

THE WHITE HOUSE  
WASHINGTON

SECRET

June 9, 1964 *Korea*

MEMORANDUM FOR THE SECRETARY OF STATE  
THE SECRETARY OF DEFENSE

SUBJECT: NSAM 298 on US Forces in Korea

Confirming our oral understanding, the President has agreed to hold in abeyance the exercise called for by NSAM 298. Therefore, no formal reply is necessary at this time. I suggest, however, that we circulate the draft response which has been prepared, so that it can be available for study.

*McG. B.*  
McGeorge Bundy

DISTRIBUTION:

Bell, AID	1 cy
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DECLASSIFIED  
E.O. 12356, Sec. 3.4  
NLJ 93-67  
By wp, NARA, Date 11-19-82

JUN 11 1964

DEPUTY UNDER SECRETARY OF STATE  
WASHINGTON

June 6, 1964

SECRET

MEMORANDUM FOR THE HONORABLE MCGEORGE BUNDY

SUBJECT: NSAM 298 - US Forces in Korea

It is my understanding that Secretary of Defense McNamara has discussed with you holding in abeyance response to the foregoing NSAM. Secretary Rusk also feels that this is not an opportune time to seek to deal with the subject. Therefore, although the staff work for the two Secretaries has been completed a formal reply will not go forward at this time.

In order to clear the record I suggest that if you concur with the foregoing that you will desire to issue a new NSAM or an amendment indefinitely postponing the request for a response to NSAM 298.

*U. Alexis Johnson*  
U. Alexis Johnson

DECLASSIFIED  
E.O. 12356, Sec. 3.4  
NIJ 95-13  
By *se*, NARA, Date 3-20-95

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DEPARTMENT OF STATE  
THE DIRECTOR OF INTELLIGENCE AND RESEARCH

To : The Secretary  
Through: S/S  
From : INR - Thomas L. Hughes *TLH*

Intelligence Note

JUN 5 1964

Subject: South Korean Crisis Eased But Still Critical

~~BUNDY-SMITH~~  
~~ALEXANDER~~  
~~BATOR~~  
~~BELK~~  
~~BRUBECK~~  
~~CHASE~~  
~~FORRESTAL~~  
~~JESSUP~~  
~~JOHNSON~~  
~~KEENEY~~  
~~KLEIN~~  
~~KOMER~~  
~~MOODY~~  
~~REEDY~~  
~~SAUNDERS~~  
~~SAYRE~~  
~~SMITH, WM. Y.~~

34

In an attempt to preserve order in the face of anti-government student demonstrations President Pak Chong-hui has enforced martial law in Seoul and accepted the resignation of Kim Chong-p'il, the chairman of the government party and the chief target of public criticism. All schools have been closed and the government apparently plans to keep the universities closed until September. On June 4 there were large and in some cases violent demonstrations in other major South Korean cities, but sizeable military units employed vigorous measures to keep Seoul quiet. On June 5 demonstrations continued outside Seoul, but apparently on a declining scale. It appears that the measures which the government has now taken will enable it to control the situation for the next few days.

Effect On Korean Politics. Kim's removal could temporarily blunt the anti-government temper of students, but is not in itself sufficient to insure their respect for authority when martial law is lifted. Pressure for further reforms and concessions by the government seems likely to continue. Also, even if Kim is again forced into exile as he was in 1963, he will probably still struggle to maintain the political machine which is sometimes termed the Pak-Kim axis.

GROUP 3

Downgraded at 12-year intervals,  
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DECLASSIFIED  
E.O. 12958, Sec. 3.5  
State Dept. Guidelines

By *jc*, NARA, Date 5-8-01

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JUN 6 1964

The new situation thus remains one in which an overthrow of the government, perhaps by military officers disenchanted with the Pak regime in collusion with some civilian politicians, remains a significant threat.

Where Does The Opposition Stand? The original rallies in protest over the Government's "humiliating diplomacy" toward Japan were organized by a struggle committee of opposition parties. When students took up protest demonstrations there was evidence that they were being encouraged by opposition party leaders. Although financial backing of student leaders at Seoul National University by the leading opposition party was reported recently, the extent and intensity of student participation indicate a dislike of the government going beyond the expectation of monetary reward. Opposition parties, of course, wish to see the government resign and call for new elections. There is little evidence available to date, however, to show that they are making serious preparations for such a contingency.

International Effects. Kim has not played an active part in the currently stagnant Japan-Korean normalization talks since March. However, with Kim and the Japanese conservative politician Bamboku Ono, who died last weekend, removed as the two most active proponents for a settlement and increased uncertainty as to the stability of the Pak government, prospects for renewed progress have been further reduced.

There have been some anti-American overtones in the student demonstrations. Demonstrators have attacked the United States for its efforts to bring about normalization with Japan. A small group of leftist students are probably

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responsible for slogans decrying "comprador capitalists," apparently a term for Korean businessmen with ties to the United States or Japan, and other slogans have emphasized the government's ties with the United States. However, leftist influence and anti-American sentiment do not seem to be major factors at this time.

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DECLASSIFIED  
E.O. 12958, Sec. 3.6  
NLJ 01-205  
By abm, NARA, Date 4-5-02

MEMORANDUM

GROUP 3  
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June 1, 1964

TO : FE - Mr. Bundy  
FROM : FE - Marshall Green  
SUBJECT : Possible Overthrow of Korean Government

This telescopes observations made to me by Suk Heun Yun, Minister of the Korean Embassy, during a luncheon arranged by Mr. Yun on May 29, 1964. It was evident that Yun wanted to get something off his chest. (Protect source.)

Yun predicted that, unless immediate steps are taken to get rid of Kim Chong Pil and improve the Government's standing before the people, the populace led by the students would topple Park Chung Hui's Government within a matter of weeks. Meanwhile, there was a chance that coup groups might be tempted to step in to take advantage of the Government's obvious unpopularity. He did not think the U.S. Government could get out in front, but would have to operate discreetly behind the scenes to persuade Park Chong Hui to act before it is too late. It may be too late already.

The main grievance of the people, especially the students, is corruption in high places, with more and more evidence coming to light that the ruling party (DRP) is lining its pockets through kickbacks, sale of public lands, and pressures on small businessmen, farmers and others. The situation is completely intolerable, especially since this military coup group led by Park and KCP, which never enjoyed popularity, justified its illegal actions on May 16, 1961 on the basis of a pledge to wipe out corruption.

He thought it highly important that steps be taken to ensure that the military remained neutral at the forthcoming showdown. He did not think this would be too difficult to achieve in view of a breakdown over the past two or three years in the leading military factions. The key figure was the Army Chief of Staff. He was the man who could exercise the most effective influence in maintaining a neutral stance by the military.

Along with the corruption issue, there were other grievances but these were relatively minor. Concern over ROK/Japanese negotiations is high, not because of hatred of Japan but because Kim Chong Pil and company are obviously turning these negotiations to their own personal financial profit. It was absolutely

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impossible for this Government to conclude any settlement with Japan. If it attempted to do so, the lid would blow.

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(On April 11, 1960, Yun, who at that time was a Director in the Foreign Office, invited me to lunch for the purpose of discussing what he saw as the impending overthrow of Syngman Rhee. Up to that point he had refused to discuss internal political affairs, just as in recent years he had refused to do so.)

cc: M - Governor Harriman  
G - Mr. Johnson  
Ambassador Berger, AmEmbassy, Seoul  
John K. Emerson, AmEmbassy, Tokyo  
Robert W. Komer, White House  
Peter Solbert, OSD/ISA  
EA

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1 June 1964

MEMORANDUM FOR MR. KOMER

Attached is JCS document JCSM 458-64, dated 30 May 1964, which may be of interest to you. As Mr. Bundy directed on 19 November, please read this document for "background only," in the sense in which the press understands that term. Any compromise of source could dry up this potentially useful channel of information overnight.

Please return the attached document to Smith, Room <sup>387</sup>~~376A~~.  
EOB, in a sealed envelope, not later than 8 June 1964.

*W. Y.*  
W. Y. SMITH

Attachment  
a/s

JUN 1 1964

*Korea*  
37

27 May 1964

MEMORANDUM FOR MR. KOMER

Attached is JCS document JCSM 440-64, dated 22 May 64, which may be of interest to you. As Mr. Bundy directed on 19 November, please read this document for "background only," in the sense in which the press understands that term. Any compromise of source could dry up this potentially useful channel of information overnight.

Please return the attached document to Smith, Room <sup>387</sup>~~376A~~  
EOB, in a sealed envelope, not later than 2 June 1964.

W. Y. SMITH

Attachment  
a/s

MAY 27 1964



DEPARTMENT OF STATE

WASHINGTON

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May 15, 1964

7350

MEMORANDUM FOR MR. McGEORGE BUNDY  
THE WHITE HOUSE

Subject: Draft Statement by the President When U.S. Helicopter  
Personnel Are Released by the North Koreans

The Commander-in-Chief United Nations Command has reported (telegram UK 60355) that the two U.S. helicopter personnel held unjustifiably by the North Koreans are to be released in Panmunjom at 10:00 p.m. Washington time tonight.

Attached is a draft statement, concurred in by the Department of Defense, for release in the name of the President. Since the North Koreans have demanded that North and South Korean news representatives be present, there is no way to delay press knowledge of the release. They may make use of purported confessions broadcast February 18. CINCUNC has been requested to inform us by FLASH message when the men actually have been released, so that the statement here could be issued promptly.

Also attached is a background briefing for use by your press officers.

Senators Douglas, Hart, and Sparkman have followed this case closely. The first two wrote Secretary Rusk very recently, asking for more intensive action on the case, and the Acting Secretary asked them to hold up any public statements for a time, in the hope that a release might be obtained around the time of the first anniversary of their detention, May 17. We understand Senator Sparkman did not join with the others because he did not wish to criticize the Departments of State and Defense. The Senators have been informed of the present developments and asked not to make any public statements until the release of the men has been effected.

/s/ BHR

Benjamin H. Read  
Executive Secretary

Attachments:

Draft statement by the President  
Background information

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Authority State memo 9-11-95  
By NS, NARA, Date 8-11-97

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MAY 18 1964

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DRAFT STATEMENT IN THE NAME OF THE PRESIDENT

I have been informed by the United Nations Command in Seoul that Captain Carleton W. Voltz of Frankfort, Michigan, and Captain Ben W. Stutts of Florence, Alabama, who had been detained unjustifiably by the North Koreans since May 17, 1963, were released by Panmunjom at \_\_\_\_\_ Korean time (\_\_\_\_\_ EDT). We have made great efforts to obtain their release, and have had the help -- for which we are grateful -- of humanitarian organizations and a number of other countries. I am sure we all share the joy of their families at the news of their release. The men will be in touch with their families as soon as possible.

**PRESERVATION COPY**

If queried whether they were guilty of military espionage:

The facts of the case are well known. The helicopter did cross into North Korean territory; we have stated many times in the Military Armistice Commission meetings that the crossing was inadvertent. The men were in uniform, were performing the military mission of checking aircraft warning markers south of the Demilitarized Zone, and had no weapons or cameras in their possession. It is preposterous to allege they were engaged in military espionage. We have often heard such allegations in the past from the North Koreans.

**PRESERVATION COPY**

BACKGROUND INFORMATION

Captain Ben W. Stutts, USA, of Florence, Alabama, and Captain Carleton W. Voltz, USA, of Frankfort, Michigan, were pilot and passenger respectively of a United Nations Command helicopter that landed May 17, 1963, just inside North Korean territory after being fired on. They were on a routine military mission checking aircraft warning markers when they crossed the Demilitarized Zone, we believe inadvertently, and flew over North Korean territory. Upon landing, the officers were observed stepping out of their helicopter and being led away to nearby trucks by North Korean soldiers.

On the day they were taken into custody, and in ten subsequent meetings of the Military Armistice Commission at Panmunjom, the United Nations Command demanded the release of the men and the helicopter. Despite our expression of regrets at the intrusion and assurances that measures would be taken to prevent recurrence, the North Koreans at these MAC meetings would state only that the officers were in their custody, in normal condition, and that it was for the North Koreans to decide what would be done with the men.

In addition to these meetings, the assistance of international humanitarian organizations was sought to obtain additional information on the welfare of the men and to arrange for the exchange of mail between the officers and their families. After many months of effort, we were told indirectly that letters from the families had been delivered to the officers, but we will have to await confirmation of this report from the men themselves.

In addition, we have had the assistance of a number of countries in seeking additional information on the officers and in exerting influence or pressure whenever possible. We also made a special report to the UN General Assembly last December on North Korea's unjustified detention of the men.

We can only speculate as to why the North Koreans are now releasing the men. One year less one day has passed since the men were taken into custody and the North Koreans may have decided to make a magnanimous gesture at this time. As far as we know, the men were never sentenced, although purported confessions were broadcast on February 18, 1964. The North Koreans have never revealed their intentions in continuing to hold them for this period of time. There was no quid pro quo arrangement.

Two known incidents of this nature have occurred since the 1953 Armistice Agreement was signed. The first occurred in 1954 when a Marine Corps Colonel landed an L-19 by accident at a North Korean airport; he was held for about eight months before being





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TO : S/S - Miss Moor

FROM : FE - Marshall Green

SUBJECT: Study of Possible Redeployment of U.S. Division  
now Stationed in Korea

Attached for running off and distribution as appropriate are stencils of a proposed response by the Secretary to NSAM 298 on the above subject. The paper has been prepared in cooperation with Defense, AID, G/PM, and E working levels, but one or two paragraphs of the basic study remain unagreed with the AID working level. Mr. Bundy has not yet reviewed the paper. I understand that copies will be provided Defense, AID, G/PM E, FE and others concerned for top-level approval prior to the paper's submission to the Secretary. A carbon copy is being provided Mr. Komer at the White House today.

Also attached is a draft copy of a staff study under cover of which Mr. Bundy will forward the proposed Memorandum for the President to the Secretary as soon as he (Mr. Bundy) has been able to review it and all necessary concurrences have been secured.

FE:EA:RAFearey/pmh  
5/22/64

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Authority State memo 9-11-95  
By 4, NARA, Date 8-11-97

MAY 23 1964

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SECRET

TO : The Secretary  
THROUGH: S/S  
FROM : FE - William P. Bundy  
SUBJECT: Study of Possible Redeployment of U.S. Division now Stationed in Korea

Discussion

In NSAM 298 (Tab B) you were asked by the President to "coordinate a joint State-AID-Defense study which will enable me to weigh and resolve the choices facing us with respect to the possible redeployment of one of the U.S. Divisions now stationed in Korea." The requested study, approved by Secretary McNamara and Administrator Bell and based on the similar study prepared last January, is at Tab A, covered by a summary memorandum from you to the President.

Recommendation

That you sign the Memorandum For the President at Tab A.

Concurrences:

G/PM -  
E -

Attachments:

Tab A - Memorandum for the President

Tab B - NSAM 298

*Attachments  
destroyed  
6/18/64  
per 6/12/64 drafts*

FE:EA:RAFearey/pmh 5/22/64  
FE: M. Green

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DECLASSIFIED  
Authority State memo 9-11-95  
By 5, NARA, Date 8-11-97

MAY 23 1964

HO

May 14, 1964

Mr. Komer:

The attached paper, drawn up by State, Defense and AID last January, is provided pursuant to Mr. Bundy's conversation with Mr. Bator. We are proceeding with preparation of the paper called for by NSAM 298, using this paper as the foundation.

*Bob Ferry*

MAY 14 1964



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EA  
This document consists of 1 pages  
No. 4 of 4 Copies, Series A

FE - Mr. Green

May 6, 1964  
40a

EA - Leonard L. Bacon

Your Meeting with Under Secretary Ball regarding U.S. Troop Withdrawals from Korea

We understand that you and Deputy Under Secretary Johnson are to meet with Mr. Ball at 5:00 p.m. May 6 to discuss U.S. troop withdrawals from Korea. We understand that the meeting is based on a new indication of White House interest in withdrawing a division of troops from Korea in order to effect a balance of payments saving. You will recall that this issue was considered very thoroughly between State and Defense. A proposed joint memorandum for the President from the Departments of State and Defense was prepared and discussed with the Secretary in January, and was then revised in accordance with his suggestions. That revised memorandum, attached, is the latest document defining the Departments' positions on the issue.

