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PRESIDENTIAL TASK FORCE
ON
KOREA

REPORT TO THE
NATIONAL SECURITY COUNCIL

June 5, 1961

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Chairman: Walter P. McConaughy
Assistant Secretary of State
for Far Eastern Affairs

June 5, 1961

INTRODUCTION

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REPORT OF THE KOREA TASK FORCE

June 5, 1961

I. INTRODUCTION

1. Since the military Supreme Council for National Reconstruction now appears to be firmly in control of the Republic, the United States has no alternative except to try to work with it for the time being, and seek to win its leaders' confidence in an effort to channel their dynamism and emergency powers toward constructive ends. This will call for a careful blend of friendship and firmness; encouragement of Korean responsibility and initiative; and a demonstration of U.S. readiness to contribute significant additional assistance, coupled with a determination to withhold such assistance if necessary to force appropriate Korean action. At the same time, it must be borne in mind that the tenure of the present leaders of the Supreme Council is by no means assured, and they may have to reckon with pressures from irresponsible and even more extreme elements within their ranks.

2. The coup d'etat of May 16 succeeded because of the capable planning of the handful of military men who staged it and because the government of Chang Myon had failed to win the confidence of the people in its leadership and its ability to solve the nation's problems. The Koreans are impatient for progress and surfeited with

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corruption and with the factional squabbling and self-interest which tend among the older generation to pass for democratic freedom. To achieve political stability in Korea, it is essential that the Koreans develop a sense of purpose and a feeling of progress. This can be accomplished only through the development, with U.S. assistance, of realizable economic and social goals and through the achievement of those goals by a combination of Korean effort and U.S. support. Specifically, the U.S. must help develop an understanding of the principles and practices of representative government and must supply external resources for the achievement of self-supporting economic growth.

3. Large-scale additional U.S. financing is not required on a "crash" basis and might act as a disincentive to the Koreans in solving their own long-term problems. What are needed now are resolute and even dramatic U.S. actions in selected areas to demonstrate a break with the somewhat sterile past. In contrast with past American aid which has been devoted to military security objectives, war damage repair, and the provision of a bare subsistence for the people, the new emphasis should be on long-range economic, political and social development. This is needed not only to give the people a sense of purpose and hope but also to impress on their skeptical new leaders the further contribution which the U.S. can make toward the solution of their problems.

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as a temporary phase in Korean history. It must be persuaded to supplement its own narrow capacities and qualifications with wise and competent civilian leadership and expert counsel. It must be persuaded to bring about, as rapidly as possible, the conditions for reestablishing stable civilian government responsive to the Korean people through representative processes.

5. In both U.S. and Korean policies and programs priority should be given to instituting certain essential reforms long under consideration, to breaking the power bottleneck, to strengthening and expanding the National Construction Service (a program of public works and resource improvement projects for the unemployed), and to examining ways in which the Korean military establishment might contribute further to economic development.

6. Not all required lines of U.S. action are new or different. Many actions already completed or underway, have contributed importantly to the Korean potential for further political and economic progress. What is needed on the part of both Americans and Koreans is a determination to move forward from the bureaucratic stagnation which has handicapped both nations' efforts heretofore.

7. The Task Force recommendations are intended not only to meet the new situation arising from the coup, but to press on with U.S. policies still valid from the past. These recommendations are in three categories: First, actions the U.S. should undertake immediately to establish a cooperative working relationship with the

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new government, to moderate the character and direction of the SCNR, and to demonstrate to the Korean leaders and people the new U.S. emphasis on Korean national development. Second, subsequent actions by the United States to promote self-sustaining economic progress and to foster conditions that will encourage the restoration of representative constitutional government. These should not be undertaken until the Supreme Council has demonstrated its sincerity and willingness to cooperate with the U.S. Third are the basic requirements which must be pressed on the Koreans from the outset if they are to achieve meaningful progress and make profitable use of U.S. development assistance.

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RECOMMENDATIONS

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II. RECOMMENDATIONS

Category 1. U.S. Actions to be Undertaken Immediately

It is recommended that the President direct the new United States Ambassador to proceed to Korea as soon as practicable and to enter into early discussions with appropriate leaders of the Supreme Council for National Reconstruction along the following lines:

- a. To inform them that the U.S. is prepared to deal on a friendly and cooperative basis with the new regime;
- b. To impress on them that it is in their own national interest that the Supreme Council publicly and repeatedly reaffirm its adherence to the principle of representative government and constitutional liberties and its intention to restore these at the earliest possible time; and that the failure to demonstrate their good faith in this matter will ultimately compromise them in the eyes of the free world and of the people of the United States, and in the forum of the United Nations.
- c. To affirm the intention of the U.S. to continue supporting assistance to the civilian economy and defense establishment.
- d. To make clear that higher levels of assistance to support a National Development Plan will be provided only as the Korean Government enters into and carries out firm and specific commitments for reform, including certain reforms which have been under consideration for a long time. In this connection, the U.S. is prepared to offer technical and managerial experts to the Supreme Council.

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e. To obtain renewed assurances that the SCNR will recognize the authority of CINCUNC to exercise operational control over the Korean Armed Forces, as a constituent element of the UN Command.

f. Provided assurances are given in respect of the above and discussions are started immediately in respect of certain essential reforms, e.g., the completion of the fiscal, foreign exchange and stabilization reforms; the rationalization of the corporate structure and rates of the power industry; and the bringing into production of certain factories already built, and provided the Ambassador is satisfied with such initial evidences of Korean willingness and capacity to carry out mutually agreeable plans and programs, then the Ambassador is authorized:

(1) To issue an invitation to the Chief of the Government to make an informal "working" visit to Washington to confer with the President and the Secretary of State.

(2) To indicate that the U.S. is willing to release the remaining approximately \$35 million in defense support funds for fiscal year 1961.

(3) To state that the U.S. is willing to enter into agreed commitments for specific projects in connection with a long-term plan for the expansion of the power industry, immediately upon appropriation of funds.

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(4) To state that the U.S. is prepared to support expansion and intensification of the National Construction Service, on a long-term basis, through allocation of agricultural surpluses, equipment support, and technical assistance.

g. To state that the U.S. is prepared to provide technical experts to assist the Korean government in the preparation of its Five-Year Development Plan.

h. To state that, provided substantial and constructive progress is made in the next few months, the United States will be prepared to provide resources to the Korean government to help carry out its Five-Year Development Plan.

Category 2. Subsequent U.S. Actions

It is recommended that the President

a. Authorize the Secretary of State to determine when the Korean Government is sufficiently stable and cooperative to justify long-range development assistance.

b. Upon such finding, and at a time recommended by the Ambassador, appoint a Special Envoy of the highest stature to visit Korea. This envoy would be accompanied by a group of economic advisers and would carry out the terms of reference set forth in Appendix A.

c. Announce, on the recommendation of the Special Envoy and the Ambassador, the readiness of the U.S. to make available, in concert with other nations of the Free World, external resources to support a Korean Five-Year National Development Plan.

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d. Authorize the Secretary of State to explore, with nations most likely to make a contribution to Korean development (e.g., Japan and Germany) their willingness to contribute to such a program.

e. Direct the Secretaries of State and Defense to conduct an urgent review of the force and equipment levels of the Korean Armed Forces. This should include in the first instance a military assessment of

(1) The missions of these forces, in the context of over-all Far East strategy and of the anticipated deployment and use of U.S. forces; and

(2) the strategic implications of alternative force and equipment structures, including the possibility of a substantial reduction in forces.

Such a military assessment should then be keyed to political and economic factors, to produce a recommendation for long-term force goals and for immediate actions, as necessary and practical, to move toward these goals. The review referred to in (2) above should also include an assessment of the economic and military implications of

(3) greater participation by the Korean Armed Forces in the National Construction Service and other appropriate civil works projects;

(4) a program to place far greater stress than heretofore on the training of Korean military personnel

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in skills and vocations which will permit a greater contribution to Korean infrastructure while they are in the service and, subsequently, to the civilian economy when they are discharged. The development of such a program will require a manpower survey of Korean vocational needs during the next five to ten years.

f. Discuss with the Japanese Prime Minister during his forthcoming visit, the U. S. planning for Korea and the ways in which economic and political differences between Korea and Japan can be bridged, despite the recent change of government. It should be understood that while the U.S. will not participate actively in negotiations, it should be prepared to act as a catalyst in seeking a settlement. The Prime Minister should be encouraged to continue efforts recently begun to develop Japanese trade with Korea, and to provide economic assistance for Korean development coordinated with American programs. It should be made clear that Japanese settlement of GARIOA is not to be related to U.S. and Japanese aid to Korea. (The U.S. should also urge the SCNR to be responsive to Japanese overtures.)

g. Direct the Director of the United States Information Agency to arrange for USIS as may be appropriate to assist the Korean Government in defining and propagating national goals and ideals as a basis for

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social planning and action, and in improving the Korean image abroad.

Guidelines for such assistance are included in Appendix F.

Category 3: Required Korean Actions

American actions alone cannot resolve the current dilemmas inherent in the Korean situation. The Koreans themselves, by their own actions, will determine their future. Certain of these actions can be taken quickly, and have therefore been set forth above as requirements in connection with U.S. actions. Others are of more complicated or intangible nature and their early completion cannot be made specific requirements, but the U.S. whenever appropriate should urge them upon the Korean government, assisting where feasible in planning and execution. Important among the actions required of the Korean Government are the following:

- a. Formulation and implementation of a National Development Plan, with short-range, measurable elements susceptible of prompt fulfillment;
- b. Preparation at an early stage for the eventual return to civilian rule;
- c. Assurances that the new regime does not interfere with CINCUNC in the discharge of its military responsibilities;
- d. Endorsement by deed and word of the constitutional freedoms of individuals to the maximum extent consistent with the emergency nature of the government, and avoidance of promiscuous abuse of power, blood-purges, or other excesses;

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e. Undertaking long-range social planning including definition by national leaders of national goals and ideals; their promulgating them in the public domain; reforming civil service and police; achieving better relations with students, intellectuals, and the press, and enhancing of Korea's national image;

f. Formulating a thorough anti-corruption program along the lines outlined in Appendix B.

