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Politics and Trade in Northeast Asia

by

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June 2, 1961

THIS STUDY DOES NOT CONSTITUTE A STATEMENT OF DEPARTMENTAL POLICY

Foreign Service Institute
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PREFACE

SUMMARY OF THE ARGUMENT

For the purposes of this study the term Northeast Asia includes Japan, Taiwan and Korea, roughly the area of the pre-war Japanese Empire. Soviet and Chinese Communist imperialism converge on this area. An association of the free nations in this area would strengthen their resistance to Communism and serve the interests of the Free World. This association does not yet exist.

The United States has separately guaranteed the security of Japan, the GRC and the ROK. As a consequence, the three governments have relied on U.S. support in pursuing divergent and often conflicting policies. Under the Rhee regime the ROK formed an unwritten alliance with the GRC. This alliance was covertly anti-Japanese as well as overtly anti-communist.

The ROK nor the GRC derived little benefit from this venture. Trade and cultural exchanges between Taiwan and Korea are comparatively insignificant. On the other hand, Japan is the principal market and natural trading partner of the other two countries. Both Taiwan and Korea are accessible to Japanese cultural influences. The evidence for these assertions is presented in some detail. The facts are well-known, but the interpretation here presented has not gained general currency. The conclusion drawn from the evidence is that Japan is the indispensable link between Taiwan and Korea.

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The circumstances of U.S. military and economic assistance have heretofore in some way masked for the countries concerned the basic realities of their interdependence. A judicious reduction of U.S. assistance, both military and economic would bring out the realities of the situation, and encourage Japan, the ROK and the GRC to help each other and to help themselves.

A reduction of U.S. assistance does not imply a "disengagement" in Northeast Asia. U.S. forces must be maintained in the area in order to ward off Communist aggression and insure some sort of coordination among the three nations for their mutual defense. But a scaling down of the amount of U.S. military assistance would encourage the ROK and the GRC to abandon unrealistic plans of reconquest.

A diminution of U.S. economic assistance would logically follow from a reduction of the military establishments maintained by the GRC and the ROK. U.S. economic aid to Taiwan and Korea has served principally to make up the deficits in their foreign trade accounts. A portion has been devoted to capital investment. Japan should be drawn into a regional program of economic assistance in Northeast Asia.

But the best prospect of reducing U.S. economic assistance is to improve the balance of payments position of both Taiwan and Korea by encouraging their exports to Japan and encouraging Japanese investment in their industries. The U.S. should make a contribution to both projects.

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No attempt is made to enumerate all the contributions the U. S. can make, but the principle is established and a couple of examples proposed to illustrate the implications.

The conclusion of the entire study is that a basis exists for the regional association of Northeast Asian nations, that this association would strengthen the Free World's defenses against Communism and that the U.S. can encourage the nations of Northeast Asia to form an association by a judicious reduction and redistribution of its economic and military assistance.

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INTRODUCTION

Northeast Asia usually means Japan and Korea. For the purposes of this study the definition has been broadened to include Taiwan, for the three countries have much in common. Taiwan and Korea were formerly part of the Japanese Empire. The rupture of political connections among them did not altogether sever the economic and cultural ties which bind Japan to its former possessions. Trade and cultural exchanges between Japan and Taiwan, and Japan and South Korea revived with the postwar recovery of Japan, and have gained added importance in recent years.

Following the Korean War the three free countries of Northeast Asia became allies of the United States, which has guaranteed the security of each by a series of bilateral pacts. A regional organization for collective defense has not been set up in Northeast Asia, as in Southeast Asia. Yet there is no region of the Free World more directly threatened by Sino-Soviet Bloc. The only overt hostilities in which the United States has been directly involved since World War II have occurred in this area.

Russian and Chinese imperialism converge on Northeast Asia. Historically the Russians and the Chinese have competed for predominance in this area. Korea was involved in the struggle at the end of the nineteenth century, and lost her independence while Japan gained an empire in the process. After World War II, Russia and China undertook to compose their historical differences. The pact was ostensibly sealed for all time by the Communist conquest of China.

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Differences persist between the Communist regimes in the Soviet Union and in China. Friction between the two may eventually break out in a more virulent form than before, but in the present disorganized state of Northeast Asia, a split between the Soviet Union and Communist China would present as much of a hazard as an opportunity to the Free World. Divided as they are the nations of Northeast Asia might well be the victims rather than the beneficiaries of a renewed struggle for power between their continental neighbors.

