAIRMAN: The meeting will please come to order.
The corrected Verbatim Minutes of the Eighty-ninth Meeting have been circulated among the Members and in the absence of objection (Pause) are approved.

Are there any procedural matters? (Pause)

There are no official items on the agenda, that would appear to conclude the business of the meeting.

The meeting is adjourned.

(The meeting adjourned at 1001 hours.)



CONSULATE GENERAL
EMBASSY OF THE
UNITED STATES OF AMERICA

ACTION
is assigned to

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UNCLASSIFIED

No. 83

Peiping, China, July 9, 1949

DIVISION OF
NORTHEAST ASIAN AFFAIRS

OCT 8 1949

DEPARTMENT OF STATE

SUBJECT: Speech by Kuo Mo-jo on "Realization of Democra-
tization of Japan".

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TO THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

DIVISION OF CHINESE AFFAIRS
AUG 31 1949
RAU

The Consul General has the honor to refer to the NCNA news despatch of July 6, 1949 reporting a broadcast speech by KUO Mo-jo (郭沫若) on July 5, 1949 in which there were set forth certain demands respecting Japan, and to enclose for the information of the Department a copy (in translation) of the full text of that speech as published in the KUANG MING JIH PAO (Brilliant Daily News, Peiping) of July 6, 1949.

The speech of Mr. Kuo can be taken as typical of current Chinese publicity on the subject in point.

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DEPARTMENT OF STATE

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Enclosure: *att*

- 1. Speech published in Kuang Ming Jih Pao, on July 6, 1949.

File No. 350
OEClubb:al/mv

- Original and hectograph to Department.
- Copy to Embassy, Nanking.
- Copy to Office of Embassy, Canton.
- Copy to American Consulate General, Shanghai.
- Copy to American Consulate General, Tientsin.

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740.00119 CONTROL (JAPAN) / 7-949

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Enclosure No. 1 to Despatch No. 83 dated July 9, 1949, from American Consulate General, Peiping on subject of "Speech by Kuo Mo-jo on 'Realization of Democratization of Japan'"

(TRANSLATION)

Speech published in KUANG MING JIH PAO (Brilliant Daily), Peiping, July 6, 1949

Translated: July 6, 1949.
Translated by: AL
Checked by: PWM

REALIZATION OF DEMOCRATIZATION OF JAPAN

Kuo Mo-jo's speech broadcasted by the New China Broadcasting Station.

(Special despatch) -- On July 5th, Mr. Kuo Mo-jo broadcast a speech entitled: "Realization of the Democratization of Japan" over the Peiping New China Broadcasting Station. The text of the speech is as follows:

"China suffered most heavily from Japanese imperialism, was the first one to oppose Japan, and sacrificed most militarily in defeating that country. Therefore, the Chinese people should have the fullest right to voice their opinions regarding the question of dealing with defeated Japan.

After the surrender of Japan, the Kuomintang reactionary Government, relying upon American imperialistic aid to maintain its dictatorship in order to suppress the Chinese people and obeying every order of American imperialism like slaves on bended knee, not only sacrificed our rights in dealing with the Japanese question but, on the contrary, even supported the revival of Japanese imperialism, looking upon the "aggressors" as their elders and following in the footsteps of American imperialism. This is one of the Chinese people's greatest heart-breaks.

Now the Chinese people have come to the fore once again after the Kuomintang reactionary clique fully supported by American imperialism was defeated by the military strength of the Chinese people and the People's Liberation Army under the leadership of the Chinese Communist Party. The people's democratic Coalition Government is about to be established soon. The Chinese people have been restored to the position of masters which means that they have resumed their full right to deal with this question both domestically and abroad and we wish to have our say.

In the Potsdam Agreement of July 26, 1945 when China, United States and Britain ordered Japan to surrender, it was clearly stipulated: "The deceived and misled Japanese people just forever eradicate the threat and power of those who recklessly desired world conquest" (Article 6). "The Japanese Government must desist from all obstruction of revival and

strengthening

Enclosure No.1
Peiping, China
July 9, 1949
Despatch No. 83

UNCLASSIFIED

- 2 -

strengthening of democratic tendencies in the Japanese people; must institute freedom of speech, religion and thought as well as emphasis upon basic human rights" (Article 10). "Set up a responsible and peace-loving government according to the freely expressed will of the Japanese people" (Article 12).

The Potsdam Declaration was jointly agreed upon by the Big Four—China, USSR, Britain and United States. Without doubt, the question of the disposition of defeated Japan should be settled by the Four Power Council of Foreign Ministers.

With regard to the Potsdam Declaration, we consider it just. Its main purpose was to eliminate thoroughly the aggressive forces of Japanese imperialism so as to enable the Japanese people to follow freely the path of democratization.

Unfortunately enough, after Japan surrendered, the right to control defeated Japan was seized by American imperialism, MacArthur became the emperor of Japan and all his measures were anti-people and anti-democratic in violation of the Potsdam Agreement. On one hand, he released war criminals, ceased Japan's reparation payments, preserved the Zaibatsu, supported reactionary forces, maintained war production, resumed Japan's armed forces in disguise, delayed a peace treaty with Japan; while on the other hand, he madly intensified oppression of the Japanese people, instigated the Japanese House of Commons to pass the bill exploiting Japanese labor power and adopting new labor measures, prohibited student movements and the freedom of education such as the "national university law" and the "teachers qualifications examination law", murdered workers, suppressed strikes and strengthened all reactionary actions much more than was true during the period of Japanese imperialism.

Today, after her defeat, Japan has actually become a United States monopoly capitalist factory, using American raw materials and Japanese cheap labor to produce a vast amount of commodities in order to ship them to Southeast Asia, Central and South America and Western Europe, thus gaining a double profit which runs from 300% to 1,100%.

So it is that the United States Government plans to occupy Japan permanently and indeed re-equip her to become one of her military bases for aggression against the Far East and the world.

The attitude of the Chinese people toward dealing with the question of Japan is clear and without the slightest self-interest. In short, we wish to abide by the Potsdam Agreement to advance the realization of the democratization of Japan.