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DISCUSSION

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III. DISCUSSION

A. The Present Situation

General: U.S. policies in Korea have succeeded in keeping the Republic solidly on the side of the Free World and in maintaining a minimal standard of living. They have not succeeded in remedying the lack of national direction or sense of responsibility of the Korean people or their leaders. The Republic remains heavily dependent on American aid, with grossly inadequate progress toward self-sufficiency or self-sustained growth. Mounting forces of nationalism, of unfulfilled expectations, and of youthful impatience, exacerbated by constant Communist propaganda, press ever more strongly on crumbling traditional social forms and inadequate economic and political institutions.

After twelve years of power, the unimaginative autocracy of the Rhee regime fell before these forces in 1960; the well-intentioned but weak Chang administration fell before them in May, 1961. Effective indigenous leadership and American guidance and support must quickly channel these forces into unified national effort for reform and development; otherwise they may seek an outlet in further revolutionary action, in courses which would further instability, and possibly in accommodation with the Communist north.

Pending unification, which probably cannot be realized in the absence of a change in the general international situation, the U.S. objective

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is to protect and foster the democratic growth of the Republic of Korea in the south. The U.S. is heavily committed to the success of the Korean experiment in democracy, which competes directly with the Communist regime in the north. Not only is American prestige at stake. Control of the southern half of Korea is considered by military planners as vital to the defense of the Western Pacific, and is particularly important for the defense of Japan.

Political: The overthrow of the Chang Myon regime does not change many of the underlying political and social elements of the Korean situation. It does, however, present the United States, at least temporarily, with a considerably changed tactical situation. Where a month ago the U.S. was endeavoring to spur a liberal and well-intentioned, but weak, administration into more resolute action on basic economic and social problems, the U.S. is now confronted with an authoritarian, military regime, flushed with success in staging a bloodless coup, with strong nationalistic motivations compounded with opportunism, and committed to strong action against all challengers to maintain itself in power. Although there may be internal purges and power shifts among divergent elements and interests within the ruling group, it will remain in power for some time to come. The United States must deal with the new management if relations with Korea are to be maintained.

The coup group, with its youthful enthusiasm and sweeping powers, will probably inject new drive and discipline into the Korean Government. The

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new leaders' capacity to make much real or lasting progress, however, is limited both by the magnitude of the problems they face and by their inexperience in civil administration. Although they need advice, both from Koreans and Americans, they are probably much less inclined than the previous government to accept it, at least for the time being. This is particularly true of the narrowly nationalistic junior officers who provided much of the driving force behind the coup. Senior generals are already having trouble restraining these officers. They will be tough, determined, difficult to deal with, and inclined to oversimplified and ruthless action to solve complex problems they may not fully understand. For the moment there is no reason to believe they are not anti-Communist in their intentions, but past Communist affiliations of the coup's mastermind, PAK Chong-hui and others, give rise to some caution on this score.

The long-run course of events will continue to be influenced by basic political factors. The pressure of a restless, articulate intelligentsia may be temporarily restrained by the military regime, but its future influence over the direction of Korean society will probably increase with time. Over a million unemployed constitute a constant source of discontent. The Korean social fabric is too weak to enforce unity in face of factionalism, self-interest and corruption. An element of stability arises, however, from the conservative, rural peasantry.

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The land ownership pattern is satisfactory and radicalism in the countryside is unlikely, provided adequate attention is given to the problem of rural poverty. For the future, the critical question facing Korea is whether the political forces which swept away the Rhee regime and facilitated the May 16 coup can be permanently directed to constructive action. U.S. policy should help attain this objective by developing, in so far as possible, a climate of cooperation with the military regime and influencing it to use its enthusiasm and its power in a creative fashion.

The Issue of Corruption: Corruption has been deeply engrained in Korean society for centuries. The compulsion to resort to corrupt practices was intensified by war's aftermath, the worsened economic plight of the Korean people, and deterioration of their moral values through social dislocation and confusion. Massive U.S. assistance has improved the plight of the individual as compared with what would otherwise obtain, but the average Korean is still not much better off than he was in 1950. The very provision of vast aid resources increased opportunities for corruption by a few. Public resentment over corruption played an important part in stimulating the uprising which ended the Rhee regime and the leaders of the recent coup at least proclaim its elimination as a major goal. Attainment, however, will prove difficult.

Economic: South Korea faces extremely difficult problems of development, in competition with the underpopulated, relatively resource-rich,

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and aggressive Communist regime in the north. With large U.S. assistance (\$2.3 billion since mid-1953), Korea has restored and somewhat enlarged its war-torn physical plant and has increased agricultural and industrial output. Export earnings have increased; Government internal revenue increased substantially from 1958 to 1960. Limited social progress has been realized, particularly in education, land reform and low-cost, self-help housing. More than 90 per cent of Korea's imports are still financed by U.S. aid and U.S. defense expenditures, however, and chronic inflationary crises reveal the weakness and instability of the Korean economy. In recent months, in response to U.S. pressures and incentives, Korea had undertaken several fundamental economic reforms, the effects of which had not been fully felt by the time of the coup. Unrealistic exchange rates were revised. Transportation and utility rates were increased. Positive actions were initiated to ameliorate unemployment.

Underlying obstacles to economic growth, nevertheless, remain. The economic dislocations and damage inflicted by uprooting Korea from the Japanese Empire and the amputation of north from south are far from fully repaired. Korean natural resources are limited. Managerial and technical skills are lacking. An archaic educational system neglects technical and vocational training. Students graduate into the ranks of the unemployed. A high literacy rate, though a potential advantage, tends to heighten expectations and thus increase discontent. Banking and credit

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facilities are inadequate. Industry is hamstrung by shortages of power, transportation, management, finance and inadequate industrial water. The rate of population growth is high (over 2.2 per cent) and the proportion of arable land low (about one-fifth). The rate of growth of GNP in real terms has declined from 8.6 per cent in 1957 to 2.3 per cent in 1960. The economy is characterized by stagnation, poverty and unemployment with resultant discontent, unrest and all-pervading corruption.

Korea's human resources provide foundations upon which progressive economic and social structures can be built. Strong measures are needed on the part of both Korea and the United States to build them.

Military: Korean Armed Forces and U.S. Forces in Korea are capable of defending South Korea with conventional weapons in the unlikely event of an unsupported North Korean attack but could not successfully resist the combined forces of Communist China and North Korea without substantial U.S. reinforcements. The FY 1962 U.S. military assistance program provides for minimum maintenance of existing Korean forces and for improvement in the Korean air defense posture through provision of ground equipment for one NIKE and one HAWK missile battalion and provision of one F104 aircraft tactical squadron. The program does not modernize the armed forces at the rate projected by military assistance authorities in their Five-Year Plan.

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The Chang Myon political platform called for reduction of Korean Forces from 630,000 to 530,000. Agreement was subsequently reached upon a force level of 600,000 representing an actual reduction of between 5,000 and 10,000 men. So long as the military junta is in control, force reductions are not likely to be proposed. In the longer term, however, it is conceivable that a reduction, perhaps accompanied by a request for modernization, may be suggested. Though the immediately opposing force in the north is smaller than the Korean Force, the former can be quickly reinforced by Chinese forces. Whether the United States should accede to any eventuating request for a revision of the Korean Force structure would require a re-evaluation of the military and political threat to Korea. There does appear, however, to be some scope for widening the range of training of the Armed Forces to provide skills which would be useful in the civilian economy, and for using the Armed Forces on additional undertakings which contribute to the general welfare.

Prospects: The importance of Korea to the United States both politically and strategically requires continuing support of Korea's defense capacity. Political instability must be avoided. Immediate concern with the shorter-term problem of security and stability need not inhibit immediate action to deal with Korea's basic political, social and economic problems for only thus can security and stability be assured over the longer term.

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Korea's slow progress toward development and self-supporting growth presents a special challenge to the United States. Korea is not a hopeless case. But if it is to make adequate progress, it should be encouraged and assisted to formulate a national development plan, undertake a series of difficult reform measures and deal with certain urgent economic problems. To accomplish these objectives will require an administration of U.S. assistance employing a mixture of incentives and pressures.

B. Leadership for Social Change

Given progressive leadership, motivation and social cohesion, and the resultant vision and inspiration of definitive national goals, the Korean people over the years can improve substantially their economy and enhance prospects for a stable democratic society. Current cynicism and disillusionment should be dispelled and replaced.

Korean society needs new cultural values to replace its earlier Chinese heritage outmoded by the cataclysmic events of the last several decades. A blending of traditional concepts and values with modern social and political aspirations could yield a new national philosophy with specific goals and provide a dynamism which would ensure their realization.

The United States should encourage the evolutionary process of social change lending specific support where possible under programs of cultural exchange. In its encouragement, special attention needs to be paid to the intellectuals. The process, the form and the results, however, must be

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Korean. The effectiveness of U.S. influence is likely to be determined as much by the restraint and humility of its exercise as by its substance.

C. Major Economic Problem Areas

Need for a National Development Plan: The limited objectives of past U.S. aid and the absence, until closing months of the Chang regime, of Korean effort to develop long-range goals have combined to perpetuate a stagnant economy and to complicate or preclude effective use of assistance already rendered. New U.S. aid policies place maximum emphasis on assisting countries to plan and achieve national developments. They require that recipient countries demonstrate a genuine will for self-help.

The Chang Myon government had formally requested U.S. assistance in the development of a long-range economic plan. Assistance would have included training Koreans in the principles and techniques of economic planning, and providing guidance and assistance in the development of the plan. Such a plan should be based on Korea's known resources and psychological patterns and the capacity of existing institutions. It should include a realistic appraisal of Korea's future economic potentials, including export potential. The plan should lay special emphasis on utilization of manpower, which is Korea's greatest single economic resource, as well as on the elimination or revision of socio-economic and political institutions which seriously inhibit development.