In association with each other Japan, Taiwan and Korea could offer considerable resistance to Communist pressures and might even establish some sort of localized balance of power. Unfortunately the circumstances of postwar reconstruction have masked for each of the free countries of Northeast Asia its vital concern in the freedom and prosperity of the others. The security of the three-nations has been severally guaranteed by the United States, and each has separately received the amount of American aid required to keep its economy on an even keel.

Each of the three nations has pursued an independent foreign policy inspired by narrow self-interest. The Republic of Korea and the Government of the Republic of China have relied on the American guarantee in setting up the goals defined by the slogans "march north" and "return to the mainland". Japan has counted on the same support in following a course of minimal commitment to its own defense and that of Northeast Asia.

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None of these policies exactly serves the interests of the United States and the Free World. The policies proclaimed by the ROK and the GRC lead logically to war with the Sino-Soviet Bloc, while the course adopted by Japan is ambiguous enough to invite Sino-Soviet offers of "guaranteed" neutrality and disarmament.

The object of this study is to review the present state of economic and cultural relations among the three free nations of Northeast Asia, in order to discover what basis exists for cooperation among them, and to suggest ways in which the United States can contribute to the organization of the area.

Paradoxically enough, it appears that the United States may be able to contribute more by aiding less. The nations of Northeast Asia will become more conscious of their interdependence and regional identity if the assistance of the United States is not so readily available to each in its separate difficulties. In order to achieve this result, however, many otherwise laudable aspirations, and sentimental predilections will have to be sacrificed.

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I. THE GRC AND THE ROK
THE UNSPOKEN ALLIANCE

Until the overthrow of Rhee the governments of the Republic of China and of the Republic of Korea were undeclared allies. The relationship between the GRC and the ROK in the postwar period has been founded not on economic but on political interests. These interests have consisted in an explicit hostility to Communism and in an implicit diffidence toward Japan. This diffidence found its crudest expression in the imprecations of President Syngman Rhee, and a more subtle formulation in the diplomacy and propaganda of the GRC.

Both the GRC and the ROK have good reason to be suspicious of Japan. China and Korea suffered from Japanese aggression and domination before the downfall of the Japanese Empire in 1945. Since the end of the American occupation of Japan in 1952, the GRC and the ROK have been repeatedly disturbed by Japanese overtures to their arch enemies, the Soviet Union, Communist China, and North Korea. The Japanese attitude toward the Sino-Soviet Bloc has become increasingly ambiguous with the expansion of Japan's foreign trade, and growing competition in the world market.

The estrangement of the ROK and the GRC from Japan has been a source of weakness to them both. The economic and political consolidation of Northeast Asia cannot be achieved without the participation of Japan. The efforts of the GRC and the ROK to organize an anti-Communist front in Asia have been doomed to sterility, for want of Japanese cooperation. The

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project of a mutual defense pact in Northeast Asia on the model of NATO was repeatedly launched but always foundered on Japan's refusal to participate.

This reluctance of Japan to join another anti-Communist pact, stems partly from its disastrous experience with the Axis in World War II. Japan could probably not have been won over even in the heyday of the Yoshida Government. But the attempt was not made. In November 1953 Chiang Kai Shek and Syngman Rhee issued a joint communique calling on the governments and peoples of the free countries of Asia to organize a united anti-Communist front. Following this appeal the Asian People's Anti-Communist League was organized at Seoul in 1954. The Ryukyu Islands were represented from the start in the APACL but not Japan. In fact Japan was excluded from the organization until the 6th annual convention 1960, which took place after the overthrow of Rhee.

The GRC and the ROK exchanged numerous military political and diplomatic missions in the years between 1953 and 1960. But they were never able to formalize any agreement for mutual defense, trade, or even friendship. The initiatives of the GRC in these directions were consistently evaded by the ROK. President Rhee, as it turned out, harbored suspicions of the Chinese as well as of the Japanese. He apparently feared that a treaty with the GRC would open Korea to the exploitation of Chinese businessmen, and permit the GRC to meddle in the internal affairs of the ROK. A trade agreement between the two governments was not concluded until March 1964 after the demise of the Rhee regime.

