

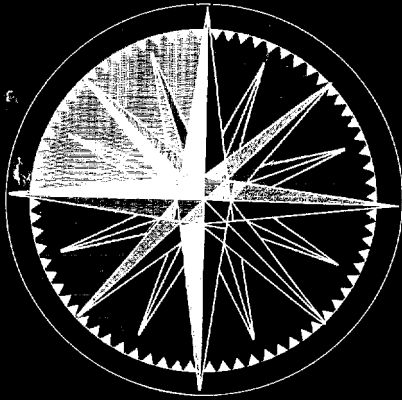
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Release 2006/05/01 : CIA-RDP79-00927A005200060002-9

18 March 1966

OCI No. 0281/66A

Copy No. 39



SPECIAL REPORT

THE FUTURE OF KOREAN-JAPANESE RELATIONS

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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THE FUTURE OF KOREAN-JAPANESE RELATIONS

The re-establishment of relations between South Korea and Japan in late 1965 brought to a close a decade and a half of negotiations. The two countries must now get down to the "nuts and bolts" of diplomatic relations, fishing and territorial disputes, and status of Korean residents in Japan, and, particularly, the building of a strong economic rapport.

There are several barriers to good relations. Koreans distrust the Japanese and, despite statements in the 1965 treaty nullifying all treaties affirming Japanese rule in Korea, fear that Japan's economic strength might lead to renewed domination by Tokyo. Politically sophisticated Koreans also fear that their own venal politicians may become subservient to Japanese business interests. The result could be a Korean Government decision to restrict Japanese business. Tokyo, aware of the dangers of too rapid advances into the Korean economy, might accept some restrictions, but any which significantly affected normal trade and investment would arouse Japanese resentment.

Thus, a serious misstep by either side in adjusting to the new relationship could cause a political crisis in Korea and a slowdown of Japan's economic assistance to Korea.

Diplomatic Relations

The 1965 treaty provides for the exchange of ambassadors and the establishment of consulates. It also calls for the conclusion of agreements on trading, maritime, and other commercial relations and on civil air transport.

The two countries now have exchanged ambassadors. Japan also has a consulate general in Pusan, and Korea has consulates general in Osaka and Fukuoka.

Some differences remain over the number and location of additional Korean consulates. Japanese Socialists oppose a consulate at Kyoto, and the police fear one at Niigata would interfere with the repatriation program of Koreans from Japan to North Korea.

South Korean Sovereignty Issue

Article III of the 1965 treaty confirms South Korea as "the only lawful Government in Korea as specified in the Resolution 195 (III) of the United

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Nations General Assembly." This UN resolution of 8 December 1948 recognized the Republic of Korea as governing only the territory then under its control. The South Koreans, however, maintain that Seoul has a legitimate claim to the territory of all Korea and are disturbed that the treaty did not explicitly state this instead of merely concurring with the UN resolution.

Recent Japanese actions have heightened Korea's sensitivity over its sovereignty. Despite the massive repatriation program that has involved the return of 85,000 Koreans from Japan to North Korea since 1959, Tokyo had not permitted ordinary travel of Koreans to North Korea since 1945. However, on 28 December 1965--only ten days after the treaty became effective--the Japanese Government allowed two North Koreans resident in Japan to make a round trip to North Korea. In February, South Korean resentment was aggravated when Japan sent a South Korean stowaway to North Korea and permitted a round-trip journey by the Japan - North Korea Friendship Society, a group led by a Socialist member of the Diet.

Following a South Korean protest, the Japanese Foreign Ministry decided to stop travel to and from North Korea for the time being. However, the Justice Ministry, which exercises exit and entry control, reportedly favors the easing of restrictions on travel to and from North Korea as much as possible.

A Japanese diplomat recently observed that his government has a tendency to move on to new areas once a major problem--such as the treaty ratification--is solved. This suggests that Japan will increase relations with North Korea, despite Seoul's past displays of sensitivity on this issue. As South Korea's confidence in its sovereignty grows, however, this sensitivity may diminish.

Fisheries

The fisheries question was one of the most troublesome during the long years of negotiations. The major stumbling block was Korea's attempted exclusion of Japanese ships from fishing grounds in waters between Japan and Korea. In January 1952, during the administration of Syngman Rhee, the South Korean Government established the "Rhee Line" unilaterally extending Korean control to areas from 60 to 170 nautical miles off the Korean coast.