Unemployment: The Korean population density of 625 persons per square mile is among the highest in the world. An explosive birth rate compounds

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this problem and creates others. Increasing proportions of national income are consumed in maintaining per capita subsistence levels, leaving little for investment or improvement in living standards. With heavy migration from rural to urban areas, unemployment and underemployment have increased alarmingly in recent years, reaching an estimated 35 per cent in recent months.

Labor-intensive public works programs are essential not only to provide for those in need and to avoid serious social unrest, but to put this large reservoir of available manpower to productive use. In March 1961, the Korean National Construction Service was established for this purpose. Supported by a special 11.8 million dollar grant of commodities under the Food-for-Peace Program and a supplemental Korean appropriation equivalent to approximately \$26 million, the program will employ some 500,000 workers in its initial six months' phase. It will undertake development projects in irrigation, reforestation, roads, port and harbor improvement and municipal construction. A substantial expansion is planned for FY 1962, and U.S. assistance will be provided to improve the management of this complex undertaking. The National Construction Service should become a permanent feature of the Five-Year National Development Plan, both as a means for carrying out development efforts and as an important symbol and rallying point for public support of national progress.

Shortage of Power: Korea's effective power-generating capacity is now less than 300,000 kw., some 80,000 kw. short of existing demand.

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Consequently, much of the country's existing industrial plant operates on a part-time basis and the situation is becoming more critical as new plant construction is completed. Unless this shortage is corrected, there can be no increase in industrialization, the key to economic growth.

Early construction of facilities which will produce an additional 400,000 kw. by the end of 1966 is needed to meet projected demand. The United States should provide the foreign exchange to finance this crucial element of infrastructure through a series of development loans concurrent with Korean measures necessary to assure their effective utilization. It is of fundamental importance that Korea provide the local currency financing required to install imported equipment. Essential steps to correct the present financial insolvency of Korean power companies is required, including a further rate increase, merger of the power companies to effect savings and establishment of an independent rate commission. In the past, lack of local financing has been a principal impediment and cause of delay in power projects.

Water: The demand for municipal industrial water has outstripped supply in Seoul and Taegu and will soon do so in other areas. Immediate action, commencing in FY 1962, should be undertaken to appraise impending shortages and increase water supply capacity in the major industrial municipalities where shortages already exist. Steps should be taken to bring to rapid completion the current expansion of municipal water distribution and to develop a five-year projection of future requirements.

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Lack of Managerial Skills: During the forty-year Japanese occupation, few Koreans held jobs in industry higher than that of shop foreman. As a consequence, the mass withdrawal of Japanese industrialists and businessmen at the end of World War II created a vacuum in the managerial skills available to Korea. Korean colleges and universities have failed to give adequate emphasis to physical sciences, industrial arts and business administration. Under the U.S. assistance program, an American University has established courses in business administration in two major Korean universities and inaugurated a regular program of seminars for businessmen. In addition, scores of Korean industrialists and businessmen have been sent to the United States under a number of training programs to familiarize themselves with the management methods and techniques of American business and industry. These efforts constitute no more than a modest beginning to the solution of one of Korea's most crucial problems. Arrangements are being made to extend and expand development assistance to improve Korean training for business management and administration.

Public Administration: The Korean Government is severely handicapped by a shortage of competent and experienced administrators. Many of the ministers holding posts in the cabinets of Prime Minister Chang and President Rhee, as well as senior civil servants, were often inept and inefficient having had little or no experience in government or business to qualify them for the conduct and management of large agencies. For

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many of them, public office was not viewed as an opportunity for service, but rather as one for personal gain. An American University has been engaged under the assistance program since 1954 in training present and future Korean officials and educators in methods, techniques and standards of public administration and public administration training. Much of this work has been accomplished through the Korean National Officials Training Institute established at the outset of this university program. Planning is under way to intensify and expand development assistance in public administration, training and education.

Investment Financing: Korean development will require not only foreign exchange financing but a much larger investment of local funds. With per capita annual income in Korea of only \$64, development financing through forced savings in the magnitude required would impose undue hardship on a people already close to subsistence levels. Among an elite few, consumption can be reduced and the savings channeled into investment but the potential is not nearly commensurate with the need. Moreover, Korea lacks savings and financial institutions through which the process of capital formation can take place. What limited private wealth exists is conspicuously consumed, used in non-productive speculation, hoarded as gold or illicitly exported. In the long run, the establishment and expansion of savings institutions will be essential to finance continuing investment and self-supporting growth. For the foreseeable future, capital formation is, as a practical matter, a function of government. Within limits, an increase in investment funds could be obtained through

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selective reduction of subsidies to public corporations and other institutions, as well as by increasing national revenue through further rationalization of the tax structure and improvement of the tax collection system. Because potential and public savings are insufficient to the need, a policy of controlled inflation will probably be required to make credit available for development of productive facilities. Although these matters are fundamental to formulation of a long-range National Development Plan, final corrective actions cannot and need not await the formulation of the plan.

The greatest opportunity for immediate corrective action exists in the administration of credit resources. Now, as in the past, neither the Ministry of Finance, the Bank of Korea, nor the Monetary Board has exercised effective control over credit policies or interest rates. None has measures required to ensure consistent application of loan policies of the several lending institutions. Current efforts should be continued to secure immediate revision of Korean budget and accounting procedures which will identify and eliminate unwarranted subsidies, strengthen existing monetary and credit controls and rationalize interest rates.

Un-utilized Past Aid. Approximately \$32 million were made available to Korea over a period of three years commencing in FY 1956 to meet the foreign exchange costs of establishing 215 small and medium industrial plants. Of these, 125 have been physically completed and the remaining 90 are under construction. This program began after the post-war

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reconstruction phase of the assistance program, had a sound objective, namely the provision of an increased industrial capacity in South Korea to make up for its loss of access to the production of North Korean plants. However, it was inadequately planned. Insufficient attention was given to such prerequisites as market analysis, availability of power, local financing, water and competent management. As a consequence of these shortcomings, 32 of the completed plants are not yet in operation and 39 others are operating at less than rated capacity.

In an effort to make maximum economic use of these productive facilities, a Joint Action Board was established in February, 1961 representing the Ministries of Finance, Reconstruction, Commerce and Industry, the Korean Reconstruction Bank and the U. S. Operations Mission. This Board has in some cases proposed means to overcome specific obstacles and in others means to ameliorate them. It is clear from findings of the Board, that such basic obstacles as power shortages must be overcome before full utilization of these facilities will be possible. Development assistance loans and grants in FY 1962 will be programmed to overcome shortages of power, water, and management deficiencies.

Agriculture and Fisheries. Although substantial industrialization is feasible, Korea will always depend on farming and rural industry to produce a substantial share of its national income. In agriculture, rice cultivation predominates to a degree which renders the economy vulnerable to market

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to market vagaries. Farms average less than two acres. Price fluctuations and low farm incomes act as disincentives to savings. Rice lien programs have been used to create a semblance of stability in farm economy. Although a rural credit program has recently been instituted, interest rates for farm loans are generally exorbitant. Measures, to date, have not been adequate to cope with the fundamental problem of instability of farm income caused by over-concentration on a single crop.

Opportunity exists further to exploit salt-water fish resources for domestic food consumption and for export trade. The aid-administering agency should continue to provide development assistance to increase agricultural production through intensification and diversification and special efforts should be made to expand sharply fisheries industries.

Coal. Rapid expansion of Korean anthracite production has taken place over the past five years. Production has risen from 1.5 million tons in 1956 to its present level of 4.3 million tons and further significant increases can be made. With proven reserves of 43 million tons, probable reserves of 300 million tons and likely reserves of 750 million tons, foreseeable domestic needs and substantial availabilities for export are assured. It is possible that as much as a million tons a year would be purchased by Japanese importers if Korea-Japan trade relations are normalized.

Principal obstacles to further rapid exploitation of anthracite resources include the inadequate financial status of the coal industry and
shortage

shortage of transport. Privately-owned miners need credit which the Korean Reconstruction Bank cannot extend and the publicly owned mines are unable to collect from the insolvent power companies. Without adequate financing the coal industry cannot expand to meet its potential. The aid-administrating agency should continue to assist the rapid development of anthracite reserves and uses.

Re-orientation of Education. Korean education, still heavily influenced by the Confucian tradition, stresses liberal arts and philosophy to the detriment of the natural sciences, industrial arts, administration, and the social sciences. It should be drastically revised, reoriented and modernized if it is to prepare Korean youth adequately for contemporary life. This will require Korean determination to effect change and U. S. technical assistance on an extensive scale for a period of years. At the secondary level, emphasis should be focused on the extension and improvement of vocational schools to train Korean youths in the trades and other mechanical arts. In the classical high schools, there is an urgent need to emphasize the basic sciences now largely neglected in their curricula. The aid-administrating agency should assess skill and manpower requirements and undertake an expanded program of assistance in education to meet fundamental needs. At the same time, it should recognize and respect Korean national sensitivities which may center increasingly on the education system.

In the meantime, Korea should immediately avail itself of the substantial reservoir of skills represented by Korean residents abroad who

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have had foreign training. No serious attempt has been made to induce these Koreans to return to their homeland and to contribute to its future.

D. International Relations

The United States, Japan and the United Nations are of dominant importance in Korea's foreign affairs. The United States stands first because of Korea's immediate dependence upon American support for its defense and economic existence.

Second only to the United States, Japan is of critical importance in long-term Korean international relations. Japan and Korea have an extended history of economic interrelationship, which all but ceased with the end of Japanese occupation of Korea in 1945 and has since been inhibited by mutual hostility and suspicion. While the two countries are not economically complementary, there has existed in the past a trade and productive relationship which created for Japan both an opportunity and obligation, in its own political and strategic interests, to take a leading role in supporting and developing Korea.