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The alliance of the GRC and the ROK produced little but propaganda. It was primarily anti-Communist and secondarily anti-Japanese. For both partners the alliance increased the isolation which it was intended to overcome. Neither has much to lose if the unspoken alliance is tacitly dropped.

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II. TRADE AND CULTURAL EXCHANGES BETWEEN KOREA AND TAIWAN

The political partnership of the ROK and the GRC failed to foster any significant development of trade or cultural exchanges. In 1959 Taiwan provided only 2% by value of the ROK's total imports, and bought a negligible amount of Korean exports. The principal imports into Korea from Taiwan consisted of manufactured goods: (in order of importance) aluminum ingots, paper and paper products, cement, and fiber yarns and agricultural products, principally sugar and bananas. Korea's exports to Taiwan, totalling only \$127,000 in value consisted chiefly of minerals: fluorspar, graphite, barites, talc, supplemented by agar - agar and medicinal herbs. Economically there is little that the two countries can do for each other.

Culturally their cooperation has been equally unproductive. The second language of both Korea and Taiwan is Japanese. Neither country has ready access to the culture of the other. The Confucian tradition is not entirely dead in Korea, and a number of Korean students still study the Chinese classics. But there is no market in the ROK for Chinese periodicals, books, and films such as exists for Japanese products of this kind. Interest in the Korean language and culture on Taiwan is minimal to say the least. For technological education both Korea and Taiwan look chiefly to the United States, Western Europe and Japan.

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III. TAIWAN'S TRADE WITH JAPAN

Taiwan and Japan are natural trade partners. Taiwan is predominantly agricultural while Japan is highly industrialized. Taiwan has a tropical and Japan a temperate climate. The economies of the two areas have traditionally been complementary rather than competitive.

For a long period of fifty years from the Treaty of Shimonoseki until the close of World War II Taiwan was governed as a part of the Japanese Empire. The pattern of trade which was established at that time emerged again with the post-war reconstruction of the two countries. Japan continues to be Taiwan's best customer and principal supplier, although in recent years certain Taiwanese manufactures such as cotton textiles and light machinery have begun to compete with the cheaper products of Japanese industry in the Southeast Asian market.

The importance of Japanese trade in the economy of Taiwan is indicated by the fact that in 1959 Japan bought 41.5% of Taiwan's exports while accounting by value for 51.7% of the ordinary and 14.1% of the ICA-financed imports into Taiwan.¹ Ordinary imports into Taiwan in 1959 were roughly twice as great as the ICA-financed imports, so that Japan's share of Taiwan's total imports in 1959 was about 39%, very slightly larger than the United States' share which was largely financed by the Mutual Security Program.

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For the five-year period ending in 1959 Taiwan's principal exports have been the staple products of tropical agriculture: sugar, rice, pineapples, tea, and bananas. Sugar and rice alone accounted for about 55% by value of Taiwanese exports in 1959. Japan took about half the sugar and nearly all of the rice shipped abroad from Taiwan in that year. A roughly similar proportion obtained in previous years.

The GRC has striven with a degree of success to diversify industry and manufactures for domestic consumption and for export. In this endeavor it has received considerable assistance from ICA, but the exiguousness of the domestic market on Taiwan, the lack of capital and industrial knowhow, the burden of taxation and the predominance of Japanese shipping in the area inevitably limit the prospects of developing export manufactures in Taiwan. The traditional exchange of Taiwanese rice for Japanese fertilizer may well lose its basic importance in Taiwan's economic life, but Japan is still the best market for agricultural surplus, and the most likely source of supply for the capital and consumer goods which Taiwan needs.

Taiwan's principal imports in 1959 consisted, in order of importance, of machinery and tools, metals and ores, chemical fertilizers, raw cotton, petroleum, wheat, vehicles and vessels, and metal manufactures. In 1959 and in the four preceding years Japan was the principal supplier of chemical fertilizers, machinery and tools, vehicles and vessels, and metal manufactures.

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The conclusion is almost inescapable that, were it not the ICA assistance which finances the great bulk of Taiwan's imports from the United States, Taiwan would be overwhelmingly dependent on trade with Japan for supplies as well as for outlets, and that its standard of living would be drastically reduced in the process.

