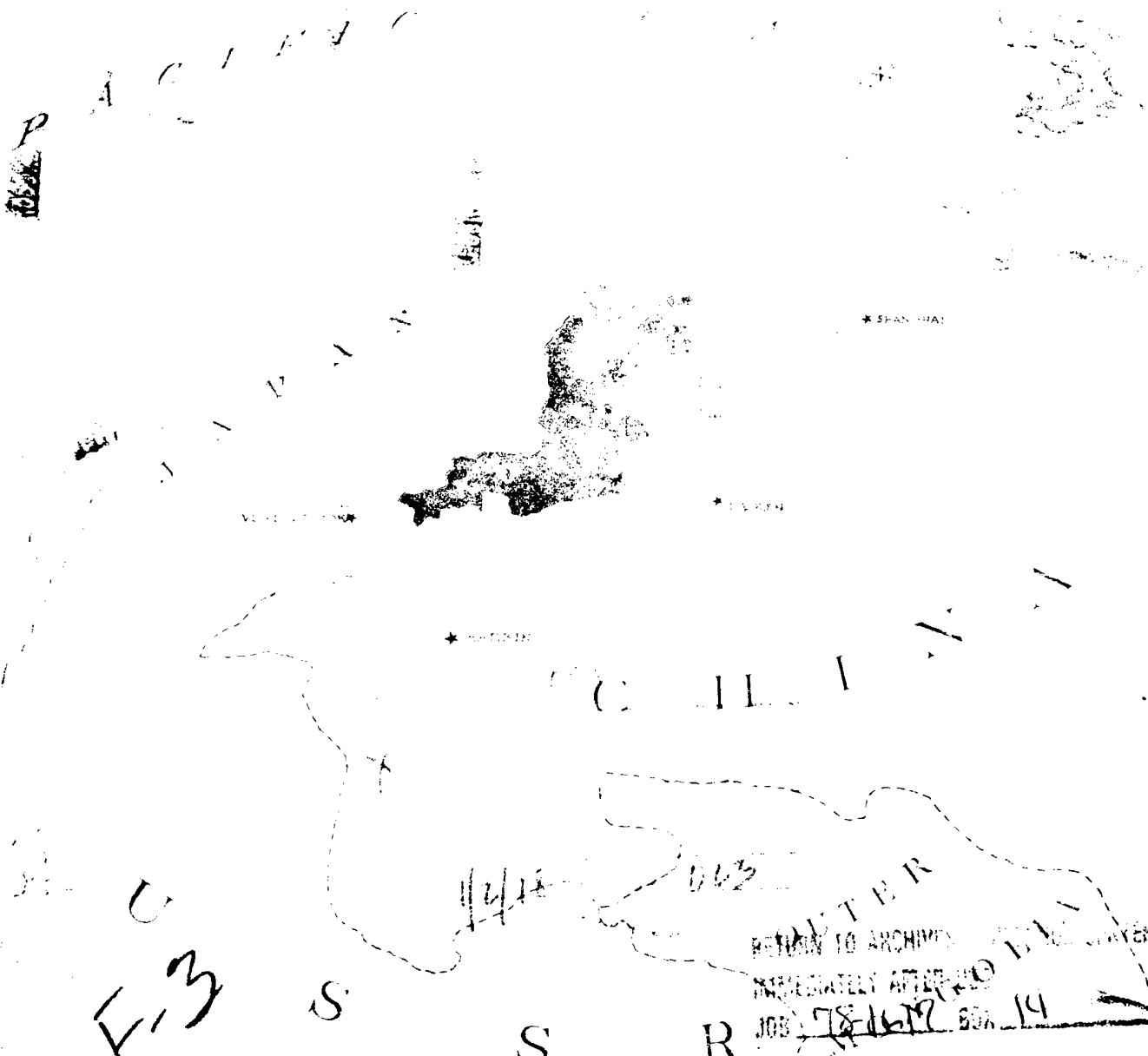


SECRET

93596

K O R E A



CENTRAL INTELLIGENCE GROUP

COPY NO. 11

SECRET

SR 2

This (SR) series of CIG Situation Reports is designed to furnish to authorized recipients, for their continuing use as a reference, analyses and interpretations of the strategic or national policy aspects of foreign situations which affect the national security of the United States. The complete series will give world-wide coverage, including reports on all significant foreign countries, geographical areas, or functional subjects.

In the preparation of this report, the Central Intelligence Group has made full use of material furnished by the intelligence agencies of the State, War and Navy Departments and of the Army Air Forces. These agencies have also concurred in this report unless otherwise noted.

It is suggested that the recipients retain this report, since it will be reviewed and, if necessary, revised in whole or in part each month hereafter.

WARNING

THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE ACT, 50 U.S.C., 31 AND 32, AS AMENDED. ITS TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

SR-2

KOREA

TABLE OF CONTENTS

SUMMARY

i

SECTION I - POLITICAL SITUATION

1. Genesis of the Present Political Situation..... I-1

a. External Influences Affecting Korean Political Development. I-1

b. The Korean Independence Movement..... I-1

c. Effects of Allied Policy and Its Implementation..... I-2

2. Current Political Situation..... I-4

a. Contrasting US and Soviet Occupation Programs..... I-4

b. Current Situation in the Soviet Zone..... I-6

c. Current Situation in the US Zone..... I-7

SECTION II - ECONOMIC SITUATION

1. Genesis of the Present Economic System..... II-1

2. Description of Present Economic System..... II-1

a. Agriculture and Fisheries..... II-2

b. Natural Resources..... II-3

c. Industry..... II-5

d. Transportation..... II-6

e. Finance..... II-6

f. International Trade..... II-8

3. Current Situation in the Soviet Zone..... II-9

4. Current Situation in the US Zone..... II-10

SECTION III - MILITARY SITUATION

SECTION IV - STRATEGIC CONSIDERATIONS AFFECTING US SECURITY

SECTION V - PROBABLE FUTURE DEVELOPMENTS AFFECTING US SECURITY

APPENDICES

- APPENDIX A - Topography
- APPENDIX B - Population Characteristics and Statistics
- APPENDIX C - Chronology
- APPENDIX D - Biographical Data
- APPENDIX E - Map - Transportation Routes
- APPENDIX F - Map - Topographic

Document No. 001

NO CHANGE in Class.

DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77 SECRET

Auth: DDA REG. 77/1763

Date: 1/2/78 By: 023

SUMMARY

Korea's immediate significance to the security of the US lies in the fact that it is the critical point of contact between the US and the USSR in the Far East. Korea can be of little military value to the US, but the failure of the US to meet its commitments regarding Korean independence would result in serious loss of prestige. From a long-range view, however, Korea is important to US security because Soviet control of this strategically situated peninsula would jeopardize US political aims in China and Japan, and would thus threaten all US security plans throughout the Pacific.

Koreans have always resisted outside penetration, and for centuries successfully maintained their isolation despite Chinese suzerainty. Forty years of Japanese domination only intensified the desire of Koreans for freedom from foreign interference. Korean nationalism was manifested in the formation of groups, at home and abroad, which fought for independence from 1919 until the liberation of Korea from Japan in August 1945. Nationalism is therefore a deeply imbedded characteristic of the large majority of the Korean people.

Korean aspirations for sovereignty and independence were recognized and their realization was guaranteed by the US, USSR, UK, and China through international agreements reached at Cairo, Yalta, Potsdam, and Moscow. The US and the USSR, as powers in occupation of zones South and North of the 38th parallel, respectively, have failed to agree, however, on the means of carrying out the terms of the Moscow Decision. This disagreement reflects a difference in basic aims. The USSR seeks to establish a united Korea under a government subservient to the USSR, to re-orient Korean economy toward the USSR while developing Korean industrial and agricultural potential, and to integrate the Korean peninsula into the Soviet system of Far Eastern defenses. The US seeks to establish a self-governing Korean state independent of foreign control with a representative national government, to establish a sound economy with multilateral, non-discriminatory trade opportunities, and to ensure permanent military neutralization.

The absence of agreement between the US and the USSR has converted supposedly temporary partition into the governing factor in Korean political and economic life. Both the USSR and the US have initiated programs in their respective zones to implement their contradictory basic aims. Freedom from foreign interference has remained the dominant aspiration of the Korean people; the inability of the occupying powers to unite the country has brought Korea nothing but political discord and economic stagnation. The contradiction between the US and Soviet programs has added significance because Japanese domination left the Koreans politically inexperienced and with an economy which had been designed solely to serve Japanese purposes.

The Sovietization of Korea north of the 38th parallel began immediately after the occupation and has proceeded since that time without interruption. The Zone is organized as a police state in which opposition to the

SECRET

regime is rigorously suppressed and political activity is controlled by Communist-dominated People's Committees. The economy of North Korea, based on nationalization of the extensive former Japanese holdings and the redistribution of large land holdings, has also been reconstructed on the principle of state control. Despite greater industrial resources, a better balanced economy, and the fact that a large majority of all Koreans favor a socialistic program, the economic problems in the Soviet Zone are now more acute than in the US Zone, and the Soviet program does not appear to have won the support of the Korean people. Nevertheless, in its zone the Soviet regime has spurious evidence of popular support in the form of general elections held in November 1946, which followed the well-known totalitarian pattern and gave overwhelming support to the government's slate. There is little likelihood of a future departure from the established pattern in the Northern Zone, because the Soviet-controlled police, backed by a native Korean Army totalling 200,000 allows no opportunity for public expression of general discontent or the overthrow of established Communist rule.

In South Korea, the US Military Government established an administration aimed at relieving the wants of the people while educating them for self-government. Reluctance to settle issues for fear of prejudicing the work of a future Korean government and an endeavor to maintain a balance among Korean political parties have handicapped the reconstruction of political and economic life in South Korea; US hopes for the resumption of negotiations leading to the implementation of the Moscow Decision led to a postponement of unilateral political and social reorganization there. When delay in the resumption of Joint Commission meetings was prolonged, however, the US undertook the establishment of an advisory legislature for the US Zone and the gradual transfer of administrative authority from US to Korean personnel. While the policy of retiring US personnel to advisory positions has had Korean support, the issue of an interim legislature has been a source of dispute since its inception. Elections held in October 1946 for the Interim Legislative Assembly gave an overwhelming majority to the Right. Prior and subsequent US efforts to unify moderates of the Right and Left were not successful. Rightists hold the lion's share of positions in administration of the US Zone while the Leftists are attempting, primarily by covert means, to obstruct the US program and to discredit the US Military Government. The US alienated influential Rightist elements when it agreed with the USSR, in principle, that groups continuing to oppose the Moscow Decision would be excluded from consultation with the Joint Commission in the formation of an all-Korean provisional government.

Meanwhile, the acute food shortage which provoked rice riots in the fall of 1946 has been relieved. The imposition of marketing controls and improvements in the collection and distribution of grain make possible the best ration in South Korea since the end of the war. Lack of fertilizer hampers the restoration of agriculture to prewar levels of production, however, and necessitates continued large-scale food imports. Continued revival of other segments of the economy is substantially dependent on imports which must be supplied principally through foreign loans or grants and through managerial and technical assistance.

SECRET

While Korea's vulnerability to attack from the north limits US military capabilities in this area, the emergence of a unified Korea under Soviet domination would constitute a major political defeat for the US. Well aware of this, the USSR intentionally created and prolonged political stalemate while consolidating its control of North Korea and attempting by all possible means to disrupt US efforts toward stability in South Korea. In pursuing these delaying tactics, the USSR has been counting upon the possibility that the US public would be unwilling to continue to bear the cost of military occupation and economic assistance, particularly since the USSR is relying on the possibility that the US faces economic depression which will force a drastic reduction in the role of the US in international affairs.

The progress made in the US Zone toward the establishment of a basis of a democratic Korean government and the implication of the Truman Doctrine that the US intends to continue its support of Korean aspirations for independence, may have caused the USSR to agree to reconvene the Joint Commission on terms acceptable to the US. The USSR may well be willing to make concessions in the Joint Commission or on the governmental level in order to reach agreement if it estimates that Korean Communists are capable of bringing Korea eventually within the Soviet orbit. This is a more likely development than a proposal of US-USSR withdrawal. In the event of an impasse in the Joint Commission a dangerous possibility is the unilateral withdrawal of Soviet troops in order to try to force a withdrawal of US troops and leave South Korea open to penetration by the Communists backed by the North Korean Army. The USSR is not likely to adopt this course unless it believes that the concessions required to achieve agreement would nullify the possibility of ultimate Communist control of Korea. In any case, the USSR will continue to seek to place on other signatories the onus for any failure to implement the Moscow Decision. The USSR, however, probably hopes to resolve the Korean issue in its favor without reference to the UN, where world opinion would be focused upon Soviet activities in North Korea.

Eventually either the US or the Soviet concept of democracy must prevail in Korea. If the choice lies with the Koreans themselves, it will be determined by the relative political strength of the Sovietized North Korean regime and the democratically inclined political parties of South Korea. A national provisional assembly in which representation was accorded on the basis of population theoretically would be controlled by the South, but the multiple parties of the South could not retain this control except by coalition, held together by leaders who now engage in bitter personal rivalry. Such a coalition would be in constant jeopardy in the face of impact from the cohesive, communist-controlled bloc from the North supported by the North Korean Army. Unless the formation of a national government can be accomplished with accompanying safeguards against Communist tactics, it will be impossible to establish Korea as a sovereign and independent state.

SECTION IPOLITICAL SITUATION1. Genesis of the Present Political Situationa. External Influences Affecting Korean Political Development

Long known as the Hermit Kingdom, Korea, by reason of its geographic location, succeeded during many centuries in maintaining virtual isolation from more powerful neighbors. Having adopted Chinese civilization at the beginning of its history, Korea was ruled under the loose suzerainty of the Chinese until the end of the 19th century. This allegiance of Korea to China resembled the relationship of younger brother to elder brother in the Confucian morality. The relationship implied a certain degree of subordination but not by any means subjection. In this semi-autonomous position Korea had sufficient freedom to develop a national culture without ever achieving national sovereignty in the modern sense.