The intangible impediments to rapprochement, such as injured Korean sensibilities and wavering Japanese interest, will prove difficult but not insurmountable. Prior to the coup, there was evidence of a desire for rapprochement on both sides. However, Korean stand-offishness has been intensified as a consequence of the coup. Despite long-standing antipathies, the United States should, nonetheless, warmly nurture and encourage a Korean-Japanese understanding but not participate actively

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in negotiations. Past experience has demonstrated that an active U.S. role in Korean-Japanese negotiations causes both sides to assume that the United States will relieve them of their own responsibilities.

The more promising avenues of Japanese contribution to better conditions in Korea, in addition to governmental development assistance, include, initially, the use of Korean skills and manpower in assembly and similar operations to remedy prospective labor shortages and rising wages in Japan and, eventually, the commitment of private Japanese capital and unobtrusive management to Korean industry of greater than assembly dimensions, including that based on minerals, fisheries and other resources. American, German and other capital for use in Korea should be sought through the Development Assistance Group and otherwise.

Even in the case of Korea's principal market, Japan, increases in exports cannot be expected to restore anything like balance in Korean external trade. Such an achievement must be preceded by agricultural and industrial development and more effective use of the manpower and physical resources of the country. In the interim, assistance from abroad plus sales for foreign exchange to the resident military establishment provide the limits to imports. The intermediate and longer terms, however, provide prospects of better balance despite partition of the country. Apart from requirements for fiber, Korea's basic needs for food, housing and clothing can be mainly met from internal resources.

The relationship between Korea and the United Nations is unique. Korea's international status is the subject of a United Nations resolution.

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A specialized agency, UNCURK, was active in the initial phases of the post-armistice recovery and a UN Command controls Korean forces. It is to the United Nations that the Koreans have always looked for fulfillment of their hope for an honorable method of reunification. Because of the Soviet veto, however, the Republic of Korea has never been able to achieve membership in the UN despite its qualifications. Also, because of the recalcitrance of the Communist authorities in North Korea, the UN has never been able to move ahead its regularly recommended proposals for reunification and supervised elections throughout the entire country. As the memories of the UN role in Korea grow dimmer and the UN comes increasingly under the control of states having little interest in or knowledge of Korea, the vigor of UN support for an honorable sort of reunification grows weaker, as does the distinction in the outlook of many UN members between the Republic of Korea and the North Korean regime. As a result, the faith and confidence of Koreans in the ultimate efficacy of the UN grows less.

E. Korean Military Establishment

The mission of the two United States and nineteen Korean combat-ready divisions plus supporting air and naval forces in Korea is to conduct an active defense of South Korea as far forward as possible. Additional forces from the CINCPAC area, the United States and from mobilizable Korean reserve divisions are available as reinforcements. This force deters Communist direct and indirect aggression; interposes

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Free World strength between Japan and the Chinese Communists; frees U.S. forces for meeting contingencies elsewhere in the Pacific area; provides an important 'time cushion' in event of renewed hostilities during which the forces of world opinion and diplomatic effort could have effect. In short, UN forces represent a strong conventional warfare deterrent which could delay the escalation of a conflict into nuclear dimensions. Its Korean elements are reasonably well-trained, willing to fight and inexpensive to maintain.

Forces in position in Korea obviously have great value and their composition should be modified only for important reasons. It seems unlikely that the present junta would propose or countenance any changes other than improvement and increase in the Korean forces. However, in the light of the urgent need to make some move in the civilian sector to meet rising expectations of the general population, it may be timely to assess to what degree the armed forces can make a greater economic contribution, consistent with their primary task.

President Kennedy's foreign aid message to Congress on March 22 said: "to the extent that world security conditions permit, military assistance will in the future more heavily emphasize the internal security, civil works and economic growth of the nations thus aided."

Korean armed forces number some 600,000 and have an annual draft intake of some 180,000 young Koreans at a peak stage of their learning capacity. Since this largest, best-organized pool of manpower exists in

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a country palpably in need of civic works and economic growth, the President's suggestion is especially pertinent to Korea.

The question of the increased use of the Korean military for civil works and economic development purposes has two aspects: (a) the use of the armed forces for increased training in skills which are useful to the Korean economy; and (b) the use of military units for work on National Construction Service and related works projects.

With regard to training to meet civilian requirements, a determination first needs to be made of the probable present and future needs of the civilian economy for various kinds of skilled and semi-skilled labor. It is also necessary to examine what kinds of vocational skills are provided by present military training. Almost without exception Korean troops build their own barracks and manufacture the cement blocks needed for their construction. The armed forces train drivers, mechanics, road construction and communication specialists in addition to clerks, typists and other administrative personnel. For those few troops who enter the service as illiterates, military instruction designed to carry them through the fourth grade in language, history and arithmetic is provided.

Considerations favoring increased training in skills useful to the civilian economy may be stated as follows: Even though the importance of the armed forces to the security of Korea continues, the broader objectives of United States and Korean military authorities may warrant military training beyond usual basic and related training to include non-military competence and skills. The range of such training could be designed to furnish

furnish skills to meet deficiencies such as housing; inadequate control of water resources; roads; soil erosion and the concomitant long-term need for reforestation; sanitation and better health. In addition to developing vocational skills, army training develops managerial competence and understanding of order and discipline and command experience. These qualities are greatly needed in Korea where the Japanese left a minimum of managerial and entrepreneurial capacity.

The following considerations weigh against increased training in civilian skills: Any effort to obtain a greater contribution from the Korean armed forces toward training in skills usable in the civilian economy must recognize the fact that the 10 divisions deployed in ready battle positions now have available for individual training an average of only 10 hours per week. This time is presently devoted to training in essential individual military skills. For those 8 divisions in immediate reserve, a training schedule is carried out designed to fit the troops for rotation to battle positions. In addition, they devote some training time to construction, harvest, road repair, reforestation and other civic actions to the detriment of their primary task.

Turning now to the direct use of military units on additional works projects, it is possible that the ten Reserve Divisions in Korea could provide a framework of military organization which, in company to battalion-size units, could take responsibility for civilian projects. U.S. experience in the Civilian Conservation Corps, where local Reserve Officers

provided

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provided on-the-spot guidance on work in their own states or districts, could be applied profitably in Korea. Alternatively, a source of trained military leadership may exist in the pool of personnel of all ranks who have completed their service either through termination of their enlistments or retirement. From such groups, cadres for the National Construction Service might be obtained.

If it is conclusively demonstrated that no room for any divergence from military training and pursuits is possible without a dangerous weakening of defensive posture in Korea, an examination should be made as to what augmentation of the United States and Korean military organizations would be required to do the job, and at what cost. Because it is accustomed to manage large numbers, the military establishment might be found best equipped to provide vocational training and make direct improvements in the infrastructure through the use of existing military components, particularly elements of Reserve Divisions.

F. Exerting United States Influence

The new regime will be tough, determined and difficult to deal with. Its authoritarian and nationalistic stamp suggests that it will not be readily receptive to U.S. guidance and will seek to assert South Korea's independence in military, economic and political affairs. At the same time, a successful U.S. effort will demand that we be able to exert effective influence in Korea.

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We should use the means of influence available to us, including U.S. power and prestige and U.S. economic and military support, to induce the Koreans to face up to their own national problems. U.S. officials must act with firmness, but must, at the same time, cast aside lingering paternalistic attitudes and deal with Korean officials as equals. Americans must not do the Koreans' planning, decision-making or administering for them, but rather, should induce them to assume the full responsibilities of national sovereignty, as well as the outward forms. We should concentrate upon influencing the Koreans to do the vitally necessary national planning, and upon inducing them to carry out agreed policies and undertakings effectively.

Korean plans should be the focus of American influence, and the basic determinant of the U.S. aid program. U.S. representatives should ensure close consultation in the development of plans, including annual budgets and their acceptability to the United States as a condition for the granting of development assistance. The plans should be sufficiently detailed to provide a clear and verifiable program of Korean undertakings for which the Koreans would carry the basic responsibility and against which action can be measured. American influence would be applied to make sure that the agreed plans, policies, and programs were carried out. Details of administration and operation, in general, would be left to the Koreans except when they perceived the need for technical assistance and called for it. In this connection, the Koreans have been encouraged to select a properly qualified consultant agency, supported by U.S. funds, to advise

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them on basic economic planning.

United States influence should be exerted primarily through close cooperation and understanding between United States representatives and Korean leaders and officials, based upon cultivation of good personal relations, mutual confidence and respect, and the maintenance of our national prestige. American representatives, especially at senior levels, should therefore be the best this country can offer, to administer our largest aid program. They need to be professionally and personally qualified to deal effectively and tactfully with all levels of the Korean Government and society, from the President and Prime Minister down. It is unlikely that top officials can be found through normal recruitment. Perhaps they could be obtained from top U.S. corporations directly, or through the Business Council on International Understanding, in response to special requests addressed to them by the President or the Secretary of State. The development of close personal working relationships would be facilitated if senior American officials are assigned as functional counterparts of the Cabinet Ministers responsible for activities being supported by the United States.

Experience has shown the effectiveness of sanctions, based upon withholding of increments of economic aid, as a means of ensuring Korean performance. Accordingly, United States influence should be reinforced by making economic development assistance (as distinguished from supporting assistance) available in increments which can be withheld in the event

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of Korean failure to carry out agreed programs. The technique of specifying by letter Korean actions mutually agreed to be necessary, United States actions or support which is proposed as concomitant, with dates for achievement (or withdrawal of the U.S. offer) proved relatively effective in recent economic and exchange reforms.

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APPENDIX A

TERMS OF REFERENCE

FOR A

HIGH-LEVEL MISSION TO KOREA

HIGH-LEVEL MISSION

APPENDIX A

TERMS OF REFERENCE FOR A HIGH LEVEL MISSION TO KOREA

1.

a Special Mission to Korea led by a personal representative of the President of the highest stature should be sent to Korea in the near future.

2. Such a Special Mission would symbolize anew the close relations which have existed between Korea and the United States since the War of 1950-1953 in which Koreans and Americans fought side by side in defense of human freedom.

3.