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IV. TAIWAN'S CULTURAL EXCHANGES WITH JAPAN

Since its removal to Taiwan the GRC has made a determined attempt to educate and reeducate the population. The brunt of the effort has borne on the school system and has achieved some notable successes. Primary education is free and compulsory from the ages of 6 to 12 years. Virtually all eligible children participate.

The language of the public schools is Mandarin Chinese. As a consequence of early school training and of association with the large minority of mainlanders on Taiwan a knowledge of Mandarin Chinese is being gradually diffused among a population who had previously spoken only the Amoy or Hakka dialects of Chinese, along with Japanese.

The Japanese also had set up in Taiwan a system of free compulsory education in accordance with the Imperial rescript of 1890. Attendance was required at "ordinary primary schools" between the ages of 6 and 12 and at "higher primary schools" for an additional 2 or 3 years. Instruction was carried out entirely in the Japanese language. The rate of attendance for the local population was not as high as at present, but similar results were achieved. The majority of the population over 30 years of age understands Japanese.

There is considerable demand among the Taiwanese for Japanese films, books, periodicals and newspapers. Back numbers of Japanese periodicals circulate in the lending libraries. Japanese films in the original version

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play to capacity audiences. Presumably the island would offer a ready market for products of the Japanese press and film industry if the GRC did not restrain these imports from Japan. By the combined application of censorship and exchange controls the importation of Japanese periodicals and newspapers is kept to a minimum. The number of Japanese films licensed for exhibition is also held down.

Cultural exchanges with Japan are similarly controlled. Every student who intends to study abroad is tested by the government for aptitude in his field of study and in the language of the country of his destination. The number of universities on Taiwan itself has also multiplied. Under these circumstances the annual migration of Taiwanese students to Japan has practically ceased.

At the present time the students from Taiwan who study abroad go principally to the United States. There is, however, a large number of "old grads" of Japanese universities scattered among the population. If the present restrictions on travel and trade were lifted there is a strong probability that Taiwan would rapidly move closer to Japan in the cultural as in the economic field.

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V. KOREAN TRADE WITH JAPAN

The Foreign trade of the Republic of Korea is dominated by the United States and Japan. In 1959 the United States supplied nearly half of the ROK's imports while Japan took approximately 66% of the ROK's exports.² The importance of the two trading partners is not, however, in any way comparable for in 1959 the ROK imported almost 14 times more by value than it exported.

In pre-war days also when its foreign trade was virtually monopolized by Japan, Korea had an unfavorable balance of trade. The deficit was made up partly by remittances from abroad notably from the Korean community in Japan. At that time, however, Korean imports of manufactured goods were largely offset by exports of foodstuffs particularly rice. In 1960 the exports of rice to Japan was resumed, but in the post-war era the ROK has not grown enough food to feed its own population. Foreign trade has languished, sustained only by massive American aid. Without this aid the ROK could not finance the imports necessary to maintain a large military establishment, and a minimum level of civilian consumption.

Normal commercial transactions outside the scope of the Mutual Security Program represent only a small part of the ROK's foreign trade. They are far from sufficient to supply the day to day needs of the population. The bulk of ROK's exports to Japan, its principal customer, consist of raw materials, and cotton fabrics. Among these the only commodities which

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exceeded \$500,000 in value for the year 1959 were, in order of importance: iron ore, cotton fabrics, tungsten, seaweed, anthracite, graphite, and fish.

With these exports as a base the ROK conducts a limited and precarious trade through regular banking channels with Japan. The trade is limited by the dearth of an exportable surplus in Korea, and complicated by political disputes. All transactions were suspended for a while in 1959 when Rhee imposed an embargo on imports from Japan in retaliation for the Japanese Government's participation in the repatriation of Koreans to North Korea. Before his overthrow in April of last year, Rhee had authorized the resumption of trade with Japan. But the trade is narrowly confined by the ROK's capacity to pay. Since the Korean account has accumulated a deficit of \$45 millions, the Japanese are insisting on a monthly settlement of outstanding balances.

In these circumstances the ROK finances the bulk of its imports from Japan through the ICA. Imports from Japan under the Mutual Security Program were more than twice as large as commercial imports in 1959. The chemical fertilizers which made up more than a third by value of Korean imports from Japan were largely financed by ICA. The next two most important import items are machinery and transport equipment and manufactured goods. The two items were nearly equal in value in 1959, and together totalled slightly less than chemical fertilizers. Roughly half of each of these items was paid for by U.S. aid.