Since the principal issue raised appears still to be the alleged balance of payments saving that would be effected by the withdrawal of the division, you may wish to reread paragraph 6 on page 8 of the memorandum, which points out that the net balance of payments savings would be only in the order of \$4 million, since savings in the defense budget would have to be offset by increased economic assistance.

The Department of State took the position (page 4 of the attached memorandum) that the issue of U.S. troop withdrawal be reviewed before the end of calendar year 1964. Any decisions or rumors of decisions at this time to withdraw a division would, in our opinion, seriously jeopardize the prospects for a normalization of Korean-Japanese relations, which is a high priority U.S. objective that is approaching fulfillment, and might also lead to the downfall of the present administration. After the Korean-Japanese normalization is achieved and the immediate economic crises of devaluation and related stabilization efforts are passed, we may be able toward the end of this year to prepare to move ahead with Korean and U.S. force reductions, ~~in that sequence~~ in that sequence.

Attachment:

Draft memorandum for the President

FE:EA:CANorredJr:bhm 5/6/64

DECLASSIFIED  
E.O. 12958, Sec. 3.5  
State Dept. Guidelines

By jc, NARA, Date 3-7-03

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MAY 14 1964



Jan 1964

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DRAFT

Final version  
revised to  
reflect Secretary  
views.

MEMORANDUM FOR THE PRESIDENT

SUBJECT: US and ROK Force Reductions in Korea

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1. This memorandum sets forth the views of the Departments of State and Defense as to the implications for US national security of effecting reductions in ROK forces and a withdrawal of the major portion of one US division from Korea. The detailed analyses are at Attachment A.

2. We are agreed as to the desirability of a proposal to the Korean Government for reduction in ROK forces of 70,000 to commence within the next few months and to take place over a 24 month period. We believe that such a reduction:

a. Will be politically manageable. There will be some political resistance from the Korean Government but not substantial.

b. Will have some economic benefits. We believe that over the long run the reduction of the ROK military establishment will be desirable from an economic point of view, especially if freed ROK military budget resources can be effectively channeled into

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E.O. 13292, Sec. 3.5

NLJ 03-160

By js, NARA, Date 6-30-04

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MAY 14 1964

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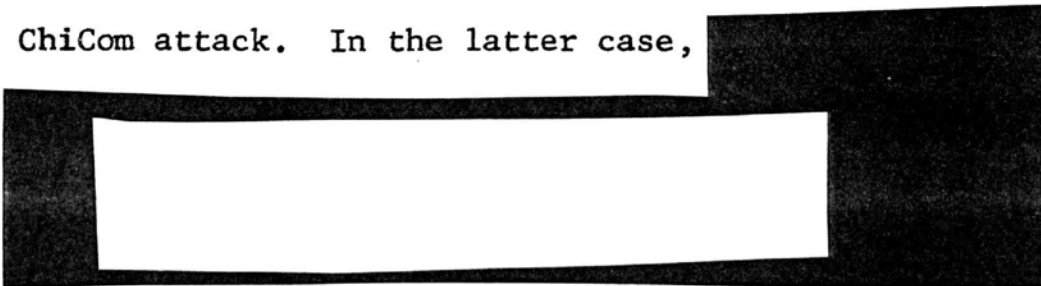
investment.

c. Will be militarily acceptable. The military risks involved are acceptable, and the reduction will permit a more effective use of reduced MAP resources.

3. State and Defense are not in agreement on the desirability of a withdrawal of the major portion of one US division from Korea.

a. Defense recommends that such a withdrawal should be announced to the Korean Government at the same time that the proposal for a reduction in ROK forces is made and that the actual withdrawals should begin in the latter half of 1964. The DOD position is based on the following considerations:

(1) The present level of US/ROK forces is in excess of needs to contain a North Korean attack but is too small for defense against a combined North Korean-ChiCom attack. In the latter case,



3.3  
(b)(5,6)

Militarily, the withdrawal of a major portion of a US

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division would not substantially alter this strategic posture. We would have the same option [REDACTED] [REDACTED] although the decision would probably have to be made earlier.

3.3  
(b)(5,6)

(2) An increase in the flexibility of our total military posture would result from having the additional division in reserve in the US rather than in a static deployment in Korea.

(3) Department of Defense balance of payments expenditures would be reduced by \$19 to \$22 million annually and the Defense budget would be reduced by an estimated \$18 million annually.

(4) Heavy equipment would be pre-stocked in Korea, thus permitting rapid replacement of the withdrawn division in time of need. The 40,000 US troops remaining there and our ability to deploy augmenting forces would be convincing evidence of our willingness and ability to defend Korea. [REDACTED]

3.3  
(b)(5,6)

[REDACTED] DOD believes the withdrawal of the major portion of one division

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would not adversely affect US command and control over UN and ROK troops.

b. The Department of State believes that the proposed withdrawal of US forces would not be in the US interest at this time and accordingly that it should not be broached to the Korean Government. It proposes to review by December 31, 1964, after the ROK reductions have gotten well under way, the advisability of the withdrawal of a US division. State's objections to the DOD proposal for making a decision now to withdraw and making this known to the ROK are:

(1) The US position in Asia will be under unusually heavy strain this year -- in Vietnam, Indonesia, Laos and elsewhere -- and we face the probability of intensified international pressures with respect to Communist China and its admission to the UN. Fortunately we have a position of relative strength in Northeast Asia, but we fear that the withdrawal of a division from Korea at this time, taken in conjunction with other developments in the Far East, would pose real risks to this position thus adding to the unsettled situation throughout the entire Far East. We cannot accurately

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guage the depth of Far Eastern reactions to the withdrawal of one US division from Korea, but we do know the reactions would be adverse. State does not think that the relatively limited benefits derived through the withdrawal of the division warrants the considerable risks involved.

(2) The memory of the US force pull-out in 1949 is still fresh in Korea, although there is an obvious difference between the current proposal to withdraw one of the two divisions and the complete pull-out in 1949. Sizable US force reductions now would undermine confidence in our abilities and intentions just as the new civil Government addresses itself to economic stabilization, [REDACTED]

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[REDACTED] With regard to the proposal to reduce ROK forces, the Korean Government has already put us on notice that it regards the maintenance of existing US strength in Korea as a pre-condition to such a reduction. As regards US influence exercised through our military presence, even if the Koreans did not challenge continued US control within the UN

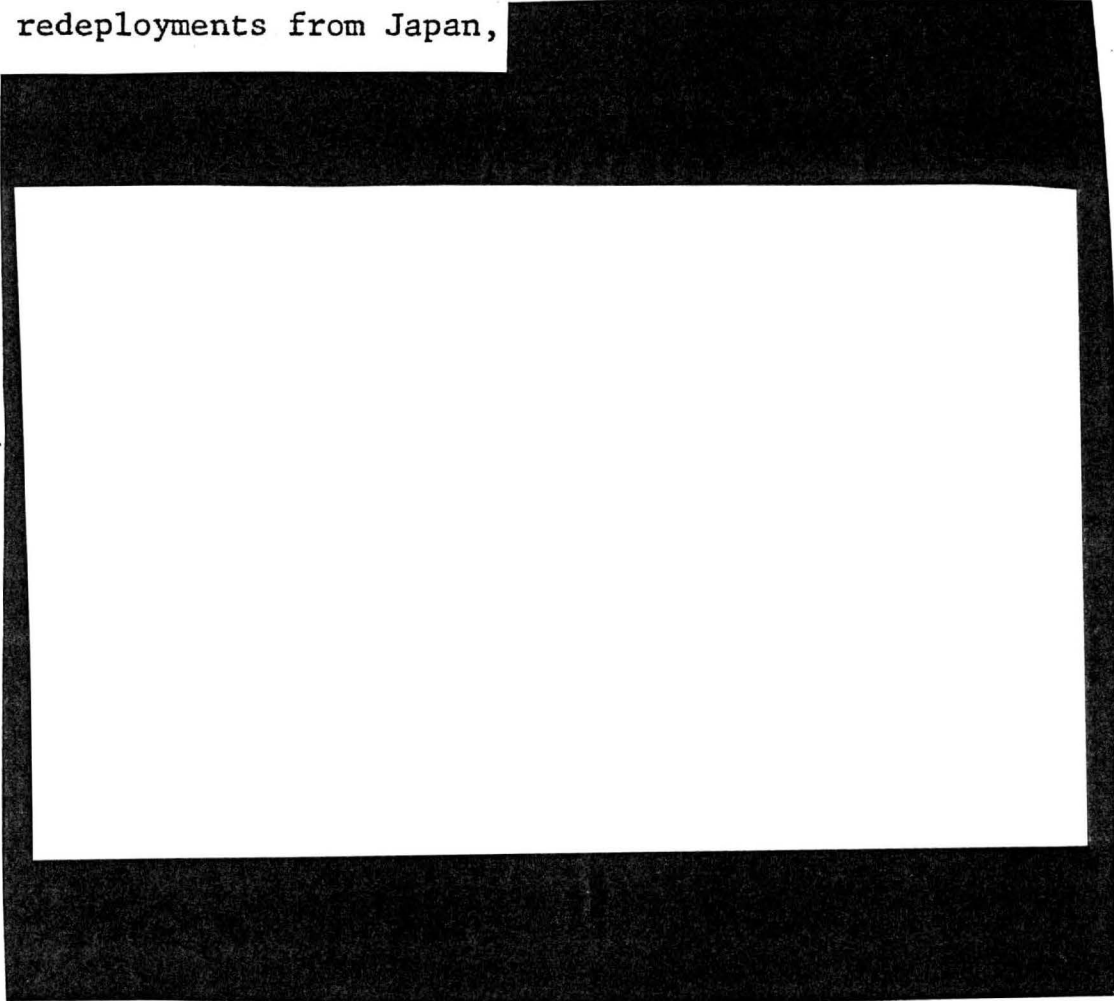
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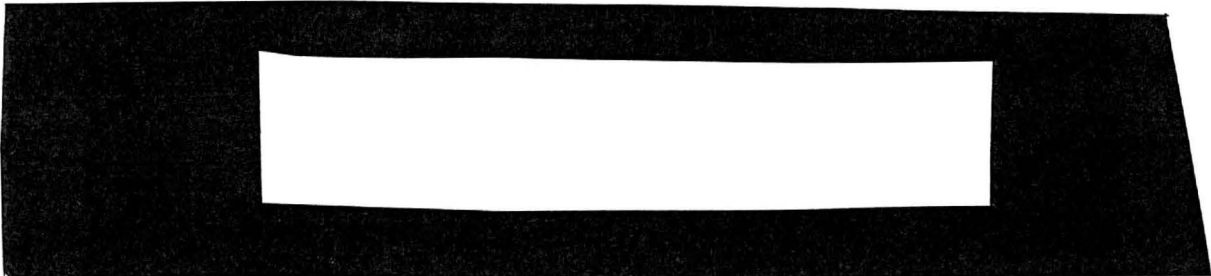
Command following the withdrawals, the effectiveness of that control might be reduced.

(3) Coming on top of the just announced US redeployments from Japan,



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(b)(5,6)

(4) Withdrawal of a US division would inevitably

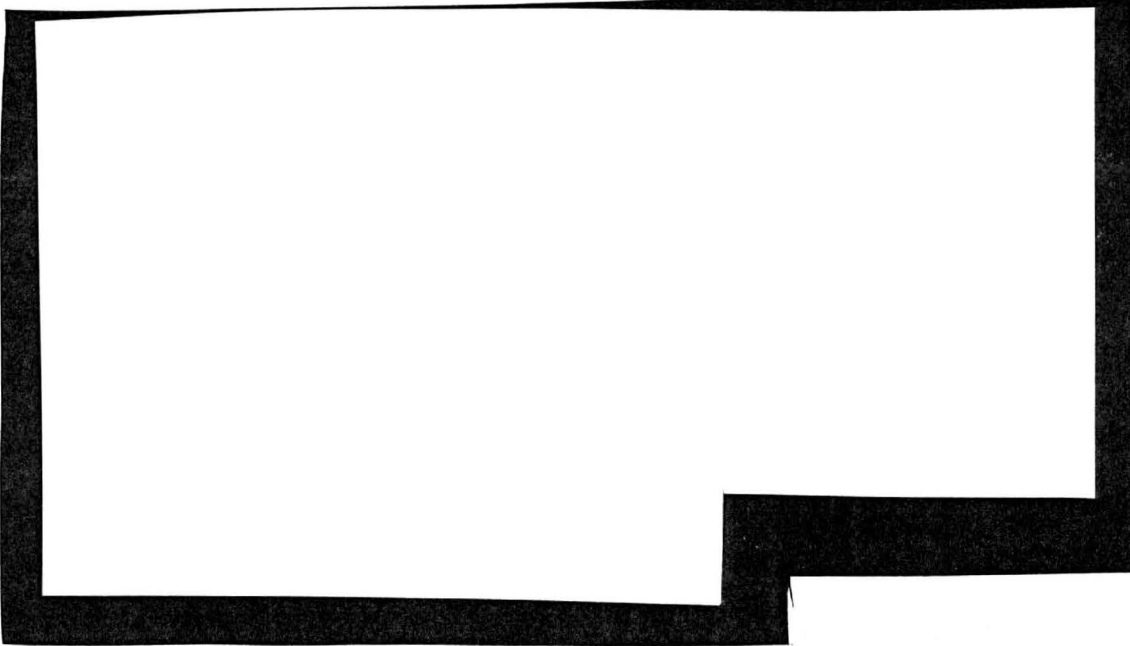


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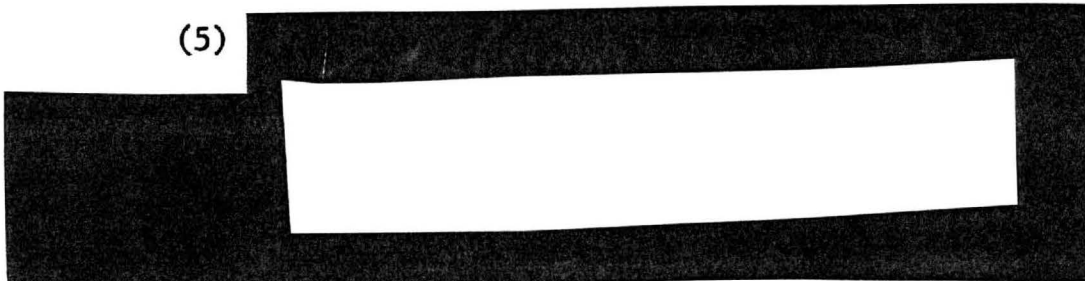
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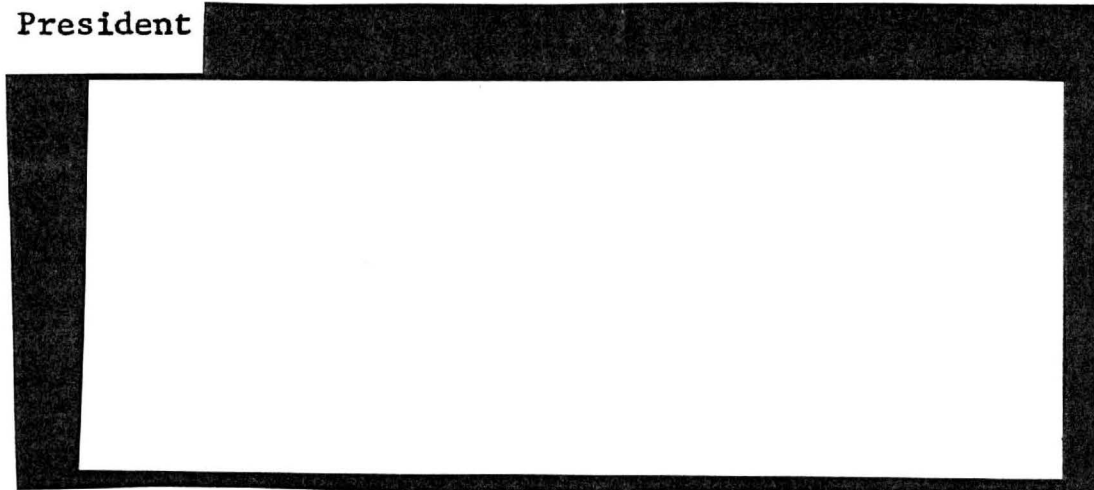
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(b)(5,6)