4. The Special Envoy should be accompanied by a senior American economist, preferably one representing the U.S. planning organization to be engaged by the aid-administering agency to furnish professional advisory services in economic development on a continuing basis to the Korean Government. If the selection of that organization can be made sufficiently soon, additional members of this advisory team should accompany the Special Envoy and remain in Korea following his departure.

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5. The Special Envoy should be given the following instructions by the Department of State which might, inter alia, commission him to:

(a)

(b) Urge upon Korean leadership -- both public and private -- the need for establishment of nation goals and ideals and for the economic and social planning and action required for their achievement;

(c)

(d)

(e) Review and discuss with U.S. officials in Korea the specific application of U.S. assistance policies and programs in Korea including the new methods, procedures and administrative structure now being developed in Washington to carry out the President's new assistance policies;

(f) Make public announcement of such forthcoming U.S. aid as may, by that time, have been decided.

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APPENDIX B

ANTI-CORRUPTION PROGRAM

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APPENDIX B

ANTI-CORRUPTION PROGRAM

The Problem

Corruption in Korean society is not a recent phenomenon. It dates from the monarchy when government officials customarily derived a major part of their income by levying those they served. Bribery and extortion were the accepted rule and the public acquiesced. With the collapse of the monarchy after the turn of the century Japanese officials continued, though reportedly to a less degree, the practice of their Korean predecessors, imposing levies on all segments of the population to augment their government salaries. The Republic of Korea inherited this legacy of corruption which continued until it permeated the entire fabric of Korean society, including the defense establishment, the civil government, education, business and industry, and the press. The development and spread of corrupt practices in post-war Korea unquestionably was reinforced and intensified by widespread poverty and destitution occasioned by the war, as well as by the deterioration of moral values accompanying the war's aftermath. Large-scale U.S. economic and military assistance programs increased the opportunities for corrupt practice by the privileged few exercising control over the economy. Faced by responsibilities towards relatives imposed by the extended family system in a country without a social security system and about

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35% unemployment or underemployment, the many with opportunity for lesser graft joined in.

Military personnel have profited handsomely from black market activities in POL, a practical monopoly in firewood, delivered in ROKA trucks, the sale of used and obsolete material, and the handling and distribution of Army rations. The Coast Guard operated, and may still operate, Korea's largest organized smuggling operation. The National Police have levied illegal charges against business, agriculture and the general public. Officials in the Ministries of Agriculture and Home Affairs have derived personal gain from fertilizer distribution, while their counterparts in the Ministries of Commerce and Industry and Reconstruction and the Bank of Korea have used their official position to increase personal incomes through the issuance of import-export licenses, the awarding of privately sponsored projects and the manipulation of dollar auctions at the Bank of Korea.

Corrupt practices by Ministry of Finance personnel have devolved around taxes and tax collections; illegal payments to legislators and other leaders of the dominant political party; the maintenance of uneconomic exchange rates and manipulation of the money supply to serve the purposes of a dominant minority; the extension of unsecured loans to political favorites through its control of the Korean Reconstruction Bank and, together with other ministries, payment of blackmail to the press. College and university officials have taken

advantage

advantage of popular demand for higher education by extorting from prospective students admission fees ranging as high as Kwan 1.0 million. The Korean press has blackmailed and extorted money not only from Government ministries but also from individual officials, as well as from industrialists and businessmen. Korean industrialists and businessmen themselves have come to regard gratuities to and the bribing of government officials as part of normal business operations. The foregoing constitute only some of the more flagrant examples of corruption which characterize contemporary Korean society.

Although corruption is often difficult to uncover and prove, successive Korean governments and particularly the Korean courts have acknowledged its existence and attested to its extent. Individual acquiescence in corruption is so all-pervading that it is difficult to root it out on a case-by-case basis. Individual Koreans forced to eke out their subsistence by resort to corruption are not effective guardians of public morality and honesty. It is somewhat ironic that U.S. assistance programs whose very existence has increased the opportunity for corrupt practice have, at the same time, led to the discovery and correction of many specific cases of corruption as a consequence of U.S. audit and end-use investigations.

Solutions

Eradicating anything so imbedded in Korea's way of life as graft and corruption will require time to accomplish. If the vicious circle is to be broken, vigorous, sustained and even dramatic action will be required by the Korean Government strongly supported by the United States. The following courses of action, although not all-inclusive,

provide

provide the broad outlines for a program to deal with the problem.

I. Actions by the Korean Government

A series of measures along the following lines, if introduced simultaneously, would dramatize the Korean Government's attack on the problem:

A. Contracts: The Korean Government should adopt a system assuring effective competition in the procurement of goods and services with adequate safeguards to prevent collusion and kickbacks.

B. Government Budgeting: Tighter central controls over budgeting and allocation of funds should be adopted to prevent padding of budgets with hidden subsidies and special payments to civil servants and others.

C. Civil Service and Police Reform: The following actions should be taken:

1. Establishment of a professional career service with esprit de corps and a sense of dedication in which appointment and promotion would be based upon merit.

2. Creation of a central national inspection service and strengthening of existing civil service and police inspection functions.

3. Rapid elimination from the civil service and police of individuals notorious for corrupt practices; and establishment of a deadline after which all

involvement

involvement in corruption would be vigorously disciplined.

4. Concurrent with civil service and police reforms, provision of pay increases to civil servants and police to support adequately reasonable living standards.

D. The Tax System. The tax system should be rationalized and tax collection tightened to eliminate opportunities for arbitrary action by tax officials. Replacement of corrupt tax officials should be continued and accelerated. The tax bureau inspection system should be improved.

E. Interest Rates. The rationalization of interest rates, discussed in the main body of the Task Force report, would be an important anti-corruption measure.

F. Law Enforcement. Existing laws on corrupt practices should be vigorously enforced with just punishment to offenders regardless of rank or position. Responsibility should be given to a specific Korean Government Agency to keep the problem under continuing study with a view to developing legislation and administrative procedures which will reduce opportunities for corruption.

G. Corruption in Business. Honest government cannot exist in isolation. Corruption in business must also be corrected. Business leadership and education are needed to foster business responsibility and improve business ethics.

II. Actions by the U.S. Government

A. General. The Ambassador should urge the adoption of a
program

program by the Korean Government along the lines suggested above. At the same time it should be made clear that U.S. aid to Korea, beyond supporting assistance levels, will be contingent not only upon economic criteria but also upon effective action against corruption and maladministration. The U.S. should provide technical and financial support where necessary to assist in the development and installation of methods, techniques and procedures required to reinforce such reforms.

B. Contracts. The USOM should insist upon effective competition in the selection of contractors participating in U.S. aid programs.

C. Dealing with Korean Officials and Offices. The U.S. Ambassador should establish procedures within the U.S. establishment for the reporting of known corruption by Korean officials with whom U.S. personnel have official dealings. After the Korean Government takes effective action to deal with corruption within the Government, the U.S. should support that action by refusing, at the Ambassador's discretion, to deal with Korean officials or offices known to be involved in corrupt practices.

D. Austerity Movements. The U.S. should encourage and aid, by advice and example, indigenous Korean movements for austerity.

APPENDIX C
PROPOSED MILITARY AND ECONOMIC
SUPPORT FOR FY 1962

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APPENDIX C

PROPOSED MILITARY AND ECONOMIC SUPPORT, FY 1962.

MILITARY

The FY 1962 military assistance program now being readied for presentation to the Congress is designed as a holding action pending reviews of U.S. foreign and military assistance policies now in process. Accordingly, the FY 1962 program is limited to maintaining existing forces, meeting outstanding commitments, and providing for economical procurement of a limited number of items from production lines scheduled to close down in the near future.

These criteria have allowed relatively favorable treatment for Korea. The program for presentation to the Congress totals \$274.9 million which compares with actual programs of \$219.0 for FY 1960 and \$263.0 (estimated) for FY 1961.

The program includes training (\$20 million), construction (\$11 million), overhead (\$21 million), plus approximately \$174 million for other force maintenance. Improvement in the Korean air defense posture is to be aided through provision of ground equipment for one NIKE and one HAWK missile battalion and through conversion of one tactical squadron of low performance jets to F104 aircraft at a cost of \$48.8 million including costs for the NIKE and HAWK missiles themselves.

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ECONOMIC

Economic support is planned to include \$120 million grant assistance plus \$6.5 million to carry forward existing training and technical assistance and \$86 million of surplus agricultural commodities, a total of \$206 million in FY 1962. This level is needed to meet the military support requirements and to demonstrate political support,

Additionally, development loan funds, chiefly to augment power supply, are expected to be provided to bring the aggregate of economic aid to some \$290 to \$300 million. Since part of the loan funds will be for undertakings requiring several years' construction, support for the next 12-month period should be viewed as nearer \$225 million.

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REVISED PAGE 2, APPENDIX C, REPORT OF PRESIDENTIAL TASK FORCE ON KOREA

Forwarded, herewith, is a revised page to replace page 2, Appendix C, entitled, Proposed Military and Economic Support, FY 1962, of the Report of the Presidential Task Force on Korea, dated June 5, 1961. It is requested that you insert this in substitution and delete page 2 of Appendix C as now carried in your copy of the report.

Attachment:

Revised page 2.

S/O:CDHuyler, Jr.:rmb - 6/8/61

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This document contains 1 page.
Copy No. 52 of 125, Series A.

REVISED PAGE 2, APPENDIX C

REPORT OF PRESIDENTIAL TASK FORCE ON KOREA

ECONOMIC

Economic assistance of up to \$282.5 million is planned in FY 1962.

Supporting Assistance grants of \$120 million and a Food for Peace Program entailing sales and grants estimated at \$86 million account for the bulk of this total.

Development Assistance grants of \$6.5 million to carry forward continuing assistance projects have also been programmed.

Finally, \$55 to \$70 million of Development Assistance loans are planned chiefly to finance expansion of power generating capacity, the exact amount being dependent on the type of generating facilities (hydro or thermal) to be determined early in the fiscal year.