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Japan is Korea's best customer and next to the U.S. its principal supplier. Even more than the GRC, the ROK would have to depend upon Japan for its foreign trade, if U.S. aid were not available. In the case of the ROK, however, foreign trade would dwindle to a trickle without U.S. aid, for Korea unlike Taiwan has no exportable surplus of agricultural commodities with which to pay for its imports of manufactured goods.

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VI. KOREAN CULTURAL EXCHANGES WITH JAPAN

Korea like Taiwan is a country with a high standard of literacy, and general education. Both benefited from the school system which the Japanese set up in these annexed territories as in the home islands, in an attempt to assimilate the subject populations. A knowledge of the Japanese language and an acquaintance with Japanese customs was thereby promoted among the Korean people. In Korea as in Taiwan a knowledge of Japanese is widespread among the adult population.

Rhee had imposed a rigorous embargo on all cultural contacts with Japan. He maintained with some plausibility that this rupture of communications corresponded to a deep-felt resentment of the Korean people against 50 years of oppression by the Japanese. But with the passing of the Rhee regime interest in things Japanese suddenly revived in Korea. Japanese books and periodicals appeared in the lending libraries. Commercial schools opened new courses in Japanese, and a vogue set in for Japanese songs and music.

There is a lively commerce in smuggled goods and persons between Korea and Japan, so that all open exchanges are supplemented by these hidden exchanges. It is difficult in the circumstances to estimate the number of Koreans who drift over to Japan in search of jobs and education. But the number is substantial and probably increasing, as the Japanese economy recovers and the Korean economy lags. With or without official encouragement the ROK is oriented toward Japan.

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CONCLUSION

A description of the present state of trade and cultural exchanges among Japan, Taiwan, and Korea indicates that a basis exists for the construction of a community of free nations in Northeast Asia. The cornerstone of the edifice is Japan. The futile experiment of the ROK and the GRC with an association excluding Japan need not be repeated. Taiwan and Korea can do little for each other in isolation. Japan is the link between them both.

Formidable obstacles remain to be overcome. The most obvious among them is the fear of Koreans and Chinese that trade and cultural exchanges with Japan will inevitably lead to the reestablishment of Japanese hegemony. And these fears are not entirely groundless. The latent capacity of Japan for the economic and cultural domination of Taiwan and Korea is a threat to the national independence of both countries. This threat can be minimized by moderation on the part of Japan and by a powerful American presence in the area.

The next obstacle to an association of the Northeast Asian nations is a misconceived protectionism. Traditionally trade between Japan and its Northeast Asian neighbors has consisted in the exchange of manufactured goods for raw materials. Industrialization has made considerable progress in Taiwan and a faltering start in South Korea. This development is not in itself an obstacle to trade between these countries and Japan. But the nationalistic aspiration for autarky, the uneconomical attempt to duplicate

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in each country the capital equipment of its most advanced neighbors, the accumulation of excess capacity in unprofitable enterprises, and the overall rise in domestic costs of production which generally ensues are the bane of all trade. The regional economic development of Northeast Asia may require the sacrifice of some marginal oil refineries and steel mills in the smaller countries, as well as the abandonment of some showy projects of so-called economic development, which could be more accurately described sinkholes of misdirected investment.

The most stubborn obstacle to the organization of Northeast Asia is the opposition of the Communist Bloc. This opposition takes many forms. The GRC is threatened with annihilation, the ROK is offered a merger, and Japan is promised neutrality. The lure of trade is at present the chief weapon in the Sino-Soviet assault on Japan. The Japanese are vulnerable to this weapon, Japan's trade with Communist China was about as important as its trade with Taiwan in 1958, when the Chinese Communists broke off relations. Trade between Japan and the Soviet Union has grown rapidly from small beginnings, doubling nearly every year since 1956. Japan's stake in "peaceful coexistence" has gradually increased while the organization of Northeast Asia continues to mark time.

Fifteen years after the conclusion of World War II, the presence of the United States in Northeast Asia is still the strongest bond among the nations of that area. For cultural affinity and profitable trade are no substitute for mutual security.