The democratization of Japan is an important element of peace in the Far East. Not only is it beneficial to the Chinese people but also to the interest of the various nations in the Far East as well as to the Japanese people. Although the Chinese people

regard

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Enclosure No. 1
 Peiping, China
 July 9, 1949
 Despatch No. 83

- 3 -

regard the Japanese imperialists as deadly enemies, nevertheless, the Chinese people and the Japanese people have always been friends. The Japanese people have similarly suffered oppression and exploitation under Japanese imperialists. At present American imperialists have set their hearts upon making Japan into an American colony and the Japanese people like us of yore, will suffer double exploitation and oppression. If we permit American imperialist ambition to be realized, not only will it encroach upon the independence and peace of the Japanese people as well as their democratic and economic development but also it would directly threaten the safety of China and that of the Far East, which the Chinese people certainly will not permit.

Today, the Chinese people wish to present clearly their specific demands:

1. Immediately fix a date for the convention of a preparatory Four-Power Conference for peace with Japan according to the Potsdam Agreement and attended by plenipotentiary delegates from the people's democratic new China.
2. Thoroughly eliminate Japanese militarism, destroy all war production forces and disarm again all disguised armed forces.
3. Put the Japanese war criminals on trial again, disband the Japanese Zaibatsu, strictly execute the reparations payment plan, using as its criterion the reparations payment plan drawn up by the United States in April 7, 1947 and based upon the demands of the various countries (involved).
4. Abolish all new and old reactionary decrees published by the Japanese puppet government which is pampered and protected by MacArthur's General Headquarters.
5. Do away with the illegal, selfish and despotic reactionary resolutions made by the United States and MacArthur's General Headquarters dealing with the problem of Japan.

These terms are absolutely necessary to realize the democratization of Japan. It is only under such conditions that the Japanese people can express their free will, yet we believe that all these terms are welcomed by all of them.

Today, the victory of the Chinese people has already changed the situation of the Far East. The victory of the Chinese people is at the same time the victory of the Japanese people. The Japanese people welcome it warmly. The democratic forces of the Japanese people today grow stronger each day. Take for instance, the Japanese Communists in the Japanese House of Commons, in the first election of this year, increased

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Enclosure No. 1
Peiping, China
July 9, 1949
Despatch No. 83

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- 4 -

to over ten times their original number, which is the best possible proof there is. The tendencies are in this direction and so, too, are the hearts of the people. Japan must be democratized and she will certainly be so. (Abridged translation)

rv

STANDARD FORM NO. 64

SECRET

Office Memorandum • of UNITED STATES GOVERNMENT

TO : FE - Mr. Butterworth

DATE: July 11, 1949

FROM : NA - Mr. Bishop

SUBJECT: Change from "Military Government" to "Civil Affairs" in Japan



M. Meyer
Handwritten initials and stamps: "RECEIVED", "FEB 11 1949", "OFFICE OF THE ASSISTANT SECRETARY FOR EAST ASIAN AFFAIRS".

*Augment
Tokyo 8-16-1
6-24*

SCAP has announced that the Military Government Sections and Teams of the 8th Army will be redesignated Civil Affairs Sections and Teams, effective July 1, 1949. Announcement pointed out that since MG function is one of surveillance rather than direct military rule, the term Civil Affairs is more nearly descriptive. USPOLAD comments that the change represents a further step by SCAP in reducing role of occupation, but that the change in title is not expected materially to diminish the functions of the Civil Affairs agencies.

Comment:

Secretary Johnson's consolidated report on implementation of NSC 13/3 states that the total number of US personnel engaged in CA/MG activities in Japan will be reduced from 6025 as of December 31, 1948 to an estimated 5,200 as of June 30, 1950; and that the number of civilian personnel engaged in such activities from approximately 3,600 in the fall of 1948 to 3,300 on December 31, 1949, and to 3,200 on June 30, 1950.

It is concluded from the foregoing that little is actually being done "to reduce the scope of SCAP's operations as rapidly as possible with a corresponding reduction in personnel" as required by paragraph 8 of NSC 13/3.

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Must Be Returned to

United States Senate

Washington, D.C. 20540
July 12 1949
NORTHEAST ASIAN AFFAIRS
DEPARTMENT OF STATE



Respectfully referred to

State Department

with thanks for such favorable consideration as
the communication herewith submitted warrants,
and for a report thereon, to accompany return
of inclosure.

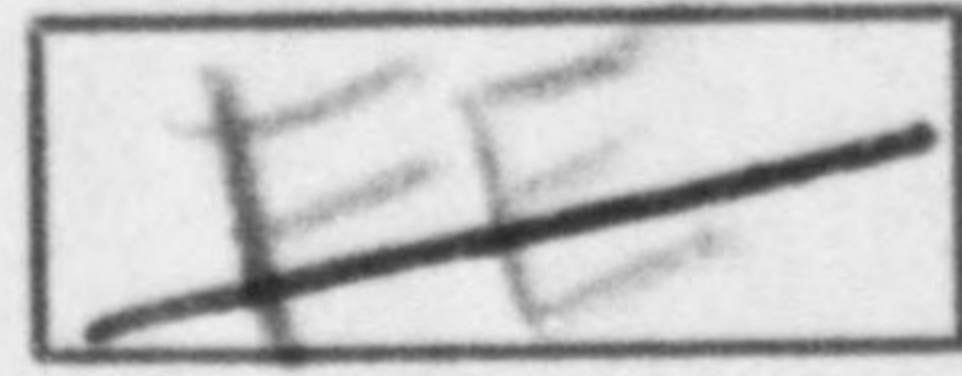
By direction of

Lyndon B. Johnson
Lyndon B. Johnson

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Date _____

JUL 18 1949

In reply refer to
NA

My dear Senator Johnson:

The receipt is acknowledged of your communication of July 11, 1949 enclosing a letter addressed to you on July 7, 1949 by Mr. Henry Taylor in which he expresses concern regarding conditions in Japan.

As the subject of Mr. Taylor's letter is within the province of the Department of the Army his letter has been forwarded to that agency from which you may expect to receive an appropriate reply.

Sincerely yours,

Ernest A. Gross
Assistant Secretary

DCR - NE Unit

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The Honorable

Lyndon B. Johnson,

United States Senate.

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Henry

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(Japan) / 7-1149
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VA Files

STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Butterworth
FROM : NA - Mr. Bishop *MWB*
SUBJECT: General MacArthur's Return

Office of
FAR EASTERN AFFAIRS
JUL 13 1949
Director
Department of State

DATE: July 13, 1949

RM/R
Central Files

This Document Must Be Returned to

There have been so many rumors regarding General MacArthur's "imminent return" to the United States that I hesitate to bring to your attention still another one. However, because General MacArthur's return under anything but carefully pre-arranged and planned circumstances would be so fraught with important repercussions, I am passing this on to you.