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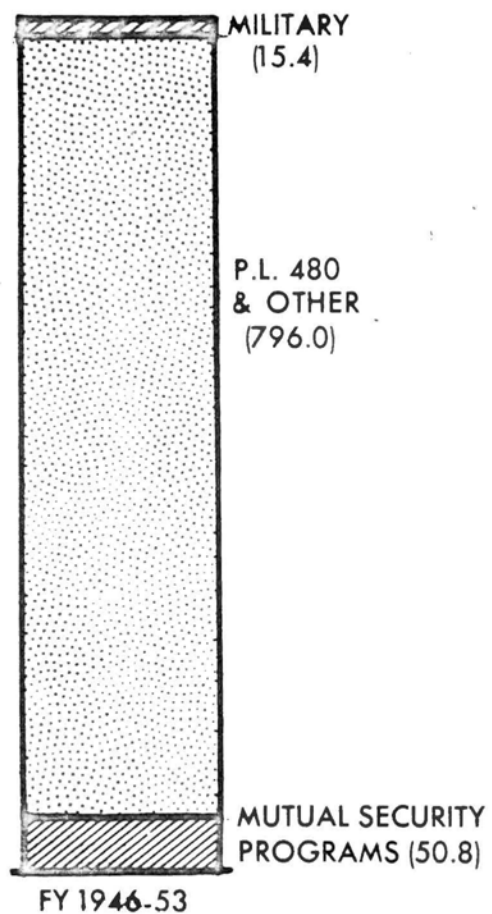
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APPENDIX D
U.S. ECONOMIC AND MILITARY ASSISTANCE
TO THE
REPUBLIC OF KOREA
FY 1946 - 1961

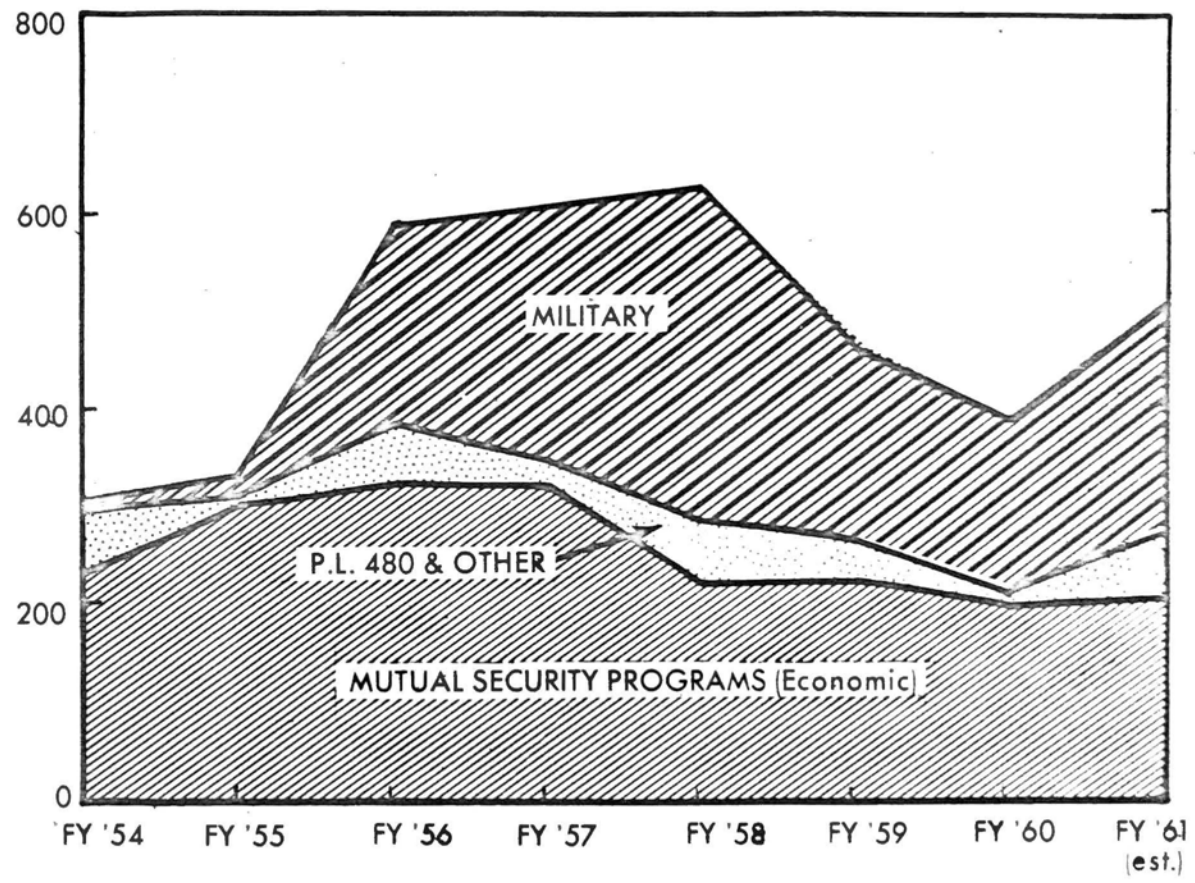
U.S. ECONOMIC AND MILITARY ASSISTANCE TO THE REPUBLIC OF KOREA

Millions of Dollars

PRE-ARMISTICE



POST - ARMISTICE



APPENDIX D

NOTE: Economic data represent obligations and commitments; Military data are deliveries.

U.S. Economic and Military Assistance to the Republic of Korea
FY 1946-1961 (Millions of dollars)

	Pre-armistice	Post-armistice								Total
	FY 1946-53	FY 1954	FY 1955	FY 1956	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961 (Est)	
Economic:										
International Cooperation Administration-obligations (net)	0	208.6	252.8	325.5	303.9	220.1	215.7	199.3	197.3	1,923.2
Development Loan Fund - approvals	0	0	0	0	0	5.6	12.1	1.1	6.5	25.3
Other Mutual Security Programs* - obligations (net)	50.8	23.2	47.6	0	0	0	0	0	0	121.6
Public Law 480:										
Title I- plans for grants, loans	0	0	6.0	43.3	16.1	43.0	28.0	0	42.0	178.4
Title II- shipment authorizations	0	0	0	0	0.1	0	0	4.7	23.7	28.5
Title III - <u> </u> <u> </u>	0.5	1.3	10.6	16.8	27.2	22.3	16.9	9.4	10.3	115.3
Other programs**-obligations (net)	795.5	66.5	-2.4	-0.2	0	0	0	0	0	859.4
Economic subtotal	<u>846.8</u>	<u>299.6</u>	<u>314.6</u>	<u>385.4</u>	<u>347.3</u>	<u>291.0</u>	<u>272.7</u>	<u>214.5</u>	<u>279.8</u>	<u>3,251.7</u>
Military***	<u>15.4</u>	<u>3.4</u>	<u>20.2</u>	<u>201.5</u>	<u>258.8</u>	<u>331.1</u>	<u>188.5</u>	<u>181.1</u>	<u>229.1</u>	<u>1,429.1</u>
Total	<u>862.2</u>	<u>303.0</u>	<u>334.8</u>	<u>586.9</u>	<u>606.1</u>	<u>622.1</u>	<u>461.2</u>	<u>395.6</u>	<u>508.9</u>	<u>4,680.8</u>

* U.S. contribution to United Nations Korean Reconstruction Agency (\$92.9 million) and Armed Forces Aid to Korea (\$28.7 million).

** Civilian Relief in Korea (\$420.2 million), GARIOA (\$140.2 million), other civilian supplies for liberated and occupied areas (\$151.9 million), and miscellaneous grants, loans, and surplus property credits (\$147.1 million).

*** Does not include transfers of excess stocks (estimated to value \$102.6 million through FY 1961) and charter of vessels (\$43.3 million).

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APPENDIX E

DEPARTMENT OF DEFENSE

ASSESSMENT OF CURRENT

KOREAN MILITARY SITUATION

MILITARY ASSESSMENT

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APPENDIX E

DEPARTMENT OF DEFENSE ASSESSMENT
OF CURRENT KOREAN MILITARY SITUATION

Introduction

A review of the force and equipment levels of the Korean armed forces for the period beyond FY 1962 is planned for early completion. Meanwhile, the U.S. is obligated to complete, by June 30, 1961, a bilateral agreement with the Government of Korea on the force levels which the U.S. will assist in supporting during FY 1962. This appendix outlines the military factors which should be considered in negotiating this bilateral agreement.

Broad U. S. Policy

Existing U. S. military policy toward South Korea has the broad objectives of preserving the territorial and political integrity of the ROK, supporting ROK armed forces capable of assuring internal security and, together with U. S. forces and logistic support, deterring Chinese Communist and North Korean aggression or resisting such aggression until Free World assistance can be brought into action. A related objective throughout the broader area is to reduce Chinese Communist power and prestige, as well as that of the other Asian satellites. The attainment of these objectives should be consistent with recent policy considerations which stress a decreased reliance on nuclear weapons and a concurrent increase in limited war capabilities.

Strategic

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Strategic Importance of Korea

Today, Communist China and its Asian satellites pose an increasing threat to the free countries of the Far East, despite current Sino-Soviet frictions or Peiping's internal difficulties. In Southeast Asia, the line of demarcation between Communist forces and the free nations has been breached. This and other unstable situations throughout the world reaffirm the necessity for maintaining a strong and stable military situation in Korea. One of the major long term objectives of Communist China is to win Japan and its industrial might, while at the same time weakening the Free World position in the Far East. The loss of South Korea to the communist world, whether by conquest or by subversion, would greatly intensify the problem of maintaining the security of Japan, whereas a strong Korea interposes Free World strength between Japan and the Chinese Communists and to a degree counteracts the direct Soviet threat as well. Secondly, because of Korea's relationship to the U. N. in withstanding direct Communist aggression, it stands as a global psychological symbol of the validity of the Free World's collective security measures. Finally, with a government and people resolutely opposed to Communism, powerful military forces in being and a stabilized front which for eight years has deterred direct aggression and has served as an effective shield against indirect aggression, Korea is a strong military bulwark in North Asia. In so far as it remains so, U. S. forces retain a strategic flexibility to cope with enemy pressures elsewhere on the CHICOM periphery, particularly in Southeast Asia. Should Korea's defense capabilities drop significantly

significantly, the U. S. total defense posture in the Pacific will similarly deteriorate.