(5)



3.3 (b)  
(5,6)

State believes, as a practical matter, it is bound to decrease somewhat the flexibility of the President

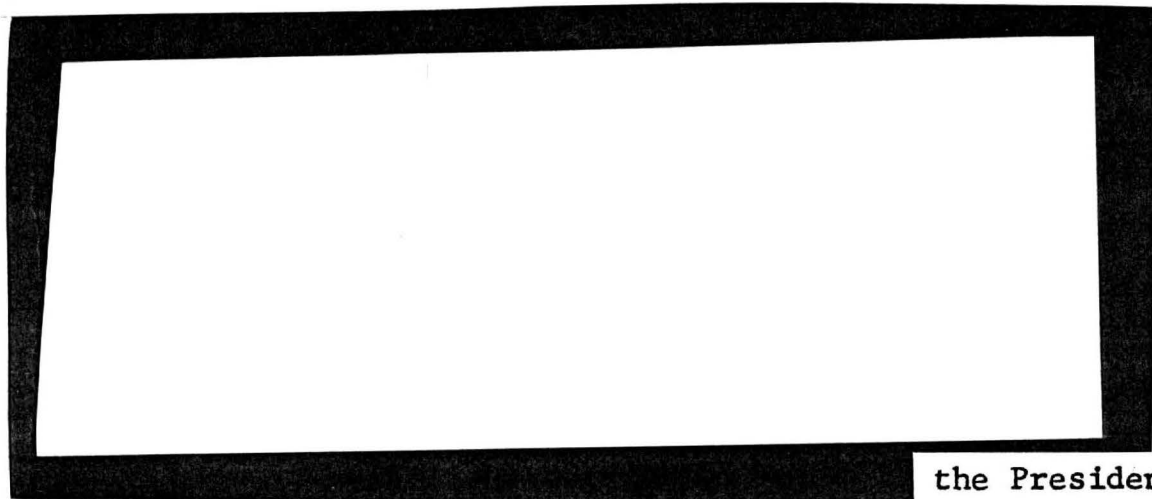


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3.3  
(b)(5,6)

the President

should have before him a full range of alternatives in order to cope with the situation as it might, in fact, exist at the time.

(6) State does not believe that US forces should be retained overseas for the purpose of supporting the economies of host countries. It is true, however, that the balance of payments and budgetary savings which would result from a reduction in US military expenditures in Korea would have to be made up by increased economic assistance to that Government. Our estimates indicate that thus the net balance of payments advantage to the US would not be the full \$22 million saved from Defense expenditures in Korea but would only be in the order of \$4 million to the US Government as a whole. The savings in the Defense budget would also be offset by the increased budget requirements of AID.

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(7) The Secretary of State has been attempting to get the message to Hanoi (which also means Peking) that any impression that the US will get tired of the Vietnam effort and withdraw is wholly wrong. Withdrawal of a division from Korea would tend to confirm in Hanoi and Peking any judgment they might have that we are becoming war weary in Southeast Asia.

(8) It is impossible now to foresee whether these adverse factors will have sufficiently shifted by the end of the year to permit a withdrawal, however, we do recommend reconsidering the situation at that time.

Recommendation: That you (1) accept the agreed State/DOD proposal to proceed with a 70,000 man reduction in ROK forces, and (2) resolve the difference in views of the advisability of withdrawing one US division at this time.

Attachment

G/PM/SWeiss/v1

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DEPARTMENT OF STATE SUPPORTING MEMORANDUM

I. Political Implications of Reduction of US Forces in Korea

A. Considerations Unrelated to Nuclear Threshold

1. Koreans have already voiced publicly and privately their uneasiness over rumors of US force reductions in Korea. Memory of what happened in 1949 when we pulled out our forces, followed by the Korean War, is still fresh in people's minds in Korea. Any sizable US withdrawals at this juncture would cause apprehension among Koreans regarding their security and especially our intentions toward Korea. (They would also be concerned over economic losses resulting from US withdrawals (see economic section below).) All this would undermine the atmosphere of confidence we have been laboriously seeking to create in Korea, particularly as the new government in Korea enters upon challenging tasks, confronted with a multitude of serious problems.

2. A reduction of US forces at this time would obstruct our efforts to bring about the desired reduction in Korean force levels, which we believe to be necessary in order to promote economic stability and development in Korea. The ROK Government has now come to see the need to move in this direction. However, as a condition for these reductions in Korean force levels, the Korean Defense Minister on November 9, 1963, sought from us an assurance that there would be no reduction in US forces.

3. US control over the Korean military forces would also be affected. The successful 1961 military coup, carried out in the face of US remonstrance and objection, demonstrated that the control of the UN Commander over the Korean forces is already far from complete. Within the UN Command, the US role has been enlarged by forming the two US divisions defending the key approaches to Seoul into "I Corps" and joining a Korean corps to it to form "I Corps Group" under an American commander. If less than one US

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SANITIZED  
E.O. 13292, Sec. 3.5  
NLJ 03-160  
By ius, NARA, Date 12-24-03

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-2-

division were withdrawn, it is unlikely that the Koreans would challenge the continued control of the UN Commander over the Korean forces, but the effectiveness of that control, especially in the area north of Seoul, would be substantially reduced. This would increase possibilities of military coups, would weaken a stabilizing element in the Korean scene, and might in the long range give us less control over ROK military ventures against (or dealings with) the North Koreans. The international composition of the UN Command probably would also be impaired. Possibilities of the Turkish and Thai companies being withdrawn would be significantly increased, leaving only US and Korean forces in the UN Command. This would give ammunition to the Communists in their efforts to portray the UN Command as a purely US force, and to press for its dissolution.

4. Sizable US force reductions in Korea also present a possibility of seriously adverse consequences in Japan, the keystone of our defense structure in East Asia. Just how serious the consequences would be would depend in large degree on the Japanese estimate of the effects of the reduction on political stability and military strength and determination in South Korea. Even assuming the best in the ROK, the reductions, coming on top of the just announced US Air Force withdrawals from Japan, would weaken Japanese public and official confidence in the US military commitment and posture in Northeast Asia, which find their most convincing form in American troops "on the ground" in Korea and Japan. The result could be an intensification of the Japanese home defense effort, but is far more likely to be an increase in neutralist-pacifist sentiment and added difficulties for the Government in securing necessary public and Diet support for continuation of a slow but steady increase in Japanese defense appropriations. The Japanese Government would almost certainly defer finalizing the negotiations for normalization of relations with the ROK--now hopefully entering their final stages--until it could assure itself that the reaction to the reductions in South Korea was of acceptable dimensions, not significantly affecting the ROKG's future policies and prospects. Large-scale Japanese investments in the ROK, important to the

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-3-

country's economic stabilization and development, would be similarly deferred.

5. The impact of a sizable US reduction of forces in Korea, although stronger and more immediate in Japan and Korea, would extend to other areas, particularly to countries near the periphery of Communist Asia. Both they and other nations interested in the Far East would interpret it in the light of the current generally unsettled situation in the Far East. Many would regard it as a weakening of the US position against Communist China. Certain non-aligned countries, on the other hand, might profess to welcome it as an easing of tensions.

#### B. Considerations Relating to Nuclear Threshold

1. Overlying the basic reactions already described would be the reaction to the lowering of the nuclear threshold that is implicit in such a reduction of US forces. Koreans, like other allies, fear becoming a target area in a nuclear war. The Korean Defense Minister, in discussing possible reductions of Korean forces and urging that US forces not be reduced, told us that substitution of nuclear defense for conventional forces would give the Korean people concern because nuclear defense would entail the destruction of Korea. At the same time, the Korean Government and people would fear that the US might shrink from using nuclear weapons in Korea's defense, with a resulting compromise of Korea's security and increased likelihood of attack. A sizable reduction of US forces, coming on top of sizable ROK reductions, would present the ROK with the unsettling dilemma of whether to acquiesce in a reduction of ROK security or to insist on an advance commitment of early use of nuclear weapons.

2. Lowering of the nuclear threshold in Korea would compound the political consequences in Japan already discussed. The Japanese public retains an almost pathological fear of involvement in nuclear war. Prospects of early US resort to nuclear weapons in Korea could be expected to lead to public pressures from the Right as well as from

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-4-

the Left for re-examination of US rights under the Security Treaty of 1960

3.3  
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3. Lowering of the nuclear threshold would have impact throughout Asia and even globally. Communist representatives in the Military Armistice Commission and in the annual debate of the Korean question in the UN General Assembly probably would increasingly feature attacks on US nuclear policy. We are committed by diplomatic understandings dating back to 1950 to consult, before withdrawing substantial forces, with the other fifteen countries which originally contributed forces to the UN Command. Some of them probably would oppose it. In this fashion, if not otherwise, the question would be brought to the attention of our NATO allies, who probably would question its compatibility with the US NATO policy stressing the importance of conventional capabilities. Our apparent greater willingness to use nuclear weapons against non-white races would give Peiping useful ammunition in its appeals to Asian and African peoples. Although some of our allies, depending upon the nature of our nuclear commitment to the Koreans, might press us for nuclear commitments in their areas, the reaction would on the whole probably be adverse to our interests. Not wishing to become nuclear target areas, and mistrustful of the US capability to make a quick non-nuclear response, our Asian friends might tend to accommodate Chinese Communist pressures rather than face the alternative of fighting.

5. The effects of the US move on the Sino-Soviet rift are not predictable. Lack of Soviet support for Communist China has recently made conventional defense in Korea more feasible than it was previously. A lowering of the nuclear threshold on our part, or the appearance of it,

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-5-

would place the USSR in an awkward situation. If it failed to respond, its role of sole custodian of the Bloc's nuclear deterrent and defender of the "socialist camp" would lose credibility. Moreover, even though North Korea is aligned with Communist China, the USSR has its own set of interests and ties with North Korea. In the event of actual hostilities, the USSR would at a minimum make ambiguous threatening statements which would create great uncertainty as to Soviet intentions as well as great pressure upon the US to cease the use of nuclear weapons and to enter into negotiations for the end of hostilities. While it is far from certain that the USSR would provide nuclear weapons to the Communist side, this is a sufficiently serious possibility that it must be taken into account. Among other possible reactions relating to the Sino-Soviet rift is the possibility that awareness of its dependence upon the Soviet nuclear capabilities might make North Korea more susceptible to Soviet as opposed to Chinese Communist influence. This could as easily lead to a strengthening of the North Korean military balance against the Republic of Korea as to an easing of tensions. The Chinese Communists for their part might exploit a US reduction as a victory for their policies and a step toward the withdrawal of all US forces from Korea, enhancing Communist China's influence in Asia. Whatever the precise outcome of these conflicting reactions, it is likely that it would not be to US advantage as compared with the present situation.

### C. Conclusion

Any substantial reduction of US forces in Korea at the present time would be highly damaging to the general US position in the Far East. Our investment of blood, treasure and principle in Korea and the utility of our bases in Japan would be jeopardized. The implication of increased reliance on nuclear weapons would be particularly damaging, supplementing the other adverse effects of the reduction. A small savings in foreign exchange and possible military flexibility advantages hardly seem worth these political and security costs. A reduction in US forces would cause the Koreans strongly to resist the reductions in their own forces which they are now at last apparently ready to accept.

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## II. Political Implications of Reduction of Korean Forces

The reduction of Korean forces of the magnitude suggested probably would have no significant adverse political implications if it were not coupled with US reductions. ROK fear of and hostility toward the North Korean regime has made the government and people willing to bear a heavy military burden. Realists in government, press and political circles have, however, often argued that the ROK forces are excessive. Reductions have been accomplished at US initiative in the past. In recent years, the need for economic development and reduced US assistance have created a favorable atmosphere for reducing the forces further. Over the longer run a smaller ROK military establishment should tend to promote greater political stability within the country. During the past year, high Korean officials, military as well as civilian, have indicated their preparedness to undertake reductions, asking for assurance that the US forces would not also be reduced. With such assurance for the immediately foreseeable future, reductions in the ROK forces of the magnitude proposed probably would not encounter strong ROK Government or military opposition nor arouse serious popular misgivings. Under these circumstances, reactions elsewhere in the Far East would be negligible.



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40-d

DEPARTMENT OF DEFENSE SUPPORTING MEMORANDUM

This memorandum analyzes the military aspects of the recommendation that the major portion of one US division be withdrawn from Korea by late 1964\* and that the ROK ground forces be reduced by 70,000 men over a 24-month period beginning as soon as practicable. (The replacement of the remaining US division by an air assault division, as proposed by General Howze, is not considered in this paper because evaluation of the air assault concept will not be made until the second half of 1965 upon completion of tests now in progress.)

Present Military Forces

The North Korean ground force consists of 330,000 men organized into 19 infantry divisions and one armored division, equipped with modern Soviet materiel. This force could be increased in a short time by some 26,000 from the Internal Security Force. There is also a partially armed militia of 400,000. The Chinese Communists could support North Korean forces with up to 450,000 men in 30 divisions, with the first division arriving at the demilitarized zone in 48 hours and the others thereafter at the rate of one a day. (It is estimated that the CHICOMS could not introduce more than two divisions covertly.) Logistic limitations and other commitments make use of the remaining 87 line divisions unlikely, although engaged forces could expect replacements from strategic reserves.

The ROK ground forces, all under UN command, comprise 560,000 men organized into 19 divisions. These forces can be augmented by 3 poorly equipped ROK reserve divisions, of

- \* The US withdrawal could be completed within 6 months but with a less orderly realignment of US and ROK Forces.

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Group 2. Exempted from automatic downgrading by PLW/sms.

SANITIZED  
E.O. 13292, Sec. 3.5  
NLJ/RAC 03-130  
By ms, NARA, Date 8-13-04

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- 2 -

limited initial effectiveness. The US maintains in Korea 52,000 men, including 2 divisions. Contingency plans provide for the augmentation of US forces by one division in 3-12 days, by a second in 28 days, by a third in 31 days, and by a total of 5 divisions in 60 days. An additional division would also be available in reserve in the Western Pacific in 35 days.

The North Korean Air Force has about 400 jet fighters and 85 jet light bombers. Some 1,500 CHICOM jet fighters and 200 jet light bombers are also readily available for combat in the Korean area. Possible reduction in over-all CHICOM aircraft inventories indicated by recent intelligence, does not as yet affect capabilities in the Korean area.

The ROK Air Force consists of 300 tactical aircraft of which 175 are combat aircraft. The US can quickly support operations in Korea with 100 interceptors and 425 fighter bombers from the Pacific and the West Coast. Additional USAF units, not specifically earmarked for PACOM use, could be introduced as needed. Operation of most USAF aircraft is predicated on the use of Japanese air bases. (If these bases should be denied us, operations could be conducted satisfactorily from Okinawa, although with greater difficulty.) USAF units could be augmented by carrier aviation (6 attack carriers).

#### Present Force Capabilities

Present ROK ground forces are more than ample to contain a unilateral North Korean attack.

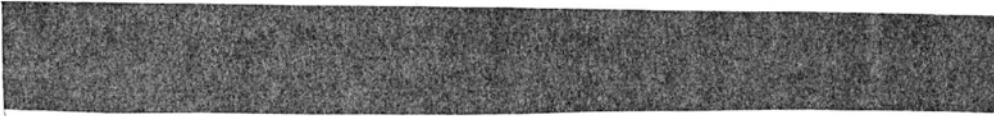
It is estimated that the enemy may gain air superiority initially but that he will be unable to hold it. Despite the high probability of early US/ROK air superiority in the battle zone, present US/ROK forces are inadequate to contain by conventional means a sustained North Korean/CHICOM attack.