Korea was opened to the outside world at a time when nationalism and imperialism were at their height. Although the Japanese were well acquainted with the application of Confucian ethics to international relations, they chose to regard Korea as a sovereign nation according to the Western definition. Japan therefore recognized the independence of Korea in the treaty of 1876 and proceeded to undermine the Chinese position of preference in the peninsula. In this maneuver, Japan could count on the support of the Western powers who could not conceive of independence apart from sovereignty.

Once the barrier of isolation was forced, Korea became the crossroads of international conflict in northeast Asia. Japan and China undertook the first joint occupation of Korea in 1885. Since they were rivals for hegemony in the peninsula, the occupying powers soon fell at odds. Chinese influence tended to predominate until the outbreak of the Sino-Japanese War in 1893. This conflict which arose over a Japanese demand for the withdrawal of Chinese troops from Korea ended in a striking victory for the Japanese. The expulsion of China from Korea, however, redounded chiefly to the benefit of the Russians, who held the Maritime Province of Siberia. For a time Russian influence replaced the Chinese at the court in Seoul and Japan did not secure uncontested control of Korea until the decisive defeat of Russia in 1905. Korea preserved a semblance of self-government under the Japanese protectorate until 1910, when the Korean king finally abdicated in favor of the Emperor of Japan. From then on, until her liberation by the Allies in August 1945, Korea was governed as a Japanese colony.

b. The Korean Independence Movement

Intense nationalism developed in Korea primarily as a result of long isolation and subsequent relations with foreign powers which

consistently worked to the detriment of the Korean people. Koreans at home and in exile have consistently given evidence of a strong desire for immediate and complete independence. Although the Japanese were partially successful in winning over the Korean royalty and aristocracy through titles, gifts and preferences, national consciousness grew steadily among all classes under Japanese rule. The higher level of education, the more efficient administration, and the industrial development which the Japanese brought to Korea only served to stimulate the desire for independence. This desire for independence led to the organization of Korean underground nationalist groups during the period of Japanese rule, while other groups chose to leave Korea and to work for Korean independence in exile.

The foremost Korean independence group in exile was the Korean Provisional Government (Kopogo). This group, founded in Shanghai following the failure of the Korean uprising of 1919, received the nominal allegiance of nearly all other exile groups including the Korean Communist Party. The Kopogo drew up a Provisional Constitution, established a Provisional Legislative Assembly and controlled the Korean Independence Army which operated as a part of the Chinese National Army. Despite the inclusion of more liberal elements, including Kim Kiu Sik, the political viewpoint of Kopogo under the leadership of Kim Koo and Rhee Syngman was largely conservative. (It was under the chairmanship of Rhee Syngman that the Korean Commission was established to represent Kopogo in the US.)

Koreans both at home and abroad were generally united in opposition to Japan until shortly before the outbreak of war in the Pacific. As tension mounted between Japan and the Pacific colonial powers, however, the previously distant prospect of Korean independence at last seemed to be moving nearer. Various factions emerged in preparation for the coming struggle for power. The Korean Provisional Government, which had had a virtual monopoly of Korean representation abroad since 1919, was suddenly challenged by rival organizations. In January, 1941, the Korean Independence League was founded under Communist sponsorship at Yen-an, China. Shortly afterwards the opponents of Rhee Syngman among the Koreans in the US banded themselves together in the United Korean Committee. These two groups, one in China and the other in the US, were not officially associated, but personal contact was maintained on an informal basis. The KIL and the UKC constituted the beginnings of Leftist opposition to the leadership of Rhee Syngman and Kim Koo, and between them they presented a fair cross-section of Korean Leftist opinion, ranging from the extreme pro-Communism of the Yen-an organization to the "liberalism" of the US group.

c. Effects of Allied Policy and Its Implementation

In the course of the Second World War the Allies repeatedly promised independence to Korea. These promises are embodied in the Cairo Declaration which was issued by the US, UK, and China in December 1943 and confirmed by the Potsdam Declaration of July 1945. Since Soviet adherence to the Far Eastern policy of the Allies had in the meanwhile been obtained at Yalta in February 1945, the USSR adhered to the Potsdam Declaration, upon going to war

SECRET

with Japan in August 1945. When Japan surrendered, the US and USSR, as an expedient to facilitate the surrender of Japanese forces in Korea, proceeded with the previously agreed upon joint occupation of Korea and informally agreed on the 38th parallel as the line of demarcation between their respective forces.

Shortly after the Japanese surrender, the Allies attempted to unite Korea before the artificial partition had had time to work its baneful effects. At the Moscow Conference of Foreign Ministers in December 1945, the representatives of the US, UK, and USSR, with the consent of China, made specific arrangements for the implementation of the Cairo and Potsdam Declarations. The Moscow Decision provided that a Joint Commission of the US and USSR should consult with "Korean democratic parties and social organizations" in framing a provisional government for the whole country. This provisional government would then assist in drawing up a program of political and economic reforms to serve as the basis of a four-power trusteeship of the US, UK, USSR, and China for a period up to five years prior to granting Korea complete independence.

At the time of its announcement, the trusteeship clause of the Moscow Decision aroused a storm of protest in Korea which has not subsided to this day. This protest came from the natural objection of the Koreans to interference, however temporary, by foreign powers which gave Korea something less than immediate and complete independence. Resentment was intensified by political leaders who played upon traditional Korean nationalism by declaring that Allied trusteeship in effect meant a quadripartite displacement of Japan as "trustee" of Korea and that this concealed an attempt to stifle the aspirations of the people* for freedom from outside interference.

All Korean parties originally joined in protesting against trusteeship, but the Communists and their fellow-travelers executed a remarkable about-face once the USSR had manifested its support of the Moscow Decision in toto. Since then opposition to trusteeship has been the distinctive badge of all parties except those dominated by the Communists, without losing its general appeal among Koreans. When the Joint Commission met in

* Although all Koreans want freedom, on specific subordinate issues, when speaking of what Korea as a whole may aspire to or fear, it is necessary to bear in mind the qualifications that by "Korea" is meant only the 5 or 10% of the adult population which maintains an active interest in national or international developments. Since a small group may not have the mass solidarity of a large electorate, the tide of fickle public opinion at present characterizing Korea may shift radically. By the same token, if some of the national apathy can be wiped away, then public opinion may eventually take on more authority.

SECRET

Seoul in March 1946 to carry out the terms of the Moscow Decision, the USSR had apparently decided to exploit opposition to trusteeship as a means of disqualifying from participation in the provisional government all political elements except those under Communist domination. For six weeks the Soviet delegation argued for an application of the Moscow Decision which would have precluded consultation with groups other than Communists. Since adherence to the Soviet view would in effect negate the right of free speech, the US was equally insistent on the right of all representative groups to be heard. This led to the adjournment of the Joint Commission without result in May 1946. For the ensuing year all efforts to implement the Moscow Decision foundered on the contradiction between the US and Soviet positions on the right of Korean groups to participate in the forming of a provisional government. In the meanwhile, the growing divergences between the US and Soviet Zones of occupation daily increased the obstacles to the eventual unification of Korea.

2. CURRENT POLITICAL SITUATION

a. Contrasting US and Soviet Occupation Programs

The contradiction between the US and Soviet political ideologies has again been illustrated in Korea where the application of opposing policies to similar situations at the beginning of the occupation had added significance because forty years of Japanese rule had done nothing to prepare the Korean people for self-government. On their arrival in Korea, the US and Soviet forces both found that local politically conscious Koreans, with some assistance from the Japanese, had formed People's Committees during the interim between the surrender of Japan and the beginning of the occupation. The Soviet forces, which arrived first, at once recognized the People's Committees north of the 38th parallel as the legitimate "interim" representatives of the Korean people. The US forces on the other hand refused to commit themselves to support in advance the claims of any one group to rule Korea. General Hodge accordingly refused to recognize the so-called People's Republic, which had been elected by the People's Committees on 6 September 1945, except as another political party.* When Rhee Syngman and the members of the Korean Provisional Government arrived in South Korea, they were accorded the same treatment. The result was that the supporters of both the People's Committees and the Korean Provisional Government considered themselves slighted by the

* In post-occupation Korean affairs there has been a continual reshuffling of numerous political groups. The parties, as such, are not the only political groups. Labor unions, cultural and religious groups have important political significance, for these have either been founded upon a political ideal or subsequently infiltrated by political party members. Because of the resultant melange and multiple party affiliation (in the South), the importance of individual political groups is secondary to the personal stand and influence of group leaders. The multiplicity of political groups has made necessary the use of coalitions to obtain effective strength. As an arbitrary measure coalitions favoring trusteeship have been classified as the Left Wing; all opposing trusteeship as the Right Wing.

SECRET

US authorities. Since the US Military Government furthermore made temporary use of the Japanese officials at the beginning of the occupation, the various Korean factions convinced themselves that they had a legitimate grievance against the US.

The USSR had taken advantage of its position of control to impose on the Koreans north of the 38th parallel a regime of full-fledged totalitarianism. Soviet policy of achieving control through regimentation is based on a determination to place responsibility for the political and economic welfare of the area on Soviet-recognized representatives of the Korean people. Having accepted the People's Committees in North Korea, the USSR promptly proceeded to pack them with native communists and organize them along lines similar to the Soviets of the Russian Revolution. By organizing a police state, these People's Committees have ruled North Korea at the bidding of the Soviets for nearly two years not only without economic assistance, but in spite of the economic demands which the Soviet forces have made on the area. Unencumbered by the remnants of parliamentary democracy or by the traditions of Liberalism, North Korea has in fact offered less resistance to the extension of Soviet influence than any of the European countries.

In South Korea, on the other hand, the US Military Government had established an administration aimed at relieving the wants of the people while educating them for eventual independence and self-government. In this approach the US labors under a handicap because it endeavors to maintain a balance among Korean parties. The Military Government has been reluctant to settle many issues for fear of favoring one group above another and of prejudicing the work of a future Korean government. But pending the implementation of the Moscow Decision, the US has guaranteed the Koreans certain fundamental liberties the maintenance of which required resistance to the constant pressure of the USSR and its adherents. The unwillingness of the USSR to grant similar liberties to all Koreans in effect was responsible for the deadlock of the Joint Commission holding the Moscow Decision in suspension for more than a year. The fact that the US hoped for the resumption of negotiations led to a postponement of unilateral political and social reorganization in South Korea. Since the USSR did not delay the implementation of Soviet policy in its zone, North Korea appears to have moved farther toward self-government and egalitarian reform than the US zone. However, US policy has prepared southern Korea for the acceptance of a democratic form of government, a condition which is not even approximated in the North.

Thus subjected to the forces of joint US-Soviet occupation, the Korean Independence movement, originally split into groups operating underground in Korea and groups in exile, now is shattered into numerous Right Wing groups which call for immediate independence, and Communist-dominated Left Wing groups which have agreed to accept independence via trusteeship. The Leftists are the only articulate groups in the North; in South Korea political life is still dominated by a rivalry between Rightists and the remnants of the Left Wing People's Committees.

SECRET

SECRET

b. Current Situation in the Soviet Zone

In its zone the Soviet regime has spurious evidence of the wholehearted support of every element in the population. But despite their constant reiteration of the word "democratic" the Soviet authorities in no wise rely upon the consent of the governed. Nothing in North Korean politics is left to chance or to the vagaries of public opinion. The ruling hierarchy of "people's committees" is buttressed at every stage by a duplicate member of the Communist party structure which controls every phase of public life in the Soviet Zone. The government party not only enjoys a monopoly of political leadership in North Korea, it also supervises, inspires and infiltrates every association and grouping which may claim to represent the citizens in any of their social, economic or cultural activities. The government can thus obtain on a given signal the seemingly spontaneous expression of popular opinion from any segment of the population. Under these circumstances, it becomes impossible for the individual to make himself heard on any subject unless he conforms to the "party line."

Throughout Korea, the parties of the Left were early subject to infiltration. In North Korea, under strong Soviet pressure, the moderate elements of the People's Front soon succumbed to the Communist assault. The announcement of the Moscow Decision at the end of December 1945 presented to the USSR an opportunity for the total suppression of opposition. All individuals and groups which refused to endorse trusteeship at that time were branded as reactionaries and barred from political activity. Since the vast majority of Koreans on both sides of the border are hostile to foreign control under any guise, the trusteeship issue has provided a convenient pretext for imposing minority rule on North Korea.

The single party system has thus prevailed in North Korea since early in the Soviet occupation, but the Communist Party has consistently exercised its domination through "front" organizations. In fact since July 1946, the Communist Party no longer exists under its own name, for it has been merged with other Leftist groups into the North Korean Labor Party. In order to complete the democratic facade, the Soviet authorities last fall decided to give their system in North Korea the supreme sanction of a plebiscite. On 3 November general elections were held in the Soviet Zone for the local and provincial People's Committees. These elections followed the well-known totalitarian pattern in which the voter is given no choice but to support or reject an official slate of candidates. Apparently no attempt was made to keep the balloting secret or the registration free, and the elections resulted in an overwhelming victory for the regime. The Moscow radio was able to brag that over 96% of the electorate had gone to the polls, while the government candidates had polled approximately 99% of the vote. In this carnival of compliance, the only notable opposition seems to have come from the native Catholic community, which, in several instances observed by the US Liaison Officer in Pyongyang, refused to have any part in the electoral proceedings.