On two successive occasions in the past week the radio program "Three Star Extra" (an NBC news program) has stated, first, that General MacArthur will, according to an intimate friend of his in Congress, return to the United States within the next 90 days; and, second, that this return is prompted by the General's belief that United States diplomatic policy in the Far East has failed and has therefore placed his mission in Japan in an intolerable position.

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Confidential File

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DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DEPARTMENT OF STATE INCOMING TELEGRAM

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Office of FAR EASTERN AFFAIRS JUL 13 1949

DIVISION OF CHINESE AFFAIRS JUL 13 1949 DEPARTMENT OF STATE

CORRECTED PAGE 1 7/13/49 7 a.m. CORRECTION UNDERSCORED

Action Office Symbol Control 4095

Name of Officer

Rec'd July 12, 1949

PUBLIC AFFAIRS OVERSEAS PROGRAM STAFF Japan Branch

Contents made by POS/1

To BDL 18 1949

DEPARTMENT OF STATE

FROM: Nanking TO: Secretary of State NO: 1493, July 12, 7 p.m.

Assume Department has monitored, read recent anti-US outpourings on occasion July 7. Marco Polo bridge anniversary contained principally New China Peiping broadcasts. Recommend Department, through appropriate official spokesman, release factual statement tending refute this Communist propaganda against US policy Japan, which we can expect swell to new crescendos in future. Statement should be designed to prepare ground for following conclusions:

- (1) US position Japan both a right and duty as result leading contributions to defeat Japan:
(2) SCAP has actually accomplished demilitarization Japan and made important progress toward democratization Japanese people:
(3) Soviet policy itself major impediment to completion task occupation drafting Japanese peace treaty:
(4) Soviet pose as defenders Chinese people against imperialism sheerest hypocrisy, in view facts Soviet imperialist

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CONFIDENTIAL

DC/R Correction Desk

PERMANENT RECORD COPY: THIS COPY MUST BE RETURNED TO DC/R CENTRAL FILES WITH NOTATION OF ACTION TAKEN.

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SEP 8 - 1949

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CONFIDENTIAL

-2- #1493, July 12, 7 p.m., from Nanking

imperialist expansion in Far East at expense Chinese people.

Suggest that among points to be stressed as supporting this position are following:

Referring Communist propaganda minimizing US sacrifices Pacific War, recite figures American dead, wounded, and missing; American losses terms natural resources (tons steel, barrels oil, etc.) which irreplaceable. Statistics on aid to Allies, especially China and USSR, should be given in full.

On subject CCP glorification Russian role Pacific war, suggest graphic statement US contribution victory in terms years war fought, number actions, number enemy killed, number planes shot down, ships sunk, etc. Invite comparison Russian short, cheap, Pacific campaign, begun only after victory already assured, and ask whether still possible believe Japanese defeat due primarily Russian aid.

Contrast Soviet diplomatic moves during war with those of US.

While US taking lead renouncing extrality, Soviets extorting imperialist concessions Manchuria and Port Arthur-Dairen, alienating Chinese sovereignty Mongolia as price entrance Japanese war. Contrast US action giving generous relief, economic aid Chinese nation with Soviet action stripping Manchuria valuable industrial equipment which rightful property Chinese people. Judging from deeds rather than words, which nation would Chinese people adjudge imperialistic?

Contrast Soviet position Japanese peace treaty with that of US. While Soviets insist on veto four major powers, US long ago asked for speedy peace treaty drawn up by all nations participant in Pacific War, with controversial questions to be decided by majority. While Soviets have hindered program repatriation Japanese POW's and done all in their power hinder success SCAP, US citizens have taxed selves to bear

cost

CONFIDENTIAL

CONFIDENTIAL

1493, July 12, 7 p.m., from Nanking

cost disarming Japan and helping Japanese people rehabilitate selves for useful role family nations. In light known facts, which nation blocking progress toward peace settlement Japan?

On subject reparations, point out value reparations China has already received both from Japanese property on Chinese soil and under SCAP's reparations program. Again refer Soviet seizure Manchurian industrial equipment which owed as reparations to Chinese people.

Suggest statement end with challenge New China News agency permit publication CCP press. Surely CCP can permit Chinese people, whose best interest they claim represent, know facts on question of such moment to Chinese nation.

Sent Department 1493; repeated AMEMB Canton 629, Shanghai 834.

STUART

*As received, corrections to follow.

RSP:ISP

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DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DEPARTMENT OF STATE INCOMING TELEGRAM

DC/R ACTION COPY File

Office of FAR EASTERN AFFAIRS JUL 13 1949 DEPUTY DIRECTOR Department of State

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DIVISION OF CHINESE AFFAIRS JUL 13 1949 DEPARTMENT OF STATE

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Rec'd July 12, 1949 3:24 p.m.

FROM: Nanking Date of Action TO: Secretary of State Action Office Symbol NO: 1493, July 12, 7 p.m.

Assume Department has monitored, read recent anti-US outpourings on occasion July 7, Marco Polo bridge anniversary contained principally New China Peiping broadcasts. Recommend Department, through appropriate official spokesman, release factual statement tending refute this Communist propaganda against US policy. Japan, which we can expect swell to new crescendos in future. Statement should be designed to prepare ground for following conclusions:

- (1) US position Japan both a right and duty as result leading contributions to defeat Japan; (2) SCAP has actually accomplished demilitarization Japan and made important progress toward democratization Japanese people; (3) Soviet policy itself major impediment to completion task occupation drafting Japanese peace treaty; (4) Soviet pose as defenders Chinese people against imperialism sheerest hypocrisy, in view facts Soviet

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OFFICE OF FAR EASTERN AFFAIRS DEPARTMENT OF STATE

CONFIDENTIAL

SEP-8 1949

DEPARTMENT OF STATE

SEP 12 1949

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PERMANENT RECORD COPY: THIS COPY MUST BE RETURNED TO DC/R CENTRAL FILES WITH NOTATION OF ACTION TAKEN.



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

[Handwritten signature]

American Embassy
London, July 12, 1949

AIR MAIL

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No. 1168

Subject: Japan: British Views and Opinions

[Circular stamp: OFFICE OF EUROPEAN AFFAIRS, DEPARTMENT OF STATE, with handwritten initials]

[Handwritten signature]

The Honorable
The Secretary of State,
Washington

OFFICE OF EUROPEAN AFFAIRS
RECEIVED
JUL 20 1949
DIVISION
EC
DEPARTMENT OF STATE

Sir:

I have the honor to transmit herewith a report of British opinion, official and unofficial, regarding developments in Japan.