The line gave the Koreans a bargaining lever to use against the Japanese for satisfaction of Korean financial claims. Once these claims were settled, however, Korea and Japan recognized each country's exclusive fishery rights within 12 miles of its own coastline, with the proviso that South Korea's rights should also extend to the area between Cheju Island and the mainland.

A supplementary, nongovernmental fishery agreement was

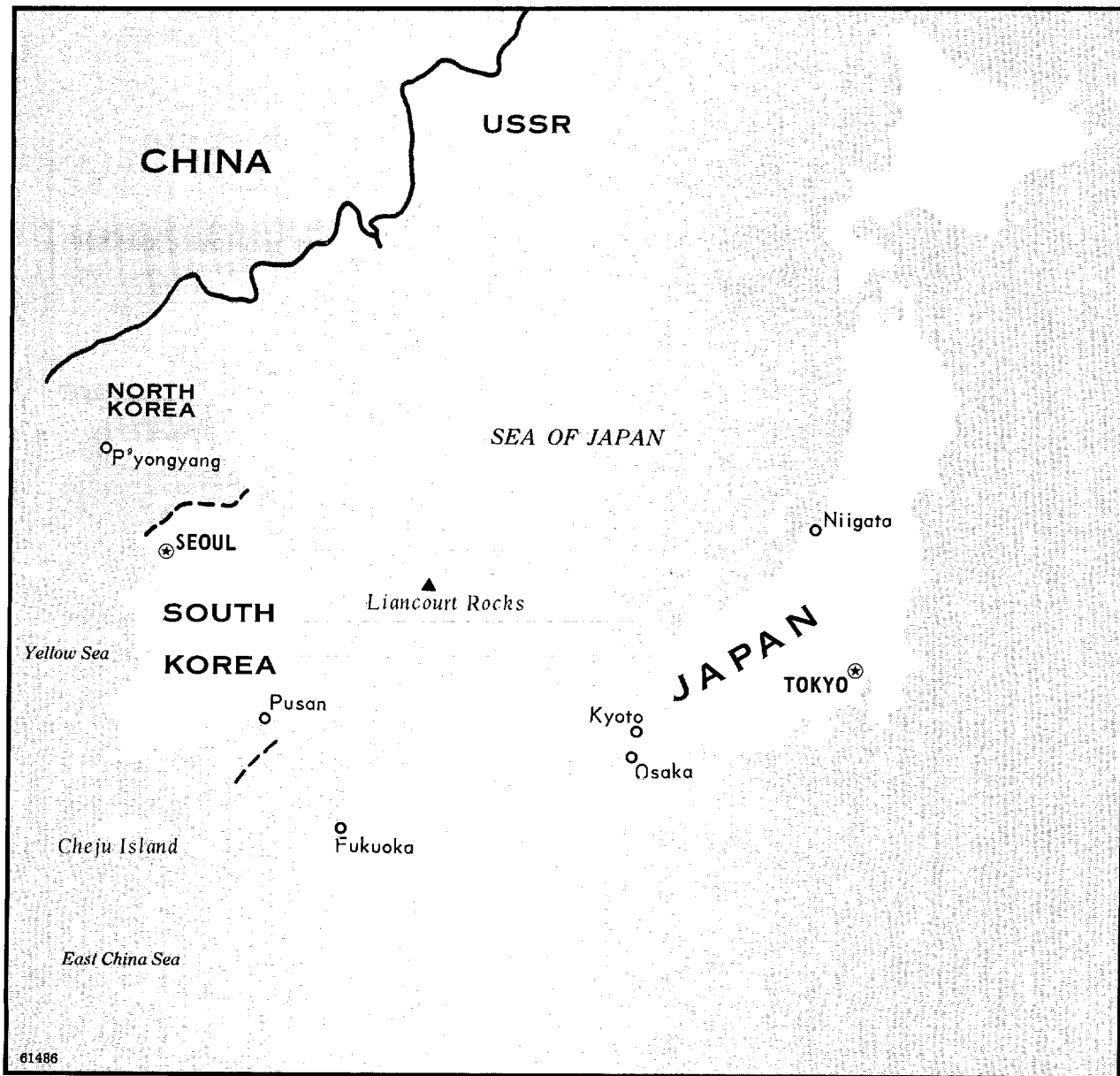
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signed on 17 December 1965 by the presidents of the Japanese Fisheries Association and of the Korean National Fishery Cooperative Association. It provides guarantees for safe operations of Japanese and South Korean fishermen in waters outside the 12-mile limit, where the two

countries exercise joint fishing control.