The general election of 3 November marks the end rather than the beginning of revolution in North Korea. In contrast to usual democratic

SECRET

SECRET

procedure, the elections in the Soviet Zone constitute not so much a point of departure for new developments as the confirmation of the old. Thus the general elections in the North have merely consecrated the status quo. As a result of the plebiscite the People's Committees have dropped the qualification "interim" from their title. The democratic facade was recently completed by the addition of a "Council of Representatives" and a "Peoples Council" as legislature, which masks but does not alter the totalitarian regime. Otherwise no significant change can be found.

The transformation of the political and social institutions of North Korea occurred in the opening stages of the occupation when the USSR was liquidating the remnants of Japanese rule. In the course of this liquidation, the Soviets took over from the Japanese almost all the big industrial and financial establishments of North Korea. The control of North Korean banking, transportation and heavy industry has thus been vested in the People's Committees, so that private enterprise is now confined largely to agriculture and the handicrafts. The question of land reform, which is pending in the South, has been settled in the North. The USSR claims to have distributed 2,471,000 acres free of charge to the tenants.

The USSR has undeniably taken the lead in economic and social changes. A labor law was promulgated in the Soviet Zone before it was enacted in the US Zone, and judging from appearances, the first two years of occupation have brought great changes north of the 38th parallel. These changes, however, have been chiefly in the direction of further regimentation and closer state control. In the Soviet Zone, the individual has given up his liberty for a rather dubious assurance of "social security", so that after an initial period of enthusiasm for Communism, the Korean people seem finally to have reacted against the USSR. Evidence of discontent and apathy in the Soviet Zone is provided by the official propaganda put out to combat the symptoms of disaffection. Such observers' reports as are available likewise tend to confirm the impression that the USSR has become unpopular with the Koreans who live under them. The Soviet-controlled police system, however, allows no opportunity for this general discontent to be expressed publicly or to overthrow established Communist rule.

c. Current Situation in the US Zone

The rivalry between the Leftist People's Committees and Rightist elements of the former Provisional Government in exile still dominates the political life of the US Zone with the US attempting impartially to establish democratic procedures. Almost two years after the liberation the Leftists are still demanding that the US recognize the People's Committees, while the Rightists continue to work for the early establishment of an independent provisional government. Both the Right and the Left join in demanding the unification and independence of Korea. All South Korean parties seem, moreover, agreed that the future Korean government must nationalize the industries and redistribute the land. This Socialistic

SECRET

SECRET

program is the common property of both Right and Left, for there are apparently no articulate proponents of capitalism among the Koreans. With regard to method and personnel, however, bitter differences have arisen. The Leftists wish to proceed as expeditiously and ruthlessly as possible with the proposed reforms. They favor revolutionary procedures such as outright expropriation where the Rightists prefer indemnification. Personal conflicts embitter the discussion, since the Leftists make no secret of their intention to punish prominent Rightists for their past collaboration with the Japanese. Since most parties of the Left are dominated by the Communists and their fellow-travelers, the Soviet Union and its policies have become an important issue between the Left and Right in South Korean politics.

When it became apparent last summer that there was no prospect of the prompt renewal of Joint Commission negotiations, the US undertook to promote the democratization of South Korea in order to match the increasing sovietization of the North. The cardinal points of the program were the establishment of an advisory legislature for the US Zone and the gradual transfer of administrative authority from American to Korean personnel. In this way the Koreans would be brought to share in the executive and legislative functions of the Military Government, and receive training for eventual independence and democracy.

Leftists denounced the US plan from the start as a sham and a subterfuge devised to split Korea irrevocably into two parts by setting up a separate government south of the 38th parallel. These accusations had some color of truth, for every advance made in South Korea toward parliamentary democracy would necessarily widen the gulf between the US and Soviet Zones. The Military Government, however, refused to be swayed from its goal by the attacks of Soviet and Communist propaganda, and steadfastly maintained that the achievement of self-government in one zone was a step toward the establishment of democracy in the whole of Korea. Two important steps have now been taken to comply with the interim US policy for South Korea: the replacement of American by Korean officials in the chief posts of the administration and the convocation of a South Korean Interim Legislative Assembly. While the policy of retiring US personnel to purely advisory positions in the Military Government has had Korean support from the time of its announcement in September 1946, the device of an interim legislature has given rise to bitter disputes since it was first proposed publicly in June of last year.

In order to get popular support for its legislative project, the US Military Government in South Korea had to organize a unification movement of the Right and the Left. The parties of the Right, grouped in the Representative Democratic Council, were nominally led by Kim Kiu

SECRET

Sik but actually came under the influence of Rhee Syngman* and Kim Koo, former heads of the Korean government in exile. General Hodge obtained the cooperation of Kim Kiu Sik early in the proceedings. Since Rhee Syngman and Kim Koo were also favorable to the institution of an advisory legislature, the coalition movement met with little resistance from the Right. The Left, however, was sharply divided between moderates and extremists. Lyuh Woon Hyung, president of the People's Party, largest of the Leftists groups, set out to marshal the moderates for a great struggle against the domination of the Communist Party led by Pak Heun Yung. The ensuing contest between independent and captive Leftists disrupted every party of the Left, including even the Communists, and cracked the previously solid People's Front. The independent Leftists won a temporary advantage at the beginning of September when General Hodge attempted to check illegal activities by suspending three extremist newspapers, by issuing warrants for the arrest of several Communist leaders including the Secretary General of the Communist Party Pak Heun Yung, and by vigorously prosecuting the trial of party members charged with counterfeiting. On 4 October the Leftist members of the coalition committee were finally persuaded to sign a declaration of the Right and the Left in favor of an advisory legislature for South Korea. This act marked the high tide of moderate influence among South Korea parties.

The elections to the Interim Legislative Assembly for South Korea, which were held at the end of October, gave an overwhelming majority to the Right, and thereby checked the progress of the moderate Left. Of the 45 elective seats, 43 were won by Rightists. Although General Hodge undertook to compensate the Left for its defeat at the polls by nominating a fair number of Leftists to the 45 appointive seats, the policy of cooperation with the Military Government which had brought them to defeat at the polls was nonetheless discredited with the Leftists. Lyuh Woon Hyung retired from politics after a valedictory speech on 5 December in which he took the blame for the failure of the unification movement and for the continued partition of Korea. Thereafter the Communists rapidly regained their ascendancy over all remaining sectors of the Left. The Socialist Labor Party, which Lyuh founded last November

* Rhee Syngman, the most ardent exponent of the anti-Soviet and anti-Communist feeling of the Right, had been consistently ignored by the Military Government since his removal from the chairmanship of the Representative Democratic Council in March 1946, because of his personal recalcitrance and intense hatred of Soviet Communism. The Democratic Council then replaced Rhee with the moderate Rightist, Kim Kiu Sik, at the instance of US officials who were trying to clear the air for the Joint Commission meeting. After the deposition of Rhee the extreme Right continued to campaign for immediate independence and against trusteeship, but it was not until recently that this campaign turned against the US Military Government.

SECRET

in opposition to the South Korea Labor Party* previously organized by the Communists, has steadily lost members to its rival, and has now been dissolved. After the Communists the chief beneficiary of the decline of the moderate Left has been the extreme Right. Kim Kiu Sik, leader of the moderate Right who was associated with Lyuh Woon Hyung on the coalition committee, was elected Chairman of the Interim Legislative Assembly, but has lost standing because of his deference to the Military Government. Control of the Rightist majority of the Assembly now lies with the followers of Rhee Syngman.

Within little more than a month after its inauguration on 12 December 1946, the Interim Legislative Assembly of South Korea, proceeded to act as the parliament of the Korean nation, in open defiance of both the US and Soviet occupation. According to ordinance #118 which contains the terms of reference for the Assembly, the interim legislature is charged with drafting ordinances on matters concerning the general welfare, and with reviewing and confirming all civil service appointments under the Military Government above the lowest grades. The assent of the Military Governor is required before any enactment of the Assembly can become law. Ordinance #118 provides that the Assembly assist the Military Governor in working out a program of political, economic, and social reforms, but does not therefore make the legislature a constituent assembly. The US authorities have held that the enactment of a universal suffrage law which would serve as the basis for elections to a second and more representative legislature was the first task of the Assembly. The Assembly, however, has given priority in its deliberations to the enactment of a constitution and to the Koreanization of the administration. In its proceedings to date the Interim Legislative Assembly has tended to disregard the existence of the US Military Government in South Korea as well as the Soviet regime in North Korea, and has claimed to represent the entire Korean people. By thus generally following the line laid down by Rhee Syngman the Assembly has repeatedly come into open conflict with the US authorities in South Korea.

* Last July, shortly after the Leftist parties in North Korea were united in the North Korean Labor Party, a similar organization was launched in the South. The Communist Party since that time has operated under the cover of the South Korean Labor Party, a disguise which may have been adopted because of the discredit reflected on the Communist Party by the counterfeit trial. A change of tactics seems to have followed the change of names. The severe reprisals of the Military Government agitators and the overwhelming defeat of the Leftists in the elections to the South Korean Interim Legislative Assembly appear to have persuaded the Communists that the time for overt opposition had passed. At present the Communists seem to be working underground and trying to consolidate their position within the Korean Labor movement. They are active in the All Korean Council of Labor Unions, which represents the Leftist elements in South Korean labor, and have also established contact with international labor through the World Federation of Trade Unions.

SECRET

SECRET

Far from giving the US Military Government the popular support it was seeking, the legislature has fomented hostility between General Hodge and the parties of the Right. This growing disaffection of the Rightists is the most portentous development in South Korean politics since the beginning of the occupation. Heretofore the US authorities could rely on the Right, whatever their troubles with the Left. Throughout the agitation over the US-sponsored Left-Right unification movement last fall and summer the Right was quiet. At the height of the strikes and riots which constituted the "October offensive" of the Communists against the Military Government, the US authorities had the assistance of Rightists in preserving order. The Rightists seemed committed to support the US primarily because of their antipathy to the USSR.

The publication on 11 January 1947, of General Hodge's letter of 24 December to the Soviet Commander in North Korea was the signal for the rebellion of the Right. In this letter General Hodge agreed in principle that continued opposition to the Moscow Decision would constitute a basis for the exclusion, by mutual agreement between the US and the USSR, of groups from consultation with the Joint Commission in forming a provisional government. Anti-trusteeship sentiment immediately flared up in South Korea. A call to arms had just previously been issued by Rhee Syngman and Kim Koo proclaiming that the time had come for Koreans to face martyrdom in their struggle for independence. An outbreak of violence from the Right was expected in the US Zone toward the middle of January 1947. Although a Rightist insurrection has not materialized, a revolt against the US occupation has nonetheless occurred in the Interim Legislative Assembly. In spite of the opposition of Kim Kiu Sik, a resolution condemning General Hodge for his recent concessions to the USSR was introduced in the Assembly on 14 January 1947. The Chairman, Kim Kiu Sik, delayed a decision by adjourning the Assembly for five days. General Hodge took advantage of the respite in order to argue personally with the members of the Assembly against the resolution, but the motion was carried as soon as the session resumed on 20 January. The vote taken in the name of the Korean Nation was 44 to 1 in favor of the resolution, with complete abstention by the Left. The coalition committee which originally sponsored the Assembly is now under fire from both Right and Left, while Kim Kiu Sik's position at the head of an Assembly which he cannot control has become almost untenable. The centrist group (moderates of Left and Right) which was organized to support US policy in South Korea has apparently disintegrated, leaving the US Military Government more isolated than at any time since the beginning of the occupation. The extreme Rightists control the overt political structure in the US Zone, while the Leftists are attempting primarily by covert means to obstruct democratic progress and to discredit the US Military Government.

SECRET

SECTION IIECONOMIC SITUATION1. Genesis of the Present Economic System

Historically possessing a localized agricultural economy, Korea, was originally exploited by the Japanese in a forty-year period of domination as the "granary" of the Japanese Empire. Agricultural exploitation continued throughout most of this period, but with the development of Japan's plans for Asiatic expansion during the 1930's, Japanese capital and technology were assigned to Korea to build an industrial superstructure for war-time use. The basis for Korean industrial development was the peninsula's abundant supply of water power, its resources of iron ore and anthracite coal, and its proximity to the bituminous coal resources of North China and Manchuria.

The policies followed by Japan in exploitation of the Korean economy have a direct bearing upon Korea's present economic plight. The peninsula was developed not as a self-sustaining economic unit, but as an integral part of the Japanese Empire. Development and expansion of industry was carried out in terms of its wartime potential, and many Korean factories and mines were heavily subsidised by the Japanese and therefore could not be expected to be operated as peace-time ventures. Agriculturally and industrially, Korea was operated as a business for Japan's financial and material gain, with little regard for the welfare of the Korean people. Native Koreans were not trained in technology to any significant extent, and Korean industry was almost completely dependent upon Japan for managerial talent, capital equipment and technical experience. Moreover, in the later stages of World War II, Japanese exploitation was attended by wholesale waste and despoliation of Korea's agricultural and industrial assets.

Korea thus emerged from the War with a nearly prostrate economy; its soil and forests seriously impoverished; its industry, transportation and communications in an acute state of deterioration and obsolescence; its financial structure nearly destroyed by the unrestrained flood of currency issued by the Japanese prior to the surrender. The bulk of Korea's foreign trade, which had been carried on with Japan, disappeared practically overnight.

2. Description of Present Economic System

The immediate post-war problem of preventing disease and unrest, and the longer-range problem of rehabilitating the Korean economy, have been compounded by arbitrary division of the peninsula into Soviet and US Zones. As indicated by the following description of Korea's economic structure, the hydro-electric power facilities, chemical (particularly fertilizer), metal and mining industries of the North form a much-needed complement of the agriculture and textile industry that dominate the economic pattern of southern Korea.

a. Agriculture and Fisheries

Agriculture, on which over 70% of Korea's working population depends for a livelihood, is built around the production of food and constitutes a dominant political and economic force in the life of Korea's masses.