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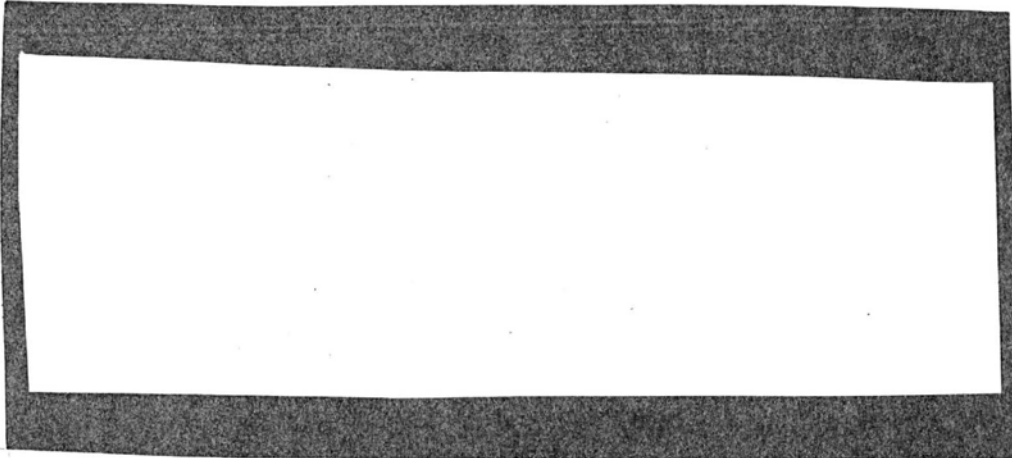
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- 3 -



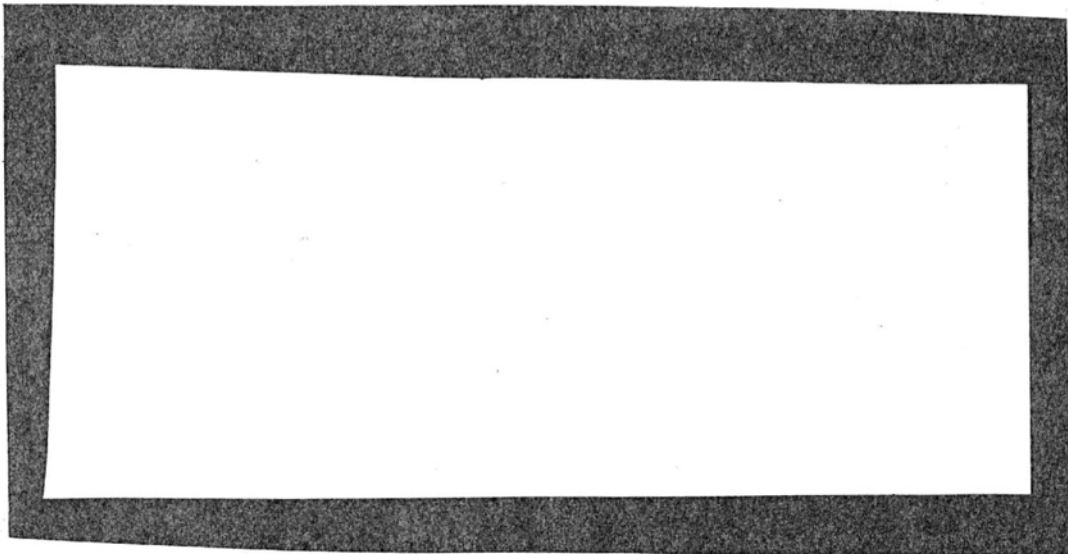
3.3 (b)  
(5)(6)



3.3 (b)  
(5)(6)

It is estimated that the US Navy could effectively control the seas from the outset. Present ROK naval forces now control their coastal waters.

Basis for Change



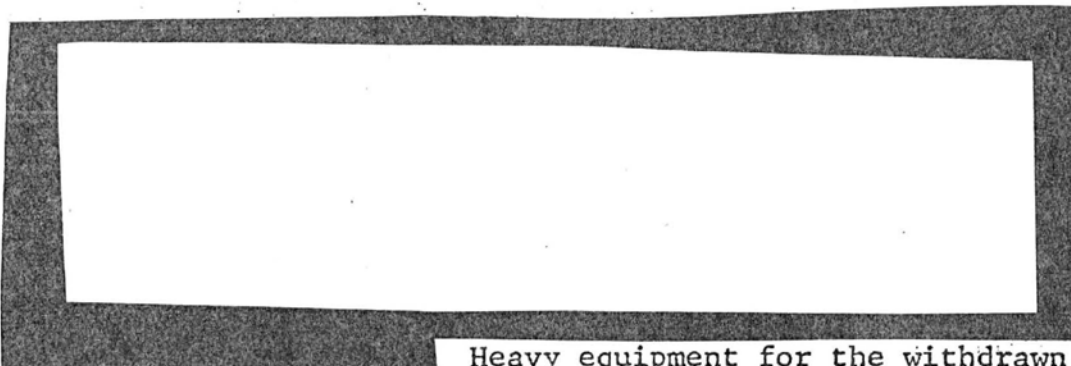
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- 4 -

### Recommended Force Readjustments



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(b)(5,6)

Heavy equipment for the withdrawn US division would be pre-stocked in Korea.

### Military Implications of the Force Reduction

The US and ROK forces remaining in Korea following this reduction would be able to withstand with conventional means any unilateral North Korean attack. Against a combined North Korean/CHICOM attack, [REDACTED]

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(b)(5,6)

[REDACTED] probably have to be made somewhat sooner than at present.

Among the principal factors that will bear on this decision - with or without the proposed reductions - are:

a. [REDACTED]

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(b)(5,6)

b. the political implications of losing significant areas of South Korea [REDACTED]

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(b)(5,6)

c. our willingness and ability, given our possible involvement elsewhere, to commit additional US divisions to mount a conventional counteroffensive;

d. our ability to gain air superiority, and

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- 5 -

e. the degree of strategic warning that we receive.

Air superiority and strategic warning will have a direct bearing on whether, with a reduction in the US and ROK forces, the decision need be made earlier. The reduced ROK forces would have to fill any gaps left by the withdrawal of a US division from one of the two direct approaches to Seoul. This would leave little, if any, reserve to meet a massing of troops by the enemy to force a penetration. Early and decisive action would be needed to redeploy rapidly the withdrawn US division and to mobilize the ROK reserves, as well as to protect the stocks of these forces against enemy air attack. Our increasing airlift capability now makes it possible to deploy one division, less heavy equipment, from the US to Korean airfields in 5-6 days. Up to 7 additional days would be needed for all elements of the division to absorb the prepositioned equipment and deploy for combat.

While the proposed reductions are apt to put the decision to the US earlier, it will not require the

[REDACTED]

The remaining US-ROK force will be capable of effective delaying action with conventional arms pending reinforcement, although its ability to prevent an enemy advance will be lessened.

[REDACTED]

and it is concluded that the Korean Government would agree to retain the present command structure.

#### Military Advantages of Withdrawal

The withdrawal of a major portion of a US division from Korea would increase significantly our ground forces

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(b)(5,6)

3.3  
(b)(5,6)

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- 6 -

available to meet contingencies worldwide. There are now ten divisions (8 Army and 2 Marine) stationed in the US. Five of these divisions are committed to the NATO Strategic Reserve, and contingencies in Southeast Asia, or elsewhere, could lay heavy demands on US ground forces. (For example, the contingency plan for Southeast Asia calls for up to 5 divisions.) Prepositioning of heavy equipment in Korea will permit the rapid return of the withdrawn division with a minimum of airlift. At the same time, addition of this division with full equipment to CONUS forces will augment and improve the flexibility of those forces available for worldwide contingencies.

Relocation of the division in the United States offers the greatest combination of advantages. Costs of relocations will be held to a minimum through the use of existing facilities and, with airlift available in the US, the division could be deployed rapidly to the Far East or elsewhere. While there are certain psychological advantages in relocating the division in either the Philippines or Hawaii, construction costs would be greatly increased. (New temporary construction in Hawaii would cost an estimated \$126 million as opposed to an unrefined estimate of under \$6 million for renovating facilities in the US.) Costs would be aggravated by an adverse balance of payments if the Philippines were chosen. Although the division would be physically closer to potential trouble areas, there would be little improvement in its deployment capabilities since its strategic air and sea lift would be based in the United States. (Certain heavy equipment, such as tanks, would have to be moved in any case by sealift.)

#### Budgetary Aspects

It is estimated that the proposed reduction in ROK forces will permit a MAP savings, principally maintenance, of approximately \$10 million annually. Retention of this entire amount for force improvement in Korea would be highly desirable.

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- 7 -

DOD budgetary savings attributable to the US withdrawal of 12,000 men are estimated at \$18 million annually after the move is complete. Relocation expenses on the basis of unrefined estimates are assumed to be on the order of \$6 million.

DOD balance of payments savings attributable to the US withdrawal are estimated at \$22 million annually. US balance of payments savings would probably not exceed \$4 million, since it is likely we would provide additional economic aid to Korea to compensate, substantially if not wholly, for the reduction in Korean dollar earnings (\$18 million) attributable to the force withdrawal. This topic is further discussed in the economic section.

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DEPARTMENT OF STATE AND AGENCY FOR INTERNATIONAL  
DEVELOPMENT SUPPORTING MEMORANDUM

I. Economic Implications of Reduction of Korean Forces

The proposed reduction of three Korean army divisions (70,000 men) over a two-year period starting in 1964 would, by the second year, relieve the Korean budget of over \$10 million per year in expenditure requirements. Such a reduction would be of signal assistance to the major joint US-Korean efforts to eliminate the budget deficit, as part of a stabilization program, without implementation of which economic development in Korea and reduction of aid requirements will be virtually impossible. If effectively shifted to investment, this sum might also yield \$5 to \$10 million annually in additional product, thereby reducing the US economic aid requirements. The deactivation of major force units would (if officers and NCO's were discharged) release managerial talents and skilled labor critically needed in economic development efforts. This benefit would outweigh the problem of increasing somewhat the number of unemployed and under-employed.

II. Foreign Exchange Impact of US Force Reduction

The proposed reduction of 12,000 men in the US forces stationed in Korea would deprive the Korean economy of net dollar earnings of an estimated \$15 to \$18 million a year.\* Taken in conjunction with other pressures on Korean foreign exchange, this loss of earnings would probably reduce essential Korean imports. This in turn would jeopardize the achievement of economic development and stabilization goals, causing the ROKG to turn to the US for increased economic aid. Given Korean strategic importance, the US would probably be constrained to provide this aid. This loss of earnings from US forces would correspondingly increase annual US economic aid requirements. FY 64 Supporting Assistance appropriations are inadequate to provide such

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\*In addition approximately \$4 million is expended in Japan (for example by expenditures made by visiting US troops), for a gross US balance of payments impact of \$19 to \$22 million.

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Authority State, MD Guidelines

By jc, NARA, Date 3-7-03



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supplemental assistance without resort to the Contingency Fund. This use of the Contingency Fund would, of course, reduce the amounts potentially available for transfer to the Military Assistance Program. Korea would be one of the main countries affected by this alternative use of the Contingency Fund.

An insignificant reduction in the US balance of payments deficit would be likely to result from withdrawing the US division as proposed. Assuming that the Korean loss of \$15-18 million in dollar earnings resulting from the troop withdrawal were compensated for by increased US economic aid, the tendency would then be for the Korean Government to shift expenditures of its free foreign exchange to procurement from non-US sources.

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THE WHITE HOUSE

WASHINGTON

May 5, 1964

41

*Korea*  
*X 7:55 AM*

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NATIONAL SECURITY ACTION MEMORANDUM NO. 298

TO: The Secretary of State  
The Secretary of Defense  
The Administrator, Agency for International Development

SUBJECT: Study of Possible Redeployment of U.S.  
Division now Stationed in Korea

*Correction  
per Bundy memo  
Dated 5/11/64*

This is to request that the Secretary of State coordinate a joint State-AID-Defense study which will enable me to weigh and resolve the choices facing us with respect to the possible redeployment--~~to Hawaii~~--of one of the U.S. Divisions now stationed in Korea. The study should explore what sequence of U.S. actions, involving economic assistance, military assistance, diplomatic communications, and public statements, would minimize the negative effects and maximize the benefit of such a redeployment, taking into account

- Korea's military security
- Korea's short-term political stability
- the long-term U.S. objective of stimulating sustainable economic expansion and strengthening Korea's social and political institutions.

NSA 298

Specific requirements follow:

1. In considering changes in the level and composition of U.S. assistance, the study should offer both a bare-bones minimum program and a more generous variant which would fully compensate the Korean Government for the loss of a U.S. Division. In connection with the latter, attention should be given to the internal economic and military measures by the ROK which we might bargain for--measures that might

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E.O. 12356, Sec. 3.4

NJ 93-67

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By SA, NARA, Date 11-15-92

MAY 6 1964

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appreciably shorten the period of Korea's dependence on extraordinary economic assistance.

2. The study should assess the value of such a redeployment ~~to Hawaii~~ for the balance and flexibility of the U.S. military posture.

3. The study should contain estimates of the budgetary gains and costs.

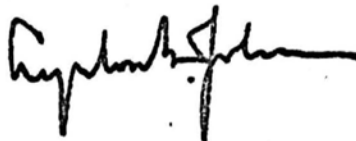
4. As regards the U.S. balance of payments, the study should estimate both the gross gain of withdrawing a U.S. Division, and the net gain that will result, after account is taken of the recommended changes in U.S. assistance.

5. The study should include recommendations as to the steps we should take, in the event of a redeployment, (a) to avoid any misreading of our intentions in Japan, Southeast Asia, Europe--and in Russia and Communist China, and (b) to explain the good sense of the move to the Congress and the U.S. public.

6. As regards timing, I should like two alternatives to be explored: one with a decision date of June 1, 1964; the other with a decision date of December 1, 1964. With respect to each alternative, the study should elaborate a detailed plan of action, giving announcement dates and implementation dates for all major actions.

The study should be completed in time for NSC consideration on May 26.

The White House staff officer assigned to follow the study will be Mr. Robert Komer. Mr. Francis Bator will act in his stead until Mr. Komer's return.



cc: Director of Central Intelligence

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cc: Mr. Bundy  
Mr. Komer ✓  
Mr. Bator  
Mr. Johnson  
NSC Files

5/11

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THE WHITE HOUSE  
WASHINGTON

May 11, 1964

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## MEMORANDUM TO

HOLDERS OF NSAM NO. 298, MAY 5, 1964

The President has instructed that the study of a possible redeployment of one of the U.S. Divisions stationed in Korea, as ordered in NSAM No. 298, is not to be confined to a redeployment to Hawaii. It should explore the advantages and disadvantages of basing the Division, or units thereof, elsewhere, and make recommendations accordingly.

The following specific changes in NSAM No. 298 are called for:

Page 1, para. 1, line 4 - Strike "--to Hawaii--".

Page 2, para. 2, line 2 - Strike "to Hawaii".

*McGeorge Bundy*

McGeorge Bundy

DECLASSIFIED  
E.O. 12356, Sec. 3.4  
NJ 93-67  
By WJ, NARA, Date 11-19-92

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5/11/64



# OUTGOING TELEGRAM Department of State

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☐ CHARGE TO

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59

Origin

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Info

SS

PR

P

USIA

NSC

ACTION: Amembassy SEOUL 943

APR 17 7 10 PM '64

Deliver following message dated April 16, 1964 to President Park.

QTE Dear Mr. President:

I thank you personally on behalf of the American people for your sympathetic expression of bereavement at the death of General Douglas MacArthur. I also wish to take this opportunity to express my appreciation for your courtesy in sending the Korean delegation headed by His Excellency Prime Minister Doo Sun CHOI which came to attend the funeral ceremonies for General MacArthur. His passing is a great loss to us all and your expressions of support and sympathy have made it easier to bear.

Lyndon B. Johnson UNQTE

Department plans no public release this message. No objection if ROK wishes release but Dept should be advised 24 hours in advance.