Two days after the supplementary agreement was signed, the South Korean agriculture-forestry minister announced a five-year (1966-70) technical-development plan to raise Korea's



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fishing capability to a state competitive with Japan's within three years. The plan is to be financed by a combination of Japanese technical grants and Korean domestic capital.

Liancourt Rocks Dispute

A major dispute involving prestige--and little else--has long raged over ownership of the Liancourt Rocks, which the Japanese call Takeshima and the Koreans, Tokto. They consist of two small islands and several islets located in the Sea of Japan almost equidistant from the coasts of Japan and South Korea. They are barren, unsuitable for settlement, and impossible to land on except in the best of weather. Japanese and Koreans have fished and gathered seaweed in the area, but the islands were never inhabited until South Korea established a lighthouse and a small garrison on them in 1954.

Both nations cite historical records to support their claims to ownership. However, Korea rejected Japan's proposal of September 1954 that the dispute be referred to the International Court of Justice and Japan turned down Korea's suggested mediation by a third party.

Both sides reiterated their claims to the Liancourt Rocks around the time the normalization agreements were completed. South Korea now is reportedly considering the extension of its

territorial sea to ten nautical miles, with a separate ten-mile territorial zone around the Liancourt Rocks. Unless agreement can be reached on mediation, this emotion-charged issue will strain future relations.

Korean Nationals in Japan

The legal status of some 600,000 Koreans resident in Japan was clarified by the treaty signed last year. Permanent residence rights were granted to Koreans (and their descendants) who had resided in Japan before World War II. The Japanese Government agreed to give "proper consideration" to the education, livelihood, and health insurance protection of those Korean nationals permitted to become permanent residents. Permanent residents who decided to return to Korea were to be allowed to take property and send funds to Korea.

These provisions, if they are soon implemented, will generally satisfy those permanent residents who are sympathetic to South Korea. However, members of the Communist-sponsored Chosen Soren--an organization of Koreans in Japan--are up in arms over provisions that permanent Korean residents must be registered as citizens of South Korea in order to benefit from the agreement. Seoul in turn fears that the increased travel allowed by normal relations with Japan will enable Pyongyang to use Chosen Soren to channel subversives into the South.

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Economic Relations

The disposition of property claims was the thorniest issue in the 14-year negotiations. Korea at one time claimed up to \$8 billion in reparations and restitution from Japan for funds, ships, art objects, and other materials removed from Korea during the Japanese occupation. Japan, on the other hand, demanded compensation for the \$2.2 billion in Japanese public and private properties in Korea which the United States expropriated at the end of World War II and transferred to the South Korean Government.

The Japanese abandoned their claims when the Koreans scaled down their demands, and it was agreed that all "problems concerning the property, rights and interests of the two signatories and their peoples...have been settled completely and finally." A separate agreement provided for the return of certain art objects and for cultural exchanges.

In settlement of the Korean claims, Japan agreed to extend considerable economic aid to Korea. It will comprise grants of \$300 million in goods and services, long-term, low-interest loans of \$200 million, repayable over 20 years at 3.5 percent per annum after a seven-year grace period, and private credits amounting to at least \$300 million. The aid is to be extended over a ten-year period in equal annual amounts.

Korea agreed to liquidate over the same period accumulated

trade debts of \$46 million owing to Japan. Repayment will be in equal annual amounts, and may be financed by a reduction in the annual Japanese grant if the Koreans so request.

So far, Japanese officials have been cool toward Korean suggestions that the \$500 million in government grants and credits be made available in six rather than ten years. Korean officials reportedly would like to have the total funds allocated between 1966 and 1971, for maximum impact on the second five-year plan beginning in 1967. They also feel the need to produce something before next year's presidential election.

Korean officials decided in late November on the following use of the Japanese grants and loans in the over-all period: agriculture, 6 percent; fishery, 8 percent; small industry and machine industry, 17 percent; technical assistance, 3 percent; raw materials, 31 percent; social overhead capital (railway, shipbuilding, communications, harbor construction, dam construction, electric-power transmission, provincial development), 27 percent; and open account clearance (the Korean trade debt to Japan), 8 percent.