Korea's agricultural economy is characterized by a relatively small area under cultivation (about 20% of total area), small farm units (averaging less than 4 acres per family in 1938), widespread farm tenancy, and poor quality soil requiring liberal applications of fertilizers. Farming methods, similar to those prevailing in other Far Eastern countries, place emphasis upon human labor employing relatively crude farming implements. The amount of cultivated land did not increase significantly during the period of Japanese control, but with the partial completion of extensive irrigation projects, fully 25% of all cultivated area in Korea had been irrigated by the outbreak of war.

Rice, grown principally in southern Korea, is by far the most important food product, but Korea also produces sizable quantities of vegetables and grains (the latter comprising the main staple of North Korea's food consumption).

Under conditions more favorable than those now prevailing, by Far Eastern standards both zones probably could attain self-sufficiency in food output, and possibly export certain foods in small quantity. Pre-war agricultural food production, supplemented by an active fisheries industry, compared roughly in areal distribution with Korea's population: approximately one-third in the North and two-thirds in the South. The substantial pre-war exports of food from Korea to Japan are not a reliable index of Korea's future export capabilities since such exports were effected largely at the expense of an adequate food diet for the Korean people. In addition, the marked population increase in recent years has greatly expanded Korea's local food requirements.

Korea's fishing industry, which ranked sixth in pre-war world fish production, provided a small but essential part of native food requirements, fertilizers and fish oils for local use, and a substantial volume of exports to Japan before and during the war. Fully 10% (by value) of Korea's total exports to Japan in 1939 consisted of fish and other marine products. Maintenance and repair of Korean fishing craft and gear was almost wholly neglected by the Japanese during the war years, and production since V-J Day has been far below earlier levels. With a relatively small expenditure, however, the existing shortages of equipment could be alleviated and fishing could be restored to its position as one of Korea's major export industries.

Non-food crops, chiefly cotton and tobacco, utilize only a small percentage of Korea's cultivated area, but, in the past, supplied a large part of the raw materials for the country's light industry, particularly in the southern zone. As in all Far Eastern countries suffering from food and

commodity shortages and inflation, non-food production in Korea has been cut sharply by the diversion of farming effort to food crops.

Favorable conditions that could lead to a substantial revival of agricultural production would include, in the first instance, an adequate supply of fertilizers to southern Korea (such supplies must be imported as long as the Soviets continue to withhold fertilizer surpluses manufactured in the North) and rehabilitation of Korea's badly run-down transportation system. Longer-range measures are also needed: reforestation, flood control, extension of acreage under cultivation, and completion of irrigation projects that were started by the Japanese. Any agricultural revival of permanence, finally, depends in part upon a reform of the feudalistic land-holding system, in order to promote farmer incentive. To date Soviet land reform efforts in the northern zone have been largely nullified in effect by the levy of excessive farm taxes, and land reform in the South is still in the planning stage.

b. Natural Resources

With the exception of water power--the country's most important natural asset--Korea is not richly endowed with natural resources. Most of its mineral wealth and water power, moreover, is located in the northern zone.

Between 80% and 90% of Korea's hydro-electric power is generated by plants in North Korea. These plants, constituting the major source of power supply to the entire peninsula, distribute power over an integrated grid system developed by the Japanese. The whole electric power complex in Korea, including the comparatively small hydro- and thermal-electric power capacity in South Korea, suffers from a lack of maintenance, replacement parts and technicians. In their present condition, the power plants are incapable of supporting any substantial increase in consumer demand. The situation in the South is the more precarious since there is no guarantee that the Soviet-controlled zone will be willing or able to continue supplying the southern area with power, even in the limited quantities now being delivered.

Korea possesses coal reserves estimated at nearly two billion tons, largely in the northern zone, but three-quarters of these reserves consist of low-quality anthracite, and the balance of lignite and brown coal. Good quality bituminous coal had to be brought in from Japan, North China and Manchuria to supply Korea's rail system and much of its heavy and light industry. Likewise coking coal for the production of iron and steel and coal for gas manufacture had to be largely imported. As an integral part of the Japanese Empire, Korea obtained a large part of its bituminous imports from North China, Manchuria and Sakhalin, but shipments from these areas are now largely cut off. Even if Korea returned to its war-time coal production level of 7,600,000 tons per year (1944), and received larger imports of bituminous coal from Japan than are currently arriving, a coal supply problem of serious proportions would still exist.

SECRET

Iron ore resources, also largely concentrated in North Korea, comprise an estimated 20 million tons of medium-grade and practically unlimited reserves of low-grade ores. The war-time production rate of 3,400,000 tons (1944) substantially exceeded iron ore requirements of Korea's own iron and steel industry. During the war, Korea was a major supplier of tungsten for Japan and of molybdenum for the entire Far East, drawing on its sizable reserves of ferro-alloy metals both in the North and South. For Korea to regain its position as an important exporter of ores and ferro-alloy metals, much of the mining equipment and machinery, now badly run-down, must be restored or replaced.

Other metallic and mineral reserves, located mainly in North Korea, include relatively large quantities of aluminous shales, and one of the world's largest concentrations of magnesite ores. The aluminous shale, however, appears to be of inferior quality; it is noteworthy that the two large alumina-aluminum plants which the Japanese erected in North Korea before the war were designed to use aluminous shale imported from Manchuria. Production from Korea's magnesite deposits, which jumped from 35,000 tons in 1937 to nearly 400,000 tons in 1944, contributed materially to Japan's output of furnace brick (vital to the iron and steel industry) and of metallic magnesium. The country's magnesite reserves, which complement the much larger reserves in Manchuria, could be further developed into one of the major components of the area's peace-time or military economic potential.

Korea's gold resources, widely distributed throughout both North and South Korea, were increasingly exploited by the Japanese before the war, with rapidly rising subsidies by the Government-General for this purpose. Gold production for the entire country rose from 5 metric tons in 1925 to 28 metric tons in 1938, the latter figure having a value of 106 million won (yen) or about US \$30 million. More than 70% of the production in pre-war years originated in North Korea. Part of Korea's gold output was exported to Japan in the form of ores; the greater part, it is believed, was utilized in Korea as currency reserves or transferred to Japan in the form of specie and bullion. During the war, the Japanese concentrated their mining effort on more strategic materials, and stripped most Korean gold mines of their machinery. Under US occupation, rehabilitation of South Korea's gold installations is already in progress, and gold production in the US zone is expected to reach about 50% of the pre-war level by 1950. For the country as a whole, gold resources will eventually regain their position as an important component in Korea's balance of payments.

Both North and South Korea formerly had extensive forest lands. While North Korea is still substantially stocked with timber, much of South Korea's forest land has been laid waste, largely due to heavy overcutting to provide fuel. Rapid deforestation resulting in serious soil erosion contributed materially to the heavy floods in South Korea during 1946, the worst in twenty years. The resultant shortage of wooden railroad ties and building materials, in the absence of replenishment from the Soviet Zone, has greatly retarded restoration of South Korean transportation and construction operations.

SECRET

c. Industry

The bulk of Korea's heavier industry, led by the manufacture of iron, steel, chemical fertilizers and cement, is concentrated in North Korea, close to the sources of iron ore, hydro-electric power, locally-mined coal (mainly anthracite), and the bituminous coal formerly imported from North China and Manchuria.

As developed by the Japanese, the Korean iron and steel industry was not completely integrated: Korea's war-time output of iron ore was greater than the in-put of its pig iron furnaces; pig iron output substantially exceeded the requirements of its steel plant, which in turn manufactured ingots in a volume considerably larger than Korea's rolling mills could handle. The remaining surpluses of ore, iron, and steel represented an important series of exports, feeding Japan's own war industry. Such products might figure significantly in Korea's future trade pattern, but not until such time as bituminous coal of good coking quality becomes readily available from abroad.

Practically all of Korea's chemical manufacturing plant, its largest pre-war industry, is north of the 38th parallel. The large nitrogenous fertilizer installations, readily convertible to the manufacture of explosives, took the lead in Japan's war-time development of Korea's industrial potential. Since the end of the war, almost no commercial fertilizers have been made available to South Korea from the northern zone, partly due to the presently poor condition of the fertilizer industry itself, and partly due to Soviet unwillingness to make fertilizer accessible on anything but a barter basis in exchange for food products that South Korea could not afford to supply.

The remainder of Korea's industrial structure is more evenly divided between the US and Soviet Zones, with the larger plants generally located in the vicinity of leading urban industrial centers and ports. Production of machinery and rolling stock is concentrated around Seoul and Pusan in South Korea. In the consumers goods category, the manufacture of textiles predominates, with the larger cotton spinning and weaving plants centered about these same two cities. The synthetic (primarily rayon) fiber plants, on the other hand, are located mainly in northern cities. The two zonal capitals, Seoul and P'yong-yang, contain the major portions of Korea's food processing plant.

In general, Korea has never been highly industrialized, except in heavy industry, and even in the late stages of Japanese development, its machinery and consumers goods industries fell considerably short of supplying the domestic requirements. Moreover, many of its plants, as well as some of its mines, were uneconomical ventures, heavily subsidized by the Japanese as war-time expedients.

d. Transportation

Serious war-time neglect, acute shortages of replacement rails, ties, construction materials, and of bituminous coal, have severely impaired the operability of Korea's 4000-mile rail system, upon which most of the country's economy is dependent. By early 1947, rail transportation was in a state of near paralysis in North Korea, where the lack of operable locomotives and rolling stock has multiplied the effects of other shortages. Rail conditions in South Korea, though far from adequate, are believed to be better than in the North.

The country's 14,000 miles of highways, serving as essential feeders to the cities and railroads, must also be rehabilitated, having been left to deteriorate during the war years. In South Korea, such essential construction items as asphalt and cement must be imported in quantity, owing to the concentration of Korea's own asphalt and cement plants north of the 38th parallel. In the Soviet zone, according to reports dated May 1947, highways are being well maintained and an extensive road repair program, using compulsory labor, has been instituted.

e. Finance

During the period of Japanese control, the entire financial structure of Korea was dominated by Japanese public and private interests. Most of the paid-up capital of the Government-controlled Bank of Chosen, Korea's bank of issue, was Japanese-owned, as were the ordinary commercial banks. In the corporate structure of Korea, investment and managerial participation by Koreans was likewise relatively small, nearly 90% of the corporations being Japanese-owned.

The Japanese provided part of the capital for development and exploitation of Korean industry and agriculture through the Bank of Chosen, and the large Chosen Industrial Bank. Much of the financial and technical assistance, however, was furnished through a "national policy" organization known as the Oriental Development Company, which developed into owner and operator of hundreds of Korean enterprises in the fields of agriculture, mining, industry and transportation.

In addition to extensive control over private and semi-public components of Korea's economy, the Japanese Government exercised monopolistic control, within the framework of the Korean Government-General, over such profitable commodities as salt, ginseng (a medical herb), tobacco and narcotics, and over two important services: communications and transportation. Revenues from and expenditures by these monopolies, in fact, were far the most prominent items in the Korean national budget. Their predominance in Korea's fiscal structure emphasizes the degree to which the country's economy was managed as a Japanese business. For example, in 1936--a typical pre-war year--fully 53% of all budgetary revenues were scheduled to be derived from the "revenue-producing agencies" that operated the monopolies, and expenditures of these same agencies were

budgeted at 41% of total outlays. In that year, taxes were expected to yield no more than 25% of total revenues, Korea's people being too poor to support a complicated tax structure or heavier tax burden.

With the termination of the War, all public and private Japanese title to property in South Korea, including physical installations, financial investments and controls, was vested in the US Military Government. Custody of Japanese assets in North Korea was likewise placed in official hands, presumably in the Soviet-backed People's Committees. Thus, the governing bodies in both North and South Korea are in at least temporary possession of a major portion of Korea's economic wealth, which is being employed as the main support for the fiscal structure of those zones. Disposition of this wealth, a problem that may be reserved for the future Korean Government, presents numerous difficulties. Relatively few Koreans possess the managerial qualifications or the ready capital to take over ex-Japanese properties, and there is a real danger that such wealth, if offered to the public, may become concentrated in the hands of a powerful native economic minority, or of private foreign interests.

While the occupation authorities in both North and South Korea have had at their command, since V-J Day, a substantial proportion of the country's means and instruments of production and service, the financial yield of such assets has fallen far short of bridging the gap between other available revenues and the total expenditures in those zones. The former Japanese assets and Japanese-controlled monopolies in Korea represent investments in economic enterprises that are in a serious state of disrepair; moreover, they are critically short of technical help, stocks of raw materials, and replacement parts. In both zones, the short-fall in revenues has required heavy issues of new currency, thereby greatly accelerating the inflationary trend already in evidence during the war years. As a partial indication of this trend: in contrast to a Bank of Chosen note issue for all of Korea amounting to 580 million won (yen) at the end of 1940 and 8,680 million shortly after V-J Day*, the volume of notes issued by the Bank of Chosen in South Korea alone had jumped to 18,200 million won by late January 1947.

In the forefront of expenditures in South Korea that have compelled the US Military Government to resort to heavy deficit financing are such major items as (a) heavy administrative costs, (b) allocations to lower levels of government, and (c) grants and subsidies to industry and agriculture. Comparable expenditures in the Soviet zone have probably been much smaller, but the post-war inflation in North Korea thus far has been no less drastic. The Soviet troops' practice of "living off the land" has produced much the same inflationary results as deficit financing, since this practice constitutes a direct drain upon the already marginal supply of foods and other necessities.

* More than 4,000 million of this was issued by the Japanese in the last 2½ months of war.

SECRET

In an environment of rapidly expanding note issues and growing commodity shortage, widespread profiteering and reported counterfeiting have added significantly to the inflationary upswing by undermining public confidence in Korea's currency.