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An association of Northeast Asian nations for common defense has still to be created. If the United States had not been willing to fight for Northeast Asia it is doubtful that any of the three nations in the area could have preserved its independence.

American military and economic assistance are needed. Japan, Taiwan and Korea all depend upon their alliance with the United States for their security. Taiwan and Korea rely on American economic aid to supplement their budgetary resources and make up the deficit in their balance of trade. American military and economic assistance could not be cut off without disastrous consequences.

A judicious reduction of military and economic assistance from the United States should not, however, be ruled out. It could promote among the nations of Northeast Asia an awareness of their interdependence, and induce them to frame their policies to accord more nearly with their resources. The ROK's renunciation of the "march north" may be described as a belated response to U.S. pressures. Japan has gained a new appreciation of the importance of Korea to its own defenses as a result.

The aggressive posture of Rhee and Chiang, chimerical though it was, obscured for most Japanese the realities of their situation, and encouraged them to look for a middle ground among the contenders when their security was actually bound up with that of Korea and Taiwan.

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A similar renunciation on the part of the GRC of the "return to the mainland" appears for the time being to be out of the question. If ever the renunciation is made, however, the Japanese may be expected to acquire a fresh insight into the strategic value of Taiwan.

A gradual reduction of U.S. military assistance might induce the GRC as well as the ROK to give up its plans of reconquest. In the course of time the countries of the Northeast may be able to agree on a strategic concept which will permit all three to contribute directly to their common defense. For the foreseeable future, however, Japan can be counted on for little more than logistic support in the defense of Taiwan and Korea, and this logistic support is contingent upon the presence of American forces in the area. Japan's contribution to the defense of Taiwan and Korea is made indirectly through the intermediary of the United States under the terms of the Treaty of Mutual Cooperation and Security between the United States and Japan. In the circumstances a reduction of U.S. military assistance to Taiwan and Korea seems advisable, but a withdrawal of U.S. forces from the area would be fatal. The "American presence" should if anything be reinforced.

A reduction in military assistance could open the way to a reduction or at least a redistribution of economic aid. In this case a contribution could be expected from Japan. Japan has announced its readiness to participate in programs of investment in the underdeveloped nations.

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It is a member of the Development Assistance Group and a candidate for admission to the Organization for Economic Cooperation and Development. The question of a financial contribution from Japan to the economic development of Taiwan and Korea is, therefore, timely. The Western European powers generally acknowledge an obligation to assist their former colonies. Japan might well follow this example, now that it has joined the DAG. The United States, as it considers programs of regional economic development, should consider how the resources of Japan might be used to increase trade and investment among the nations of Northeast Asia.

American economic aid to Taiwan and Korea has so far served principally to reduce their budgetary deficits and to compensate for their unfavorable balance of trade. This has been primarily the function of what is known as "non-project assistance". A smaller portion of American economic aid has been directly invested in capital equipment. This part of the program is called "project assistance". It has been financed partly by ICA grants and partly by loans from the Development Loan Fund. The tendency for the past few years has been to shift "project assistance" to the DLF. The burden of "non-project assistance" will probably remain with the American taxpayer, but the cost of "project assistance" to Taiwan and Korea can and should be shared with other developed nations, principally with Japan.

The GRC and the ROK have both attempted to reduce their dependence on U.S. aid by increasing their exports and attracting private foreign investment.

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As in other phases of economic development the GRC has been conspicuously more successful than the ROK. Whereas the amount of Korean exports has fluctuated at a low level between \$20 and \$30 million during the period 1956-1959, rising to \$32 million in 1960, the total of Taiwanese exports climbed more steadily from \$130 millions in 1956 to nearly \$170 millions in 1960. Similarly both countries have laws to attract foreign private investors. But the Korean law excludes Japanese while Taiwan protects them. Foreign private investment in Taiwan has largely taken the form of technical assistance projects. There were nine such projects in operation in 1960 on Taiwan, of which six were Japanese.

In spite of rising exports Taiwan suffers like Korea from a persistent trade gap. In the case of Taiwan imports increased nearly as much as exports in the period from 1957 to 1960 so that Taiwan's commodity trade deficit in 1960 was \$82.4 million as compared to \$83.7 million in 1957. Korea's commodity trade deficit is not as constant as Taiwan's. It passed the \$300 million mark in 1955 and rose to a peak of over \$400 million in 1957. It has subsequently declined. In 1960 the ROK's trade gap amounted to a comparatively modest \$256 million.