Japanese economic planners are vitally interested in seeing an independent economy in Korea. They favor concentration on primary industries based on agriculture because these have been the pivot of the Korean economy and have raised the domestic funds necessary for industrialization. The Japanese favor

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technical exchanges between agricultural experimental stations and the contribution of other valuable agricultural know-how in planting and fertilization processes, land improvement, drainage, and irrigation. They believe many locations are suited to the construction of multi-purpose dams which would increase water-power generation and benefit agriculture.

To improve the Korean fishing industry, Japanese planners also favor construction of freezing facilities and of cold-storage ships and the development of affiliated industries such as shipbuilding, fishing-net manufacture, and can-making. They emphasize the need to concentrate on light industries--particularly textiles and household electric appliances--and then to proceed to key industries such as iron and steel so as not to widen the trade gap between the two countries.

Much discussion has centered around the flow of Japanese grants and credits into Korea. Economists of both countries see the need for careful controls and cautious movements, especially during the early stages of the new relationship. Japan undoubtedly will be a member of the International Economic Consultative Organization, which Korea has asked the International Bank for Reconstruction and Development to set up. Korea first urged its creation in September 1965 and has since

invited Australia, Belgium, Canada, Denmark, France, Germany, Great Britain, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, and Switzerland to join. The group, if effectively run, could help curb irregularities by either side and set up screening procedures to prevent non-economic undertakings by "fly-by-night" groups.

In Korea, a 16-man bipartisan Property Claims Management Committee headed by the prime minister and his deputy was set up in late February. By early March, however, the opposition criticized its "insufficient" review of the bill regarding the proposed use of first-year Japanese funds and charged that some of the funds were slated to be used illegally by the ruling Democratic Republican Party (DRP).

Charges that the DRP is receiving funds from Japan are probably well founded. Japanese firms reportedly provided two thirds of the party's 1961-65 budget, six firms having paid the \$66-million total, with individual contributions ranging from \$1 million to \$20 million. According to strong-man Kim Chong-pil, newly renamed to the DRP chairmanship he held before his "exile" 21 months ago, the party needs up to \$26 million for the 1967 presidential campaign. In addition, to the payments to Kim for promoting the Korea-Japan negotiations, and payments by various Japanese

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firms for granting them monopolies in Korea, the DRP has also received payoffs from Korean firms doing business in Japan. Eight Korean companies which banded together to control the export to Japan of 60,000 tons of government-released rice reportedly gave the DRP over \$115,000.

Trade Ties

Trade during the past few years has been a positive factor in cementing the new economic relationship between Korea and Japan. Up to now, trading has been on an ad hoc basis between companies, without benefit of a formal treaty of friendship, commerce, and navigation. However, Article V of the basic relations agreement calls for the two countries to begin negotiations as soon as possible "for the conclusion of treaties or agreements to place their trading, maritime, and other commercial relations on a stable and friendly basis." In foreign trade with Korea, Japan ranks second only to the United States, which remains first largely by virtue of the AID program.

Japan supplies the bulk of Korea's commercial imports of textiles, chemical fertilizer, machinery, and steel products and absorbs nearly all of Korea's exports of fish, rice, seaweed, iron ore, coal, and nonferrous metals. In most of the postwar period this trade has been heavily unbalanced in Japan's favor. In 1964, for instance, Japan exported \$108.8 million worth of goods to South Korea and imported only \$41.7 million.

Several Japanese trading firms have been active in Korea since 1962 and a number of bonded processing factories have been established, with Japanese direction and low-wage Korean labor.

In the new relationship being formed, however, there is some fear of Japanese economic exploitation among Koreans who look back to the Japanese occupation period. Possibly Korea will impose such restrictions as import quotas, protective tariffs, taxes, and limitations on Japanese investment. The Japanese, conscious of the problems inherent in making inroads into the Korean economy too quickly, may be willing to go along with some restrictions which do not severely hamper normal trade and investment.

As of now, Korean and Japanese trade delegations are planning to meet regularly on matters of mutual interest. They concluded three days of conferences in Seoul last December by signing a tentative trade agreement in which they agreed to accord each other most-favored-nation treatment, to liberalize import of primary products now under quantitative restriction, to seek both increased volume and balance in trade, and to form a joint committee which would meet at least once a year. Business and financial leaders met in Tokyo in February under the aegis of Japan's Federation of Economic Organizations (Keidanren) and the Korean Businessmen's Association to produce "guidelines" for future economic cooperation. (SECRET NO FOREIGN DISSEM)

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