The Korean monetary unit, in the absence of free and active interchange of goods and services with other countries, has the nature of a controlled currency with only nominal foreign exchange value. In contrast to the pre-war open market exchange rate of about 3.5 yen to one US dollar (same as the Japanese yen), the military conversion rate for South Korea was set at 50 to 1 by SCAP in March 1947. Even the latter rate fails to reflect the full post-war depreciation of the Korean unit; in terms of relative purchasing power, its real value probably lies between 100 and 200 to one US dollar. Within Korea, moreover, the unit has little or no metallic backing, since most of the Bank of Chosen's reserves of cash, gold and silver were taken by Japan during the war, and replaced by Japanese bonds and notes.

f. International Trade

Korea's current foreign trade pattern bears little resemblance to that of the pre-war and war-time period. Nevertheless, an examination of Korean trade during the latter years of Japanese control discloses the serious problems that the country is due to face even if unification and some degree of rehabilitation are achieved.

Korea's foreign trade for 1939, a year that can be regarded as a median between pre-war and war years, shows two characteristics typical of the broad period of Japanese domination: (a) an exceptionally heavy reliance upon trade with Japan, which in 1939 took 73% of Korea's total exports by value and supplied 89% of Korea's imports; and (b) a large unfavorable balance of trade--imports were 39% larger than exports in 1939. Although shipments of manufacturers such as chemicals, cement, iron and steel products, increased during the 1930's and early war years, Korea's exports were preponderantly "natural" commodities: agricultural, mineral, forest and marine products. The country's imports were largely Japanese-manufactured consumer goods (textiles, clothing, beverages) and machinery, as well as bituminous coal and other minerals.

In addition to a substantial unfavorable trade balance, Korea also was a net debtor for interest, insurance, dividend payments and freight (Korea has never had a merchant marine of significance). The resulting debit balance in Korea's balance of payments position was characteristically offset by Japanese capital investments in Korea, and by the shipment of Korean-mined gold to Japan.

For the next few years at least, a period when Korea's economy will be sustained and to some degree rehabilitated by commodity imports and capitalization provided almost entirely by the US, Korea's balance of payments position hardly merits discussion in terms of a "normal"

SECRET

SECRET

pattern of foreign trade and capital flow. In the absence of unification, North Korea is not expected to produce any substantial surpluses of commodities for export. South Korean exports, led by minerals and marine products, probably will not exceed US \$46 million in the three years 1948-1950; in the same three years, it is estimated that a grant-in-aid of US \$540 million will be required for the rehabilitation of South Korea's agriculture, industry and transportation.

Even after unification and substantial rehabilitation are achieved, Korea still faces an adjustment period characterized by an unfavorable balance of trade and net outpayments on the non-trade items, both only partially offset by gold exports. Sizable shipments of food, formerly one of the key Korean exports, will not be forthcoming for many years unless attained (as formerly) at the expense of native food consumption. Nevertheless the long-range outlook is not necessarily bleak, particularly if Korea follows an interim program of "austerity" in its purchases abroad. Korea's natural resources provide many opportunities for continuing capital investment. From a balance of payments standpoint, a revival of transportation in the North Pacific (e.g., between Japan and northern Asia) would benefit Korea.

3. Current Situation in the Soviet Zone

Soviet policy in Korea is directed toward the establishment of a state politically subordinate to the USSR at a minimum cost to the USSR's own scanty Far Eastern resources. Soviet economic policy is, therefore, the reorientation of Korea toward the USSR while developing Korean industrial and agricultural self-sufficiency. In realizing this aim, the USSR thus far appears to have failed; despite greater industrial resources and a better balanced economy, the economic situation is now more acute in the Soviet Zone than in the US Zone. According to early 1947 reports, inflation is greater and the food shortage more pressing in the North than in the South. This reverses the relative situation of the two zones prevailing in 1946. Current food prices are reported to be 50% higher in the North. Unlike the US, the USSR has not imported food into Korea but rather shipped it out, while the Soviet forces of occupation have pursued their customary practice of living off the land.

Industry in North Korea is operating at less than 25% of war-time levels. Although the industrial equipment of the Soviet Zone has not been dismantled like that of Manchuria (excepting possibly the north-eastern provinces), the rehabilitation of industry has been retarded by the disruption of pre-war trade relations. The general breakdown of the railroad transportation system has put an additional obstacle in the way of industrial recovery. The USSR has been unable to improve these conditions even to furnishing coal from Sakhalin. Fuel supply on which North Koreans were counting has not materialized, and consequently the Soviet Zone is as destitute of industrial products as it is of foodstuffs. Kim Il Sung, chairman of the north Korean People's Committee, has described the adverse factors affecting the economic reconstruction of the Soviet

SECRET

SECRET

Zone as follows: "(a) Division of Korea and difficulties of readjusting an economy which was developed to serve Japanese rather than Korean interests; (b) Shortages of raw materials, especially bituminous coal, which forces Korea to solicit assistance from Russia; (c) Shortages of technicians and backward state of technological development; (d) Lack of capital and (e) Greatest of all, lack of spirit of reconstruction, which obstructs elimination of selfish profiteers."

Thus, notwithstanding Communist emphasis on material prosperity, by its own admission the Soviet regime in North Korea has had greater success politically than economically. Although the USSR is unable to increase the output of the Korean economy, it has nonetheless secured complete control of the means of production. Conquest has facilitated the task of revolution in Korea, for the bulk of the capital of the country was in the hands of Japanese at the time of the surrender. By confiscating this property and turning it over to the People's Committees, the Soviets have accomplished a quick conversion of Korean industry to state ownership. Private property has been completely eradicated from a large section of the economy. Credit, communications, transportation and heavy industry are controlled by the People's Committees. Only agriculture and the handicrafts have escaped the process of socialization.

Soviet policy of land reform provides additional evidence of political motivation. The USSR gained much good will among Korean farmers a few months after the beginning of the occupation by distributing the holdings of the big Japanese and Korean landlords among their tenants. The benefit of this agrarian reform, which affected the ownership of 2,471,000 acres, was, however, diminished by the exactions of the regime. The People's Committees are now demanding as much from the farmers as did the former landlords, though by a different claim. After the successful levy of a 25% tax on the fall harvest of 1946, the Soviets announced the imposition of an additional contribution of 25% on the same crop. This second phase of the collection program appears to have aroused the resentment of the rural population, and as a consequence, the government has been encountering considerable passive resistance in its crop collection program. (The tenants of the US Zone generally pay an over-all rent of 25% of their produce.)

4. Current Situation in the US Zone

Economic stagnation has aggravated political discontent in both zones of Korea, and food has become the primary economic concern of all Koreans. In the US Zone, the food shortage provoked severe rice riots in the fall of 1946 during the wave of Leftist agitation against the Military Government. Acute want has now been relieved and owing to the timely imposition of marketing controls, the collection and distribution of grain is proceeding more smoothly this year than last, with the result that the people of South Korea are at present receiving their best rations since the end of the war. In spite of this improvement, the lack of fertilizer in the US Zone hampers the restoration of agriculture to pre-war levels of

SECRET

SECRET

production, necessitating a continuation of large-scale imports of food from abroad for an estimated three years. The Military Government has calculated that South Korea will require monthly shipments of at least 40,000 metric tons of grains and leguminous products until the summer harvest in July 1947. Since this quantity represents half the ration requirements of the non-self-supplying population, the restoration of agricultural self-sufficiency is one of the principal factors in the economic stabilization of South Korea. In the course of the next three years, the Military Government expects the increase of domestic production to reduce the total value of yearly food shipments from US \$49 million in 1948 to US \$6 million in 1950.

The financial situation of South Korea has been improving since early 1947. The Bank of Chosen note issue for the US Zone, which was at a peak of 18,200 million won in January 1947, had dropped back to 17,300 million by the end of May. Prices have also shown a trend toward stabilization, accompanying some increase in the supply of food and consumers goods, particularly textiles. It is anticipated that the budgetary deficit of the Military Government, which amounted to about 5,000 million won for the 1946-47 fiscal year (ending 31 March 1947), will not be greatly in excess of 3,000 million for 1947-48. Moreover, extra-budgetary expenditures, such as outlays for food collection and distribution, will probably be substantially less in the current year. All of these conditions are reflections of a more stabilized economic situation in South Korea. However, any real economic revival in the US Zone depends in large part on increased imports, which must be supplied principally by foreign loans or grants.

The only credit which South Korea has so far received for reconstruction is an FLC loan of \$25,000,000, which the Military Government obtained in August 1945. This loan was promptly attacked by the Leftists as an attempt to reduce Korea to colonial status by making the country a dumping ground for surplus US equipment. However, there has been no such outcry at the current grant-in-aid proposal. The Korean public may have come to a realization of the country's dependence on imports, since a shortage of raw materials threatened to close nearly all factories in the US Zone during the first half of 1947. The cotton industry has recently afforded a good illustration of the precarious condition of the Korean economy in this respect. The food shortage of the past year has caused farmers to plant half of the former cotton acreage in grain crops, thereby sharply reducing the cotton supply to the South Korean mills. Since the textile industry is the most important of the light industries which characterize the economy of the US Zone, a shut-down in the manufacture of cotton goods would gravely retard recovery of the whole area. The Military Government has now succeeded in obtaining 8,400 bales of cotton from USCC stocks in Japan, and the cotton shortage in South Korea has accordingly been alleviated, but the textile crisis has nonetheless demonstrated the urgency of a long-range import program.

Agricultural production needs the incentive of consumer goods, while a rise of the industrial output depends in turn on a better diet

SECRET

SECRET

for the workers. The Korean economy seems therefore to be caught in a vicious circle which only a strong infusion of imported raw materials and capital equipment can break. Raw materials such as cotton for clothing and fertilizer for the farms have first priority because of the extreme indigence of the country. Failing unification, capital equipment is also needed to build in South Korea some of those essential industries which already exist in the North. Although South Korea obviously cannot compete industrially with the North, the US Zone can, with initial outside assistance, expect to develop a sound economy. Eventually it may have a food surplus which would serve as the basis for revived trade either with Japan or with North Korea. A limited amount of barter is currently going on between the US Zone and China, but it seems doubtful that China will in the foreseeable future be able to supply South Korea with the industrial goods it needs. Korea's economic future would therefore seem still to be bound up with that of Japan.

Meanwhile, the prolonged partition of Korea has made an interim economic "prevention of disease and unrest" program totally inadequate for the purpose of establishing a balanced and stable economy in South Korea. An adequate program is now dependent on substantial long-term foreign assistance (such as the grant-in-aid program recently proposed by the US Administration to the Congress). Such assistance could be used to help (1) Transform Southern Korea from a food deficit to a food surplus area, thus improving the low nutritional standard of the Koreans and providing some exports to pay for necessary imports; (2) Increase the supply of consumer goods by restarting local industries; (3) Decrease the dependence of the southern zone upon the northern for electrical power; (4) Contribute to the financial stability of Southern Korea by increasing production; (5) Facilitate the training of Korean technicians and the eradication of illiteracy, two serious deficiencies resulting from the Japanese policy of monopolizing with their own nationals nearly all positions requiring technical skill and of keeping the Koreans a servile people.

SECRET

SECTION IIIMILITARY SITUATION

The numerous contrasts between the US and Soviet occupations in Korea can finally be reduced to a difference in their use of force. In the last analysis both governments rely on coercion to maintain their authority, but coercion in the US Zone is a sanction for law, while in the Soviet Zone it is an ever-ready means of persuasion. Whereas the US Military Government attempts to win the consent of the governed by argument and reason, the Soviets require compliance by the threat of violence. These differences are real and not merely nominal as shown by the fact that the US maintains a relatively small number of troops and a relatively high degree of freedom of expression, in comparison with the USSR.

The US Zone in Korea contains about two-thirds of the population and is occupied by a force of less than 50,000 US troops, assisted by a native constabulary of approximately 5,000 and a coast guard of slightly more than 1,000. With only about one-third of the Korean population in its zone, the USSR is reported to have at its disposal 68,000 Soviet troops, augmented by a native force, potentially 500,000 strong, whose effective strength is undetermined but which has been estimated at 200,000 (People's Army: 125,000; Security Forces: 75,000). This Korean army under Soviet control is based on a technically voluntary system to recruit all males between 17 and 25 years of age and built around a core of approximately 75,000 well-trained members of the special police and the Korean Volunteer Army which served prior to the Japanese surrender under the orders of the Yanan Independence Alliance (the former Communist-sponsored government in exile). Chinese Communist troops are also known to have crossed the border from Manchuria and are reported to be taking part in the training of the new Korean army of the Soviets. The majority of these Chinese Communists are probably Koreans of the Volunteer Army who campaigned together with the Chinese 8th Route Army in Manchuria. The rest of the Chinese Communist troops whose presence has been reported from North Korea are presumably in transit from one area of the Manchurian front to the other.

The military preponderance of the Soviets is a standing threat to the US occupation in South Korea, and General Hodge has felt obliged on occasion to issue warnings of a possible attack across the 38th parallel. Although no attack has yet occurred, the Soviets could presumably overrun the whole peninsula, so that the US position in South Korea is in a military sense distinctly precarious. General Hodge's effectives of approximately 50,000 troops are divided roughly as follows: 1,300 air, 27,000 ground, 13,000 service personnel and 7,000 miscellaneous. A Soviet invasion of South Korea, however, would mean war, and there is consequently little prospect that it will be tried in the near future. The only present danger to the US occupation in South Korea would seem

SECRET

to lie in a widespread revolt which would draw US troops away from the border permitting mass infiltration from the Soviet Zone or an invasion by the native Army.