END

BUNDY-SMITH

BRUBACK

BELK

BRUBECK

CHASE

DINGEN

DUNGAN

FORRESTAL

ACTING

JOHNSON

KLEIN

KOMER

SAUNDERS

BALL

Drafted by:

FE:EA:GEReynolds:gh 4/17/64

Telegraphic transmission and

classification approved by:

EA - Leonard L. Bacon

Clearances:

S/S-S - Mr. XXXXXXXX Rowe

P - Mr. McCloskey (draft)

FE/P - Mr. Gaiduk (draft)

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FORM 8-63 DS-322

APR 20 1964

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LBJ  
To  
Park  
4/10/64

## OUTGOING TELEGRAM Department of State

INDICATE: ☐ COLLECT  
☐ CHARGE TO

UNCLASSIFIED

54

Origin  
FE

ACTION: Amembassy, SEOUL 921

Apr 10 7 59 PM '64

Info:

SS

G

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USIA  
NSC

Deliver following message dated April 10, 1964 to President Park.

QTE Dear Mr. President:

The American people and I are most appreciative of your message of  
the recent earthquake  
condolence over ~~the recent earthquake~~ in Alaska. Your kind thoughts will be  
a comfort to our citizens during the long task of rebuilding.

Lyndon B. Johnson UNQTE

Dept plans no public release this message. No objection if ROK wishes  
release but Dept should be advised 24 hours in advance.

END

ACTING

BUNDY-SMITH  
ALEXANDER  
BELK  
BRUBECK  
BALL  
DINGEMAN  
DUNGAN  
FORBES  
JESSUP  
JOHNSON  
KLEIN  
KOMER

SAUNDERS  
SMITH, WM. X

Drafted by:

FE:EA:GEReynolds:mfs 4/10/64

Telegraphic transmission and

Classification approved by:

EA - Thelma E. Vettel

Clearances:

S/S -Mr. Tuelier FE/P - Mr. Manell 2X2X2X2

P - Mr. McCloskey (subs)

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APR 13 1964

FORM  
8-63 DS-322



~~CONFIDENTIAL~~

44

DEPARTMENT OF STATE  
BUREAU OF INTELLIGENCE AND RESEARCH

~~SMITH~~  
BELK  
BRUBECK  
CHASE  
DINGEMAN  
DUNGAN  
FORRESTAL  
JESSUP  
JOHNSON  
KLEIN  
KUBER  
SAUNDERS

Research Memorandum  
RFE-14, March 9 1964

To : The Secretary  
Through: S/S  
From : INR - Thomas L. Hughes  
Subject: The Korean Competition For International Acceptance  
SMITH, WM. Y

In view of the interest which French recognition of Communist China has stimulated with respect to international recognition of divided countries, we have examined how the Republic of Korea and the communist North Korean regime have fared in this competition. An unclassified attachment shows the ties which the two Koreas have established.

ABSTRACT

The Republic of Korea now holds a three-to-one advantage over the rival North Korean regime in terms of international recognition. Seoul's present strong position was established by intensive diplomatic efforts undertaken since the fall of President Rhee in 1960. Pyongyang achieved some compensatory diplomatic gains in 1963 and its trade representative program provides an effective opening wedge for consular or - ultimately - diplomatic status. However, for the immediate future, it seems unlikely that North Korea can detach many of the countries now disposed to deal primarily with the Republic of Korea, nor secure substantial international support from among the small number of countries which remain uncommitted in the rivalry.

DECLASSIFIED

Authority Group 4  
By jc NARA, Date 5-8-01

GROUP 4  
Downgraded at 3-year intervals.  
Declassified 12 years after  
date of origin.

MAR 11 1964

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### Republic of Korea Holds Advantage

A glance at the attached table will show that the Republic of Korea holds a decided lead over North Korea in the contest for international acceptance. A precise count is not possible since evidence of mutual recognition, or an agreement to exchange representatives, is in a number of cases not available. However, it appears that seventy-six countries have commitments to or are favorably disposed toward the Republic of Korea, while only twenty-three states give similar support to North Korea.

For six countries, the United Arab Republic, Uganda, Laos, India, Cambodia, and Burma the issue is undecided. The United Arab Republic has recently agreed to raise the North Korean representation in Cairo to diplomatic status and, according to a broadcast of February 15, 1964, is ready to establish a diplomatic mission in North Korea. The Republic of Korea has not been willing to accept a diplomatic exchange with the UAR which would equate it with North Korea. In Uganda, on the other hand, the Republic of Korea representatives seem to have gained at the expense of the North Korean establishment. In Laos, the contest is temporarily in abeyance, with the Republic of Korea perhaps having a slight tactical advantage. India, Cambodia and Burma have accepted consular representatives from both Seoul and Pyongyang.

There are no reliable indications of the leanings of thirteen other countries. Most of the nations which are not known to have taken any position are probably little disposed to take an independent stand on a rivalry far removed from their own limited concerns. In this group, however, it is surprising to find Pakistan, which through its UNCURK (United Nations Commission for the Unification and Rehabilitation of Korea) representatives has had dealings with the Republic of Korea for a number of years. Other countries which have taken active international roles but which remain uncommitted in this rivalry are Finland, Tunisia and Ghana.

### Seoul Has Moved With Energy

The Republic of Korea vigorously broadened its contacts in the world community during the two year and seven month period of military government which began on May 16, 1961. Within approximately one year it had established diplomatic relations with thirty-two nations, twice the pre-coup number. (See RFE-28, June 27, 1962). When the military regime gave way to the Third Republic on December 17, 1963 the number of countries which reportedly recognized the Republic of Korea had again more than redoubled since June 1962.

These impressive gains reflected a willingness to abandon President Rhee's policy of almost exclusive reliance on ties with the United States. He had been willing to confine other relations to the major Free World nations, such

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-2-

as the United Kingdom, and such anti-communist bastions as Nationalist China. His successors sought international support where they could find it. However, while the Republic of Korea has established relations with nations regarded as neutral, it has no relations with any of the communist countries.

#### North Korea's Modest Diplomatic Achievements

North Korea has received diplomatic recognition from only twenty states, and of these, thirteen are communist countries. Eight communist nations, including Yugoslavia, recognized North Korea soon after it was formally established in September 1948; three others (Albania, Communist China and East Germany) granted recognition in 1949; North Vietnam followed suit in 1950; and Cuba was the last to do so in 1960.

However, it is also noteworthy that the Pyongyang regime has recently made some gains among non-communist states. Five of the seven non-communist states which now recognize North Korea, i.e., all except Guinea and Mali, have granted recognition since the beginning of 1963.

#### Consular Representation Compared

The Republic of Korea has consular establishments in Australia (Sydney), Burma (Rangoon), Cambodia (Phnom Penh), Hong Kong, Japan (Osaka and Fukuoka), Kenya (Nairobi), the United Arab Republic (Cairo) and the United States (Los Angeles, New York, San Francisco). The Republic of Korea is negotiating with Indonesia concerning the establishment of consular offices and will probably attempt to do the same with Ceylon. India is planning to establish a consular office in Seoul. Seoul maintains some of its consular offices as a device to obtain or preserve an aspect of recognition in certain neutralist countries. In the case of Kenya, it hopes to transform its consulate general into an embassy.

North Korea has consular establishments in Burma (Rangoon), Cambodia (Phnom Penh), Ceylon (Colombo), Communist China (Changchun and Shenyang), India (New Delhi) and Indonesia (Djakarta).

Like Seoul, Pyongyang seems to have had largely political aims in establishing consular representation in neutralist countries since in recent cases when it has done so there has been little or no trade or other interests which would call for consular relations (See RFE-26, April 12, 1963.) The only non-communist resident representation in Pyongyang is the Indonesian Consulate General. No communist country maintains a consular establishment in North Korea.

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#### Other Forms of Representation

North Korea has had some success in converting permanent trade offices into consular establishments. The DPRK consular offices in Burma, Indonesia, India and Ceylon were opened as trade offices. Further efforts along this line are likely. North Korea and Iraq agreed in 1960 to the stationing in Baghdad of a North Korean trade representative. A "private" agreement signed by a North Korean representative and an Austrian Chamber of Commerce group in 1960 provided for the stationing of a North Korean trade representative in Vienna. In the spring of 1963, a North Korean delegation which visited several Latin American countries unsuccessfully requested permission from the Uruguayan Government to open a consulate or a permanent trade office in Montevideo; ultimately North Korea was allowed to establish an "unofficial" office there.

The Republic of Korea maintains three permanent missions: at the United Nations in New York; at the European Office of the United Nations in Geneva; and in Tokyo. The Tokyo establishment, a large and active mission which fulfills all the normal functions of an embassy, operates under somewhat unusual circumstances. The Republic of Korea has not yet established diplomatic relations with Japan and does not permit a Japanese mission in Seoul. (The status of Japan-Korea normalization talks was the subject of RFE-6 of January 22, 1964).

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International Relations Of The Republic Of Korea And North Korea

(As of March 1, 1964)

## Notes: (1) Legend:

- ROK - The Republic of Korea, or South Korea;  
 DPRK - the Democratic Peoples Republic of Korea, the title used by the North Korean regime;  
 X - indicates recognition or some form of official representation;  
 XR - indicates the presence of a resident diplomatic or consular representative of that country in Seoul or Pyongyang.

(2) Evidence of mutual recognition or of an agreement to exchange official representatives is not always available. An indication on the part of one of the countries that it is prepared to recognize the other is, in some cases, the only basis for the determination of ties.

Country	Recognition - Not Necessarily Including Diplo- matic Relations		Consular Representation		Other Representation		Remarks
	(ROK)	(DPRK)	(ROK)	(DPRK)	(ROK)	(DPRK)	
<u>Far East</u>							
Australia	XR		X				
Burma			X	X			
Cambodia			X	X			
China (Nationalist)	XR						
China (Communist)		XR					
Indonesia						XR	
Japan			X		X		ROK has perma- nent mission in Tokyo; no Japanese representation in Seoul
Laos							
Malaysia	X						
Mongolia		XR					

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<u>Country</u>	Recognition - Not Necessarily Including Diplo- matic Relations		Consular Representation		Other Representation		<u>Remarks</u>
	(ROK)	(DPRK)	(ROK)	(DPRK)	(ROK)	(DPRK)	
New Zealand	X						
Philippines	XR						
Thailand	XR						
Vietnam (South)	XR						
Vietnam (North)		XR					
Western Samoa							
<u>Middle and East and South Asia</u>							
Afghanistan							
Ceylon				X			
Cyprus							
India			X	X			
Iran	X						
Iraq					X		Trade office
Israel	X						
Jordan	X						
Kuwait							
Lebanon							
Nepal							
Pakistan							
Saudi Arabia	X						

Agreement to  
establish relations  
(10/62)

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-6-

Country	Recognition - Not Necessarily Including Diplo- matic Relations		Consular Representation		Other Representation		Remarks
	(ROK)	(DPRK)	(ROK)	(DPRK)	(ROK)	(DPRK)	
Syrian Arab Republic	X						Agreement to establish relations (11/62)
Turkey	XR						
Yemen		X					
<u>Europe</u>							
Albania		XR					
Austria	X				X		"unofficial" DPRK trade office
Belgium	X						
Bulgaria		XR					
Czechoslovakia		XR					
Denmark	X						
Finland							
France	XR						
Germany (FRG)	XR						
Germany (GDR)		XR					
Greece	X						
Hungary		XR					
Iceland	X						
Ireland	X						Mutual recog- nition; no announ- ced intention to exchange diplomats

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Country	Recognition - Not Necessarily Including Diplo- matic Relations		Consular Representation		Other Representation		Remarks
	(ROK)	(DPRK)	(ROK)	(DPRK)	(ROK)	(DPRK)	
Italy	XR						
Luxembourg	X						
Netherlands	X						
Norway	X						
Poland		XR					
Portugal	X						
Rumania		XR					
Soviet Union		XR					
Spain	X						
Sweden	X						
Switzerland	X						
United Kingdom	XR		X				ROK Consulate General at Hong Kong
Vatican	XR						
Yugoslavia		X					
<u>Africa</u>							
Algeria		X					
Burundi							
Cameroun	X						
Central Afr.Rep.	X						Agreement to Exchange diplomats (9/63)

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-8-

Country	Recognition - Not Necessarily Including Diplo- matic Relations		Consular Representation		Other Representation		Remarks
	(ROK)	(DPRK)	(ROK)	(DPRK)	(ROK)	(DPRK)	
Chad	X						Agreement to Exchange diplomats (8/61)
Congo (Brazzaville)	X						
Congo (Leopoldville)	X						
Dahomey							
Ethiopia	X						
Gabon	X						
Ghana							
Guinea		X					
Ivory Coast	X						
Kenya			X				
Liberia	X						Agreement to establish relation (2/60)
Libya							
Malagasy Republic	X						
Mali		X					
Mauritania	X						Agreement to exchange diplomats (8/62)
Morocco	X						
Niger	X						Agreement to exchange diplomats (9/63)
Nigeria	X						

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<u>Country</u>	Recognition - Not Necessarily Including Diplo- matic Relations		Consular Representation		Other Representation		<u>Remarks</u>
	<u>(ROK)</u>	<u>(DPRK)</u>	<u>(ROK)</u>	<u>(DPRK)</u>	<u>(ROK)</u>	<u>(DPRK)</u>	
Rwanda	X						
Senegal	X						
Sierra Leone	X						
Somali Republic							
South Africa	X						Mutual recogni- tion; no announced intention to ex- change diplomats
Sudan							
Tanganyika							
Togo	X						
Tunisia							
U.A.R.		X	X				
Uganda	X	X					Uganda announced that it would re- cognize both ROK and DPRK
Upper Volta	X						
Zanzibar		X					
<u>Western Hemisphere</u>							
Argentina	X						
Brazil	X						
Canada	X						Agreement to es- tablish relations (1/63)
Chile	X						

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-10-

Country	Recognition - Not Necessarily Including Diplo- matic Relations		Consular Representation		Other Representation		Remarks
	(ROK)	(DPRK)	(ROK)	(DPRK)	(ROK)	(DPRK)	
Colombia	X						
Costa Rica	X						
Cuba		XR					
Dominican Republic	X						
Ecuador	X						
El Salvador	X						
Guatemala	X						
Haiti	X						Agreement to establish relations (9/62)
Honduras	X						
Jamaica	X						
Mexico	X						
Nicaragua	X						
Panama	X						Agreement to establish relations (10/62)
Paraguay	X						
Peru	X						Agreement to exchange diplomats (4/63)
Trinidad	X						
United States	XR		X				
Uruguay	X					X	"Unofficial" DPRK trade office
Venezuela	X						

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THE WHITE HOUSE OFFICE

**ROUTE SLIP**

(To Remain With Correspondence)

TO Mr. Bundy

PROMPT HANDLING IS ESSENTIAL.  
WHEN DRAFT REPLY IS REQUESTED  
THE BASIC CORRESPONDENCE MUST  
BE RETURNED. IF ANY DELAY IN  
SUBMISSION OF DRAFT REPLY IS  
ENCOUNTERED, PLEASE TELEPHONE  
OFFICE OF THE SPECIAL ASSISTANT.

Date March 5, 1964

FROM THE SPECIAL ASSISTANT

Senator Scott

**ACTION:** Comment \_\_\_\_\_  
Draft reply \_\_\_\_\_  
For direct reply \_\_\_\_\_  
For your information \_\_\_\_\_  
For necessary action \_\_\_\_\_  
For appropriate handling XXXX \_\_\_\_\_  
See below \_\_\_\_\_

**Remarks:**

Since Senator Scott recently complained publicly about not receiving a reply from the White House to a letter regarding the Genocide Convention, this letter is being referred to you for further reply. Attached is my correspondence with Congressman Murphy to which he referred.

GPO 16-71264-2

By direction of the President:

Lawrence F. O'Brien  
Special Assistant  
to the President

MAR 9 1964

HUGH SCOTT  
PENNSYLVANIA

ROBERT L. KUNZIG  
ADMINISTRATIVE ASSISTANT

EDITH V. SKINNER  
PERSONAL ASSISTANT

United States Senate  
WASHINGTON, D.C.

450

March 3, 1964

CARDEN  
MAR 4 1964

Mr. Lawrence F. O'Brien  
Special Assistant to the President  
The White House  
Washington, D. C.

Dear Larry:

With reference to your letter of January 21, to Representative John M. Murphy, I was included in the delegation which attended the Inauguration of President Park last December. We went as guests of the Government of South Korea.