OFFICIAL

In the House of Commons, on June 22, Mr. William Teeling (Conservative) asked the following questions to which Mr. Bevin made the following replies:

"Mr. William Teeling asked the Secretary of State for Foreign Affairs whether, in view of the difficulty of reaching agreement with the Union of Soviet Socialist Republics in Europe, His Majesty's Government will now take steps to bring about a peace treaty with Japan without Russian cooperation.

"Mr. Bevin: I cannot accept the implication in the question that we should despair of reaching agreement with the Soviet Government on European questions. The future international status of Japan is now under discussion in the Far Eastern Commission on proposals recently submitted by the United States delegate. The measure of agreement or disagreement in the forthcoming debates will doubtless be a guide to His Majesty's Government's future action on this subject.

"Mr. Teeling: Does the right hon. Gentleman appreciate the very grave danger of leaving the peace treaty with Japan so long open, as the Japanese, so far as one knows, have done nothing in the last few years to prevent the making of a peace treaty with Japan?

"Mr. Bevin: I quite admit that there is disagreement between the Great Powers - not so much about getting a peace treaty as about the procedure of how to get it."

(Mr. Bevin

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[Stamp: FILED, JUL 27 1949]

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740.00119 CONTROL (JAPAN) / 7-1249

DMR

Desp. No. 1108, July 12, 1949, from London

(Mr. Bevin in his replies was apparently indicating that the attitudes of the member nations of the Far Eastern Commission in regard to FEC 339 would point the way to the United Kingdom attitude in regard to the future peace treaty with Japan.)

On July 6, in the House of Commons, Mr. Thomas Reid (Labour) asked what attitude the Secretary of State for the Colonies would take to the "American representations made to him to allow emigration from overcrowded Japan to British colonies in South-East Asia." The Under-Secretary of State for the Colonies (Mr. Rees-Williams) replied: "No such representations have been received. The settlement of Japanese in the British or British protected territories in South-East Asia which they occupied during the war would not in any case be entertained.

The British Government is obviously fearful of the balance of sterling being built up by the Japanese Government under the Sterling Area-Japanese Trade Agreement of last year. The British Government has therefore decided, according to the press, to stop imports of grey cotton goods from Japan, which have in the past been finished and re-exported from Britain. It appears that these goods were paid for in Japan in sterling, which is convertible into dollars at six-month periods at the request of SCAP. On the other hand, the goods, after being finished in Britain, were exported to Sterling Area countries for sterling which could not be converted into hard currencies. This trade, therefore, has been shut off for the time being.

UNOFFICIAL

The Economist, in its issue of June 11, published a very interesting article entitled "Pressure of Numbers in Japan." The opening paragraph gave the keynote of the article. "Japan's babies look like winning the war that its military leaders technically lost. The bounding irrepressible birth rate - 34 per thousand - has raised the Japanese population from 72 million at the end of the war to more than 80 million at the end of last year. Combined with the present death rate of 12 per thousand, Japan's population, at this rate of progress, will be at least 90 million in eight years' time - and almost certainly higher. All occupation policy and theory, all planning, all artificial restrictions and tidy Western reforms, will be trampled under this deafening patter of tiny feet." The article proceeded to state that, while General MacArthur could disarm Japan and carry out the various reforms, "he cannot control the birth rate." The article quoted statistics regarding the increase of population in Japan and stated that Japanese foreign trade would have to increase twice the ruling level of the 1930-34 base period in order to sustain the increased population. "And where, ask General MacArthur's advisers despairingly, is that trade to come from - and go to?" The article discussed densities of population throughout the world, availability of arable land, reports from American research officers in Japan, and attempts which have been made to discourage large families in Japan. In regard to the latter, the article stated: "A furious storm immediately burst over his

(Dr.

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Desp. No. 1158, July 12, 1949, from London

(Dr. Thompson's) head, not from the Japanese but from Roman Catholic missionaries in Japan." The article went on to discuss various migration proposals which have been advanced and stated that General MacArthur's advisers, the Roman Catholic Church, Colonel Robert McCormick and Mr. Joseph C. Grew "ingenuously reconcile support of Japanese migration to the South-West Pacific with opposition to Japanese migration to California. This U.S. 'migration bloc,' which insists that the postwar repatriation of nearly six million stranded Japanese was a major blunder, want to organise Japanese migration" to the South-East Asian areas. The article went on to discuss the Japanese Communist solution for population pressure in Japan. According to the article, the Japanese Communist Party believes that cultivation methods could be sufficiently improved in Japan to maintain a population of 100 million. "By the time that is done, the world will - according to the Communists - be under a real, democratic, one-world peoples' government, and there will be no colour or racial barriers against the movement of people from busy and crowded to idle and empty lands." The article concluded by quoting Dr. Thompson as follows: "I can see no justice in the holding of lands out of use by colonial powers; but even more weighty in the determination of national policies in my judgment is that there is no physical possibility of preventing the crowded people of the world from taking these lands sooner or later."

In the same issue (June 11) the Economist discussed the green light which the United States wishes to give to Japanese industry. It stated: "In this country, with the passing of the seller's market, the prospect of uncontrolled Japanese commercial competition is far from welcome, and in Australia the rebirth of Japanese heavy industry brings fears of revived militarism and rearmament in the future." The article proceeded to state, however, that American policy is unlikely to be turned aside from its new course, because of the strong impelling force for continuing in it. "The Americans are determined to enable Japan to pay its way and thus to get rid of the burden of its insolvency on themselves." The article reviewed the fact that China is now regarded as a bad investment, economic or political, and that this "has induced a fairly widespread feeling of goodwill for the new Japan, now regarded as a state which is harmless to America and can be counted on to make good use of any assistance granted to it." Referring to the fact that the major problem for Japan's industry now is to obtain supplies of raw materials which were previously imported from Japan's colonies, the article concluded: "The present rulers of Japan would certainly not desire too great a dependence of the Japanese economy on imports from Communist-controlled territories, but they have to get supplies as best they can. If the American Government wishes to reduce Japanese dependence on China, it will need to help Japan to get supplies from alternative sources, as, for example, by assisting in the development of the hitherto unworked iron ore resources of the Philippines and Indonesia."

The Manchester

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Page 4.