The Republic of Korea, despite its grave economic and political problems, has one major asset which has been and should continue to be utilized to advantage. That asset is an abundant supply of low-cost military manpower and armed forces in being which are not only willing and able to fight but are proven in combat. These forces and manpower are assets of major significance to the Koreans and other free countries of the area for both limited and general war.

Continued utilization of this manpower pool for security facilitates President Kennedy's desire to develop a "suitable, selective, swift, and effective" response and to "raise the threshold" for utilization of nuclear weapons. To reduce the Korean Armed Forces below the current combat strength could deprive us of the capability of a graduated conventional response to deter the enemy and give the President time to make a decision, if necessary, on employment of nuclear weapons. Moreover, to redress the balance of military power caused by a significant reduction in ROK ground forces would probably necessitate the deployment of additional tactical nuclear weapons adjacent to the Demilitarized Zone.

U. S. Forces in Korea and Contiguous Areas

U. S. forces available for the defense of Korea are as follows:

Army. Immediately available in Korea are two infantry divisions, two 8" howitzer battalions, one surface-to-surface missile battalion (La Crosse) and one

and one Missile Command. In reserve there is the 25th Division on Hawaii with one battle group deployed forward to Okinawa.

Navy. Naval units directly available in an emergency consist of a small number of light combat vessels plus personnel for air and naval gunfire liaison. Behind this, the 7th Fleet (2-3 attack carriers, one support carrier, two cruisers, 26-30 destroyers and supporting units) is available in the Western Pacific for Korean operations but at the expense of other assigned missions. The major elements of one Marine Division/wing are positioned in Okinawa and Japan; the remaining elements are in Hawaii. Amphibious lift is available for approximately 1/3 of a Division/wing in the Far East area.

Air. One tactical missile group is now stationed in Korea. Available in an emergency are a small number of tactical fighter and interceptor aircraft. In the total CINCPAC area five fighter interceptor squadrons, three tactical fighter squadrons, nine tactical bomber squadrons, three medium troop carrier squadrons, and two heavy troop carrier squadrons are available for all missions.

Korean Force Structure

ROK forces totalling about 600,000, most of which are immediately subject to CINCPAC's operational control, are:

Army. The Army's active personnel strength of 525,000 men is organized into 18 divisions, 15 Artillery Battalions, 11 Anti-Aircraft Battalions, 5 Heavy Mortar Battalions and 10 Tank Battalions. This force is deployed

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in the area immediately adjacent to the Demilitarized Zone; 10 divisions in forward areas and 8 in immediate reserve. Because of limited equipment availability, the ROK organization of 10 Reserve Infantry Divisions in the rear areas can provide three combat divisions by D+60 and the rest at the rate of one every 45 days thereafter.

Navy. Available to the ROK Navy are one Marine Division, two Destroyer Escorts, 20 small patrol craft, amphibious craft sufficient for assault operations of one Regimental Landing Team, and 10 mine sweepers.

Air Force. The ROK Air Force consists of five combat-ready F-86F tactical fighter squadrons, one all weather F-86D fighter squadron now in training, one C-46 transport squadron, one tactical reconnaissance squadron, and one air control and warning group (ground radar).

Bloc Military Posture in Area

As in the Korean War, the threat with which U. S. - South Korean forces must be prepared to deal in, over and near Korea consists of three elements - North Korean forces, CHICOM forces which may quickly be deployed north of the Demilitarized Zone and very large CHICOM forces-in-being in North China which are available as additional reinforcements. These total at least three-quarters of a million men and may exceed a million.

General CHICOM Military Capabilities. The Chinese Communists continue to devote high priority and large resources to the improvement of their military forces. Of almost three million men under arms there are eight
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armies of three divisions each in Northeast China and nine armies in North China; of these, six to eight divisions could be deployed to the Demilitarized Zone in 10 to 14 days. Improved road and rail networks in North and Northeast China have increased strategic mobility. Inventories of tanks and artillery are increasing, and to a lesser extent signal and logistic capabilities are rising. Amphibious capabilities are severely limited. Regarding airborne capabilities, the CHICOMS by the use of all available transport aircraft could probably lift half of one airborne division at a time if there was no significant air opposition.

The CHICOMS maintain 2,800 combat aircraft in tactical units - half of which are jet fighters - and it is evident their dependence on the Soviets in this field is decreasing. Contrary to the situation in the Korean War, numbers of these aircraft operating from Manchurian or North Korean bases would severely contest U. S. air superiority in the area. Naval forces consisting of a few destroyers and 20 odd submarines are now limited to coastal defense missions, but a large building program and recent aggressiveness of patrol vessels in Korean waters constitute a growing threat to South Korea's sea communications.

Given some direct Soviet assistance, Red China may be able to test a nuclear device within three years and to have a nuclear capability by the end of the decade. The U.S.S.R. could give China nuclear weapons from its stockpile, but it almost certainly has not done so, and it is believed
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the Soviets do not intend to unless forced to do so.

North Korean Force Structure and Capabilities. North Korea maintains 355,000 men under arms. The 22 divisions in the Army and internal security forces (18 infantry, one tank and three anti-aircraft) have an immediate capability for defensive or limited offensive operations. Their logistical back-up is thought to be restricted without immediate and large scale CHICOM or Soviet assistance.

Most of the available 500 combat aircraft are day fighters which are capable of exercising an initial air superiority over parts of South Korea on the outbreak of hostilities.

North Korean naval capabilities are limited to a small number of PT boats, patrol craft and minelayers, but used aggressively in waters south of the Demilitarized Zone they are now causing difficulties for South Korean forces because of their superior armament.

U. S. Concept of Operations

General War. The military mission of U. S. forces in the Pacific area in general war is to defend the United States and other vital areas in the Western Pacific and concurrently reduce the capability of the Sino-Soviet Bloc to mount attacks from that area. To do this, the United States and its allies will hold as far forward as possible including South Korea and contiguous waters. These operations in conjunction with preparations to conduct possible offensive operations will require the maintenance and

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control of bases, resources and lines of communication in the Pacific area considered essential to the allied war effort. CINCPAC's mission with respect to Korea is to assist in the defense of the country against CHICOM-North Korean attack by providing forces, by coordinating logistic support and by furnishing combat support to the extent that CINCPAC's primary mission is not prejudiced thereby. Successful operations in Korea will contribute significantly to the defense of Japan and Okinawa.

Limited War in Korea. The military mission of U. S. forces in Korea in limited war is to defend as far forward as possible with the 21 U. S. and ROK combat-ready divisions now in Korea, while rapidly deploying additional divisions from PACOM and CONUS as well as mobilizing the ROK reserve divisions. Air and naval support will be consistent with the above. So long as the CHICOMS and the North Koreans lack nuclear weapons and on the assumption the Soviets will not make them available to them unless they consider the strategic situation warrants their use locally, it is anticipated the U. S. will have the option of deciding to conduct the limited war conventionally or initiating the use of tactical nuclear weapons. With respect to nuclear weapons it remains the policy of the U. S. to avoid their careless or irresponsible use but to use them, if they should be required, in order to fulfill the treaty obligations of the U. S. or to preserve vital national interests. Use of nuclear weapons, when authorized, will be with due regard for the several objectives of attaining military superiority over the enemy, limiting damage to the country or countries being defended, and preserving Alliances.

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Free World Strengths and Weakness in Korea

U. S. Forces. In Korea the Eighth U. S. Army in cooperation with ROK forces can successfully engage in the initial defensive phase of combat, but will require early augmentation for sustained combat operations against a CHICOM/North Korean attack. In addition to CINCPAC forces from the Western Pacific, additional tactical fighter squadrons, STRAC divisions, logistic support and additional Navy and Marine Corps forces from the continental U. S. would be required. War reserve stocks now in Korea are inadequate for sustained combat. In the event of another Korean War, it is unlikely that sanctuary will be granted Communist aircraft in Manchuria or U. S. - South Korean aircraft in South Korea and Japan. Under this circumstance South Korean bases would be highly vulnerable to air strikes from Communist bases in Manchuria, the Shantung Peninsula and North Korea and the Communists will probably attain air superiority in the battle area. Furthermore, it is possible that use of Japanese bases for sustained U. S. combat operations might encounter Japanese objections and demands for consultation. Without Japanese bases, air support would be most difficult since it would place total reliance on aircraft based in South Korea, in Okinawa and aboard carriers. This possibility points to the importance of a South Korea rapprochement with Japan as a means of increasing Japanese interest in the defense of Korea.

Korean Forces. ROK forces have the capability for maintaining
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internal security, repulsing minor incursions and defending against a North Korean invasion (but not CHICOM). Because of lack of logistical backup, they would require prompt outside assistance to put up a sustained defense. Alone, the ROK Army is incapable of offensive action sufficient to defeat North Korea.

The Army is an operationally ready and largely combat experienced force with a large reservoir of trained reserves. Its personnel are physically tough and inured to hardship. An excellent training program is in progress. Although the effectiveness of the troops is no doubt reduced by the extremely low rates of pay, a high AWOL rate and obsolescent equipment (notably vehicles), there is no doubt that they are prepared to fight hard, if required to do so.

The ROK Navy is capable of defending itself against only a weak opponent; it is not capable of conducting effective operations against a force as strong as the present CHICOM Navy. It has pronounced limitations with respect to carrying out patrol, anti-submarine warfare, minesweeping and escort operations. In addition to obsolescent ships and equipment, it suffers from deficiencies in firepower of its patrol craft as well as in maintenance and training facilities. An urgent requirement exists for a patrol capability of the destroyer class to repel current penetrations by North Korean vessels south of the Demilitarized Zone line. With U. S. Navy support the ROK Marine Division can pose a significant threat of amphibious attack against potential target areas in Korea.