I had an excellent opportunity to review our situation in Korea with many Americans and Koreans. I am personally convinced that the withdrawal of any of our combat forces would be a crushing blow to the South Korean Government and would damage severely the regard in which the United States is held in that country. Moreover, I am certain that it would greatly encourage the Communist forces should there be any evidence of a loss of interest or a loss of fighting power contributed by us to keeping this government free.

I have seen our men and the Koreans at the front lines, and their morale is excellent and coöperation superb.

I would think in closing some logistic bases in this country, it may become necessary to narrow somewhat the personnel involved in purely logistic and supply bases overseas, but I earnestly urge the President to carefully consider the importance of our fighting forces which, after all, represent only a small percentage of those who stand with arms against the Communists in South Korea.

Yours cordially,

  
Hugh Scott  
U. S. Senator

HS:bes  
cc: Honorable John M. Murphy

MAR 9 1964

March 4, 1964

CONGRESSIONAL

456

Dear Senator:

Thank you for your letter of March 3.

Your interest in presenting your recommendations with regard to our forces in South Korea is appreciated, and the contents of your letter will be made available for the President's consideration.

Sincerely yours,

Lawrence F. O'Brien  
Special Assistant  
to the President

Honorable Hugh Scott  
United States Senate  
Washington, D. C.

jl/ncza

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January 21, 1964

GENERAL

C0151

PR8-2/M\*

Dear Congressman:

The President has asked me to thank you for your letter of January 16 regarding the discussions you had with officials of the South Korean Government at the inauguration of President Park,

ChungHEE

The President appreciates your kind offer to come by and share with him your views on Korea. Because of the heavy schedule to which he is already committed, however, we have been unable to arrange an appointment at this time. If you will send to the President a memorandum summarizing your conversations with the Korean officials, it will receive his careful attention.

Sincerely yours,

Lawrence F. O'Brien  
Special Assistant  
to the President

Honorable John M. Murphy  
House of Representatives  
Washington, D. C.

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JAN 24 1964  
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THE WHITE HOUSE OFFICE

**ROUTE SLIP**

(To Remain With Correspondence)

45d

TO Mr. Forrestal  
National Security Council  
EOB 374A  
\_\_\_\_\_

PROMPT HANDLING IS ESSENTIAL.  
WHEN DRAFT REPLY IS REQUESTED  
THE BASIC CORRESPONDENCE MUST  
BE RETURNED. IF ANY DELAY IN  
SUBMISSION OF DRAFT REPLY IS  
ENCOUNTERED, PLEASE TELEPHONE  
OFFICE OF THE SPECIAL ASSISTANT.

Date \_\_\_\_\_

FROM THE SPECIAL ASSISTANT

**ACTION:** Comment \_\_\_\_\_  
Draft reply \_\_\_\_\_  
For direct reply \_\_\_\_\_  
For your information XXX  
For necessary action \_\_\_\_\_  
For appropriate handling \_\_\_\_\_  
See below XXX

Remarks:

**Forwarded at suggestion of Ralph Dungan.**

GPO 16-71264-2

By direction of the President:

Lawrence F. O'Brien  
Special Assistant  
to the President

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JOHN M. MURPHY  
16TH, NEW YORK

COMMITTEES:  
MERCHANT MARINE AND FISHERIES  
PUBLIC WORKS

**Congress of the United States**  
**House of Representatives**

Washington, D. C.

January 16, 1964

ADMINISTRATIVE ASSISTANT:

ANTHONY GAETA

LEGISLATIVE ASSISTANT:

ELAINE A. KOVESSY

SECRETARIES:

HELEN R. SMITH

WILLIAM LYNCH

BARBARA LEWIS

THE WHITE HOUSE

JAN 17 9 45 AM '64

RECEIVED

Honorable Lyndon B. Johnson  
President of the United States  
The White House  
Washington, D. C.

Dear Mr. President:

From 14 December through 19 December, I participated in the inauguration of the new South Korean President Park, along with Senator Hugh Scott of Pennsylvania, Rep. Frank C. Osmers of New Jersey, Rep. William G. Bray of Indiana, and Rep. Lucien N. Nedzie of Michigan.

Throughout this period we discussed in detail with the various Korean officials, the problems of that country and the United States assistance in resolving these problems.

The above Representatives assured the Korean officials that we would bring these problems to your attention upon our return to the United States, and we would be delighted to discuss them with you at your convenience should you deem it appropriate.

Sincerely yours,

*John M. Murphy*  
JOHN M. MURPHY  
Member of Congress

JMM:hs

1285  
46  
Korea

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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

March 2, 1964

MEMORANDUM FOR: SEE DISTRIBUTION

FROM: Curtis Farrar  
Chief, Planning Division  
Office of Development Planning

SUBJECT: Approved Country Assistance Strategy Statement for Korea

The attached Strategy Statement for Korea was approved by the Administrator on January 27, 1964. We expect that it will be circulated with other approved strategy statements in the near future. The attached copy is sent for your information and reference in the meantime.

Attachment

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Gen. Wood - (3)  
Adm. Blouin - (3)

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AClaxton - (2)

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Authority AID Guidelines 10-16-95

By jc, NARA, Date 5-8-01

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MAR 6 1964



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46a

A.I.D. Strategy for Korea

I. Objectives

The basic U.S. objective is the maintenance of an independent Republic of Korea, resistant to subversion and, with U.S. assistance, capable of deterring or repelling renewed Communist aggression. Related objectives are the development of a stable, democratically oriented, and increasingly self-reliant nation in the creation and defense of which the U.S. has been deeply involved. U.S. support enables the Republic of Korea (ROK) to maintain a major military force serving U.S. security interest in Northeast Asia, and to meet an otherwise unmanageable balance of payments gap. Economic growth by at least 5% annually is sought to strengthen Korea against Communist economic competition and subversion and to create a stronger and more nearly self-sustaining economy. Economic aid levels are carefully designed to both reduce the U.S. burden in Korea and, at the same time, foster expanded Korean self-reliance.

II. Country Circumstances

Movement toward the long-term goal of a self-sustaining Korean economy is limited by the heavy burden of a 600,000-man ROK military establishment. Proposals that the U.S. negotiate at the proper time with the ROK Government for a phased and substantial reduction of active ROK military forces are under consideration. Force reduction would contribute to our ability to bring about increased self-support and reduced U.S. balance of payments support.

The failure to achieve significant economic growth and to reduce massive unemployment and under-employment has contributed substantially to political unrest in recent years. The long-term outlook for economic development in the ROK has improved, however, as a consequence of new elements in the Korean situation, including greater Korean Government interest in economic development and export promotion and the prospects of a Korean-Japan settlement, which promises a strong impetus to investment and trade as well as direct Japanese aid. We will continue to seek achievement of a ROKG-Japan settlement, hopefully sufficiently early to permit the flow of Japanese capital by the end of 1964. In the near future, and possibly over a period of several years, however, the internal political situation may have an adverse effect on the progress of the economy.

Korean economic development requires basic changes in current ROK attitudes, both public and private, and the development of policies and institutions are needed to gear the economy to a realistic long-range program. Such changes are needed to generate savings, to encourage and expand private enterprise and to enable the economy to function efficiently, without undue political interference.

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Authority AD Guidelines 10-1695  
By jc NARA. Date 5-8-01

GROUP 3

Downgraded at 12 year  
Intervals; not

Automatically declassified MAR 8 1964

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- 2 -

The underlying economic problem (with powerful political overtones) confronting the ROK today is the need to restrain internal consumption while achieving a substantially higher rate of domestically financed investment and pushing hard on the export drive, all within a realistic assessment of total resources and a relatively stable economy. Consumption has increased over the past year despite reduced U.S. aid programming. This has been made possible not only by increased domestic output, but also by use of the aid pipeline and by a sharp drawdown in Korean-owned foreign exchange, neither of which expedients can be tapped much further. Accustomed to high aid levels, the ROKG is loathe to take the steps necessary to restrain consumption within tight resource availabilities leaving a margin for the demands of investment.

ROKG policies have resulted in an overvalued currency, inflationary pressure and increased imports, causing foreign exchange reserves to decline from \$212 million in February, 1962 to \$108 million in October, 1963. The exchange rate problem has been mitigated by the export-import link system introduced in 1963, which in effect created a free market rate for exports and KTX-financed imports. Under strong U.S. pressures the ROKG has taken steps to ease domestic inflationary pressures, but these are not yet under control. With the present inflation and decline in reserves, an adjustment in the exchange rate is inevitable.

In addition to halting inflation and the foreign exchange losses, there is need for a rationalization of internal prices consistent with, and resulting from the necessary curtailment of imports for consumption. Effective price stabilization of food grains and essential imported materials will undoubtedly be at a level substantially above the levels which the ROKG is presently seeking to maintain.

With the population increase running ahead of the expansion of food production ever since the Armistice, the achievement of food self-sufficiency (a basic operational objective of the aid program) will be a multi-year effort, hinged in large part on the introduction of balanced fertilizers and other improved farm practices. In the meantime, periodic preoccupation with food problems constitutes a deterrent to stabilization efforts and exaggerates demands for PL 480 deliveries.

The task of adjusting consumption and investment to a realistic assessment of available resources and requirements of economic growth calls for action:

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(a) containing demand for consumer goods, thus pushing more productive capacity into export activity and reducing consumption imports;

(b) diverting more indigenous resources from consumption to productive investment;

(c) stabilizing prices, with especial attention to control of budget deficits, and excessive credit expansion.

### III. A.I.D. Strategy.

1. Develop a long-range analysis of total resource availabilities and practicable economic goals as a basis for A.I.D. decisions, and assist the ROK Government effectively to manage the utilization of scarce resources by preparing and implementing a satisfactory economic development plan.

2. Gradually reduce aid funds for maintenance of the economy and increase funds for development as warranted, thus transferring to the Koreans more and more responsibility to sustain themselves. In addition to DL projects, it may be desirable to consider program loans for developmental commodities should such loans appear to be a useful instrument for furthering the emphasis on sound development. The reductions in Supporting Assistance from \$181 million <sup>a/</sup> in FY 1961 to \$80 million in FY 1964 and to \$75 million in FY 1965, in line with the Mansfield Amendment, have been designed to implement this strategy and put increasing pressure on Korea to continue to expand its own earnings of foreign exchange, use its foreign exchange increasingly on imports of essential commodities and capital goods, limit its imports of consumer goods, and responsibly manage its internal budget. To this end, the level of Supporting Assistance should not be determined by ROK budgetary requirements, but based upon a determination of unmet and essential import requirements. It must be released incrementally pending an evaluation of ROKG performance, primarily in connection with the planning and use of its own foreign exchange and containment of inflation.

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<sup>a/</sup> Includes \$10 million project support, \$15 million Section 402, and \$20 million stabilization fund.

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- 4 -

3. Insist upon the creation of and adherence to a stabilization program controlling money supply, ROKG budget deficit, credit to the economy and KFX drawdown, with the objective of balanced internal and external accounts. Since the A.I.D. strategy of gradual reduction in Supporting Assistance must face the possibility that the Koreans will not trim their plans to available resources and will continue to experience severe inflation, A.I.D. will continue to warn the ROKG that violation of the stabilization program will not justify increased U.S. balance of payment support. In the event of severe inflation, A.I.D. will withhold development lending as a further means of support for this program. In connection with stabilization the USG should at the earliest appropriate time urge the ROKG to establish a realistic rate of exchange which can be accepted by the IMF as par value. At a minimum we should insist that local currency generation under PL 480 and SA should reflect market values.

4. Emphasize ROKG development of attitudes and policies which will be conducive to private sector development. A.I.D. will continue to lay stress on (a) an increased role for private, including foreign, investment and a reversal of the sharp rise following the military revolution in the proportion of investment going into the public sector; (b) increasing savings and domestically financed investment; (c) modernization of the existing banking and credit system and development of incentives to private capital formation; and (d) the development of improved accounting, entrepreneurial and managerial abilities. These objectives are sought by direct USOM/ROKG negotiations, by advisory service training contracts financed by Development Grants, and by self-help "strings" on our aid.

5. Strengthen Korea's economy by interrelating efforts to

a) encourage the development of appropriate manufacturing industries in the private sector; because of Korea's shortage of natural resources, Korea's economic viability will depend in the long-run on adding value to largely imported materials and exporting semi-manufactured and finished goods;

b) encourage the development of medium and small scale, labor-intensive private enterprise to make use of Korea's underemployed but industrious and literate labor force; and

c) seek to assure that crucial economic development objectives are served by the Korea-Japan settlement. Such a settlement is expected to bring in substantial Japanese private and, after a time lag, official capital which a U.S.-influenced

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- 5 -

Korean economic development program should channel into the fields indicated in subparagraphs (a) and (b) above, so that it will not be wasted in the financing of consumption. A.I.D. should develop now its strategy for achieving maximum coordination of U.S. and Japanese assistance. As early as is feasible, steps should be taken to elicit cooperation from both the Korean and Japanese Governments to assure the channeling of Japan's assistance into programs and projects that will contribute to genuine economic development in Korea, in effective coordination with U.S. assistance.

6. Assist the ROK to achieve self-sufficiency in food by continuing to emphasize Government policies aimed at rationalization of land use and provision of adequate prices, credit and fertilizer for the farmer. PL 480 food imports will be limited to need, with precaution that such imports neither discourage agricultural development nor respond to ROKG desires for excessive local currency generation or for satisfaction of consumer preferences for imported rather than indigenous grains.

7. Continue to encourage other capital sources to assist Korea on concessional terms while using the U.S./ROK agreement which provides for consultation on ROKG use of its foreign exchange and, if necessary, a curtailment of Development Lending to keep short-term commitments within Korea's capacity to repay. Following a settlement with Japan, A.I.D. will work towards DAC participation in Korea's development.

8. Encourage the most appropriate allocation of total resources, both Korean and U.S., between the dual requirements of defense and economic growth by

a) endeavoring to hold the over-all size of the ROKG military defense budget to the lowest levels compatible with U.S. strategic objectives; this size should be considered in an over-all context of control of inflationary pressures and the competing demands of other sectors of the budget, which consideration may require some reduction in the real level of the military budget;

b) abandoning as soon as feasible the allocation of local currency support between these purposes and insisting at the same time on U.S. review of the entire ROKG budget; and

c) requiring in the interim the ROKG to absorb any expansion of local costs in the military budget, except those increases resulting from charges in U.S. policy, which should be considered as they arise.

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- 6 -

A.I.D. recognizes that the desired measure of development requires relative political as well as economic stability. Political developments in the coming months may create conditions which will require adjustments in the aid strategy. In case of threat of renewed insurgency, the U.S. may also have to review this strategy.

#### IV. Funding Implications in FY 1964 and 1965

The funding implications of this strategy support our plans for the following approximate assistance levels:

For FY 1964, \$80 million in Supporting Assistance (FY 64 OYB dated 1/2/64 provides \$66.2), \$40 million in Development Loans, and \$5.3 million in Development Grants (including Civic Action). (A.I.D. is also requesting a PL 480 program of \$70 million under Title I and \$12 million under Title II and III.)

For FY 1965, \$75 million in Supporting Assistance, \$30.45 million in Development loans, \$5.3 million in Development Grants (including Civic Action), \$70 million in PL 480 Title I sales and \$13.4 million under Title II and III. Title I deliveries will be evaluated and determined in accordance with section II, paragraph 6 above. The actual value might range from \$60-90 million.

The decision has been made to resume in FY 1964 the transfer to ROKG financing of a total of almost \$40 million of consumables now funded in the MAP, accomplishing the transfer by 1970. If an accelerated program is adopted, it might require some upward revision in assistance levels.

#### V. Program

The Development Loans and other capital funds are currently focused largely on infrastructural growth (power, transportation, communications, etc.) and on industries which will save foreign exchange, e.g., fertilizer, with most loans going to governmental entities. However, A.I.D. hopes to place increasing emphasis on the private sector. For example, A.I.D. has been working in detail with the Korean Reconstruction Bank, a development bank funded in large part with DLF and counterpart loans, to assure its use of acceptable banking principles, and expects in FY 1964 to fund a major advisory contract. It will also encourage foreign, particularly U.S., private investment. A.I.D. also intends to stimulate the identification and presentation of sound projects, the shortage of which has hindered ROKG development plans.