Desp. No. 1158, July 12, 1949, from London

The Manchester Guardian, on June 16, published a lengthy editorial based on the thesis that "the Communist victory in China makes it necessary to examine the policy of the Western Powers in all corners of Asia." "In some ways Japan would be an ideal country for Communists to try to take over. Her society has most of the ingredients which in Communist theory make a country ripe for revolution - industrial proletariat, privileged but weakened possessing class, centralized institutions, tradition of social discipline and technical skill. . . Like Great Britain she provided for a swollen population largely by industrial profits of industry whose raw materials came in great part from overseas. . . Communist victories in China will now bedevil Japan's chances of economic recovery." The article proceeded to discuss the Royall vs. MacArthur schools of thought regarding the usability of Japan as an element in the Pacific defence of the United States and stated: "If the second view continues to prevail. . . the result will be a revival of economic and eventually political power of Japan. Other countries would be less pleased with this than America. . . Japan can only recover if her industries are re-equipped by Western capital. Why should this capital not go instead to India and Pakistan which have far stronger claims on Western goodwill and which need foreign capital no less than Japan if they are to relieve their economic crises and prepare themselves against the Communist threat? Enough economic assistance should be given to remove the sharpest of Japan's economic difficulties, but Japan should not be favored more than other countries seeking aid." The editorial then discussed Mr. MacMahon Ball's book ("Japan, Enemy or Ally?") and stated that: "Though Mr. MacMahon Ball does not mention it, there is at least the possibility that America may place Japan on her feet, only to see Japan turn round and ally herself with the Soviet Union."

The Times, on June 8, published a short editorial entitled "Portents in Japan," in which was mentioned the assassination of Mr. Sadanori Shimoyama, the President of the National Railway Corporation, and the attempts in Japan to reduce the staffs of the railway employees. Referring to the obvious conflict between the Yoshida Government and organized labour the article stated: "Although the interests of the country require the formation of a centre party strong enough to hold the balance between right and left, the Japanese voter tends to support extremists on either side." Adverting to the fact that in the last elections the Japanese voters returned a rigidly conservative Government to power, the article stated: "Some compromise with Japan's past is inevitable as the rigidity of allied control relaxes; but it would be unfortunate if political power were to be monopolized by the spiritual heirs of those who abused it before the war. Communism, on the other hand, is alien

to the

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Desp. No. 1158, July 12, 1949, from London

to the national tradition; its present strength is mainly derived from a feeling that Mr. Yoshida's Government is reactionary in outlook, particularly on labour questions. The only good thing which might come out of the clash that seems now inevitable is that it might show the Japanese people how unsafe it is to entrust their destiny to extremists."

The Economist, on July 9, published a special article entitled "Razor Edge in Japan." This article reviewed Japan's economic difficulties, caused by the loss of its principal markets, namely, Korea, Manchuria, Formosa and China, as well as its principal sources of raw materials, and described the measures, including the establishment of a fixed yen-dollar exchange rate, being taken by the occupation authorities to stabilize Japan's economy. It mentioned the American proposal that Japan should have the right to send trade missions to other countries and to attend international conferences and to cease all deliveries of reparations. "This, then, is the present state of American policy in Japan - retrenchment and reform at home, expansion and equal privileges abroad." Comparing the situation in Japan with that in Germany, the article stated: "In Japan, too, the political tradition upon which any experiments of Western democracy must be based is pitifully weak, weaker even than in Germany." The article proceeded to discuss the steps being taken in Japan to follow out the advice of the Dodge Mission and referred to the austerity budget and the proposed cuts in the national and local payroll of Government employees. "These dismissals, moreover, are taking place before the introduction of any properly planned and financed scheme for unemployment relief. Inevitably, the whole programme has been the signal for nation-wide unrest. . . . From North Japan have come reports of rioting and the Communist Party is, of course, leading and directing the unrest." The article stated that the American authorities and the Japanese Government could hope to ride out this storm if they could count on success in their policy for expanding Japanese trade, but mentioned the fact that the Western members of the Far Eastern Commission have so far opposed the idea of Japanese trade missions abroad. "Their motives are mixed: fear of Japanese competition is reinforced by a certain distaste at the quick return to special grace of the ex-enemy." The article referred to the difficulties experienced by the Far Eastern Commission in coming to an agreement on a level of industry for Japan and stated: "The difficulties facing a Japanese export drive are therefore unlikely in the long run to be political. The real danger is the turning of the economic tide in the world at large." The article stated that the export trade of Japan in the second quarter of this year declined rapidly. "Such a situation obviously plays directly into the Communists' hands. The Communist leader, Nosaka, stresses the theme that trade with Communist China alone offers any

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No. 1158, July 12, 1949, from London