Japan is the principal customer of both Taiwan and Korea. The best chance for increasing exports from both these nations would appear to consist in developing their market in Japan. Neither the GRC nor the ROK appears to have made a systematic effort in this direction. They have

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relied too much on traditional channels of trade to dispose of their export surplus, and have been baffled by certain shifts in demand. Both would benefit from a well-planned program of export promotion for which the United States could provide technical assistance. Korean and Taiwanese exporters might profitably apply American methods of marketing research and publicity in expanding their sales in Japan, for Japan like the United States has become a mass consumption economy, responsive to advertising and governed by consumer demand.

Along with an export drive oriented toward Japan, Taiwan and Korea should make a sustained effort to attract Japanese investment. Both countries have a literate, frugal, and industrious population which could supply an abundance of skilled and low-cost labor. At the present time Taiwan and Korea have in this respect the same advantage as Japan at the beginning of its industrial expansion. By offering beneficial tax rates, guarantees against expropriation and facilities for the repatriation of profits and capital, both Taiwan and Korea might attract a substantial volume of Japanese private investment. Japanese capital, working through licensing agreements and technical assistance contracts as well as through direct ownership and management, could develop in Taiwan and Korea the same kind of light consumer industries as originally brought Japan onto the world market. The United States might assist in this endeavor by back-stopping the local governments' guarantees of security for foreign capital and profits.

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The program of action outlined above is admittedly sketchy as well as far-reaching. It is based on the assumption that a community of free nations can be constructed on the foundations of the prewar Japanese Empire. National independence has not proved to be the panacea that was expected by the more naive politicians in the former Japanese possessions.

If economic stagnation persists the masses of the people in Taiwan and Korea will become disillusioned with independence and susceptible to Communist propaganda. An association of Japan, Taiwan, and Korea in a joint enterprise for the economic development of Northeast Asia offers an outlet for the energies of the peoples of the area, and a prospect of progress which will justify the hardships they endure in their daily living.

An association of Northeast Asian nations will strengthen the Free World's defenses against Communism. A mutual security organization may eventually grow out of this association, but for the time being the nations of the area will have to rely for their security on their separate alliances with the United States. At present the presence of the United States is the chief unifying force in the area.

Unfortunately the power and the influence of the United States in the area has to a certain extent been dissipated by the inconsistent and contradictory policies of the separate governments. Each of the three nations has pursued its own advantage with the guarantee of United States support.

A rationalization and redirection of American aid is required in order to promote cooperation among the nations of Northeast Asia, and induce them to develop compatible policies. This does not by any means

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imply United States withdrawal. On the contrary it calls for a more vigorous and far-sighted assertion of American leadership.

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FOOTNOTES

1. Statistical data taken from the official publication of the Chinese Maritime Customs "Trade of China, 1959".
2. Statistical data taken from the official publication of the Bank of Korea "External Trade Statistics for 1959".

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BIOGRAPHY

My experience in dealing with Northeast Asian Affairs, goes back to the training I received at the Navy's Japanese Language School in Boulder during World War II. After working on captured Japanese documents in OP-20-G and ONI, I joined the Navy Technical Mission to Japan in Tokyo in December, 1945. I returned to Japan in 1955, and was stationed at the American Consulate General in Yokohama for the next three years. In August 1958 I was transferred to the Bureau of Far Eastern Affairs on to the staff of the Public Affairs Adviser. My next assignment was to the Senior Seminar in Foreign Policy for which this study was written.

Since joining the Foreign Service in 1947 I served on the SANACC secretariat in the Department, as public affairs officer in Lyon and Bonn, as executive officer of the Consulate General in Bremen, as commercial controls officer for the Military Security Board in Coblenz and as principal officer of the Consulate in Colon, Panama, before returning to Japan in 1955.

I received my A.B. degree from Harvard in 1935, and a Ph.D. from the same institution in 1941. "Olim meminisse juvabit".

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BIOGRAPHIC NOTES

The author has served in the Far East for 16 years, half of them in the three countries forming the Golden Triangle.

His most recent assignment was First Secretary of Embassy in Rangoon, Burma, and he is currently a member of the Senior Seminar in Foreign Policy.

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