The US occupation has so far enjoyed the cooperation of the majority of the population in the maintenance of order in the South. The Military Government has nonetheless been the target of unrelenting propaganda and occasional uprisings on the part of the extreme Left. Recently the extreme Right has also shown a disposition towards violence. Rightist violence seems, however, to be rather the product of temporary exasperation than part of a concerted plan of disruption. In spite of all Rhee Syngman's manifestoes and proclamations the Rightists have yet to produce any disorders such as characterized the October offensive of the Communists last year. Fear of Communist control and a conservative preference for order appear to moderate the Rightists even in their wildest outbursts against the US Military Government. The US authorities have consequently depended on the Rightists for support even while combating the leadership of such extremists as Rhee Syngman.

The Korean government in exile at Chungking organized an army known as the Kwang Bok Army which the US could eventually remobilize if ever Soviet pressure against South Korea became excessive. So far the US authorities have given no recognition to this Rightist Army, which is not needed for defense and which could only serve to intimidate the Left. Instead of mustering a partisan army, the Military Government has encouraged a youth movement. The Korean National Youth Movement which was launched with official approval in January of this year now numbers approximately 30,000 members. Although the movement is not affiliated with any party, it is led by Rightists and has undertaken, as part of its program of public service, to "dispel the falsehoods planted by Russian Communists." The Moscow radio has already denounced the organization as Fascist, but in this connection it is interesting to note that the USSR also boasts of having at its command in North Korea a Democratic Union of Youth with a membership of 1,300,000.

Korea's military potential is limited to the contributions it can make as an ally, willingly or unwillingly. These contributions consist of manpower; strategic location; two major warm-water ports; abundant hydroelectric power; limited surpluses of iron, tungsten, wood, low-grade coal, and possibly food; chemicals; and a transportation system which connects the complementary industrial establishments of Korea, Manchuria, the Soviet Far East, and Japan. The extent to which Korean manpower, resources and facilities can be exploited was well illustrated by the considerable war aid Japan was able to obtain from Korea at the expense of the Koreans themselves. However, owing to the present state of the economy as a result of exploitation, first by the Japanese and subsequently by joint occupation forces, the immediate war potential of Korea is negligible.

SECRET

SECTION IVSTRATEGIC CONSIDERATIONS AFFECTING US SECURITY

Korea's current significance to the security of the United States lies in the fact that it is the critical point of contact between the US and the Soviet Union in the Far East. Basically, however, Korea is important to the US because Soviet control of this strategically situated peninsula would jeopardize US political aims for China and Japan, thus threatening US security measures throughout the Pacific.

Under joint US-Soviet occupation Korea is one of the most unstable political compounds in the Far East. The prevailing uncertainty of its political future is attributable mainly to the prolonged delay in the execution of the Moscow Decision, which has kept Korea divided and subject to dual foreign control. Instead of the former occasional and superficial contacts with the West, the peninsula has now been opened to the influence of the two chief world powers. Unlike the Japanese rule which isolated the peninsula and bound the people together in common resistance to a single regime, thereby fortifying Korean national unity, the US and Soviet occupations have divided the Koreans and opposed them to each other. Thus, subsequent to joint US-Soviet withdrawal, the Korean political vacuum will be filled by a polity which has a foreign orientation toward either US democracy or Soviet Communism.

The emergence of a unified Korea under Soviet domination would constitute a serious political defeat for the US. In China, where US prestige has declined since V-J Day, the attendant moral lift to the Communists and the demoralizing effect on moderates would make very difficult the unification of China under a government favorably disposed toward the Western Powers. In Japan, any democratic government nurtured by the US during its period of occupation would, in the post-occupation period, face an external situation posing an additional threat to its stability at a time when internal problems taxed its powers most heavily. The effect in China and Japan of a communistic Korea would in turn have repercussions in the whole of southeast Asia, the Philippines, and Indonesia.

The political confusion which has retarded Korea's unification and independence has also hindered its economic recovery. Partition has been the chief cause of economic disruption because of the interdependence of the two zones of occupation. Economic stability is ultimately dependent on unification. Meanwhile, grants-in-aid from foreign sources are required. Hence the extent to which the US is willing and able to meet Korean economic requirements will figure importantly in US ability to attain its political objectives.

While both the US and the USSR are directly concerned with the political future of Korea, the long-term military considerations are of

SECRET

lesser importance to US security than to that of the USSR. The USSR has indicated that the security of the Siberian frontier is a principal objective of Soviet policy in its relations with Korea, and that for this reason Korea must be established as a "friendly" (i.e., subservient) state. A hostile power in Korea would be in a position to cut off Vladivostok from Port Arthur and intercept communications generally throughout Manchuria, whereas a friendly power in the peninsula would protect the Soviet flank and contribute to Soviet capabilities for offensive operations in northeast Asia. While US troops occupy Japan the US has a vital interest in maintaining a position in Korea which will protect its position in Japan and North China. In the post-occupation period, even though the US might still desire to deny the peninsula to a potential enemy of Japan or China, Korea's indefensible position against attack from the north makes it of less interest to the US, since the US first line of defense near Korea is the US Pacific Islands Defense Base System.

SECRET

SECTION VPROBABLE FUTURE DEVELOPMENTS AFFECTING US SECURITY

The joint US-Soviet occupation of Korea potentially could become a signal instance of Russo-American post-war cooperation or the failure of the most clear-cut of all joint US-Soviet undertakings. While the USSR, for reasons of international prestige, will not permit a failure to implement the Moscow Decision to be directly attributable to Soviet actions, the former alternative will remain unattainable so long as the Soviets insist upon a "friendly" (i.e., subservient) government in Korea.

In these circumstances the USSR has intentionally created and prolonged a political stalemate, while consolidating its control of North Korea and disrupting by all possible means US efforts toward democracy and stability in South Korea. In pursuing these delaying tactics, the Soviets have been relying upon the possibility that the US public would lose interest in Korea and eventually be unwilling to continue to bear the cost of military occupation and economic assistance, particularly since the USSR is convinced that the US faces economic depression which will force a drastic reduction in the role of the US in international affairs. Future Soviet actions, therefore, depend upon their estimate of (a) the stability of the Communist regime in North Korea and its ability to control the entire country in the event of US-Soviet withdrawal, and (b) the sincerity and practicability of the US desire to maintain its program of democratization, economic aid, and eventual independence for Korea.

The USSR probably estimates that the Communist regime in North Korea is now sufficiently stable, particularly since it is backed by an effective Korean army. On the other hand, the progress made in the US Zone toward the establishment of a basis for the formation of a democratic provisional Korean government and the implication of the Truman doctrine that the US intends, at least for the immediate future, to continue its support of Korean aspirations for independence, may have caused the USSR to decide that prolongation of the present stalemate might work to its disadvantage.

Under these conditions and in view of renewed US pressure, the USSR has agreed to reconvene the Joint Commission on terms acceptable to the US. This ostensibly could lead to one of three major developments:

- a. Agreement on means of implementing the Moscow Decision.
- b. A new stalemate and a public proposal by the USSR that the occupying powers withdraw completely from Korea and grant immediate Korean independence.

SECRET

c. Unilateral withdrawal of Soviet troops, in event of a deadlock in the Joint Commission, or after the establishment of the Provisional Government. The primary Soviet purpose in accepting any of these alternatives would be to obtain US withdrawal from Korea in the belief that the Communists could either immediately or ultimately gain control of any provisional Korean Government.

The USSR may well be willing to make concessions in the Joint Commission or subsequently on a governmental level in order to reach agreement on implementing the Moscow Decision, if it estimated that the Korean Communists were capable of quickly gaining control of a national Korean Provisional Government, or of eventually bringing Korea within the Soviet orbit during or after the termination of the trusteeship. This is a more likely development than a proposal that the US and USSR withdraw completely and grant immediate Korean independence, since the latter would require agreement on revision of the Moscow Decision by the US, USSR, United Kingdom, and China. A four-power meeting for this purpose would inevitably involve a complete airing of Soviet repressive actions in North Korea. Also, the other powers would not accept such a revision without accompanying safeguards for the maintenance of Korea as a sovereign and independent state, which would be unacceptable to the USSR.

The third alternative of a unilateral withdrawal of Soviet troops in the event of an impasse in the Joint Commission is a dangerous possibility, since the USSR might count upon the propaganda value of this move to embarrass the US or to force a withdrawal of US troops which would leave South Korea open to penetration by the Communists backed by the North Korean army. This, however, would not offer the USSR full propaganda value, since it would still be participating in the Joint Commission or in trusteeship over Korea. The USSR therefore is not likely to adopt this course unless it believes that the concessions required under the first alternative would nullify the possibility of ultimate Communist control of Korea. This third alternative, however, is potentially the most dangerous to US security, since it would present the US with a dilemma of maintaining its forces unilaterally in South Korea, or the withdrawal of these forces before proper safeguards for democracy are established.

In any case, the USSR will continue its efforts to place on other signatories the onus for any failure to implement the Moscow Decision. The Soviets, however, probably hope to resolve the Korean issue in their favor without reference to the United Nations, where world opinion would be focused upon Soviet activities in North Korea.

Should the US and the USSR reconcile their differences and thus remove the barrier to the unification of Korea, national unity under a representative strong central government would still be threatened by the potentialities for serious political internecine strife: A national provisional assembly in which representation was accorded on the basis of population theoretically would be controlled by the two-thirds of Korea's population residing in the US Zone. Under present conditions, however,

SECRET

this control could be established and maintained only if the numerous political parties of the South were willing to form a Rightist dominated coalition to oppose the solid Communist dominated Leftist bloc which the Northern zone would presumably return. The North will return a solid Communist bloc, except under the unlikely circumstances that the elections for the provisional government could be freely conducted. While the urgency of preventing Communist control of a national provisional government may well lead initially to a coalition of the Southern political parties based on mutually acceptable compromises among the party leaders, the long-range outlook for control of the central government by majority representation is far less encouraging. The basic factors militating against the maintenance of a truly independent democratic regime are: (1) the cohesive bloc from the North which can be expected to follow the well-known Communist tactics of weakening the opposition and which is supported by the Soviet-trained North Korean army; (2) the existence of a small Communist-dominated Leftist group in the South which can be expected to work closely with the Northern Communist bloc; (3) the personal feuds among party leaders of the South which transcend any differences in party platforms; (4) the initial establishment of a central government based on compromises worked out in Joint US-Soviet negotiations; and (5) the characteristic apathy of the electorate.

Of these factors, the one which is likely to be most decisive is the first. Unless the formation of a national government can be accomplished with safeguards against Communist tactics, it will be impossible to establish Korea as a sovereign and independent state.

APPENDIX "A"TOPOGRAPHY

Korea has well-defined natural frontiers. The northern third of the peninsula is occupied by a mass of rough mountains, separated from Manchuria by the deep valleys of the Yalu River in the west and the Tumen in the east. Southward from these mountains a long range of lower mountains extends to the tip of the peninsula, keeping close to the east coast. From this range, spurs branch westward to the Yellow Sea, and the principal lowlands of the country where most of the agriculture is concentrated lie between these spurs. The mountains on the northern border are rugged, steep, and generally unfavorable for movement, but the eastern and western slopes of the mass and the lower valleys of the Yalu and the Tumen provide possibilities for entering the country from the north.

In the northwest the Yalu, Korea's longest river which forms part of the Manchurian boundary, is navigable by small craft for about 350 miles up from its mouth on the Yellow Sea although its channel is encumbered by many and sand banks in its lower course and by rapids upstream. At Sinuiju, the major city on the northern border, located in the northwest corner just across the Yalu from Antung, there is a double railroad bridge across the river, linking Korea's major railway, which runs along the west coast to Seoul and then across the peninsula to Pusan, with the Asia Express, a branch line of the South Manchurian Railroad. There is another rail bridge at Spong-dong across the great dam built by the Japanese, and a third at Manpojin farther up the Yalu, designed to tap the Tungpientao iron ore region in Manchuria. These points are tied to the Korean railway system by branch lines, and are also connected by a road extending from Sinuiju up the Yalu valley along the Manchurian border. South from Sinuiju stretches one of Korea's main highways, which parallels the railroad to Seoul and Pusan. This north-south orientation of major transportation arteries reflects the country's recent role as a stepping stone from Japan to the continent and would favor penetration from the north.

In the northeast, Korea borders the Maritime Province of the USSR for the last ten miles of the Tumen River, the upper course of which forms part of the Manchurian boundary. The river is navigable by small craft for about fifty miles from its mouth on the Sea of Japan, and its valley is winding, steep-sided, and generally unfavorable for movement. Since the Russian occupation of North Korea, an excellent overland road from Chongjin to Vladivostok has been developed out of the 4th and 5th class roads which previously served as the only avenue between Korea and Siberia. This new road also provides a good link between the USSR and the rail and highway network of Korea, which connects the major northeastern ports with Pusan on the south coast, with Seoul in the southwest, and with Sinuiju in the northwest. Two rail lines and two first class roads cross

SECRET

the backbone of the peninsula, connecting Wonsan and the northeast more directly with P'yong-yang and Seoul, the country's major commercial centers. The transportation facilities in the northeast, as in the northwest, were developed primarily as a funnel whereby Japan could supply her war needs; consequently branch lines connect this sector also with Manchuria.

The east coast of Korea, which borders the Sea of Japan, is fairly regular with small beach-bordered pocket valleys separated from one another and from the interior by steep mountains and swift streams. Six of the ten principal ports of Korea are located along this coast -- Unggi, Najin, Ch'ongjin, Hungnam, Wonsan, and Songjin -- all of them north of the 38th parallel. All are tied in with the peninsular rail and highway network which is linked to the Manchurian system by two branch lines in the northeast across the Tumen and to Vladivostok by the recently improved road from Ch'ongjin. There are in addition numerous secondary ports and landings on this coast, which has for the most part clear approaches and fairly moderate tides.