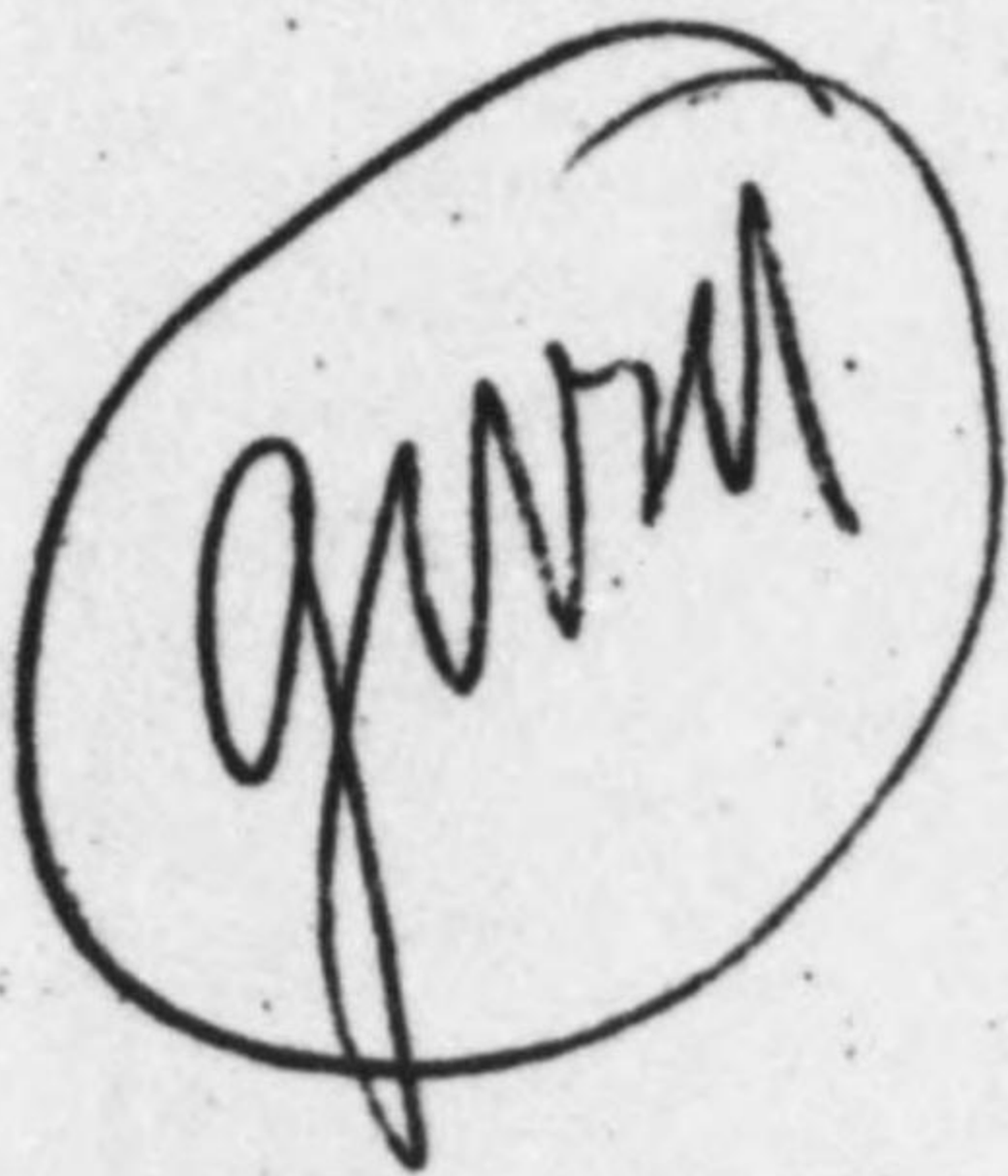
solution to Japanese economic difficulties and any hope of 'freedom from the yoke of American imperialist occupation.'" The article proceeded to throw cold water on this subject. "But the outlook is obscured not only by the political difficulty that Mao Tse-tung's price may prove too high, but by the hard economic fact that civil war has ruined and disorganized China, while the economic state of Manchuria is a sealed book. The will to trade may exist, but there may be no basis for a profitable exchange. It is in fact clear that trade with China offers no immediate aid to Japan." The article stated that much the same factors applied to the prospect of Japan's trade with Asian territories, taking into consideration the fact that India, Burma and all the countries of South-East Asia are producing few surpluses of food and raw material. "With what, therefore, would they pay for Japanese equipment? . . . The United States is still, therefore, the country's fundamental source of livelihood; although its present policies in Japan may go some way to reduce Japanese dependence, the only immediate alternative to continued American aid is collapse and Communism."

Respectfully yours,

For the Ambassador:

Erle R. Dickover
Counselor of EmbassyParchment Mat to the Department
Copy to USPOLAD, SCAP, Tokyo

ERDickover/wg

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1162, to be dated
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French Ambassador
by Mr O'Shaughnessy.
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Mr. Wiering
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in person - to be O'Shaughnessy

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7-13-49

The Secretary of State presents his compliments to His Excellency the French Ambassador and has the honor to refer to the position of the French Government as expressed by the French Foreign Minister in his letter of May 9, 1949 to the United States Ambassador to France and by the French representative in the Far Eastern Commission on May 12, 1949 on the question of Japanese participation in international relationships.

It will be recalled that the Government of the United States in the light of the situation in Japan recently presented a proposal to the Far Eastern Commission calling upon the member governments of that body to take the lead in encouraging the progressive resumption by Japan of some international responsibilities.

It was hoped that the member governments of the Far Eastern Commission would approach this matter from

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the standpoint of broad policy. It is the view of this Government that the situation in Japan today calls for more than emphasis upon internal reform and economic stabilization. It is believed that through participation in international relationships the Japanese will acquire direct experience and knowledge of democratic institutions abroad. It is also the conviction of this Government that such participation will go far to restore to the Japanese a measure of self-confidence and help to develop in them a renewed sense of responsibility.

Viewed in the broad picture of present world developments, this matter becomes more than a problem of legal technicalities. Indeed, it is the view of the United States Government that from a strictly legal standpoint the Supreme Commander for the Allied Powers has sufficient discretionary powers at present to permit Japanese participation in international relationships. It should be emphasized, however, that actual accomplishment of such

participation

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participation remains with the governments concerned. International relations are a mutual undertaking and unless all governments in a spirit of leadership seek to dissipate the vestiges of hatred and bitterness which are the inevitable aftermath of war, little can be accomplished. Each government obviously has the right to refuse to enter into relationships with Japan or to deny Japanese nationals access to its territory. Likewise the determination whether or not Japan should be invited to participate in conferences or international organizations lies with the organizations or with the member governments concerned.

While the Government of the United States attaches greater importance to the broad political aspects of this problem, it has not overlooked the legal implications including points such as those raised by the French Government. The French Government states that the Basic Post-Surrender Policy for Japan did not provide that the Far

Eastern

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Eastern Commission might be progressively deprived as regards the control of Japan's foreign relations of the powers given to it by the Moscow Agreement of December 27, 1945. The Government of the United States does not consider that the passage by the Far Eastern Commission of a policy decision deprives the Far Eastern Commission of further jurisdiction over or further consideration of that problem. In approving the policy decision proposed by the United States, the Far Eastern Commission would merely be performing its proper role of formulating policy which the Supreme Commander for the Allied Powers will implement on behalf of all of the Far Eastern Commission countries. In accordance with past practice this would not constitute a loss of jurisdiction by the Far Eastern Commission. At the same time failure on the part of the Commission to act neither affirms nor denies the Commission's jurisdiction. It merely perpetuates the existing situation under which the Supreme Commander for the Allied Powers must be guided by existing broad policies

already

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already adopted. The Commission under Paragraph II, A, 2 of its Terms of Reference has the authority to review any action of the Supreme Commander for the Allied Powers involving policy decisions of the Far Eastern Commission.