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- 7 -

The Development Grant program is being used to strengthen ROKG management capability and performance in essential fields of investment credit, power production and distribution, industrial development, monetary and fiscal policy, tax administration, export promotion, and planning resources use. Additionally, technical assistance is being provided in vocational education, agriculture and fisheries, minerals and coal exploration, public administration, and to a very limited degree in public health, police administration, housing and communications.

*Dr. Bell*

JAN 27 1964

David E. Bell  
Administrator

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~~SECRET~~

February 18, 1964

KOREA

47  
*Korea*

The major outstanding issues between the U.S. and Korea are:

1. the level of military forces;
2. ROK - Japanese talks for the normalization of diplomatic relations;
3. the economic stabilization and development plan; and
4. the status of forces agreement.

(1) In Pak's conversations with the Secretary, he spoke of the necessity of maintaining our military forces levels. He did not speak of improving ROK armed forces equipment, or a few other items mentioned in the aide memoire (Airgram A-553).

(2) Ohira claims that in his recent speech in the Diet he does not indicate any slackening of his desire for early normalization. He feels that the Koreans have been slow in coming forth with concrete suggestions for the Japanese to react to. Major issues seem to be: fishing zones, conservation measures, financial aid to Korean fisheries and 12-mile limit. Ohira says that if Korea is ready to take action, normalization can be achieved before summer as he is willing to extend the normal May 17 Diet closing date. Korean opposition parties may effectively obstruct normalization of diplomatic relations between Japan and Korea.

Pak is still determined to normalize relations, but is adamantly opposed especially by the Civil Rule Party. The Koreans claim that the Japanese appear to be withdrawing from their earlier position which accepts limitation and regulation on fishing within specified areas outside the 12-mile zone. Suspicion is growing in Korea that the Japanese are not seriously interested in successfully negotiating a settlement at this time.

(3) The goal for 1964 should be the pursuit of "sound monetary and fiscal policies and the stabilization of price levels." [Seoul A-574] There should be a readjustment of the exchange rate by this summer. We must continue to seek the participation of other countries in the

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E.O. 12958, Sec. 3.5  
NSC Memo, 1/30/95, State Dept. Guidelines  
By *pc*, NARA, Date 5-8-01

FEB 18 1964



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economic plans and programs of Korea.

(4) Status of Forces Agreement - The recent articles in the Korean press may have been instigated by ambitious politicians or directly by the Government. The reason for creating this hubbub is to effect the status of forces agreement. There is a great deal of agitation for having U. S. armed forces personnel subject to Korean law and courts during off-duty hours. We have clearly indicated that public noises about recent incidents will in no way affect our position in the status of forces negotiations.

The National Assembly passed a unanimous "recommendation" to the government that SOFA be completed soon to prevent the cruel shooting of Koreans by our armed forces personnel. (Seoul 1048). A Korean assemblyman made<sup>the</sup> point that for over ten years we have avoided a SOFA while there is already one with a defeated enemy (Japan).

It would be good all around if the pace of these negotiations were significantly accelerated.

*Cij*  
Clifford L. Alexander, Jr.

~~SECRET~~

48  
10 February 1964

MEMORANDUM FOR MR. FORRESTAL

Attached is JCS document JCSM 101-64, dated 6 Feb 64, which may be of interest to you. As Mr. Bundy directed on 19 November, please read this document for "background only," in the sense in which the press understands that term. Any compromise of source could dry up this potentially useful channel of information overnight.

Please return the attached document to Smith, Room 376A EOB, in a sealed envelope, not later than 14 February 1964.

W. Y. SMITH

Attachment  
a/s

FEB 13 1964

Insertal

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THE JOINT CHIEFS OF STAFF  
WASHINGTON, D.C. 20301

JCSM-101-64  
6 February 1964

MEMORANDUM FOR THE SECRETARY OF DEFENSE

Subject: Time Required for Reduction of Forces in Korea (U)

1. Reference is made to JCSM-989-63, dated 16 December 1963, which forwarded an outline plan relating to the withdrawal of one US division (12,600 men) from Korea and reduction of 50,000 ROK Army and Marine forces. The outlined plan included a time-phasing which would require 24 months for accomplishment.

2. Further study of the time required to complete the force adjustments has been conducted to determine if the schedule could be compressed. Periods of 24, 18, 12, and 6 months have been examined. The Appendix to this memorandum contains a review of the major time factors which would have an impact on the proposed reductions and the advantages and disadvantages of accomplishing the force adjustments in the time periods above. This review is predicated on the assumption that provision for the necessary funds which are not now programmed will be made at the time of decision and that a significant amount of division equipment will remain in Korea.

3. As a result of the study, the Joint Chiefs of Staff have concluded that:

a. An orderly phased reduction could be accomplished in 24 months.

b. A reduction could be accomplished in 18 months, but this would incur disadvantages associated with reorganization, equipment shortages, and storage problems.

Copy 1 of 21 copies each  
of 2 pages series B

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DOWNGRADED AT 12 YEAR  
INTERVALS; NOT AUTOMATICALLY  
DECLASSIFIED. DOD DIR 5200.10

Re: JCS 1776/690-1

DECLASSIFIED

Authority: DOD Directive 5200.30  
By jc NARA D-58-01

FEB 13 1964

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c. Although it would be possible to complete the proposed reduction of forces in less than 18 months, the disadvantages, which stem from reduced combat capability and equipment, storage, reorganization, and political problems, outweigh the advantages.

4. The Joint Chiefs of Staff concluded that 24 months is the optimum period to permit the most orderly withdrawal of US forces from Korea and a reduction of ROK forces. If a decision is made to reduce forces in Korea at a more accelerated rate, they recommend that a minimum of 18 months from the date of decision be allowed for completion. Considering only the US division, should the decision be made that no significant amount of its equipment would be left in Korea, the US division could be withdrawn in 12 months.

For the Joint Chiefs of Staff:

Signed

J. W. DAVIS  
Rear Admiral, USN  
Deputy Director, Joint Staff

Attachment

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49a

## APPENDIX

### TIME REQUIRED FOR REDUCTION OF FORCES IN KOREA (U)

1. General 1
  - a. On 16 December 1963, the Joint Chiefs of Staff 2  
forwarded a plan for US/ROK force reductions in Korea to 3  
the Secretary of Defense. This plan provided for the with- 4  
drawal of one US Division (12,600 men) and a reduction of 5  
ROK forces by 50,000, both to be accomplished over a 24. 6  
month period. 7
  - b. The outline plan included the following time schedule 8  
for US/ROK force reductions in Korea (preceded by a request 9  
for emergency funding action by the Department of the Army): 10
    - (1) January/February 1964 - Notify ROKG of planned 11  
reductions. 12
    - (2) June 1964 - Commence construction for pre- 13  
positioning storage in Korea. 14
    - (3) June 1964 - ROKA & ROK Marine Corps commence 15  
force cuts totaling approximately 3000/month, by 16  
attrition to total of 50,000 end CY 1965. 17
    - (4) January 1965 - Commence rehabilitation of 18  
relocation site. 19
    - (5) April 1965 - Commence phase out of KATUSAs from 20  
US division scheduled for withdrawal. 21
    - (6) August 1965 - Complete rehabilitation of 22  
relocation site. 23
    - (7) September 1965 - Complete delivery division 24  
equipment to relocation site. 25
    - (8) September 1965 - Complete prepositioning storage 26  
construction in Korea. 27

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JCSM-101-64

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Appendix

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DECLASSIFIED

Authority: DOD Directive 5200.30  
By jc NARA, Date 5-8-01



- (9) October 1965 - Commence withdrawal US division  
to relocation site.
- (10) October 1965 - Complete phase out of KATUSAs from  
departing US division.
- (11) December 1965 - Complete withdrawal of US division.
- (12) December 1965 - Complete ROKA force reductions.
- c. On 26 December 1963, as a result of a discussion with  
the Assistant Secretary of Defense (ISA), the Chairman,  
Joint Chiefs of Staff, requested that a study be prepared on  
the timing of the above force reductions in Korea to estab-  
lish a schedule for compression of the reductions in the  
minimum time consistent with orderly action.
- d. The following study examines the pros and cons involved  
in effecting the contemplated force reductions in 6, 12, 18,  
and 24 month periods.
2. Assumptions
- The following assumptions have been made in developing  
the study:
- a. Provision for necessary funds will be made at the  
time of decision.
- b. The rehabilitation of the relocation site, to be  
recommended by the Army, will not be a limiting factor.
- c. A significant part of divisional equipment will remain  
in Korea.
3. Major Limiting Factors
- The major limiting factors involved in effecting US/ROK  
force reductions are:
- a. Time required prior to the withdrawal to make necessary  
adjustments in tactical deployments along the DMZ and in  
command/control arrangements for remaining US/ROK forces.
- b. Time required to construct storage facilities in Korea  
for equipment to be prepositioned.

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c. Time required to fund for and replace long lead time items of equipment left in Korea which are not available from authorized War Reserves, including pipeline assets.

4. Discussion of Major Limiting Factors

a. A reorganization of forces deployed along the DMZ will be necessary if one US division is withdrawn and two to three ROKA divisions are inactivated. This would involve changes in division areas of responsibility, changes in the command structure within the United Nations Command and probably activation of another ROKA field army headquarters. It is estimated that after arrangements are completed with the ROK government about a year would be required for the ROK Army to organize, train, and equip a field army headquarters and assume responsibility for the I Corps (Gp) Sector, and to accomplish the other changes indicated above. This time could be reduced by accepting a lower defensive posture with the attendant increased risk.

b. Based on ultimate total cost, which includes maintenance and security considerations, the optimum type of storage facilities for the prepositioned equipment to be left in Korea would include dehumidified buildings. It is estimated that construction of storage facilities would require approximately 24 months. Temporary storage facilities could be used in the interim but maintenance and security requirements would be increased greatly during this period. The minimum time required to store the equipment in temporary storage is estimated at four and a half months. The Army is considering other alternatives to storing the equipment in Korea.

c. Preliminary Army studies indicate that the Army would prefer to station the infantry division withdrawn from Korea in Alaska (absorbing the separate brigades now in Alaska), with one brigade at Fort Lewis, Washington. No major rehabilitation or new construction of

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troop housing would be required; therefore, troops could 1  
be received within approximately 45 days of decision date. 2  
No on-post family housing is available for the increased 3  
strength at either location. CINCAL concurs in the 4  
desirability of stationing the redeployed division (-) in 5  
Alaska. In the event a decision is made to withdraw a 6  
division, the Joint Chiefs of Staff will recommend a 7  
relocation site after consideration of the recommendations 8  
of the Chief of Staff, US Army. 9

d. The divisional equipment left behind in Korea in 10  
prepositioned status should be replaced by the time the 11  
division is re-settled at its new location. Procurement of 12  
short lead-time replacements items would require 12 months. 13  
Long lead-time replacement items (electronic equipment) 14  
would require 24 months. Although some items will be 15  
available from authorized War Reserve Stocks including 16  
pipeline assets other items may have to be procured. 17

5. The spread sheet in the attached Annex lists advantages 18  
and disadvantages of four time periods for the proposed with- 19  
drawal/reductions: 24 months, 18 months, 12 months, and 20  
6 months. 21

#### 6. Conclusions 22

a. An orderly phased reduction could be accomplished 23  
in 24 months. 24

b. A reduction could be accomplished in 18 months but 25  
this would incur disadvantages associated with equipment 26  
procurement and storage problems. 27

c. Although it would be possible to complete the proposed 28  
reduction of forces in less than 18 months, the dis- 29  
advantages, which stem from reduced combat capability and 30  
equipment shortages, storage, reorganization, and political 31  
problems, outweigh the advantages. 32

7. If a decision is made to reduce forces in Korea in less than 24 months, it is recommended that a minimum of 18 months from the date of decision be allowed for completion. A schedule for accomplishing the reduction in 18 months follows (DD=Decision Date; timing is indicated in months). Any delays caused by protracted US/ROK consultations and planning would have to be added to the schedule.

a. DD to DD+2 - US notify ROKG of planned US/ROK force reductions.

b. DD+3 - ROKA and ROK Marine Corps commence force reductions totaling approximately 4000/mo to total of 50,000.

c. DD+4 - Commence construction for prepositioning storage in Korea.

d. DD+7 - Commence preparation of relocation sites.

e. DD+11 - Commence phase out of KATUSAs from US division scheduled for withdrawal.

f. DD+14 - Complete preparation of relocation sites.

g. DD+15 - Complete delivery of available division equipment to relocation sites.

h. DD+16 - Commence withdrawal of US division to relocation sites.

i. DD+16 - Complete phase out of KATUSAs from departing US division.

j. DD+18 - Complete withdrawal of US division to relocation sites.

k. DD+18 - Complete ROKA force reductions.



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ANNEX

TIME TO COMPLETE ACTION  
(From decision date)

24 MONTHS

ADVANTAGES

1. Permits orderly withdrawal of US Division.
2. Permits orderly reduction of ROK forces.
3. Has least impact on EUSA combat readiness.
4. Has least political and economic impact on ROKG.
5. Allows adequate time for construction of storage facilities in Korea.
6. Allows adequate time to replace items of equipment left in Korea.
7. Allows adequate time to organize, train, and equip new I Corps Sector ROKA Headquarters.

DISADVANTAGES

1. Delays realization of savings in DOD expenditures entering the International Balance of Payments.

Annex

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TIME TO COMPLETE ACTION  
(From decision date)

18 MONTHS

ANNEX

ADVANTAGES

1. Permits reasonably orderly withdrawal of US Division.
2. Permits reasonably orderly reduction of ROK forces.
3. Moderate impact on EUSA combat readiness
4. Moderate impact on Korean politics and economy.
5. Allows adequate time to organize, train, and equip new I Corps Sector ROKA Headquarters.

DISADVANTAGES

1. Will not permit procurement of long lead-time items of Division equipment which are not available out of authorized war reserves including pipeline assets.
2. May require operation without some necessary equipment for 6 months.
3. Prepositioning storage facilities would not be completed prior to withdrawal of division.

Annex

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ANNEX

Time to Complete Action  
(From decision date)

12 MONTHS

Advantages

1. Permits procurement of short lead-time items of Division new equipment.
2. Allows time to organize, train, and equip new I Corps Sector ROKA Headquarters.

Disadvantages

1. Creates adverse impact on Korean politics and economy.
2. Will not permit procurement of long lead-time items of Division equipment which are not available from authorized war reserves, including pipeline assets.
3. May require operation without some necessary equipment for 12 months.
4. Prepositioned storage facilities would not be completed prior to withdrawal of division.

Annex

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Time To Complete Action  
(From decision date)

6 MONTHS

Advantages

1. Allows maximum saving in DOD expenditures entering the International Balance of Payments.
2. Allows ROKG to realize maximum saving in defense budget.

ANNEX

Disadvantages

1. Will have maximum adverse impact on defense capability in Korea.
2. Will not permit normal procurement of equipment which is not available from authorized war reserves, including pipeline assets.
3. Will require maximum use of War Reserve Stocks.
4. Will require maximum use of temporary and outdoor storage facilities in Korea causing equipment deterioration.
5. Will not permit time to provide a major ROKA Headquarters for use in I Corps Sector.
6. Division probably not be fully operational upon return to CONUS.
7. Will have maximum adverse impact on ROKG politics.