In contrast, the south coast, which borders the Korea Strait, is highly irregular with alternate beach-fringed lowlands and rocky headlands and numerous off-lying islands, rocks, reefs, and shoals. Broad drying mud flats and sand bars and very high tides add to the difficulty of approach. However, Korea's most vital port and third largest city, Pusan, is located at the eastern corner of this coast. It was the key trans-shipment point on the fastest water and land route from Japan to Manchuria. At Pusan the freight and passenger ferry from Shimonoseki, 120 miles across the Korea Strait, met the main Korean railroad, a double-track line which crosses the peninsula to Seoul, runs north through P'yong-yang to Sinuiju in the northwest, and there connects with the line to Mukden. A first-class highway parallels the railroad from Pusan to Sinuiju. Other ports, developed by the Japanese as military and naval bases, are located along the southern coast and are connected with the Pusan-Seoul route by road or branch rail lines.

The west coast, which borders the Yellow Sea, is similar to the south coast in its irregularity and perils to navigation. There are, however, numerous good harbors and landing places. Seoul, by far the largest and most important city in Korea, lies at the eastern edge of a lowland which extends for about twenty miles from the coast, and is connected by rail and highway with Inch'on which serves as its port. Seoul is the principal railway and road hub of the peninsula and the key to control of the peninsula. P'yong-yang, the second largest city of Korea, now being used by the Soviets as their headquarters, is another lowland city about 120 miles northwest of Seoul, connected by rail and highway with the port of Chinnamp'o. The third important west coast harbor is the estuary Kum-gang River which serves the ports of Kunsan and Changhang-ni. These cities, like the other principal ports, are tied in with the peninsular transportation system.

SECRET

SECRET

Korea's only other boundary, the 38th parallel, is a purely arbitrary dividing line with no physiographic delineation. It crosses the peninsula at about its broadest point, a distance of approximately 190 miles, and isolates a sub-peninsula to the west which according to present arrangements, can be reached only by weekly American convoys passing through the Soviet Zone. It cuts across Haeju Bay on the west coast, separating the city of Heaju in the Soviet Zone from some of its port facilities at Yongdangp'o on the US side of the parallel. The topography along the parallel varies from tidal flats, low hills, and intensively cultivated valleys in the west to higher hills and ridges descending to a narrow coastal strip in the east. It is crossed by 181 small cart roads, 104 country roads probably passable throughout the year, 15 all-weather provincial roads, and 8 better class roads. The two good highways running northeast and northwest from Seoul to Wonsan and P'yong-yang respectively and six railroad lines furnish modern transport across the boundary. It is in no sense a natural barrier and the general north-south orientation of the country's transportation facilities favors passage across it.

SECRET

APPENDIX "B"POPULATION CHARACTERISTICS AND STATISTICSPopulation Characteristics

The Koreans are a Mongoloid people racially akin to the Chinese and Japanese with whom they have also strong cultural affinities. United by religion, language and tradition, the Korean people are extremely homogeneous, but a few differences may be noted between the inhabitants of the northern and southern sections of the peninsula. Although the Koreans as a people are considered to be sensitive and violent and xenophobes to an alarming degree, the southerners appear to be slightly more docile and phlegmatic than the northerners. As a result of Japanese domination, Koreans are likely to complain to authority rather than to face problems squarely on their own.

Confucian morality has for centuries exercised a strong influence on the development of Korean manners and customs. The other great cultural influence has been Buddhism, which has at present almost died out in the peninsula. Christianity, on the other hand, has developed into a great expansive force. The Christian churches have not only brought Western civilization to the common people; they have also served as centers of resistance to Japanese and, more recently, Soviet oppression. At present Korea is undergoing a cultural crisis as all other countries of the Orient. The outcome of the current conflict between Western and Eastern cultures is difficult to predict, but it seems likely that Korea will eventually adopt either Communism or Christianity. It is doubtful that Korea can long maintain its Confucian heritage in the modern world.

The great mass of the people in villages and on farms appears to be extremely apathetic on national issues. Barely 35% of the population is literate, and the 71% of the people who are engaged in agricultural pursuits lead a very narrow local existence.

Population Statistics

The population of Korea is usually referred to in round numbers as 30 million, of which roughly 20 million are considered to be in the US Zone and 10 million in the Soviet Zone. The South Korean Interim Legislative Assembly has claimed to speak for 30 million Koreans. Statistics issued in August 1946 by the National Economic Board of Korea and by the Departments of Labor and Commerce in the headquarters of the US Army Military Government in Korea, however, do not bear out the usual estimates. The official figures which are the basis for the plans and programs of the Military Government give Korea a total population of

SECRET

roughly 25 million, to which nearly 2 million should be added for the Koreans who have been repatriated since August 1946. This revised total of 27 million is still considerably below the accepted figure of 30 million. Throughout this paper the statistics furnished by various sources are used in the context to which they apply. The following tables, based on the official estimates of the US Army Military Government in Korea, may serve, however, as a check on any other estimates hereinafter adduced:

1. POPULATION: ALL KOREA

	<u>1940</u>	<u>1944</u>	<u>1950 (AMG Forecast)</u>
<u>Total</u>	<u>23,547,000</u>	<u>25,120,000*</u>	<u>28,948,000</u>
Male	11,839,000	12,521,000	14,694,000
Female	11,708,000	12,599,000	14,254,000

2. POPULATION: NORTH AND SOUTH KOREA

(These figures are estimates derived by adding the population of the provinces south of the 38th parallel and those north of the 38th parallel. In the case of the three provinces both north and south of the parallel, the division of population was estimated by using the percentage distribution shown in the 1944 emergency census undertaken by the Government-General of Korea.)

	<u>1940</u>	<u>1944</u>	<u>1950</u>
North	8,518,600	9,171,000	10,569,000
South	15,028,400	15,949,000	18,379,000

3. NUMBER OF PERSONS AGE 15-59

	<u>1940</u>	<u>1944</u>	<u>1950 (AMG Forecast)</u>
<u>Total</u>	<u>12,281,831</u>	<u>12,687,000</u>	<u>15,348,000</u>
Male	6,152,882	6,268,400	7,812,000
Female	6,128,949	6,418,600	7,536,000

4. NUMBER OF PERSONS AGE 15-59: NORTH AND SOUTH KOREA

(Estimates: see Table 2.)

	<u>1940</u>	<u>1944</u>	<u>1950 (based on AMG Forecast)</u>
<u>NORTH</u>			
<u>Total</u>	<u>4,506,000</u>	<u>4,714,000</u>	<u>5,436,000</u>
Male	2,313,000	2,410,000	2,783,000
Female	2,193,000	2,304,000	2,653,000
<u>SOUTH</u>			
<u>Total</u>	<u>7,776,000</u>	<u>7,973,000</u>	<u>9,912,000</u>
Male	3,840,000	3,858,000	5,029,000
Female	3,936,000	4,115,000	4,883,000

* This figure does not include 1,890,000 Koreans who have been repatriated since the surrender.

SECRET

SECRET

5. INDUSTRIAL DISTRIBUTION OF OCCUPIED PERSONS: NORTH AND SOUTH KOREA

The 1940 Census is the only one which gives distribution of "occupied" persons by industrial classes. Adjustment of figures for 1940 were made by AMG to obtain figures for 1944. Estimates of the total number of persons in each occupation for South Korea were obtained by adding the figures for provinces south of the 38th parallel. In the case of the 3 provinces split by the parallel it was arbitrarily assumed that the occupational distribution south of 38° followed the population distribution as shown in the 1944 census. The same procedure was used in obtaining totals for North Korea.

<u>Occupation</u>	<u>1944 (Adjusted from 1940 Census)</u>			<u>% of Total Occupied</u>	<u>% of Total Population</u>
	<u>South</u>	<u>North</u>	<u>Total</u>		
Agriculture	4,651,100	2,553,900	7,205,000	70.7	28.9
Fishing	117,100	73,900	191,000	1.9	0.8
Mining	78,400	144,600	223,000	2.2	0.9
Manufacturing	372,900	327,100	700,000	6.8	2.8
Commerce	303,700	132,300	436,000	4.3	1.8
Communications	87,100	79,900	167,000	1.7	0.7
Public Services and Professions	183,600	101,400	285,000	2.8	1.2
Others	<u>588,900</u>	<u>393,100</u>	<u>982,000</u>	<u>9.6</u>	<u>3.9</u>
Occupied	6,382,800	3,806,200	10,189,000	100.0	41.0
Unoccupied	<u>9,481,600</u>	<u>5,372,400</u>	<u>14,854,000</u>	---	<u>59.0</u>
TOTAL	15,864,400	9,178,600	25,043,000	---	100.0
Zonal Distribution	63%	37%	100%	---	100%

SECRET

APPENDIX "C"CHRONOLOGY

- 1122 B.C. - Traditional date of founding of kingdom of Chosun, with capital at Pyongyang by Kija, uncle of and counselor to the last of the Shang Emperors, who welded all of north Korea into a state ruled by his dynasty for 929 years.
- 57 B.C. - Beginning of Korean recorded history with formation of kingdom of Silla out of three states in the south. At about same time Chumong, from far north, established kingdom of Kokuyo with Pyongyang as capital, and another smaller kingdom, Pakche, was developed in southwest.
- 4th Century A.D. - Introduction of Buddhism into Korea and consequent influx of Chinese ideas and culture. With approval and aid of China, Silla overcame Kokuyo and Pakche and united whole country into single realm.
- 918 - Formation of new Wang dynasty in state of Koryu by one of Silla's generals. State wholly Buddhist, dominated by priestcraft, easy prey for Mongols who invaded peninsula in 1231, demanded a fleet to assist in invasion of Japan, and then left country to its own devices. During much of Mongol period Korea was governed directly by Mongol prefects.
- 1392 - Yi Taicho drove out Jap pirates from Korean coastal towns, then inaugurated dynasty which endured until modern times. Buddhism banned and renaissance of Korean culture ensued.
- 1592 - Japanese usurper, Hideyoshi, swept up the peninsula to Pyongyang with an army of 300,000 with matchlocks. His communications were cut and his supporting fleet deflated by Admiral Yi Sun Sin, inventor of the tortoise boat (iron-clad war vessel). Hideyoshi dies and with aid of Chinese, Koreans drive Japanese out of Korea.
- 1627 - Manchu invasion. Manchus left country after its conquest, asking only annual tribute which was more like an exchange of gifts than badge of servitude.
- 1871 - American flotilla under Rear Admiral Rogers sent to repeat Commodore Perry's exploit of Japan. Fired on by Koreans. American force landed, stormed fort from which firing came, and then sailed away.

SECRET

- 1876 - Japanese treaty recognizing Korean independence.
- 1883 - American treaty with Korea, containing clause obligating each signatory to aid each other diplomatically in case of danger to either. All other major treaty powers followed suit.
- 1884 - Abortive attempt of Jap-assisted Korean group to effect coup d'etat. put down by existing government with aid of Chinese who successfully reasserted suzerainty of China until 1894.
- 1894 - Sino-Japanese War; elimination of Chinese influence in Korea.
- 1895 - Murder of Korean Queen by Japanese in attempt to assure economic and political cooperation. Retreat of King and Crown Prince to Russian Legation; beginning of Russian-Japanese rivalry in Korea.
- 1905 - Russo-Japanese War; Treaty of Portsmouth whereby assumption of authority over Korea by Japan was countenanced by US; establishment of Japanese protectorate.
- 1910 - Abdication of Korean Emperor and annexation of Korea to Jap Empire.
- 1919 - Declaration of Independence from Jap oppression and establishment of provisional government by small group of patriots in Shanghai.
- 1944 - Establishment of Korean Provisional Government at Chungking for all parties.
- 1945 - Defeat of Japanese in World War II; beginning of joint US-USSR occupation; Moscow Decision assuring Korea her independence after formation of democratic government to function under four-power trusteeship of not more than a five-year duration.
- 1946 - Joint Commission meets in Seoul March 20 to consult with representatives of democratic parties in formation of provisional government. Commission adjourns May 6 without agreement.
- 1947 - Joint Commission reconvenes on May 21.

SECRET

APPENDIX DBIOGRAPHICAL DATAKIM, Doo Bong

Place and date of birth: South Kyunsang Province in 1892.

Residence: Pyengyang, Pyengan Namdo

Education: In 1915 attended Pai Chai High School

Occupation: Politician

Political Affiliation: Member of the Independence Union, North Korea Peoples Committee, Democratic Peoples Fighting Line (Front), and North Korea Peoples Political Committee.

Religion: Not ascertained.

Remarks: Engaged in activities of Liberation Movement of Peoples Party for about four years. In 1919 served as part-time teacher at Seoul Posung and Himoon Middle Schools. From 1923 to 1928 engaged in activities as an executive member of Daihan Independence Political Party. From 1928 to 1932 served as a chief clerk of "Society for the Study of Revolutionary Theory of Various Parties." From 1935 to 1937 organized "Chosun Peoples Revolutionary Party." In 1942, appointed as a first Chairman of "Independence Union." February, 1946, appointed Chief of "General Affairs Bureau" of Democratic Peoples Fighting Line (Front), Preparatory Commission, and is Vice Chairman of North Korea Peoples Committee.

KIM, Il Sawng

Place and date of birth: Location not ascertained. 1913.

Residence: Pyengyang, Pyengan Namdo

Education: Attended Chinese School and graduated from Soviet Military Academy.

Occupation: Politician

SECRET

KIM, Il Sawng (continued)

Political Affiliation: Member of Chosun Communist Party of North Korea, of which he is General Secretary. Chairman of North Korea Peoples Committee.

Religion: Not ascertained.