The French Government contends that discretionary powers in the field of Japanese foreign relations cannot be delegated to the Supreme Commander for the Allied Powers by the Far Eastern Commission as neither the Commission nor the individual governments represented in it possess the power to complete the resumption of Japan's international relationships. This position accords with the principle expressed by the Government of the United States that international relationships are mutual and are dependent upon the individual countries concerned. For this reason and with the desire to have the member governments of the Far Eastern Commission take the leadership in opening the way to Japan's progressive resumption of international responsibilities, the United States put forward its proposal. In the view of the

Government

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Government of the United States the Supreme Commander for the Allied Powers already possesses sufficient legal power, and, in fact the obligation, to act in this respect. The Government of the United States considers that the military occupants of a conquered and subjugated country have the supreme power over the territory occupied and in particular possess the unquestioned right to regulate all intercourse between the country under its control and the outside world. Consequently, it is entirely reasonable and in accord with the international agreement which created the Supreme Commander for the Allied Powers as the sole executive authority in Japan that the right of the Allied occupants of Japan to regulate all intercourse between Japan and the outside world should be exercised by the Supreme Commander for the Allied Powers. Such, indeed, is now the case. The Far Eastern Commission on its part is fully entitled to formulate policies with regard to the regulation of intercourse between Japan and other countries

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and in fact in the Basic Post-Surrender Policy for Japan, accepted the obligation to bring about the establishment of a Japanese Government which would carry out its international obligations. Acting under this and other broad policy decisions, the Supreme Commander for the Allied Powers possesses adequate discretionary powers. The Government of the United States shares the view of the French Government that acceptance of Japan cannot be forced on other governments by the Far Eastern Commission or by the Supreme Commander for the Allied Powers.

With reference to the suggestion of the French Government that the Supreme Commander for the Allied Powers notify the Far Eastern Commission for its information of any decision taken regarding Japanese participation in international non-political conferences, it is to be noted that the Supreme Commander for the Allied Powers is already following this practice with which the Government of the United States is in full accord.

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The French Government also proposed that any commitments which might be subscribed to by the Japanese Government in bilateral or multilateral agreements of a technical character should be submitted ultimately to the Far Eastern Commission for its approval. The Government of the United States feels that such a proposal is impracticable. The Far Eastern Commission can hardly become an administrative organ in the field of Japan's foreign relations any more than it can become an administrative organ for Japan's internal relationships. The Far Eastern Commission, of course, has the power to review any actions of the Supreme Commander for the Allied Powers approving the participation of Japan in bilateral or multilateral agreements.

The Government of the United States trusts that the French Government will agree that the situation in Japan in the matter of international relationships is not comparable with that in Germany. The Government of the United States fails to see any constructive purposes to be served

by

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by attempting to formulate parallel procedures for the two countries. Unlike Germany, Japan for the past three years has had a representative and responsible government subject to the control of the Supreme Commander for the Allied Powers. To prevent the Japanese Government under the control of the Supreme Commander for the Allied Powers from exercising further responsibility for which it has become adequately prepared in the last three years only because there has been no German government to exercise a corresponding responsibility is to penalize the Japanese people for circumstances beyond their control.

While the Government of the United States would welcome a further expression of views on the part of the French Government especially in regard to the broad political issues involved, it is the hope of this Government that the French Government will be able to give sympathetic consideration and support to the proposal for Japanese participation in international relationships under the control of the

Supreme

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Supreme Commander for the Allied Powers.

The substance of the above is being transmitted to the French Foreign Minister by the Ambassador of the United States in Paris. It is also the intention of the Government of the United States to transmit copies of this note to the heads of the other missions of the member governments of the Far Eastern Commission in Washington.

Department of State,

Washington, July 13, 1949

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Substance of note approved at time attached airmail was cleared with FE, WE, R/P, and GA.
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STANDARD FORM NO. 64

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Office Memorandum • UNITED STATES GOVERNMENT

DATE: July 13, 1949

TO : FE - Mr. Butterworth

FROM : NA - Mr. Bishop *MB*

SUBJECT :

with
Herein is a rewrite of the
"Regime of Control" which incorporates
changes suggested by you and Mr. Hamilton.

*Still needs some changes
Not sufficient emphasis
given to American character
9 SCAR*

[Signature]

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740.00119 Control (Japan) / 7-13-49

SECRETREGIME OF CONTROLI. Historical Summary1. General Background

The regime of control consisting of four agencies-- the Far Eastern Commission (FEC), the U.S. Government, the Supreme Commander for the Allied Powers (SCAP), and the Allied Council for Japan (ACJ)--was formally established by international agreement at the time of the Japanese surrender and at the Moscow meeting of the Council of Foreign Ministers in December, 1945. The Potsdam Declaration of July 26, 1945, announced by the U.S., China, the U.K. and later adhered to by the USSR, and accepted by Japan in its surrender, provided for the occupation of Japan by the "forces of the Allies" to accomplish the objectives of the Proclamation. The Basic Post-Surrender Policy for Japan approved by the FEC on June 19, 1947, provided that "the occupation shall have the character of an operation in behalf of the Powers that have participated in the war against Japan."

2. SCAP

Prior to the surrender President Truman requested and received approval from the U.K., China, and the USSR

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to the designation of General MacArthur as Supreme Commander for the Allied Powers. Our other Allies in the Pacific War indicated either directly or indirectly their approval of this designation. The FEC Basic-Post Surrender Policy Statement recognized the right of the U.S. to appoint the Supreme Commander. The Instrument of Surrender provided that the Japanese Government would carry out whatever orders or action were required by the Supreme Commander to effectuate the surrender and the provisions of the Potsdam Declaration. The broad executive authority of the Supreme Commander to act for the Allied Powers was later confirmed at Moscow and defined in the terms of reference of the Allied Council for Japan and in the Basic Post-Surrender Policy approved by the Far Eastern Commission.

3. Far Eastern Commission

In October of 1945 a Far Eastern Advisory Commission was convened in Washington for the purpose of making "recommendations" on the "formulation of policies, principles and standards by which the fulfillment by Japan of its obligations under the instrument of surrender may be determined". This body was composed of representatives of Australia, Canada, China, France, the Netherlands, New Zealand, the

Philippines,

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Philippines, the United Kingdom and the United States. The USSR declined to participate in the FEAC because of its purely advisory character.

As a result of further negotiations an agreement to replace the FEAC with the Far Eastern Commission and an Allied Council for Japan was reached by the Foreign Ministers of the U.K., USSR and U.S. on December 27, 1945, with the concurrence of China. With the USSR and the subsequent admission of India the FEC became an eleven country agency. The terms of reference of the FEC provided that it should be the function of the FEC "to formulate the policies, principles, and standards in conformity with which the fulfillment by Japan of its obligations under the Terms of Surrender may be accomplished"; and "to review, on the request of any member, any directive issued by the Supreme Commander for the Allied Powers or any action taken by the Supreme Commander involving policy decisions within the jurisdiction of the Commission".