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The ROK Air Force is qualified to perform its missions of air defense and tactical support of ground support under visual conditions. Its all-weather capability, however, has not reached a high degree of proficiency.

ROK Force Modernization. Modernization of ROK forces has been very limited starting with FY 1959 due to the reduction in MAP allocations for Korea. The FY 59-60 MAP's barely met the annual maintenance requirements of approximately \$200 million, but some improvements were included in the Congressional FY 61 MAP of \$263 million. The five-year Military Assistance Plan for Korea in FY 62-66, approved last year, made provisions for an improvement and modernization cost of approximately \$100 - \$150 million annually. The situation is particularly serious in the air defense requirement - F-104 aircraft, Nike and Hawk missile battalions, and an improved aircraft warning system. Second only to air defense is the need to improve the firepower of the Army, Marine units, and ships, as well as the mobility of each service by replacing the World War II vehicle fleet, plus the mine sweeping capability of the ROK Navy. Failure to provide for this modernization would mean a general deterioration in ROK combat readiness and capability, while the enemy's capability continues to improve.

Summary Evaluation. In general, it can be said that the North Korean Army is about equal in combat strength but is weaker than its South Korean counterpart in combat support units and significantly weaker in logistical support

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support units, while the North Korean Air Force in size and effectiveness is approximately triple that of South Korea. In the unlikely event of a localized North Korean/South Korean war the result would probably be a standoff. However, in a more likely expanded conflict the relative reinforcement capabilities from Communist China and the continental U. S. tip the balance significantly in favor of CHICOM/N.K. forces in both an expanded conventional conflict (and in general war).

ROK Force Reductions. In some quarters it has been suggested that ROK force reductions would be a useful means of reducing the Korean military budget and thus freeing funds for force modernization and/or economic development. Under current conditions, however, such a course of action seems highly inadvisable for the following reasons:

First, substantial force reductions, in the absence of a counter-vailing U. S. reinforcement, would encourage Communist pressures and undermine the will of the Korean government and people to resist them. The Commander of U. S. forces in Korea has recently concluded that a total of 21 divisions, adequately supported, is the minimum required to contain an initial North Korean/CHICOM attack against South Korea. Even this force structure assumes some calculated risk; to reduce Korean forces further without increasing the U. S. military capability would create an unacceptable military risk. Moreover, the only feasible replacement for a force reduction would be an increased reliance on nuclear weapons, an undesirable course of
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action at a time when the U. S. is endeavoring to raise the threshold before a nuclear response to Communist aggression becomes necessary.

Second, at a time when unemployment is already heavy in the Korean economy, disbanding of troop units would have undesirable political and economic repercussions.

Third, on the assumption that the over-all levels of Korean defense cannot safely be reduced, it seems clear the Korean units are far more economic than U. S. It is estimated that per capita U. S. maintenance costs (pay, allowances, subsistence and clothing) are approximately 10 times the Korean costs. Moreover, the equipment costs for a ROK infantry division are approximately half of what the equivalent U. S. costs would be.

Finally, available data suggest that meaningful savings cannot be realized unless a radical force reduction of between four and eight ROK divisions is achieved. For the Korean budget a force reduction would have a minimum effect because the U. S. now pays approximately 95 per cent of the total defense cost. The effect on MAP and defense support allocations would be more significant but would be much less than would be the case if a similar reduction in U. S. forces because of low per capita maintenance costs for ROK personnel, the lack of alternative uses for equipment realized from the reductions, and the increased need for modernization and improved force effectiveness which a reduction would cause among the ROK forces maintained. Reductions of this magnitude seem out of the question in view of the nature
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and dimensions of Communist pressures on Korea.

Substantial ROK force reductions could, of course, be considered if the already large U. S. military responsibilities in Korea were to be expanded even more. In this event the U. S. would probably have to make one, two or all of the following contributions: (1) station additional U. S. forces in Korea, (2) provide the funds and equipment for a large-scale modernization and improvement of active ROK forces, or (3) increase substantially the deployment of nuclear weapons in Korea. These do not appear to be attractive alternatives to the present plan of relying in the main upon large, cheap ROK forces.

FY 62 MAP Projection.

On the basis of supporting ROK forces of 600,000 in a reasonable state of combat effectiveness, maximum MAP allocations of \$275-320 million will be required, of which about \$200 million will go to maintenance and \$75-120 million for modernization. The appropriation request for FY 62 Korea MAP has been submitted to Congress for \$274 million, the minimum figure for the program. This will provide support for force maintenance, training and limited modernization but does not modernize the armed forces at the rate indicated in the Five-Year Plan. For the Army, it provides two additional surface-to-air battalions for air defense and improves mobility, communications, and ammunition stocks; for the Navy it provides maintenance only and fails to meet an urgent requirement for patrol vessels of greater speed

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speed and fire power; for the Air Force it modernizes one tactical fighter squadron and improves the current air base and logistic system.

CONCLUSIONS:

1. The threat of possible Communist Bloc aggression against South Korea and other Free World positions in its vicinity remains strong and will increase with the growing effectiveness of Chinese Communist-North Korean armed forces.

2. The U. S. policy objective of maintaining an independent and free Korea able to deter Chinese Communist/North Korean direct and indirect aggression requires the maintenance of the maximum feasible ROK conventional forces.

3. Such forces will not only preserve a strong defensive posture in Korea, but will increase the flexibility of the U. S. position in the Pacific by:

- a. Freeing U. S. Forces for meeting contingencies elsewhere, especially in Southeast Asia.
- b. Permitting a graduated conventional response to Communist aggression in the North Asia area thus raising the "threshold of decision" on the employment of nuclear weapons.
- c. Forming an outer bulwark for Japan and Okinawa.

4. U. S. - ROK forces in Korea in combination with readily available U. S. reinforcements in the Western Pacific are considered sufficient
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for foreseeable initial phases of general or limited war. However, the relative reinforcement capabilities of each side would favor the Bloc in any extended conflict. Difficulties with the Japanese on the use of Japanese bases for sustained combat operations would complicate their use and might further tip the balance in favor of the Bloc.

5. The requested level of MAP support for Korea in FY 62 will provide for force maintenance, training, and limited modernization but does not modernize the armed forces at the rate indicated in the Five-Year Plan to meet the increasing threat.

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APPENDIX F

USIA GUIDELINES

FOR

PSYCHOLOGICAL PROGRAM

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APPENDIX F

USIA GUIDELINES FOR PSYCHOLOGICAL PROGRAM

The Problem

Korea's lack of a basic sense of direction and inadequate demonstration of a sense of national responsibility make it important that the Koreans undertake a program of social planning and action including a definition of national goals and of the ideals which need to be given practical application if those goals are to be attained.

The Objectives

- (1) To define Korean national goals and ideals;
- (2) To promote through intensive use of media and organizations
 - improvement of government leadership and public relations
 - achievement of better relations with intellectuals and the press
 - enhancement of Korea's international image.

Actions

1. Determine who in the junta leadership, the SCNR and the country at large are best qualified to participate in and assume leadership of an intensive information program on national goals. In particular, determine who in the SCNR's Planning Committee, which includes a large number of educators and economists, are qualified to move ahead most rapidly in this program.

2. To the extent practical in the present situation, maintain contact through the SCNR with these individuals in order to seek opportunities for an exchange of ideas on (1) themes to be selected and (2) methods to be used in presenting the themes to the Korean people. The selected themes
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would naturally reflect Korean thinking (i.e., anti-corruption, honesty in government, representative government, etc.) USIS is equipped to provide advice on the effectiveness of certain media (poster exhibits, book translations, films, pamphlets and radio) in presentation of the themes. As in the case of USIS media assistance to the National Movement for Free Elections in the Philippines (1950-51), a similar effort with the SCNR could strengthen SCNR information efforts during this critical period.

3. Promote formation of an effective organization for the dissemination of information on national goals. Opportunities should be found to generate interest among responsible individuals in the establishment and/or strengthening of an organization able to provide an effective information network in Korea. Examples of possible activity to be sponsored by such an organization are:

- (a) country-wide information seminars on national goals by teams made up of educators, government officials, editors, etc.;
- (b) a high-level official publication for restricted distribution to senior government officials, military leaders, editors, educators, etc. which would carry articles from Korean and authoritative sources outside Korea related to the selected themes as well as to current political, economic and military topics;

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- (c) publications for mass distribution to special audiences (students, farmer-labor) which would popularize these goals and stimulate contributions for publication;
- (d) radio forums which would bring together students, intellectual leaders, and government officials for free discussion of national goals and their implementation.

4. Once a responsible information program is underway with the Koreans taking the initiative, make a special effort to determine the information needs of the program planners. Materials, as well as ideas which meet these needs, should be provided. In furnishing ideas on both method and content, USIS should draw on its experience in other Asian countries where USIS has operated under similar conditions (e.g., Philippines, Burma, Viet-Nam, Thailand).

5. Promote among Korean officials a continuing awareness of the importance of public opinion concerning government actions. A program to promulgate national goals will have little meaning unless there is some semblance of freedom of information in Korea. Every opportunity should be taken to caution Korean leaders against drastic political actions, particularly restriction of press freedom, which would harm their own information efforts. If the press is muzzled and the people feel they do not have a voice, a program on national goals will not be effective.

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6. Give emphasis in the attributed USIS program to activities which would expose Koreans to America's national goals, specifically those which Americans share with the Korean people and their leaders. USIS activities in this direction should be planned in such a way as to strengthen the SCNR's informational program. USIS should continue to work closely with the Korean Educational Coordinating Committee and the Citizenship Education Program.

7. As the Korean program on national goals develops, give special consideration to ways and means of acquainting the outside world with Korea's progress in this direction. The U.S. should bring home to the Koreans the importance of such a campaign in creating a favorable international image. It is imperative that USIS remain in the background as much as possible. While USIS can provide ideas and materials for local adaptation, it would be very unwise to be associated with an information program on national goals in a way which would detract from the indigenous character of the effort.

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