Remarks: It is said that Kim, Il Sawng is a son of Kim, Kwang Sur, although his actual identity is still in doubt. He is said to have rendered distinguished service during the period of hostilities between Germany and Soviet Russia. It is also said that the man who gave much difficulty to the Japanese Army in Chintao District, was his father KIM, Kwang Sur. This has not been definitely established. He is the leading Korean Communist figure in North Korea and has been built up by Soviet propaganda to be a national hero. Was recently decorated by Stalin for his good work on behalf of Korean independence and his resistance against the Japanese. Chairman, North Korea People's Committee and Chairman, Central Committee, North Korean Labor Party.

KIM, Kyu Sik

Place and date of birth: Location not ascertained. 1882.

Residence: Seoul

Education: Graduated with honors from Roanoke, Virginia, College in 1903, and won a scholarship for M. A. work at Princeton University, but returned to Korea in 1904.

Occupation: Politician and educator.

Political Affiliation: Is Vice Chairman of the Representative Democratic Council of South Korea.

Religion: Not ascertained.

Remarks: Went to China in 1913 and was naturalized as a Chinese citizen in January, 1916. He was chief delegate and presented Korea's case at the Paris Peace Conference in 1919. Was "Minister of Foreign Affairs" and later "Minister of Education" of the Provisional Government. About 1920 he returned to the United States and organized, and became chairman of, the Korean Commission to Europe and America, with Headquarters in Washington,

SECRET

SECRET

KIM, Kyu Sik (continued)

Remarks: D. C. He represented Korea at the Far Eastern
(continued) Revolutionary Congress, Moscow, in 1922 and in
Siberia in 1923-24. Returned to China and engaged
in educational work, holding professorships at
Futuun University and Chungshan University,
Wuchang and at Paiyang University, Tientsin. Was
President of Williams College in Shanghai. Was
Foreign Secretary of the Provisional Government
and returned to Korea on November 23, 1945. Speaks
eight languages fluently. Is considered one of the
leading Korean statesmen, and has shown more dis-
position to assume a moderate political policy
towards the left-wing than other leading conserva-
tive Koreans. Chairman, South Korean Legislative
Assembly.

KIM, Koo

Place and date Not ascertained. 1877.
of birth:

Residence: Not ascertained.

Occupation: Politician.

Political Member of the Representative Democratic Council of
Affiliation: South Korea and leader in the National Association
for the Rapid Realization of the Korean Independence.

Religion: Not ascertained.

Remarks: Was a leader in the Provisional Government at Chung-
king; was police inspector general of the Provisional
Government in Shanghai. He replaced Dr. Rhee as
president of the Provisional Government in exile in
1943. Returned to Korea on November 23, 1945. Is
now one of the most influential and powerful conserva-
tive Korean leaders, although because of his intran-
sigent stand against the left-wing groups, he has
damaged his prestige as a leader to some degree.
Chairman, Independence Party; Chairman, Anti-trustee-
ship Committee organized in January 1947.

PAK, Heun Yung

Place and date Kyunggi Do in 1899.
of birth:

SECRET

SECRET

PAK, Heun Yung (continued)

Residence: Not ascertained.

Occupation: Politician

Education: Graduated from Lenin University, Moscow.

Political Affiliation: Leader and official spokesman of Korean Communist Party. One of four chairmen, Executive Committee, Democratic Peoples Front.

Religion: Not ascertained.

Remarks: Went to Shanghai in 1920 and joined Chinese Young Men's Communist Party. Became director of that organization in 1925. Imprisoned in Shanghai by Japanese police for Communist activities, 1925-27. Was in Russia from 1927 to 1930. Returned to Shanghai in 1930 and was again jailed by Japanese police from 1931 until 1936. Came to Korea and organized Communist underground movement, 1936. Foreign press of 26 October, 1945 quoted him as saying both Russia and United States should leave Korea to Koreans. Leader of Korean Communist Party. Met with sixty Communist sympathizers on 19 September 1945 to unify different groups in the interest of Korean Communist Party. Played important role in the organization of the Korean Labor Party. In September 1946 US Military Government issued warrant for his arrest on charge of fomenting disorder and endangering the forces of occupation. Still at large. One of six chairmen of Democratic People's Front organized January 1947.

LYUH, Woon Hyung

Place and date of birth: Yang Pyong, Kyonggi Do in 1886.

Residence: Seoul

Education: Attended Waseda University, Tokyo, and Yenching University, Peking. Is a graduate of Presbyterian Theological Seminary, Pyengyang.

Occupation: Political leader.

Political Affiliation: Member of the Korean Peoples Republic and Peoples Party.

SECRET

SECRET

LYUH, Woon Hyung (continued)

Religion: Christian

Remarks: Was connected with the Korean Independence Movement in 1919 and with the student movements in 1926 and 1929. Was an original member and Vice Minister of "Foreign Affairs" of the Korean Provisional Government, and in 1932 was kidnapped by the Japanese and brought to Korea, where he was imprisoned for several years. Was editor of the Central Daily News published in Seoul and was imprisoned for a term because of his activities in this connection. After August 15, 1945, was requested by the Japanese to set up the National Founding Preparation Committee which later became the Korean Peoples Republic, of which he is now head. Was selected as one of the four chairmen for the Central Committee of the Democratic Peoples Front (left wing) in February, 1946. He is considered a moderate left-wing leader of great influence and popularity, both because of his personality and because of his consistent efforts to attain Korean independence. He is now believed to be, to some extent, under the influence of the Communists and has opposed, in general, efforts at uniting the left and right-wing groups. Although undoubtedly a leader of significant power, he has shown a tendency to vacillate and is regarded by some as a political opportunist. He was invited to represent his party on the Representative Democratic Council of South Korea, but refused to participate. He is an excellent speaker, patriotic in his views, and a scholar of considerable accomplishment, but appears reluctant to take a firm public stand on current leading issues. One of six chairmen of Democratic People's Front organized January 1947.

RHEE, Syngman

Place and date of birth: Not ascertained. 1876.

Residence: Seoul

Education: M.A. from Harvard University; PH.D. from Princeton University.

Occupation: Politician

SECRET

SECRET

RHEE, Syngman (continued)

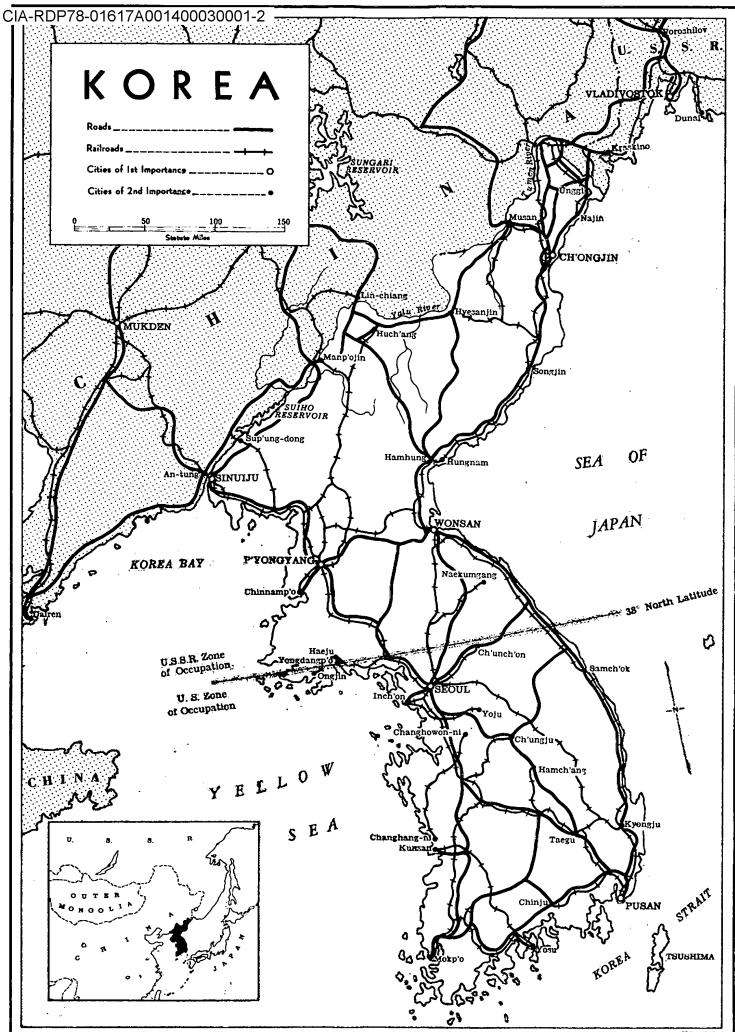
Political Affiliation: Member of the National Association for the Rapid Realization of Korean Independence.

Religion: Christian

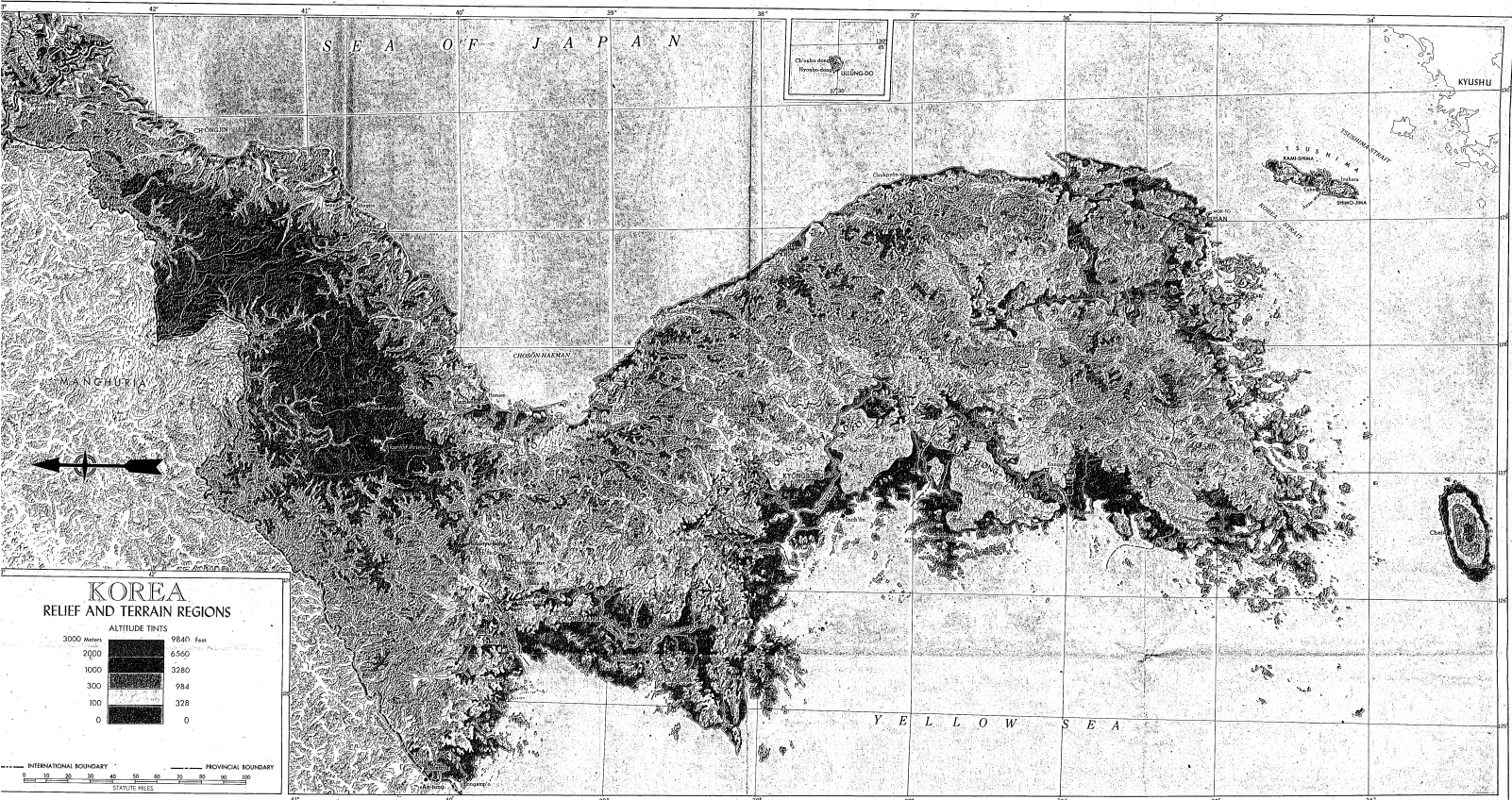
Remarks: Published Korea's first daily newspaper from 1897 to 1904. Took a prominent part in the Independence Movement in 1919. President of the Korean Provisional Government from 1941 to 1942. Resided in the United States from 1919 to 1945 and was a peace delegate at Philadelphia on April 5, 1919. Representative of the Korean Provisional Government, Washington, D.C., 1942. Chairman of the Korean Commission in Washington, 1944. Was appointed an advisor to the San Francisco Conference, March 4, 1945. Returned to Korea in October, 1945. Is a leader of the National Association for the Rapid Realization of Korean Independence and former Chairman of the Democratic Council of South Korea. Rhee is probably the best-known figure in Korean politics today; is considered an arch conservative and implacably anti-communist; is widely respected by most Koreans although, because of his participation in partisan politics, is believed to have damaged his original prestige to a significant extent. He is strictly anti-Soviet. Because of his opposition to left-wing elements, it is somewhat doubtful whether he would be of sufficient stature to be a successful candidate as head of the new Korean state.

SECRET

Declassified and Approved For Release 2013/01/29 : CIA-RDP78-01617A001400030001-2



Declassified and Approved For Release 2013/01/29 : CIA-RDP78-01617A001400030001-2



Document No. 001
NO CHANGE in Class.
 DECLASSIFIED
CLASSIFIED TO: TS S C
F A Memo, 4 Apr 77
Auth: D. A. R. G. 77/1763
Date: 1/2/78 By: 023

SECRET

U. S. GOVERNMENT PRINTING OFFICE
1442-S-1947