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DCS/148 - 1/21/64

FAR EAST

4. Summary of Rusk/Pak Discussion in Seoul --

Embassy Seoul reports that President Pak and Secretary Rusk touched on a range of international and domestic problems during their three-hour conference January 29. Pak focused his prepared presentation on four major items: ROK security in light of recent FE developments; force levels and MAP transfer; the Korean economic situation and US aid; ROK-Japan relations. The level of US economic assistance to ROK was linked by Pak both to the problem of economic development and settlement of ROK-Japan relations. He requested US aid be kept at the present levels for the next 4-5 years during which time ROK would move toward economic self-reliance. To facilitate an early ROKG settlement with Japan, Pak specifically requested: (1) early agreement on PL 480 grain imports and their timely arrival; (2) additional US aid in the order of \$20-30 million to check the inflationary spiral and control labor disputes; and (3) US assurance that aid will not be reduced proportionately to Japanese assistance entering Korea under terms of the settlement. Rusk emphasized that external resources are only a fraction of the total ROK economy although a critical element in providing unavailable resources. He urged Pak to proceed, with two things in mind: (1) the US will not let Korea down; and (2) there are many ways, in economic terms, to skin a cat. He said he would look into the food problem, but pointed out there are 100,000 tons of PL 480 grain now on the way to Korea.  
(SECRET)

5. Withdrawal of French Technical Aid in Vietnam a Danger --

Embassy/AID Saigon believe that the current deterioration in Franco-Vietnamese relations could result in withdrawal or departure of a portion of the French technical and managerial community and French aid. This would obviously affect the fundamental economic situation in Vietnam. CT urges that Washington give some thought to the extent to which we might be able to fill the gap left by French withdrawal, even though complete withdrawal would be improbable. (Confidential)

6. Lao Military Budget in Violation of December 24 Stabilization Agreements --

USAID Vientiane was informed by IMF Advisor Boushehri this week that Phoumi signed a copy of the RLG military budget for FY 63/64, which instead of being at the level of 3,407.8 (millions) as

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E.O. 12958, Sec. 3.6  
NLJ 01-205  
By cbm, NARA, Date 4-5-02

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DCS/148  
January 31, 1964

GENERAL

1. Reports on US-Japan Joint Economic Committee Meetings Transmitted -- Embassy Tokyo has transmitted summaries of the meetings of the US-Japan Joint Economic Committee held in Tokyo, January 27-28. (Confidential)

NEAR EAST AND SOUTH ASIA

2. Embassy New Delhi Recommendations on Use of US-Owned Rupees Requested -- Embassy New Delhi has been informed that the Washington Post on January 25 carried articles datelined New Delhi, January 20, describing the US Embassy as faced with an embarrassment of riches -- unable to pay drivers, rents, or for travel and operation of Embassy fountains, -- while \$319 million of US-owned rupees are presently available but which "Bowles cannot touch." An article in the New York Times January 19, described Embassy's inability to expand its activities in India by spending blocked rupee holdings because of the requirement that specific Congressional appropriation in dollars is required to cover rupees drawn by Embassy. At the time Ambassador Bowles was here last November he spoke to a number of Congressmen and discussed generally the problem of the use of US-owned rupees and ways in which their use might be increased. The Department understood that Bowles intended to pull together the results of these meetings and submit recommendations for a possible course of action in dealing with the US-owned rupee question. Such a procedure is still desirable and the Department would appreciate such recommendations soonest in view of the fact that State budget hearings are beginning. (Limited Official Use)

LATIN AMERICA

3. CIAP Chairman Elected -- The Department has announced that Carlos Sanz de Santa Maria, Finance Minister of Colombia, was elected Chairman of CIAP at a special IA-ECOSOC meeting in Washington. Election of CIAP representatives followed. (Limited Official Use)

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Return to  
HHS  
5/

Bob -

There is no LAS for  
Korea.

~~I'm having sent over~~  
~~the~~ latest approved Country  
Assistance Strategy Statement  
attached.

However, <sup>also</sup> the ~~attached~~  
~~is~~ the Country Team's  
latest submission<sup>and program</sup>, which  
may interest you even  
more than approved  
Washington statement.

H.



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A.I.D. Strategy for Korea

51a  
Korea

I. Objectives

The basic U.S. objective is the maintenance of an independent Republic of Korea, resistant to subversion and, with U.S. assistance, capable of deterring or repelling renewed Communist aggression. Related objectives are the development of a stable, democratically oriented, and increasingly self-reliant nation in the creation and defense of which the U.S. has been deeply involved. U.S. support enables the Republic of Korea (ROK) to maintain a major military force serving U.S. security interest in Northeast Asia, and to meet an otherwise unmanageable balance of payments gap. Economic growth by at least 5% annually is sought to strengthen Korea against Communist economic competition and subversion and to create a stronger and more nearly self-sustaining economy. Economic aid levels are carefully designed to both reduce the U.S. burden in Korea and, at the same time, foster expanded Korean self-reliance.

II. Country Circumstances

Movement toward the long-term goal of a self-sustaining Korean economy is limited by the heavy burden of a 600,000-man ROK military establishment. Proposals that the U.S. negotiate at the proper time with the ROK Government for a phased and substantial reduction of active ROK military forces are under consideration. Force reduction would contribute to our ability to bring about increased self-support and reduced U.S. balance of payments support.

The failure to achieve significant economic growth and to reduce massive unemployment and under-employment has contributed substantially to political unrest in recent years. The long-term outlook for economic development in the ROK has improved, however, as a consequence of new elements in the Korean situation, including greater Korean Government interest in economic development and export promotion and the prospects of a Korean-Japan settlement, which promises a strong impetus to investment and trade as well as direct Japanese aid. We will continue to seek achievement of a ROKG-Japan settlement, hopefully sufficiently early to permit the flow of Japanese capital by the end of 1964. In the near future, and possibly over a period of several years, however, the internal political situation may have an adverse effect on the progress of the economy.

Korean economic development requires basic changes in current ROK attitudes, both public and private, and the development of policies and institutions are needed to gear the economy to a realistic long-range program. Such changes are needed to generate savings, to encourage and expand private enterprise and to enable the economy to function efficiently, without undue political interference.

DECLASSIFIED

Authority 40 Guideline 10-16.95  
By jc, NARA. Date 5-10-01

GROUP 3

Downgraded at 12 year  
intervals; not  
automatically declassified

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- 2 -

The underlying economic problem (with powerful political overtones) confronting the ROK today is the need to restrain internal consumption while achieving a substantially higher rate of domestically financed investment and pushing hard on the export drive, all within a realistic assessment of total resources and a relatively stable economy. Consumption has increased over the past year despite reduced U.S. aid programming. This has been made possible not only by increased domestic output, but also by use of the aid pipeline and by a sharp drawdown in Korean-owned foreign exchange, neither of which expedients can be tapped much further. Accustomed to high aid levels, the ROKG is loathe to take the steps necessary to restrain consumption within tight resource availabilities leaving a margin for the demands of investment.

ROKG policies have resulted in an overvalued currency, inflationary pressure and increased imports, causing foreign exchange reserves to decline from \$212 million in February, 1962 to \$108 million in October, 1963. The exchange rate problem has been mitigated by the export-import link system introduced in 1963, which in effect created a free market rate for exports and KFX-financed imports. Under strong U.S. pressures the ROKG has taken steps to ease domestic inflationary pressures, but these are not yet under control. With the present inflation and decline in reserves, an adjustment in the exchange rate is inevitable.

In addition to halting inflation and the foreign exchange losses, there is need for a rationalization of internal prices consistent with, and resulting from the necessary curtailment of imports for consumption. Effective price stabilization of food grains and essential imported materials will undoubtedly be at a level substantially above the levels which the ROKG is presently seeking to maintain.

With the population increase running ahead of the expansion of food production ever since the Armistice, the achievement of food self-sufficiency (a basic operational objective of the aid program) will be a multi-year effort, hinged in large part on the introduction of balanced fertilizers and other improved farm practices. In the meantime, periodic preoccupation with food problems constitutes a deterrent to stabilization efforts and exaggerates demands for PL 480 deliveries.

The task of adjusting consumption and investment to a realistic assessment of available resources and requirements of economic growth calls for action:

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- 3 -

(a) containing demand for consumer goods, thus pushing more productive capacity into export activity and reducing consumption imports;

(b) diverting more indigenous resources from consumption to productive investment;

(c) stabilizing prices, with especial attention to control of budget deficits, and excessive credit expansion.

### III. A.I.D. Strategy.

1. Develop a long-range analysis of total resource availabilities and practicable economic goals as a basis for A.I.D. decisions, and assist the ROK Government effectively to manage the utilization of scarce resources by preparing and implementing a satisfactory economic development plan.

2. Gradually reduce aid funds for maintenance of the economy and increase funds for development as warranted, thus transferring to the Koreans more and more responsibility to sustain themselves. In addition to DL projects, it may be desirable to consider program loans for developmental commodities should such loans appear to be a useful instrument for furthering the emphasis on sound development. The reductions in Supporting Assistance from \$181 million <sup>a/</sup> in FY 1961 to \$80 million in FY 1964 and to \$75 million in FY 1965, in line with the Mansfield Amendment, have been designed to implement this strategy and put increasing pressure on Korea to continue to expand its own earnings of foreign exchange, use its foreign exchange increasingly on imports of essential commodities and capital goods, limit its imports of consumer goods, and responsibly manage its internal budget. To this end, the level of Supporting Assistance should not be determined by ROK budgetary requirements, but based upon a determination of unmet and essential import requirements. It must be released incrementally pending an evaluation of ROKG performance, primarily in connection with the planning and use of its own foreign exchange and containment of inflation.

---

<sup>a/</sup> Includes \$10 million project support, \$15 million Section 402, and \$20 million stabilization fund.

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- 4 -

3. Insist upon the creation of and adherence to a stabilization program controlling money supply, ROKG budget deficit, credit to the economy and KFX drawdown, with the objective of balanced internal and external accounts. Since the A.I.D. strategy of gradual reduction in Supporting Assistance must face the possibility that the Koreans will not trim their plans to available resources and will continue to experience severe inflation, A.I.D. will continue to warn the ROKG that violation of the stabilization program will not justify increased U.S. balance of payment support. In the event of severe inflation, A.I.D. will withhold development lending as a further means of support for this program. In connection with stabilization the USG should at the earliest appropriate time urge the ROKG to establish a realistic rate of exchange which can be accepted by the IMF as par value. At a minimum we should insist that local currency generation under PL 480 and SA should reflect market values.

4. Emphasize ROKG development of attitudes and policies which will be conducive to private sector development. A.I.D. will continue to lay stress on (a) an increased role for private, including foreign, investment and a reversal of the sharp rise following the military revolution in the proportion of investment going into the public sector; (b) increasing savings and domestically financed investment; (c) modernization of the existing banking and credit system and development of incentives to private capital formation; and (d) the development of improved accounting, entrepreneurial and managerial abilities. These objectives are sought by direct USOM/ROKG negotiations, by advisory service training contracts financed by Development Grants, and by self-help "strings" on our aid.

5. Strengthen Korea's economy by interrelating efforts to

a) encourage the development of appropriate manufacturing industries in the private sector; because of Korea's shortage of natural resources, Korea's economic viability will depend in the long-run on adding value to largely imported materials and exporting semi-manufactured and finished goods;

b) encourage the development of medium and small scale, labor-intensive private enterprise to make use of Korea's underemployed but industrious and literate labor force; and

c) seek to assure that crucial economic development objectives are served by the Korea-Japan settlement. Such a settlement is expected to bring in substantial Japanese private and, after a time lag, official capital which a U.S.-influenced

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- 5 -

Korean economic development program should channel into the fields indicated in subparagraphs (a) and (b) above, so that it will not be wasted in the financing of consumption. A.I.D. should develop now its strategy for achieving maximum coordination of U.S. and Japanese assistance. As early as is feasible, steps should be taken to elicit cooperation from both the Korean and Japanese Governments to assure the channeling of Japan's assistance into programs and projects that will contribute to genuine economic development in Korea, in effective coordination with U.S. assistance.

6. Assist the ROK to achieve self-sufficiency in food by continuing to emphasize Government policies aimed at rationalization of land use and provision of adequate prices, credit and fertilizer for the farmer. PL 480 food imports will be limited to need, with precaution that such imports neither discourage agricultural development nor respond to ROKG desires for excessive local currency generation or for satisfaction of consumer preferences for imported rather than indigenous grains.

7. Continue to encourage other capital sources to assist Korea on concessional terms while using the U.S./ROK agreement which provides for consultation on ROKG use of its foreign exchange and, if necessary, a curtailment of Development Lending to keep short-term commitments within Korea's capacity to repay. Following a settlement with Japan, A.I.D. will work towards DAC participation in Korea's development.

8. Encourage the most appropriate allocation of total resources, both Korean and U.S., between the dual requirements of defense and economic growth by

a) endeavoring to hold the over-all size of the ROKG military defense budget to the lowest levels compatible with U.S. strategic objectives; this size should be considered in an over-all context of control of inflationary pressures and the competing demands of other sectors of the budget, which consideration may require some reduction in the real level of the military budget;

b) abandoning as soon as feasible the allocation of local currency support between these purposes and insisting at the same time on U.S. review of the entire ROKG budget; and

c) requiring in the interim the ROKG to absorb any expansion of local costs in the military budget, except those increases resulting from changes in U.S. policy, which should be considered as they arise.

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A.I.D. recognizes that the desired measure of development requires relative political as well as economic stability. Political developments in the coming months may create conditions which will require adjustments in the aid strategy. In case of threat of renewed insurgency, the U.S. may also have to review this strategy.

#### IV. Funding Implications in FY 1964 and 1965

The funding implications of this strategy support our plans for the following approximate assistance levels:

For FY 1964, \$80 million in Supporting Assistance (FY 64 OYB dated 1/2/64 provides \$66.2), \$40 million in Development Loans, and \$5.3 million in Development Grants (including Civic Action). (A.I.D. is also requesting a PL 480 program of \$70 million under Title I and \$12 million under Title II and III.)

For FY 1965, \$75 million in Supporting Assistance, \$30-45 million in Development loans, \$5.3 million in Development Grants (including Civic Action), \$70 million in PL 480 Title I sales and \$13.4 million under Title II and III. Title I deliveries will be evaluated and determined in accordance with section II, paragraph 6 above. The actual value might range from \$60-90 million.

The decision has been made to resume in FY 1964 the transfer to ROKG financing of a total of almost \$40 million of consumables now funded in the MAP, accomplishing the transfer by 1970. If an accelerated program is adopted, it might require some upward revision in assistance levels.

#### V. Program

The Development Loans and other capital funds are currently focused largely on infrastructural growth (power, transportation, communications, etc.) and on industries which will save foreign exchange, e.g., fertilizer, with most loans going to governmental entities. However, A.I.D. hopes to place increasing emphasis on the private sector. For example, A.I.D. has been working in detail with the Korean Reconstruction Bank, a development bank funded in large part with DLF and counterpart loans, to assure its use of acceptable banking principles, and expects in FY 1964 to fund a major advisory contract. It will also encourage foreign, particularly U.S., private investment. A.I.D. also intends to stimulate the identification and presentation of sound projects, the shortage of which has hindered ROKG development plans.

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The Development Grant program is being used to strengthen ROKG management capability and performance in essential fields of investment credit, power production and distribution, industrial development, monetary and fiscal policy, tax administration, export promotion, and planning resources use. Additionally, technical assistance is being provided in vocational education, agriculture and fisheries, minerals and coal exploration, public administration, and to a very limited degree in public health, police administration, housing and communications.

*Dr. Bell*

JAN 27 1964

David E. Bell  
Administrator

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THE WHITE HOUSE  
WASHINGTON

SECRET

December 20, 1963

MEMORANDUM FOR

The Honorable U. Alexis Johnson  
Deputy Under Secretary for Political Affairs  
Department of State

SUBJECT: Korea

I have your memorandum of December 18 on force reduction in Korea. I agree that we need to develop a political-military plan of U.S. action which will deal with all of the implications of U.S. and ROK force reduction.

The President is most anxious that we get some action on this matter which has been hanging fire for so long; and in this connection I assume that State will want to consider not only how to convey to the Koreans the rationale for the suggested force reductions, but would also want to formulate a diplomatic plan for achieving an ROK-Japanese peace treaty in the very near future. This is especially important in light of the economic impact of a U.S. force reduction and the diminished funds we will have available for economic assistance to Korea in the coming year.

*ma*  
McGeorge Bundy

DECLASSIFIED  
Authority 760 92-162 (# 125)  
By *1/10/97* NARA, Date *8-11-97*

*Just to let you know that we keep fighting  
on all fronts  
Mike*

SECRET

*dispatched 12/20/63*

DEC 23 1963