Voting procedure provided that the Commission could take action by less than unanimous vote provided that action shall have the concurrence of at least a majority of all the representatives including the representatives

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of the U.S., U.K., USSR and China. Termination of the FEC is provided for in the terms of reference in that it shall cease to function when a decision to that effect is taken by the concurrence of at least a majority of all the representatives including the U.S., the U.K., the USSR and China.

4. Role of the U.S. Government

The terms of reference of the FEC provided that the Commission would respect existing control machinery in Japan, including the chain of command from the U.S. Government to the Supreme Commander and the Supreme Commander's command of the occupation force. The U.S. Government was empowered to prepare directives in accordance with policy decisions of the Commission and transmit them to SCAP through the appropriate U.S. Government agency for implementation.

The terms of reference also provided that the U.S. Government could issue interim directives to the Supreme Commander pending action by the Commission whenever urgent matters arose not covered by policies already formulated by the Commission; provided that any directives dealing with fundamental changes in the Japanese constitutional structure

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structure or in the regime of control, or dealing with a change in the Japanese Government as a whole would be issued only following consultation and following the attainment of agreement in the FEC. Prior to the establishment of the FEC the United States had issued thirty-two directives to SCAP which were exclusively U.S. policy. Although under the terms of reference of the FEC these policies were subject to review and modification by the Commission, only ten have in fact been so modified.

5. Allied Council for Japan

The Moscow Agreement also established an Allied Council for Japan composed of SCAP or his deputy as chairman, ^{and U.S. member} a USSR member, a Chinese member and a member representing jointly the U.K., Australia, New Zealand and India. The terms of reference of the Allied Council provided that SCAP should issue all orders for the implementation of the Terms of Surrender, the occupation and control of Japan, and directives supplementary thereto and recognized SCAP as the sole executive authority for the Allied Powers in Japan. However, it was provided that SCAP would consult and advise with the Council in advance of the issuance of orders on matters of substance, the exigencies of the situation permitting.

II. Present

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II. Present Situation1. Far Eastern Commission

As Japan has now fulfilled most of its obligations under the Terms of Surrender, so has the FEC now largely completed its task of formulating "policies, principles, and standards" for its accomplishment. The FEC has approved over fifty policy decisions relating to disarmament, democratization, and other occupational matters. The principal subjects still under active consideration by the Commission are proposed policies relating to Japanese Government workers, resumption by Japan of its international relationships, Japanese assets in neutral countries, civil aviation, trade marks and marking of merchandise, and extension of Japanese fishing rights. Reparations and level of industry, subjects on which the Commission has been unable to agree, have been profoundly affected by the recent U.S. policy announcement on these matters and are still under consideration.

Contrary to U.S. policy the other member governments of the FEC tend to view that body as the instrument whereby they may retain control over all aspects of Japanese political and economic life until the signing of a peace treaty. The attitude

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attitude of some members, particularly France, the Philippines, and the British Commonwealth countries indicates a definite fear of loss of such control and they actively oppose efforts by the U.S. to restore responsibility in some fields to the Japanese. The Commission has been increasingly used by some members, particularly the USSR, as an instrument for propaganda attacks upon SCAP and the United States.

2. U.S. Government

In the interest of expediting action as well as having its own policy implemented the U.S. Government has found it necessary to issue seventeen interim directives since the FEC was established. The U.S. has taken the position that it has the authority to issue interim directives on the grounds of urgency prior to consideration of the matter by the FEC (i.e. Economic Stabilization in Japan), when the FEC has failed to take action because of general disagreement in that body (Reparations), or when action of the Commission has been defeated by a unilateral veto (Restitution of Looted Property, Priority for Patent Applications). We are attempting to have the FEC complete action on the few remaining subjects within its purview and become only a policy reviewing agency.

3. SCAP

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3. SCAP

A large staff of over eight thousand military and civilian personnel assists SCAP in administering the occupation. This administration has intervened in almost all aspects of Japanese political and economic life. Contacts have been maintained at all levels with Japanese government and industry. Consequently the practice has grown among the Japanese to consult with the occupational authorities before attempting any new venture or adopting a change in any program.

There exists on the part of the occupational authorities a feeling of satisfaction and complacency with the success of the occupation and its method of administration.

SCAP has recently announced that it was the policy of the occupational authorities to return full responsibility to the Japanese as fast as possible. This is in line with U.S. policy. However, there is little evidence at this time of implementation of this policy, or of reduction in the administrative personnel.

4. Allied Council for Japan

Although still operative, this agency is practically ineffective. SCAP has consulted in the past with the Allied

Council

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Council from time to time but because of the limited number of formal directives on matters of substance which he has given the Japanese Government lately plus the tendency of the Soviets to misuse the Council SCAP has tended to keep his consultation to a minimum. At the present time the Council merely goes through the motions of convening and adjourning. The Soviets have and still do use the Council as a sounding board for propaganda charges against SCAP's administration and for wooing the Japanese people.

III. Summary1. The General Situation

The structure of the regime of control is such that it is particularly favorable to U.S. interests. We have veto power in the FEC and authority to issue interim directives. The other Powers have recognized the right of the United States to appoint the Supreme Commander and they have recognized the broad powers of the Supreme Commander as the sole Allied executive in Japan. U.S. guidance to SCAP on administrative matters and questions of policy interpretation are a continuing process. In spite of its legal international character the occupation is predominantly an American activity. Any agreement by the Allies to change

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the regime of control would undoubtedly be to our disadvantage. Our principal problem is to have SCAP agree to implement U.S. policy, particularly that aspect of returning a maximum of responsibility to the Japanese and to recognize that SCAP's position should be one of general supervisory observation.

2. The Far Eastern Commission

The purposes for which this agency was established have been almost completely achieved. The U.S. Government is seeking and is having considerable success in having the Commission complete as soon as possible those matters still within its purview. The introduction of new items is discouraged. The U.S. Government is trying, with limited success, to convince the other member countries that they should adopt a more realistic and enlightened attitude toward future control of Japan. We are seeking to have the other member nations agree that almost full responsibility should be turned over to the Japanese, and that the FEC should become primarily a review agency.

3. The Role of the U.S. Government

The U.S. is prepared in an effort to obtain implementation of its policy to use interim directives in urgent matters

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